



EUROJÄRJESTELMÄ
EUROSYSTEMET

Comments on “The real effects of bank bailouts: Evidence from Japan”

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Summary

- ◆ **Research question:** how do bank bailouts affect the real economy? -> what are the effects of bank bailouts on the clients of the bank?
- ◆ **Methodology:** regress abnormal returns on dummies
- ◆ **Data:** panel of firm level data from Japanese listed companies
- ◆ **Results:** recapitalization->positive abnormal returns for clients

Comment: Research question

- ◆ What is the effect of bank bailouts on
 - Stock market returns
 - Bank loan growth
 - Employment growth
 - Asset growth
 - Sales growth
- ◆ We cannot investigate the "effect" of interventions as we do not know the counterfactual. What can be measured is the "externality" on firms that have liasons with banks being recapitalised.

Comment: Data & Methodology

- ◆ Methodology: Find the average treatment effect (ATE)
 - Problem 1: We cannot observe the same firm as treated and non-treated
 - Problem 2: Also non-treated firms are "treated" -> samples are not independent
 - Problem 3: treatment is not randomized. (Diamond & Rajan 2000: "...customers rely to different extent on liquidity and credit, bank capital structure also determines the nature of the bank's clientele")
- ◆ Methodology event study: infrequently traded securities vs heavily traded securities -> non-normal distributions

Comment: Results

What is the intuition?

What are the implications of your findings?

Diamond DW: Should Banks Be Recapitalized?:

Bank capital influences the bargaining between a bank and its borrowers.

- ◆ Recapitalization can have efficiency effects by influencing a bank's decision whether to foreclose on its defaulted loans.
- ◆ Relationship lending: the financial health of particular bank of critical importance to their borrowers and to the economy as a whole.
- ◆ Recapitalizing a large number of banks -> protect the value of existing relationship lending and human capital in banks and firms.
- ◆ Recapitalizing a few of the best banks -> ensure new relationships can be established.

Comment 4: Results & further analysis

- ◆ Could you measure abnormal employment, asset growth instead?
- ◆ Suggestion: treat different recapitalization as reoccurrent treatments