Internal Liquidity Management and Local Credit Provision

Discussion

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ACPR Banque de France

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Research question:

- How do large banks manage liquidity within their organization?
- How do these liquidity management practices affect lending?

Empirical Setting

- Large banks within Brazil from 2011-2014.
- Monthly Bank-Municipality level data.
- 2013 "taper tantrum" as shock to liquidity.

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Primary Object of Interest: "Net Due To" (NDT)

$$NDT_{blt} = \frac{\textit{intrabank liabilities}_{blt} - \textit{intrabank assets}_{blt}}{\textit{assets}_{blt}}$$

- Higher $NDT_{blt} \Rightarrow$ larger net borrowing position within the bank.

What drives changes in NDT_{blt}?

$$NDT_{blt} = \alpha + \beta Post_t + \psi(Post_t \times ForeignFunded_{bt}) + \Gamma_1 X + \eta_{blt} \quad (1)$$

$$NDT_{blt} = \pi + \theta Post_t + \rho HQ_{bl} + \phi(Post_t \times HQ_{bl}) + \Gamma_2 X + \nu_{blt} \quad (2)$$

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Main Findings:

- Branches in shocked areas are net borrowers.
- Bank HQ serves as net lender to the rest of the bank.
- Branches that increase within-bank borrowing also increase their external lending.

Comments:

1. Measurement and Discussion of NDT_{blt}.
2. Institutional Details and Theoretical Motivation.
3. Relating to the Literature

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Measurement

More description of NDT would help in generally understanding behavior and interpreting the results.

- What does the distribution look like within bank?
- Is bank-locality assets the best way to scale this measure?
- Would an "imbalance" measure pick up a similar notion of liquidity management (though the direction is important for the HQ results.)

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Institutional Details and Theoretical Motivation

The results of the main effect on *Headquarters* are quite intuitive.

- Headquarters are strongly net lenders to the rest of the bank.

More institutional details and theoretical motivation here would be helpful.

- Since the results are expected, measurement is also important here to get a sense of magnitudes.
- Thinking carefully about the frictions in liquidity management may provide a more nuanced narrative, and motivate additional cross-sectional tests.
- Careful thinking here can better square the seeming invariance of the effect of HQ on NDT over time or across banks.

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Relating to the Literature

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  - *"Follow the Money: Quantifying Domestic Effects of Foreign Bank Shocks in the Great Recession."*
  - \$1 liquidity shock to the balance sheets of U.S. branches of foreign banks decreased lending supply by about forty to fifty cents.

See also

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Summary

- A solid understanding on liquidity management in banks is of first-order importance.
- Excellent data to cleanly document empirical relationship.
- Interesting results comparing government bank/private bank objectives and behavior.

I would like:

- more description of the data, measurement, and institutional setting/details.
- tighter connection to theory to motivate and interpret the results, and possibly guide us on how to better understand the underlying frictions and mechanisms in this setting.

Best of Luck!

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Other Notes

- The data are monthly, so why transform the data to quarterly averages?
- Why not discuss exploit differences in competition. It seems that many of the localities are quite concentrated.