Discussion of “Interbank runs, collateral and loan supply: Evidence from the Euro crisis”
(by Barthelemy, Bignon & Nguyen)

Florian Heider
European Central Bank

Monetary policy and financial (in)stability
Banque de France, March 11th, 2016

These are my private views and do not necessarily reflect those of the ECB or the Eurosystem
Main findings

• Banks that lose interbank funding
  – borrow more in the market

• Banks in a country with loss of interbank funding
  – borrow more from the ECB

• Banks that pledge more non-marketable assets with the ECB
  – borrow less from other banks and hold more bonds
  – (more lending effect weak, only conditional on country pledging)

• Banks in a country with a lot of non-marketable assets at ECB
  – hold more bonds, lend less

• Banks that lose funding and pledge non-marketable assets
  – (difficult to interpret as country & bank variables, runs & pledging)
  – lend less to the economy, more to other banks, hold more bonds
Collateralized borrowing from ECB
What allowed more borrowing?
Timing of interbank stress

Bank runs (this paper)

# ON unsecured interbank loans above MLF
Composite Indicator of Sovereign Stress

de-­‐Frutos, Garcia-de-­‐Andoain, Heider & Papsdorf (2013)
Timing of interbank stress

Bank runs (this paper)

Excess liquidity

Excess liquidity = money borrowed - required reserves (daily, billion EUR)
Identification

• Looks like a diff-in-diff set-up

\[ y_{it} = \alpha_i + \alpha_t + \delta D_{it} + \epsilon_{it} \]

• A bank/country is treated if it experiences a run (or pledges a lot of non-marketable assets at ECB)

• Is the lending by banks without a run (or that pledge few non-marketable assets) a good counter-factual?

• (Lagged dependent variable -> tricky)
Better: triple difference

• Exploit the combination of run and non-marketable collateral

\[ y_{ict} = \alpha_i + \alpha_c + \alpha_t + \alpha_{ic} + \alpha_{ct} + \alpha_{it} + \delta D_{ict} + \epsilon_{ict} \]

• A bank/country is treated if it experiences a run and pledges a lot of non-marketable assets at ECB

• \( \alpha_{ic} \) – different banks pledge collateral differently

• \( \alpha_{ct} \) – use of non-marketable collateral varies over time

• \( \alpha_{it} \) – bank run could correlate with other bank characteristics (but pledged collateral not observable [at bank level])

• Still worry that an omitted variable drives both \( D_{ict} \) and \( y_{ict} \)...
LOLR substitutes for market funding

Figure 8: Impact of the excess liquidity shock in Germany

<table>
<thead>
<tr>
<th>Sub-period</th>
<th>Panel A: Impulse EL, response Q</th>
<th>Panel B: Impulse EL, response P</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 15, 2008 –</td>
<td></td>
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<tr>
<td>July 13, 2011</td>
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</tbody>
</table>

Garcia-de-Andoain, Heider, Hoerova & Manganelli (2015, JFI)
LOLR promotes market functioning

Figure 11: Impact of the excess liquidity shock in Spain

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<th>Panel A: Impulse EL, response Q</th>
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Sub-period October 15, 2008 – July 13, 2011

Garcia-de-Andoain, Heider, Hoerova & Manganelli (2015, JFI)
LOLR stifles lending to real sector

(B) Total debt originated in distressed countries pledged by strongly- and weakly-capitalized banks

Drechsler, Drechsel, Marquez-Ibanez & Schnabl (2015, JF)
Summary

• Interesting questions, great data (but may want to merge with more balance-sheet items)

• Could be a contribution to LOLR literature

• Needs cleaner identification