Workshop on

“The Costs and Benefits of International Banking”

Eltville, 18 October 2010

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Discussion of

“Cross-border bank lending, risk aversion and the financial crisis“

Cross-border bank lending, risk aversion and the financial crisis

Düwel, Frey and Lipponer (2011)

Discussion by

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Banque de France

- **Aim-** investigation of determinants of long-term cross-border loans to foreign private sector
- **Sample:** 69 largest German banks
  - 2003-2010
  - 80 foreign countries
  - Direct and indirect loans
  - Pre- and post-crisis estimation (post Lehman brothers also considered)
- **Methodology-** cluster-robust OLS with FE

Paper summary

Variables

Four groups of explanatory variables

1. Foreign factors
   1. <u>Demand</u> side
   2. Risk
2. Domestic <u>supply</u> side factors
   1. Bank level
   2. Aggregate/macro level

Results

- **Direct channel**
  - Driven by domestic supply-side factors
  - Foreign factors barely significant
- **Indirect channel**
  - Foreign factors turn significant

- Post-crisis reduction and locational redirection of loans

- **Contribution-** disaggregated data and risk-related variables

- **Strengths**
  - Local country variables accounted for
  - Comparison parent/affiliates lending
  - Comparison cross-border/affiliates loans

Strengths and Contribution

Suggestions

1. Stronger motivations in support of the topicality (e.g. which *gap* are you filling? What is the related literature about the German case?)

2. About variables:
   I. Domestic
      - Supply side factors- availability/typology of *funding* sources of the parent and *leverage*
      - Aggregate- *credit risk*

   II. Foreign
      - Exchange rate volatility in relation to *interest rate differentials*
      - Demand stimulated also by banks' *comparative advantage*

- *Affiliates* imply foreign branches and subsidiaries altogether? They have different scopes

- Table 4- unclear: are the tops four countries excluded in the estimation?

- Other comments

Other remarks