

Liquidity management of U.S. global banks: Internal capital markets in the great recession

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This Paper Wants to Study

How do U.S. global banks manage liquidity across their banking organization?



Identification is challenging.



To put that in “contemporary” terms ...



Taibbi, Matt,
2010,
The Great American Bubble Machine,
Rolling Stone,
April 5.

... on Goldman Sachs



Do the great vampire squids that are wrapped around the face of humanity actually *move around the money*

Into the heads of the squids:
"The *decision rule* governing the operations of the global banks and their overall management of funding and investment strategies."

...the
money they
sm... (liammed
...s)?



The Paper

- Documents that funds regularly flow between parent banks and their affiliates in foreign markets
- Studies balance sheet shocks to parent banks in the United States (Great recession)
 - ◆ Explores which features of affiliates are associated with retention as important locations in sourcing funding or as destinations for foreign investment activity
 - Finds that bank-affiliate specific “distance” plays a role
 - ◆ I.e., *ex ante* relative importance of such locations as local funding pools and in their overall foreign investment strategies



Intended Contribution

The flows this paper documents and describes are a form of *global interdependence* previously left (mostly) unexplored in the literature on international shock transmission.

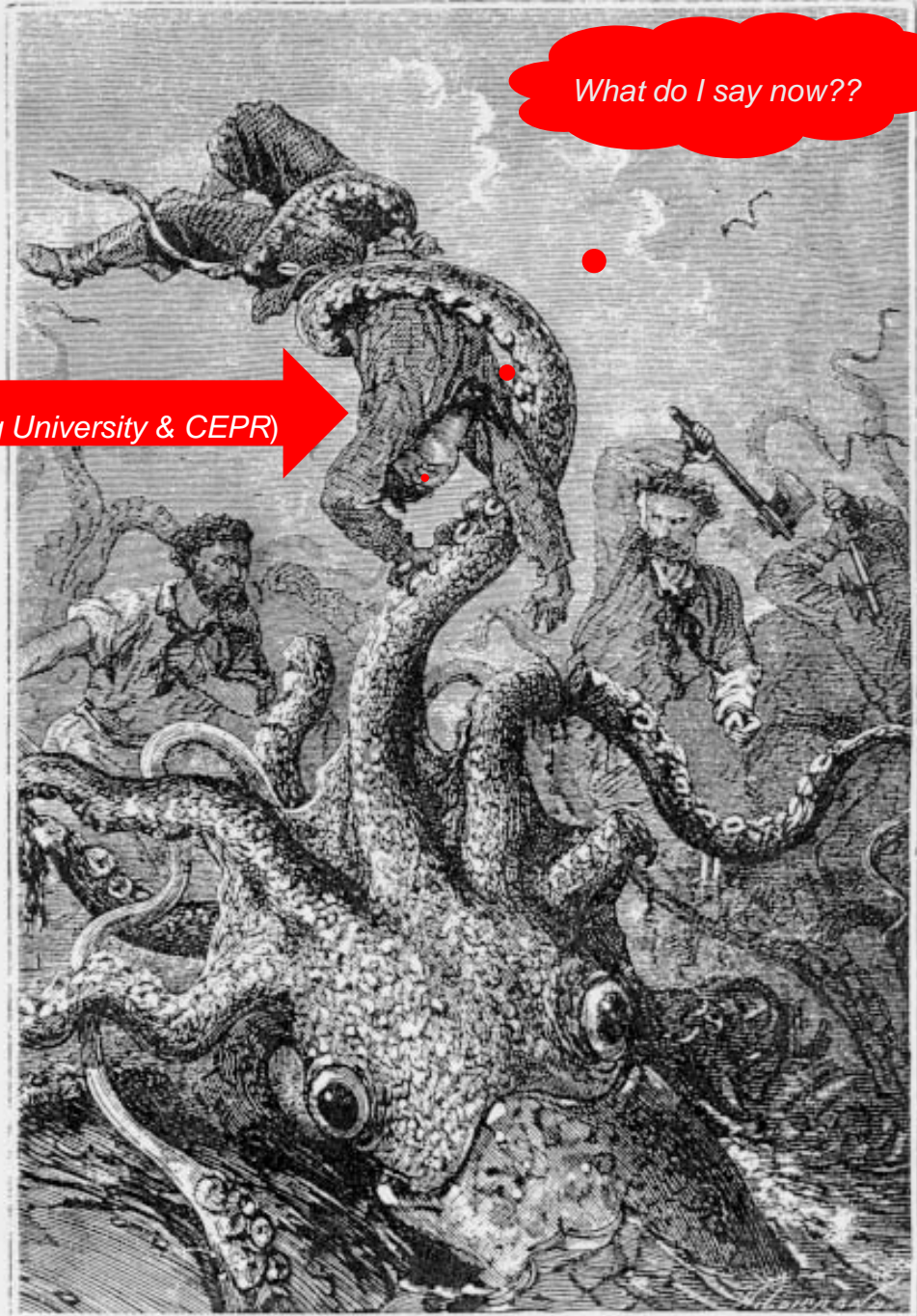


Very Nice Paper

- Important (underexplored) question
- Unique dataset
- Solid identification strategy
- Meaningful results
- Relevant policy implications

Steven Ongena (CentER - Tilburg University & CEPR)

*Trying to
comment
on this
paper ...*





Bank – Country Information

- *Federal Financial Institutions Examinations Council (FFIEC) Country Exposure Report (FFIEC 009).*
 - ◆ Each internationally active United States banks quarterly files their claims, assets, and liabilities by foreign country
- But does that make identification fully possible?



Identification

- Shock is common across banks (before/after)
 - ◆ But assumed related to the asset-backed commercial paper outstanding of the conduits sponsored by each bank
- Priors on how the strength of the effect (on the change in internal borrowing of foreign affiliates of bank i in country j) differs across bank affiliates' characteristics
- Country fixed effects



What May Be Missing?

- What if the demand for credit and the supply of deposits varies by country - bank affiliate, before and after?
 - ◆ Possible?
 - Different clienteles between and even within banks?
 - ◆ Depending on strategy, how long banks have been there, ...?
 - ◆ Important?



Ongena, Peydró and van Horen (2015)

- Bank level:
 - Key result: *the drying-up of international liquidity for domestic banks implies a reduction in credit (growth) for these banks*
- Firm level:
 - Without controls: *real effects of banks' lack of liquidity* (same as in the bank level data)
 - With controls for firm (demand) characteristics: *the impact of the banks' illiquidity disappears at the average firm level*
 - But firm heterogeneity crucial: *small firms still affected by banks' illiquidity*

Only credit; “complementary”, those banks that do not have an internal capital market; Eastern European countries, 2005-2009



Maybe

- Many banks maintain overseas affiliate(s) in offshore financial centers
 - ◆ Could help in further identification exercises?
 - Deposit taking / credit supply may be different there?
 - ◆ Or at least somewhat “averaged across different countries”



Interpretation?

- In the second half of 2007 a broad shortage of U.S. dollar funding (versus year and a half before)
 - ◆ On average, affiliates reduced net borrowing from the parent organization or increased net lending to the parent organization
 - This effect was smaller if banks had higher ex ante ABCP exposure (p.19)
 - “We conjecture that the global banks that had been more highly exposed in the ABCP market would face larger funding imbalances. These same banks would therefore have larger needs to activate internal borrowing and lending with their foreign affiliates.” (p.14)
 - Maybe comment and hypothesize more on this, because possibly confusing?
At least I was ☹.



Other Comments

- More summary statistics on *Exposure* to facilitate reader calculations
 - ◆ For example at the 25th versus 75th ABCP exposure percentile?
 - Not sure why not done?



To Conclude

- Paper goes after an important question
 - ◆ Hope my quibbles are somewhat helpful

Trivia