SOME COMMENTS ON 'CONCENTRATION IN ASIA'S CROSS-BORDER BANKING' BY LAPID, MERCADO AND ROSENKRANZ

The South East Asian Central Banks Research and Training Centre

Ole Rummel

orummel@seacen.org

The SEACEN Centre

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The SEACEN Centre

QUICK SUMMARY

- The authors are the first to construct cross-border bank concentration measures for 47 economies in Asia-Pacific from 2000 to 2019
- These measures for are high compared to other regions
- High concentrations of cross-border bank claims and liabilities amongst a few counterparties expose economies to financial spillovers and risks, i.e., risks to monetary and financial stability…
- …which may warrant an appropriate policy response
- Using these data, the empirical assessment of the determinants and impacts of cross-border bank concentration reveal that:
  - higher capital account openness, trade and per capita income are significantly associated with lower cross-border bank concentration; while
  - higher cross-border bank concentration lowers domestic credit growth and non-performing loans

INITIAL REACTIONS

- Paper represents the type of solid, thorough and comprehensive analysis we have come to expect from the authors
- It serves a useful task, which is to highlight several potential – new – issues and concerns having to do with concentration in Asia's cross-border banking…
- …which is obviously an important topic for monetary and financial stability
- But it represents a view from 10,000 meters for now…
- …which points the way towards additional research avenues that we should explore
- It therefore serves as a useful starting point for individual country analyses

METHODOLOGY

- Nothing to fault in terms of set-up and methodology
- Careful panel analysis with a large number of robustness and sensitivity checks
- In terms of some thoughts I had:
  - rolling window of ten years?
  - recursive estimation?

  to capture some of the time-variation in the determinants of – and impacts from – cross-border banking concentration

CHEAP SHOTS

- Results are driven by a panel methodology across 47 heterogenous countries
- No ‘one size fits all’…
- …but the authors are obviously aware of this
- The banking sector is not homogeneous either:
  - private-sector banks;
  - state-owned banks, including national development banks; and
  - the existence of national champions (with preferred status)
- Informal lending, micro-lending and non-bank financial institutions
- More on the mechanisms at work that explain the results?

IT WOULD BE INTERESTING TO…

- …investigate additional dependent variables in equation (3), such as:
  - remittances;
  - some proxy for US dollar funding;
  - macroprudential policy tools;
  - some proxy for foreign exchange trading, business or turnover (I have a small amount of experience with banking in the Pacific Islands where banking is dominated by Australian banks doing a nice business in FX transactions); and
  - the role of branches versus subsidiaries
- …investigate what an ‘optimal’ level of cross-border bank concentration should be?

POLICY IMPLICATIONS

- The policy implications of higher capital account and trade openness and financial market development, , are standard (and laudable)…
- …and capture the threats coming from an increased vulnerability to external policy and shock transmission…
- …but may not be popular at the moment (policy dilemma)
- The same is true for some of the other policy prescriptions, such as financial market development, the development of local-currency bond markets, the broadening of the local and regional investor base and the provision of a regional financial safety net

WHY ONLY A STARTING POINT?

- Some of the findings definitely warrant further analysis
- Some counterintuitive (to me, at least) and inconclusive results:
  - the estimated coefficient on domestic bank concentration is inconclusive; and
  - there does not seem to be an impact on bank profitability
- Authors themselves note on p. 17 that "An aggregate-level analysis may not capture such effects"

CONTACT US

EMAIL

orummel@seacen.org

PHONE NUMBER

+603 91951888

WEBSITE & SOCIAL

www.seacen.org

LinkedIn The SEACEN Centre