Discussion of:

Connected to Whom? International Bank Borrowing During the Global Crisis

by Kalin Tintchev

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Bank for International Settlements

The use of BIS international banking and financial statistics
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Plan of the discussion

- I will structure my discussion as follows:
  - Provide my reading of the paper
  - Touch some open issues related to:
    - the identification assumption
    - the theoretical framework
    - measures and data
    - (presentation)

My reading of the paper (1): the research questions

- What are the driving forces behind the collapse in international bank borrowing during the global financial crisis (GFC)?
- Did countries' risk matter?
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My reading of the paper (3): the contribution to the literature

- Distinguishes between:
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Open issues: the identification assumption (1)

- If j interacts with N countries ($i = 1, ..., N$), the model is:

$\Delta\% Credit_{j,t} = \alpha_j? + \beta_t?$ (country and time dummies?)

$+\beta EDF_{j,t}$ direct credit risk of country j (pull)

$+\gamma \sum_{i=1}^{N} w_{j,t}^{i} EDF_{i,t}$ indirect credit risk due to j lending to i (push and pull?)

$+\delta \sum_{i=1}^{N} V_{i,t}^{j} EDF_{i,t}$ direct liquidity risk due to i lending to j (push)

$+\zeta \sum_{i=1}^{N} V_{i,t}^{j} \sum_{i=1}^{N} w_{i,t}^{s} EDF_{s,t}$ indirect liquidity risk due to i lending to j and being subject to N risky exposures

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- Identification rests on the weights $w_{j,t}$ and $V_{i,t}$
- No other channels of transmission are allowed

Open issues: the theoretical framework

- Many definitions of contagion have been proposed...
  ...and many explanations have been offered to explain cross-country contagion

- The empirical model implicitly assumes that bank international diversification is the only source of contagion
- Additional linkages could be added using an identical framework (e.g., bilateral trade linkages and national demand shocks): would the results still hold?
- The web of linkages allows for additional feed-back and feed-forward: would it be possible to control using measures of network centrality?
- With a rather big leap, why not using the risk indexes to explain the demand and supply components calculated by Amiti et al. (2016)?

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Open issues: reverse causality

- Is there a reverse causality issue?
- If a country's banking system faces a contraction in foreign funding, its banks' EDFs may increase
- But then: are higher EDFs causing retrenchment or the opposite (or both)?
- This may be even more relevant since:
  - annual growth rates are regressed on quarterly EDFs data
  - the median of EDFs is calculated including also foreign subsidiaries, that are included in the consolidated banking statistics

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Data

- The baseline regression (and all robustness checks) should be conducted on data adjusted for exchange rate fluctuations (and possibly fluctuations in asset prices)
- A weighted average by total assets of EDFs might be more informative than the median value
- The impact and treatment of outliers should be made clearer (e.g., Japan)
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Presentation

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- It is necessary to present descriptive statistics of all variables (especially the indexes) and a correlation matrix

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- A relevant research question
- An innovative identification structure based on a new measure of riskiness

A nice and interesting paper