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PUBLIC AND PRIVATE LIQUIDITY DURING CRISES TIMES: EVIDENCE FROM GREEK BANKS

Antonis Kotidis
Dimitris Malliaropulos
Elias Papaioannou

Discussant: Sergio Mayordomo

8th workshop of the MPC Task Force on Banking Analysis for Monetary Policy
Bank of Greece

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1. **Effects of ELA program on**

   - Interbank Market: The banks contracted lending in the interbank market in response to ECB policy swing

   - Provision of ELA: Importance of the ELA as a lender of last resort.

2. **Firm level dimension effects**

   - Lending: Banks with higher exposure to the shock reduced their lending

   - Exports: Among single-lender firms (those with credit losses), firms more exposed are more likely to terminate an export flow.

- **In sum: ELA was successful in subsidizing the banking system but banks responded to ELA's higher cost and conditionality cutting interbank and corporate lending**

- **Firm level dimension effects**
  - Effects of corporate lending
  - Trade effects
- **Extensions to enhance the contribution to the understanding of the ELA functioning and effects**
  - How did ELA affect the access to financing?
  - Portfolio reallocation

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EFFECTS ON CORPORATE LENDING (I)

- **This analysis has to be implemented with the four systemic banks that report exposures exceeding 1 million euros to individual firms.**
- **Firms in this analysis represent 1% of firms in Greece but they account for 40% of lending (very large corporations!)**
- **Additional information for a proper understanding of the results**
  - Dispersion in the variable of interest (total exposure to the ECB shock) across banks
  - Are banks "similar" ex-ante in terms of the other bank controls (banks' exposure to the repo or deposit run)?
    - *No other bank controls.*

EFFECTS ON CORPORATE LENDING (II)

- **Aggregate effect (1% of firms)**
  - 1% of firms with very specific characteristics
    - *Access to financial markets…*
  - Aggregate credit at the industry, size or industry-size level
    - *More difficult to deal with demand*
    - *It enables you to use the seven banks of the first part of the paper.*
- **Demand**
  - Firm fixed-effects but the rest of the banks are not considered (demand similar across the banks considered and those do not considered).

- **Relationship lending**
  - Defined based on four banks
  - No significant effect on the interaction between multi-lender firm and the proxy for the bank exposure to ELA
  - Suggestion to deal with the limitations of RL: Restrict the sample to firms that “only” borrow form these large 4 banks (balance-sheet vs credit register)

- **Result: Among single-lender firms, firms more exposed are more likely to terminate an export flow after the shock.**
  - Same issue as with relationship lending
  - There is no differential effect on export volumes and values
  - What type of export flows are terminated? Small clients, ….
  - Is the effect due to demand or supply?
    - *Role of trade credit (delay in payments) in the other countries (i.e., domestic markets).*
- **What about extending this analysis to other firm outcomes: profitability, employment, investment…**

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HOW DID ELA AFFECT THE ACCESS TO FINANCING?

- **Some evidence on long-term financing**
  - Quantify stigma in financial markets (bond markets?)
- **Financing in the interbank market**
  - Characteristics of lenders (now all vs Greek banks), types of collateral used, cost of borrowing
    - *Does collateral mitigate the stigma effect?*

ALTERNATIVE EXPLANATIONS OF THE REBALANCING FROM LOANS TO GREEK SOVEREIGN BONDS

1. **Regulatory compliance (zero risk-weights)**
   - Similar rebalancing to other sovereigns with zero risk-weight
2. **Search for yield (general strategy: Banks compensate higher funding costs taking more risk)**
   - No rebalancing to other sovereigns with zero risk-weight
   - More risk-taking in lending (split firms according to their risk)
3. **Government support**
   - More purchases in months when the government needed to roll over a relatively large amount of maturing debt
   - Political connections

- **2 + 3: New channel of risk taking that offers zero risk weights**
- **Final effect on bank profitability?**

- **Dealing with ELA conditionalities**
- **Result: Banks that were close to the cutoff reduced lending to a higher extent**
  - Criteria: (i) CET1 > 4.5% & (ii) Tier1 > 6% & (iii) total capital > 8% (?)
  - ELA eligibility defined based on ex-ante distance from these thresholds
  - Are all banks eligible based on your ex-ante measures and the information available when the ELA facility was introduced?
    - *If they are, how can we disentangle what is due to banks solvency and to the ELA conditionalities?*

MINOR COMMENT (II): PROVISION OF EMERGENCY LIQUIDITY ASSISTANCE

- **<u>Result:</u> A bank's direct exposure to the ECB waiver shock is positively associated with its borrowing from ELA (importance of the ELA as a lender of last resort).**
  - Control by bank characteristics that evolve over time (stock prices)
  - Interact the two bank controls (banks' exposure to the repo and deposit run) with *"Post Waiver"*
  - Are banks "similar" ex-ante in terms of the other two bank controls?

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Thanks for your attention!