Discussion of "Government Guarantees and Bank Liquidity Creation," by Berger, Li and Saheruddin

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Summary

This paper:

- constructs index of liquidity creation by banks — $l_{i,j,t}$
    - Berger and Bouwman (2009), more countries
- constructs index of government guarantees — $g_{j,t}$
- shows that $corr\left(l_{i,j,t}, g_{j,t} | x_{i,j,t}\right) < 0$

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Why do we care?

- theory: DI supports "liquidity creation" by banks, but might lead to excessive risk-taking
- case studies, but no systematic evidence

Comments

1. Measuring liquidity creation
2. Regression results
3. Interpretation

Measuring liquidity creation (1/2)

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- mortage loans vs. C&I loans: is relative liquidity stable?
- correlation w/ $\frac{D}{A}$?

$$\begin{aligned} LC &= \frac{D}{A^{tot}} && \text{for a bank holding only cash} \\ LC &= \frac{D}{A^{tot}} - 1 && \text{for a bank holding only C\&I loans} \end{aligned}$$

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- how to think of a change in portfolio composition from, e.g., mortgages to C&I loans?

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  - "exclusion restriction": banking sector concentration?

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- IV: tendency of national culture toward individualism; disease prevalence
  - time-varying?
  - "exclusion restriction": banking sector concentration?
- Directionally interesting, but difficult to interpret
  - distribution of $g_{j,t}$ across countries? (use just an indicator for DI instead?)
  - **which guarantees? what liquidity?**

Interpretation (1/2)

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- By component of liquidity creation
  - assets: "less liquid" (less MBS, more C&I loans?)
  - liabilities: "more liquid" (less sub. debt, more deposits?)
  - **fewer loan commitments**

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- Focus on non-crisis countries?

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  Does leverage change? How does the asset mix change? etc.

- More descriptive stats! And delineate relationship btw. liquidity creation and risk-taking more precisely