Discussion on Bank Lending to Emerging Markets: Empirical Evidence on Country-level and Bank-specific Determinants

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11th Annual Bank of Finland/CEPR Conference
8 October, 2010

This paper

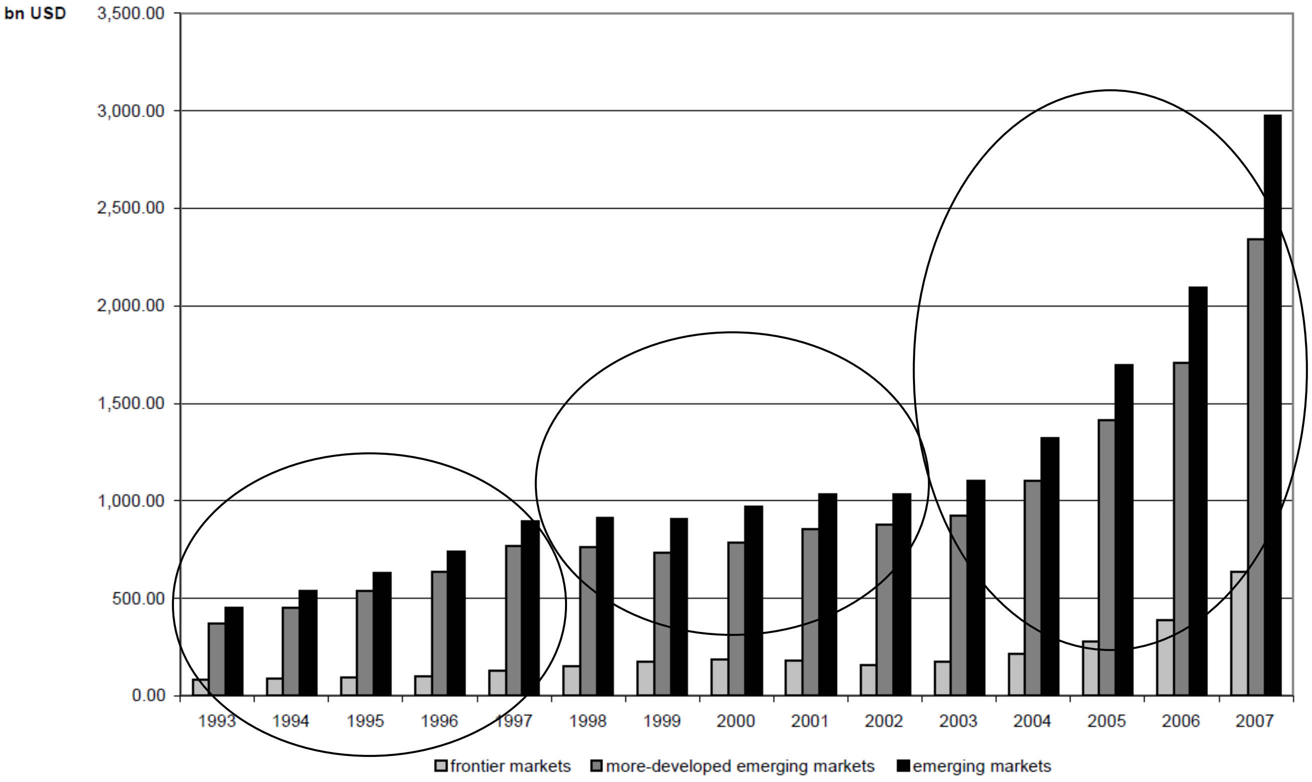
- Investigates country-level and bank-specific determinants of foreign bank lending
- Uses panel data econometrics, and data on 13 OECD and 51 emerging markets during 1993-2007
- Finds that bank size positively affects volume of foreign claims, and better capitalized banks make less loan agreements
- Structural breaks found in many of the observed determinants of foreign bank lending
- First study to look at impact of lending banks' characteristics on bank lending

Comments

- Modelling strategy
- Presentation of the results
- Choice of variables

Modelling – behaviour of dependent variable

Figure 1
Amount of foreign claims on more-developed emerging and frontier markets by year



Modelling

- Do the fixed effects models estimated in the paper allow for possible integratedness of the variables?
- Does the econometric specification matter for the result of finding structural breaks?
- Could nonlinear effects be relevant, especially for the income variable?

Modelling

- There are crisis periods in the sample, and there have been capital controls on both inflows and outflows of capital to emerging markets
  - Controls on outflows in Thailand, Malaysia during Asian crisis
  - Controls on inflows in e.g. Czech Republic, Hungary, Philippines, Malaysia

- These may affect the results and could be controlled for

Presentation of the results

- One of the main messages of the paper is that there are structural breaks in the determinants of cross-border bank lending
  - Results of full sample are less relevant, and one could immediately present the econometrically more valid results for the subsamples
- One can use the structural breaks more strongly in the motivation for the paper; determinants of lending to emerging markets differ during the times of crises, compared with more tranquil periods?

Choice of variables

- In terms of importance of business cycle, would be preferable to use recipient country's output gap instead of GDP growth rates
- Paper is focused on emerging markets with very different potential growth rates
  - A particular GDP growth rate may represent a positive output gap for one economy and a negative one for another

Conclusion

- Well-done study about determinants of bank lending to emerging markets
- Determinants of lending seem to differ over time and bank-specific characteristics are relevant
- Also shows that emerging markets are not a homogenous group; in studies with panel data it may be increasingly relevant to separate the so-called frontier markets from the more-advanced ones
- Controlling properly for crisis periods is similarly relevant