

Discussion of:
Cultural Stereotypes of Multinational Banks

by Barry Eichengreen and Orkun Saka

Matteo Crosignani
New York Fed

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Overview

- **Trust plays an important role in banks' portfolio choice**
 - Focus on how European banks allocate their government portfolio across sovereigns
- **Two nice features of this empirical setting**
 - 1) Key role of trust in *sovereign* bond investment
 - 2) Use publicly available EBA stress test data
- **Bank trust in a country has a positive effect on associated sovereign bond exposures**
 - 1) Measure bank trust using bank geographical presence & variation in cross-country trust
 - 2) Effect is persistent, stronger for less diversified banks, weaker for target countries whose bonds appear more frequently in bank portfolios

“Naive” test

$$SovExposure_{bcht} = \beta_1 TrustBias_{hc} + \beta_2 X_{hc} + \beta_3 \gamma_{bt} + \beta_4 \mu_{ct} + \epsilon_{bcht}$$

- Model errors likely correlated within a country-pair → clustering
- *SovExposure* is a dummy “indicating any positive exposure of a bank toward a target country at time t ” → extensive margin only
 - How often does entry/exit happen?

BNP Paribas (Dec 2020 EU-Wide Transparency Exercise)

Residual Maturity	Country / Region	Total gross carrying amount of non-derivative financial assets	Total carrying amount of non-derivative financial assets (net of short positions)
┆ 0 - 3M ┆	Finland	0	0
┆ 3M - 1Y ┆		20	0
┆ 1Y - 2Y ┆		77	23
┆ 2Y - 3Y ┆		90	36
┆ 3Y - 5Y ┆		159	105
┆ 5Y - 10Y ┆		62	8
┆ 10Y - more		11	0
Total		419	172
┆ 0 - 3M ┆	France	3,303	3,303
┆ 3M - 1Y ┆		1,128	1,128
┆ 1Y - 2Y ┆		1,220	622
┆ 2Y - 3Y ┆		1,104	1,104
┆ 3Y - 5Y ┆		14,255	13,758
┆ 5Y - 10Y ┆		7,196	5,816
┆ 10Y - more		7,900	0
Total		36,108	25,732
┆ 0 - 3M ┆	Germany	2,966	2,716
┆ 3M - 1Y ┆		765	765
┆ 1Y - 2Y ┆		1,065	1,005
┆ 2Y - 3Y ┆		1,462	1,425
┆ 3Y - 5Y ┆		2,787	407
┆ 5Y - 10Y ┆		3,295	0
┆ 10Y - more		1,506	1,232
Total		13,846	7,552

Banca Popolare di Sondrio (Dec 2020 EU-Wide Transparency Exercise)

Residual Maturity	Country / Region	Total gross carrying amount of non-derivative financial assets	Total carrying amount of non-derivative financial assets (net of short positions)
Γ 0 - 3M Γ	Finland	0	0
Γ 3M - 1Y Γ		0	0
Γ 1Y - 2Y Γ		3	3
Γ 2Y - 3Y Γ		0	0
Γ 3Y - 5Y Γ		0	0
Γ 5Y - 10Y Γ		0	0
Γ 10Y - more		0	0
Total		3	3
Γ 0 - 3M Γ	France	0	0
Γ 3M - 1Y Γ		0	0
Γ 1Y - 2Y Γ		281	281
Γ 2Y - 3Y Γ		1	1
Γ 3Y - 5Y Γ		0	0
Γ 5Y - 10Y Γ		207	207
Γ 10Y - more		0	0
Total		489	489
Γ 0 - 3M Γ	Germany	1	1
Γ 3M - 1Y Γ		5	5
Γ 1Y - 2Y Γ		2	2
Γ 2Y - 3Y Γ		2	2
Γ 3Y - 5Y Γ		0	0
Γ 5Y - 10Y Γ		0	0
Γ 10Y - more		0	0
Total		11	11

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 - More prominence to “intensive margin” results (now in appendix)

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 - Estimating the coefficients basically using smaller banks and countries
 - More prominence to “intensive margin” results (now in appendix)
 - The exposures are *gross* exposures, while more meaningful exposures might be net of hedging

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A tighter test

- Trust measured at bank-level using country-level trust index & branch network presence

$$Trust_{bc} = \sum_i \omega_i Trust_{hc}$$

where weights are the share of host-country branches in the branch network of an international bank

- Convincing tests about corporate culture & international presence**
 - More prominence to these results, e.g., managerial teams in multinational banks disproportionately come from countries where these banks have branches (now in section 6)
- A few concerns**
 - Concerns about LHS might explain why effects are stronger for bonds held less frequently and stronger for less diversified and less sophisticated banks
 - Are foreign branches disproportionately in some foreign countries? A map would help a lot

What is trust/stereotype?

- The specific question in the 1996 editions of Eurobarometer is:

*I would like to ask you a question about **how much trust you have in people from various countries**. For each, please tell me whether you have a lot of trust, some trust, not very much trust, or no trust at all*

- Is it trust?
 - Trust in people vs. trust in people *as borrowers*
 - Trust in the government?
 - How specific to 1996 are these survey responses?
 - Survey as of 1996 (check time-variation in responses using previous waves)

Two additional tests

1) Use M&A for identification

- Bank A acquires Bank B → shock to Bank A stereotypes
... but number of observations might be an issue

2) Banks specialize in foreign markets (Paravisini et al., JF, forthcoming)

- Trust might just capture geographical specialization, which is not necessarily captured by bank branch presence
- Foreign credit risk exposure are in part captured in the EBA data

Overall

- New insight in a very interesting market
 - New channel, on top of moral suasion, risk-shifting, carry trade
- Empirical concerns mostly about the source of variation on both your dependent (more concerns) and independent (less) variables
- More prominence to the results on bank culture and geographical network