



Banking Crises and Crisis Dating: Theory and Evidence

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FIRS, Prague, 28 May 2009

■ Status quo

- Existing indicators of banking crises (BCI)
 - Base classification and dating on government actions to counteract BC, e.g., bank holidays, deposit freezes, guarantees, nationalizations, cost of rescue measures
 - Some use closure, merging, takeover by public sector or financial assistance to financial institution.
- BCI hence indicate government interventions, not “shocks to financial system”

■ Problem

- Purpose of identifying and dating BC?
 - Measure their effects
 - Avoid or counter them, i.e. appropriate policy (re)action
- What would we like to identify about banking crises?
 - Start and end
 - Factors that make their occurrence more likely
 - Leading indicators
- BCI lacks these properties
 - Most candidate variables have no predictive power
 - Sensitivity to particular choice of BCI

■ Proposed solution

- Create indicators of systemic banking shocks (SBSI)
 - Based on lending growth: SBSL25, SBSL10
 - Based on deposit growth: SBSL25, SBSL10
 - Assertions
 - Are shocks, not based on government actions
 - Timing will change
 - Should lead BCI
 - Can be better explained and predicted by usual suspects
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- Research strategy
 - Small theoretical model
 - Panel logit (?) on annual country data
 - Verify “ineffectiveness” of BCI
 - Add SBSI on RHS and check if they predict BCI
 - Re-run all regressions using SBSI on LHS
 - Robustness analysis using bank-level information on bank failure proxies (equity, profits)
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■ Findings

- Confirm BDNL's hypotheses
 - Only real GDP growth predicts all BCI
 - Real rate, inflation, changes in terms of trade, exchange rate depreciation, vulnerability to currency run, size, financial development, real bank credit growth do not
 - SBSI predict BI
 - Many candidate RHS variables do predict SBSI
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■ Findings

- New relations when changing from BCI to SBSI
 - SBS less likely in financially more developed countries
 - SBS more likely in more concentrated banking systems
 - SBS unaffected by presence of deposit insurance
 - Currency and twin (depreciation and loss of reserves) crises make SBS more likely
 - Worsening of terms of trade increase SBS risk
 - Currency crises and SBS reinforce each other
 - SBSL predict SBSL
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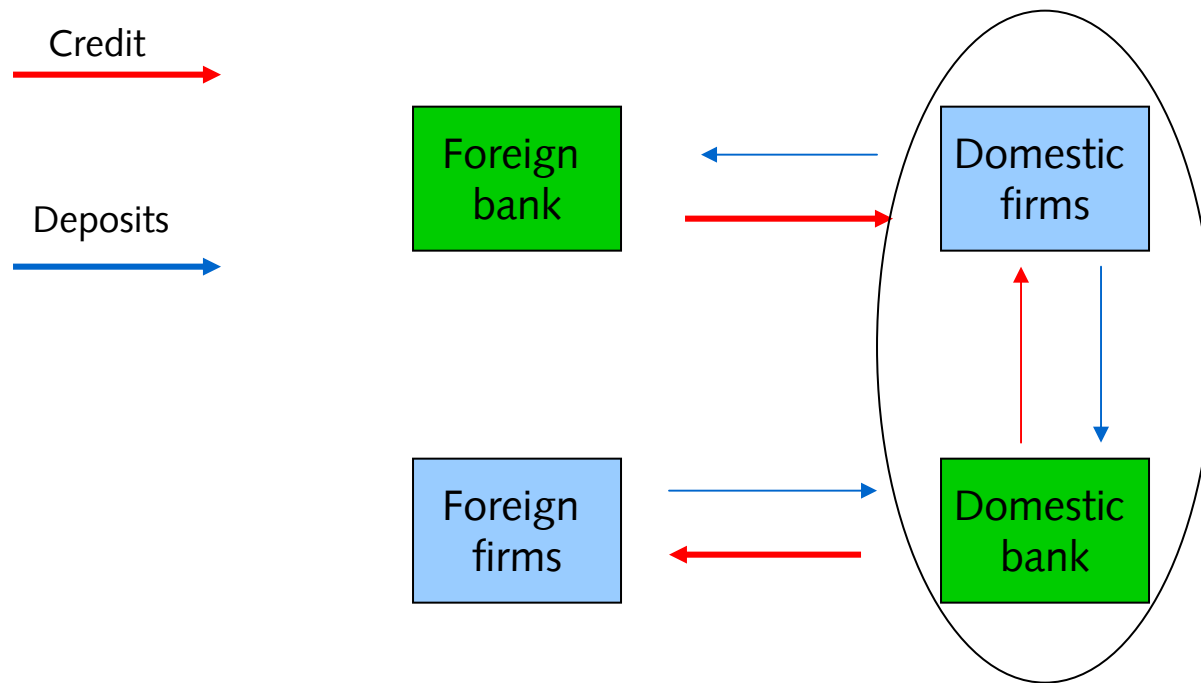
■ Comments

- Example: country with
 - Annual domestic loan growth 13% (nominal)
 - Annual deposit growth 15.5%
- Is this country exposed to SBS?
 - Probably not, but ...
 - would like to know 10th and 25th percentiles in your data
 - Sweden March 2009
- Does Sweden suffer from a banking crisis?
 - SBS may originate abroad

■ More comments

- Companies in some countries may be very international (large relative to banking sector)
 - Substantial part of all credit in some small open economies is supplied by foreign banks
 - Is there a way to account for this?
- Some banks are very international
 - Take feedback from foreign subsidiaries into account
- Should we define an SBS as “exceptionally low” growth in real domestic lending?

■ Flow of credit and deposits



■ Minor comments

- Some more statistics on bank-level regressions
- Clarify table captions
- Add some information on your SBSL10 and SBS25 indicators

■ Conclusions

- Very nice paper
 - Natural improvement: Why hasn't anybody done this before?
 - Some improvement possible for (small) “open economies” with small banking sectors
 - But: data availability?
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