



On the Real Effects of Bank Bailouts: Micro-evidence from Japan

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- Research question
 - Are there (real) effects from bank bailouts?
 - Should we bailout banks?
 - If yes, how should we do this?
 - Highly relevant for ...
 - Next crisis
 - How we think about regulatory reform today
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■ What paper does

- Channel to study effects of bailout:
 - Abnormal stock returns of banks => {credit (=>) employment, investment, sales, ASR}
 - Innovation: link 2-3 strands of research
 - Effect on business investment and bank lending from shocks to bank assets or collateral (Gan; Peek and Rosengren)
 - Effect on borrowers' stock returns from distress announcements by their bank (Ongena et al.)
 - Idem, from one bailout announcement (Slovin et al.)
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- What paper doesn't do
 - If study finds that bank bailouts have some effects =>
 - No answer as to whether banks ought to be bailed out because study looks at firm-level “benefits”, not costs of recapitalizations and AMC.
 - Does not inform us of firm-level costs if no bailouts had taken place
 - In a scenario without (massive) bailouts, bailed-out banks would (probably) not have evolved as the non-treated in a scenario with massive bailouts.
 - May alter our view on whether or not to bail out banks
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■ Findings (1)

- After recapitalizations, AMC and mergers
 - Treated banks experience -, +, + AR
 - Clients of treated banks face +, +, +/- AR
 - + for weak bank, - for strong bank clients
 - Clients that
 - have treated banks with more bad loans benefit more
 - are very dependent on their (treated) bank benefit more
 - are in real-estate benefit more
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- Findings (2)
 - After recapitalizations clients of treated banks
 - Increase long-term and short-term borrowing by
 - Do not change employment
 - Increase investment if they are highly leveraged, but reduce investment if not HL (recap #1)
 - Real estate firms invest relatively much more, but do not borrow more relative to others
 - Reduce sales
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- Comments and suggestions
 - Announcement vs. actual recapitalization
 - Link between bank and borrower
 - How should we interpret the findings?
 - What are the policy implications?
 - Question and suggestions
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- Announcement vs. recapitalization
 - Is it the announcement or the actual recapitalization that matters for the bank?
 - Raises two questions:
 - Should one announce bailouts but do less?
 - Are affects of announcement systemic, or were the actual interventions systemic (e.g. Sweden 1990s)
 - Separate the announcement effect from the level of the re-capitalization?
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- Announcement vs. recapitalization
 - Is it the announcement or the actual recapitalization that matters for the firms?
 - Shouldn't actual recapitalization matter for “real” variables (two-year horizon)?
 - Would enable you to use recapitalizations 4 and 5 in the firm-level regressions
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- Link lender - borrower
 - How formalize the causal link?
 - Let it depend on the (presence of) positive abnormal returns
 - Firm-level “real” effects well-understood, AR less
 - Are we comfortable with this?
 - Can link bailout => client effect be formalized?
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- Interpretation and policy implications
 - Many of the “real” findings convincing
 - Some results create questions
 - How can or why do riskier (real-estate) firms invest more without borrowing more?
 - Why do clients of treated banks reduce sales?
 - Want to know not only dif-effect of bailout for treated / non-treated, but also for treatment vs. no-treatment
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- Questions and suggestions
 - Is there an overlap in the “post-treatment period” for recap #1 and #2?
 - Estimate column 4,5 in Table 4 jointly (mutual endogeneity of l.t. and s.t. loans)
 - Could look at default rates of treated and non-treated because those effects are *permanent*
 - What about inflow of new customers?
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- Congratulations!
 - Nice idea
 - Meticulous analysis
 - Big step in the right direction of understanding effects of government interventions in the financial sector
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