

The Countercyclical Role of National Development Banks

Alfredo Schclarek Curutchet
Universidad Nacional de Córdoba, CONICET and CIPPES,
Argentina

Michael Brei
University of West Indies, Barbados

www.cbaeconomia.com

September 2016

Introduction

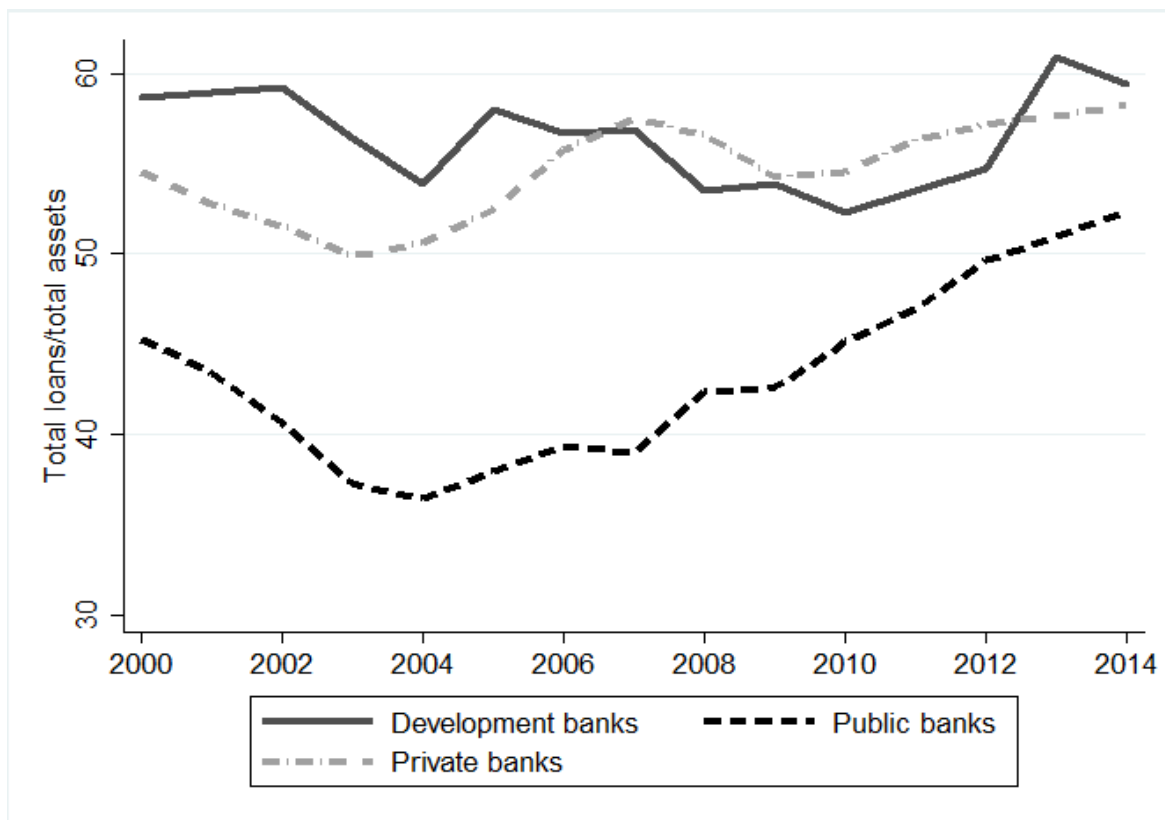
1. Bankscope data
2. Lending pattern
3. Funding structure
4. Countercyclical Behavior during crisis
5. Conclusions and policy implications

Bankscope Data

- 251 banks from LAC, of which 32 Development banks (Dev), 193 Private banks (Priv) and 26 Public commercial banks (Pub)
- Yearly data, between 1995 and 2014 (4141 observations)
- Dev include among others: BICE (Arg), Banco de Desarrollo Productivo (Bol), BNDES (Bra), Banco Regional de Desenvolvimento do Extremo Sul (Bra), Banco de Desenvolvimento de Minas Gerais (Bra), FINAGRO (Col), FINDETER (Col), Bancoldex (Col), Financiera Energetica Nacional (Col), and Nacional Financiera (Mex).

Lending pattern

Total Loans/Total assets



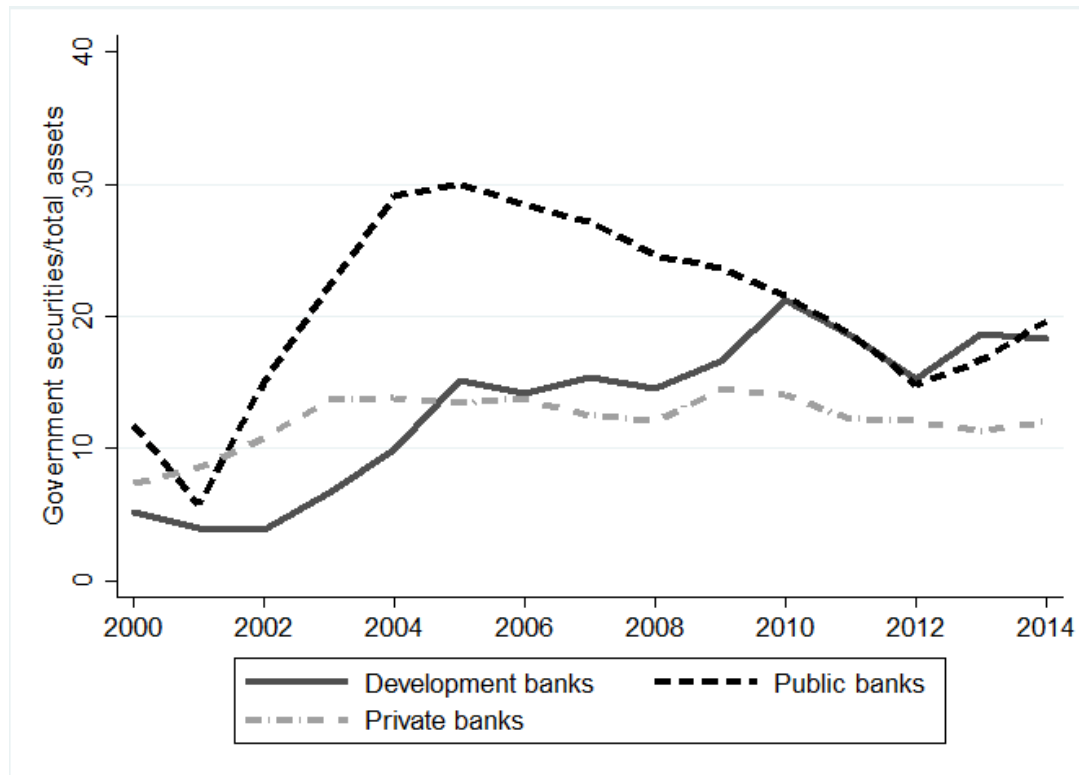
Dev and Priv
higher loans/TA
than Pub

Dev: 58,3%

Priv: 54,8%

Pub: 44%

Govt Securities/Total Assets



Pub lend more to the govt than Dev and Priv

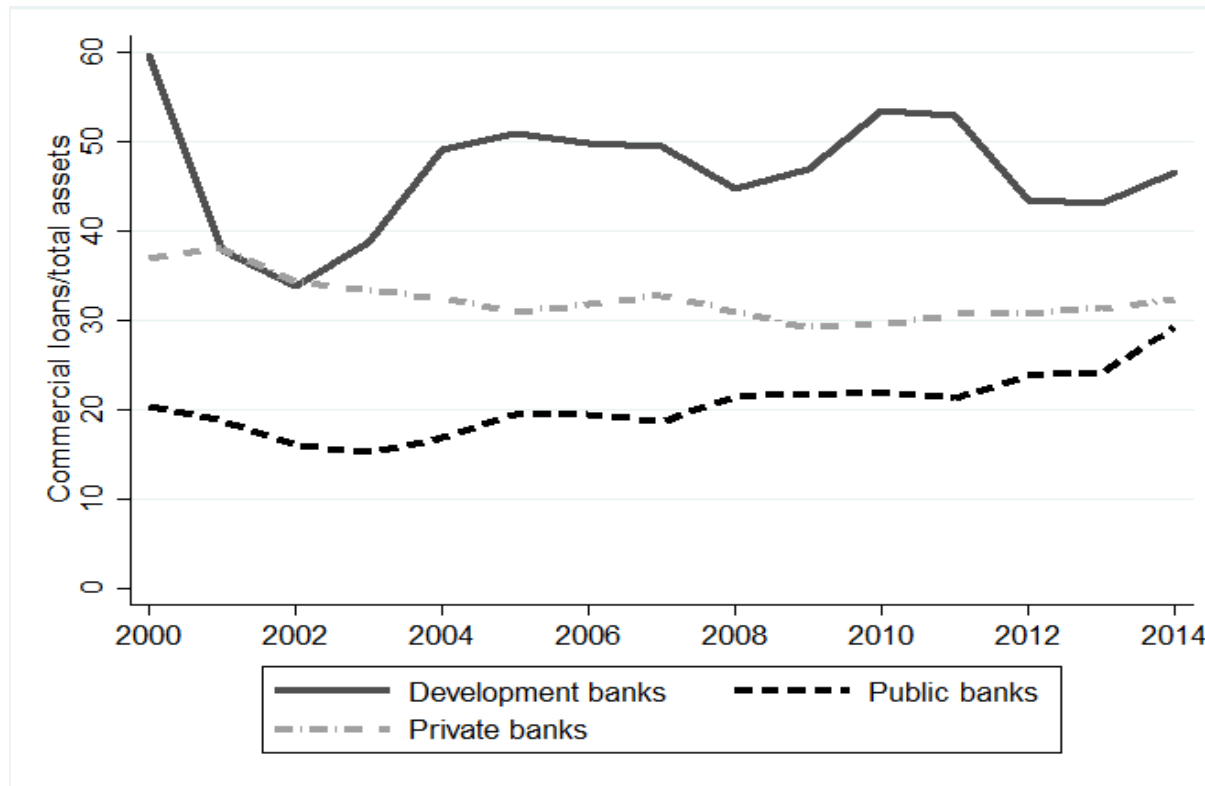
Pub: 21,5%

Dev: 14,8%

Priv: 12,3%

Maybe explanation for lower Loans/TA by Pub

Corporate and Commercial Loans/ Total Assets



- Dev higher corporate and commercial loans than Pri and Pub:

Dev: 47,2%

Priv: 31,8%

Pub: 21%

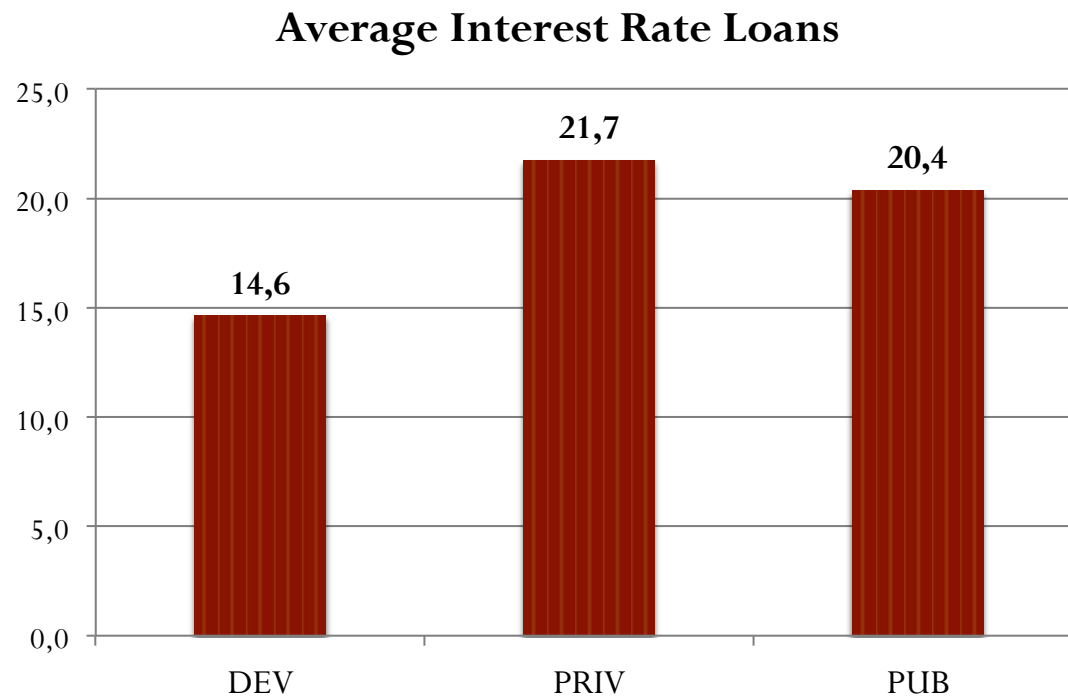
- Pri and Pub higher consumer and mortgages loans than Dev:

Priv: 17,5%; 7,6%

Pub: 11,4%; 7,6%

Dev: 3,7%; 4,9%

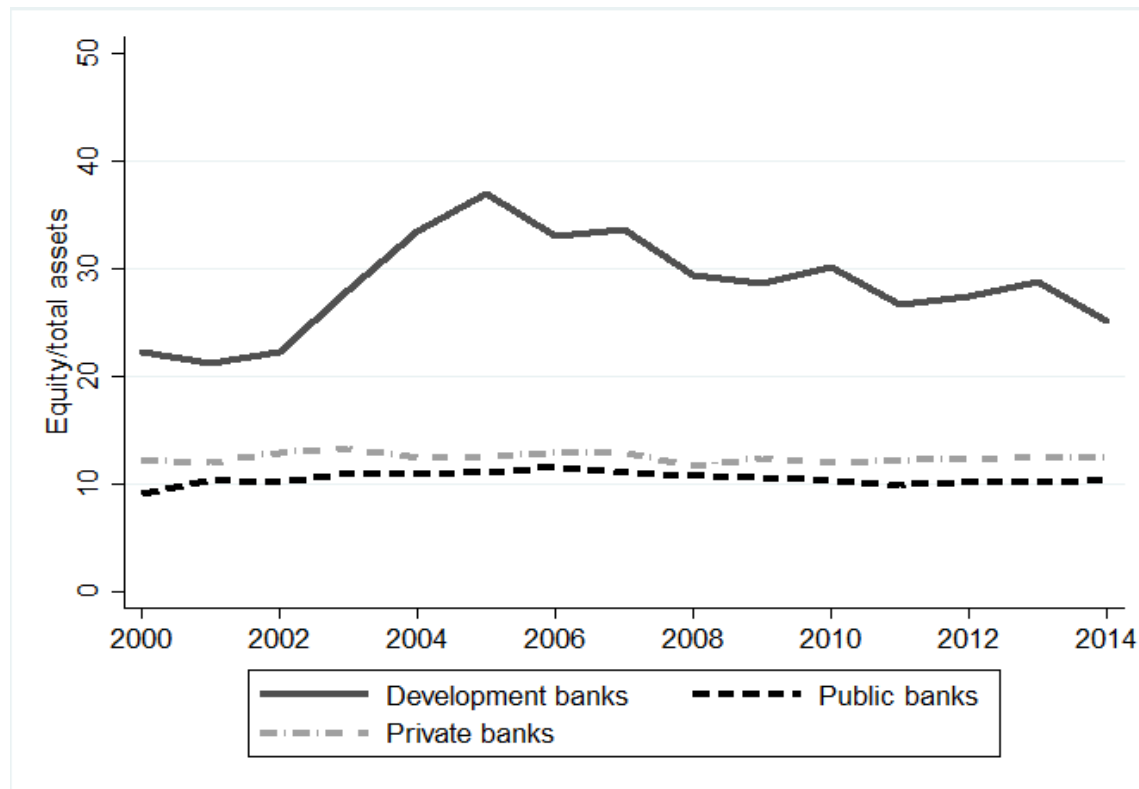
Average Interest Rate Loans



Dev provide loans with lower interest rates than Priv and Pub

Funding structure

Equity/Total Assets



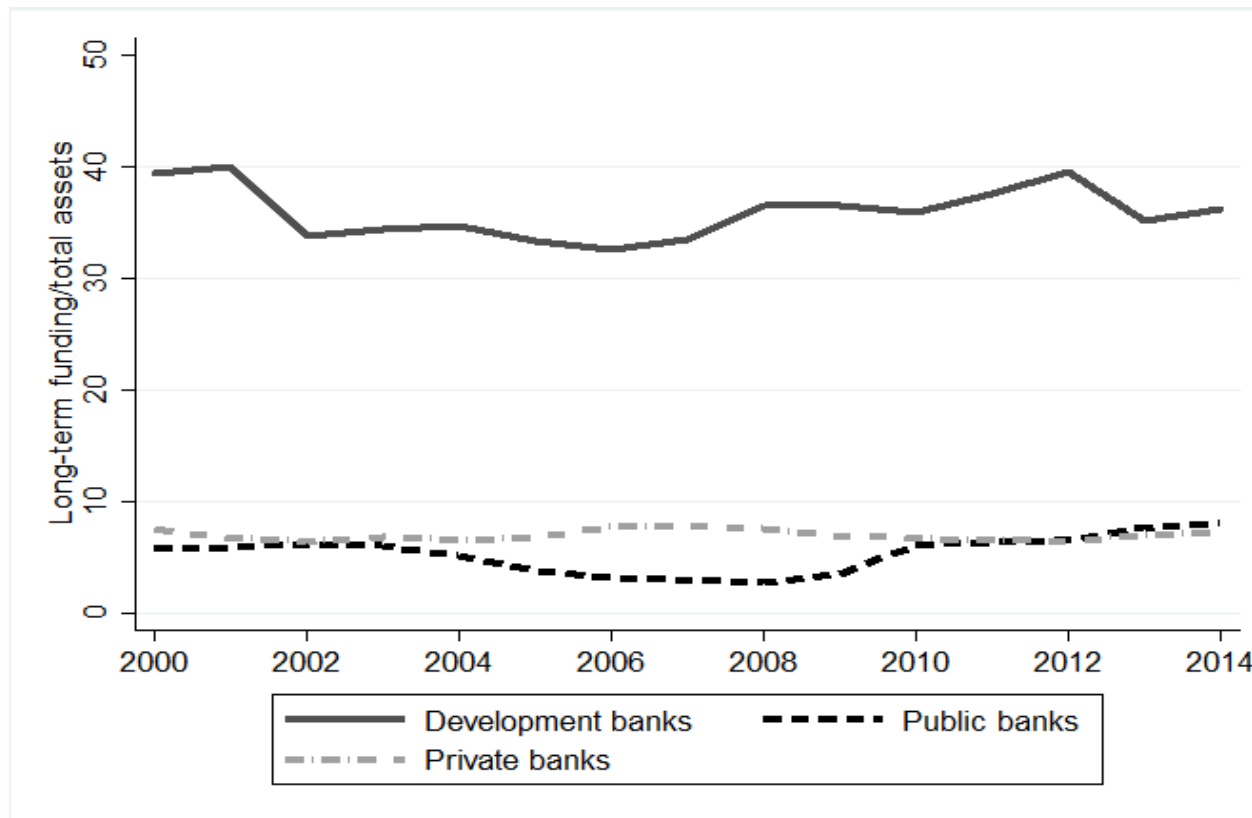
Dev higher
Equity than
Priv and
Pub:

Dev: 28%

Priv: 12,4%

Pub: 10%

Long-term Funding/Total Assets



Dev higher
Long-Term
Funding than
Priv and Pub:

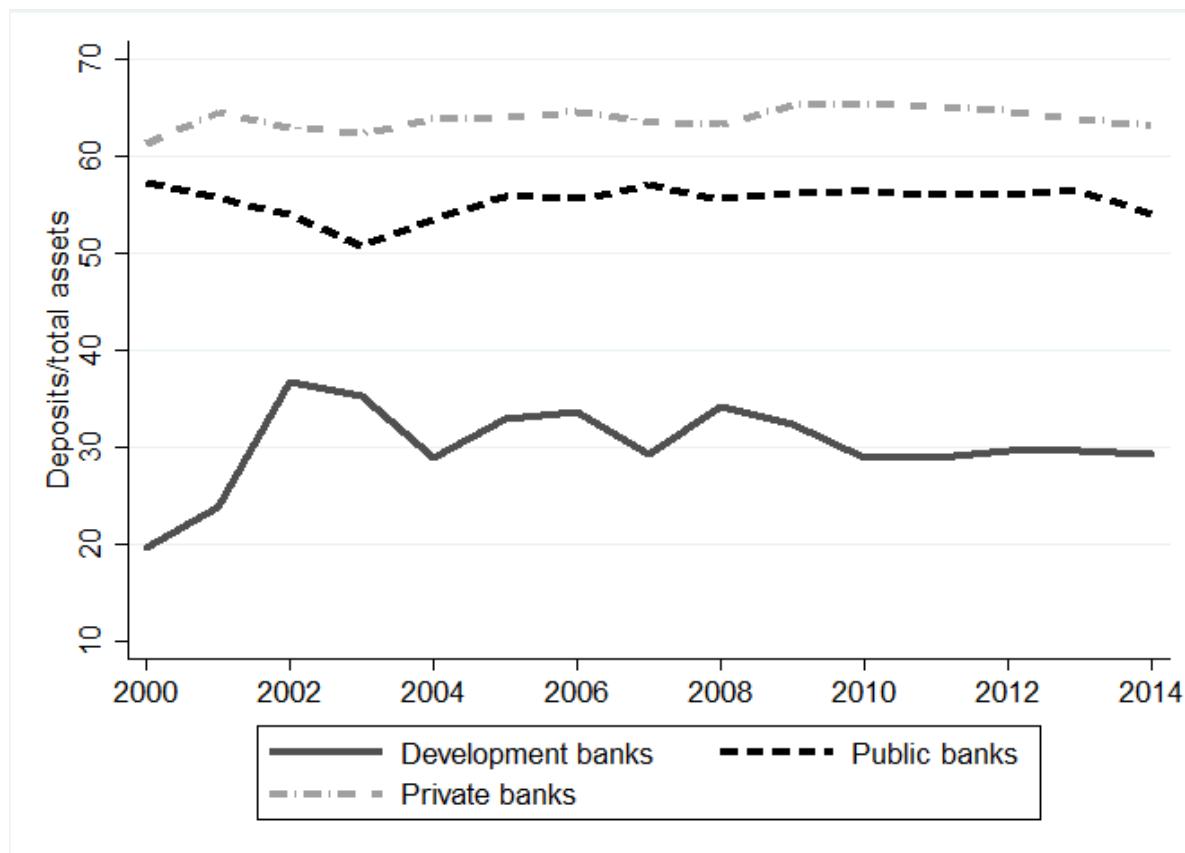
Dev: 36,6%

Priv: 7,2%

Pub: 5,9%

LT funding: Includes Senior Debt Maturing after 1 Year + Subordinated borrowing + Other funding

Deposits/Total Assets



- Priv and Pub
higher deposits
than Dev:

Priv: 65,2%
Pub: 57,5%
Dev: 31,5%

- Similar levels of
Money Market and
Short-term
Funding:

Pub: 20,4%
Dev: 15,3%
Priv: 13,1%

Countercyclical Behavior

Dynamic Panel Regression

	(1)	(2)	(3)	(4)
	GMM	GMM	GMM	FE
L.Loan growth	0.220***	0.027	0.219***	0.026
		2		8
Real GDP growth	1.180***	0.215	1.259***	0.208
Interest rate	-0.0537	0.088	-0.0234	0.090
		4		6
Inflation	0.828***	0.130	0.827***	0.129
Exchange rate, growth	-0.354***	0.042	-0.355***	0.041
		3		2
Property rights	0.100**	0.039	0.123***	0.041
		6		1
Dummy, development banks		-11.85***	3.236	-8.423**
Dummy, foreign banks		-1.801	1.515	-1.150
Dummy, public banks		-4.371**	2.120	-4.235*
Dummy, Crisis		-0.0437	1.412	0.538
Dummy, development banks*Crisis		12.52***	3.926	11.81***
Dummy, foreign banks*Crisis		-0.0283	2.105	-0.234
Dummy, public banks*Crisis		12.41***	2.856	12.23***
L.Size				-1.571***
L.ROA				0.416
L.Equity/TA				-1.054***
				0.324
L.NPL/TL				1.345**
L.Liquid assets/TA				0.529
				-0.244*
				0.125
				-0.315***
				0.099
				7
L.Short-term funding/TA				0.0781
				0.138
				0.0624
				0.122
				-0.0505
				0.055
				-0.0774*
				0.045
				8
				5
				0.0210
				0.048
				0.0362
				0.040
				6
				5
Constant	-0.947	2.221	-1.226	2.420
Observations	2707	2707	2707	2707
banks	237	237	237	
Hansen	0.325	0.359	0.303	
AR2	0.541	0.486	0.815	

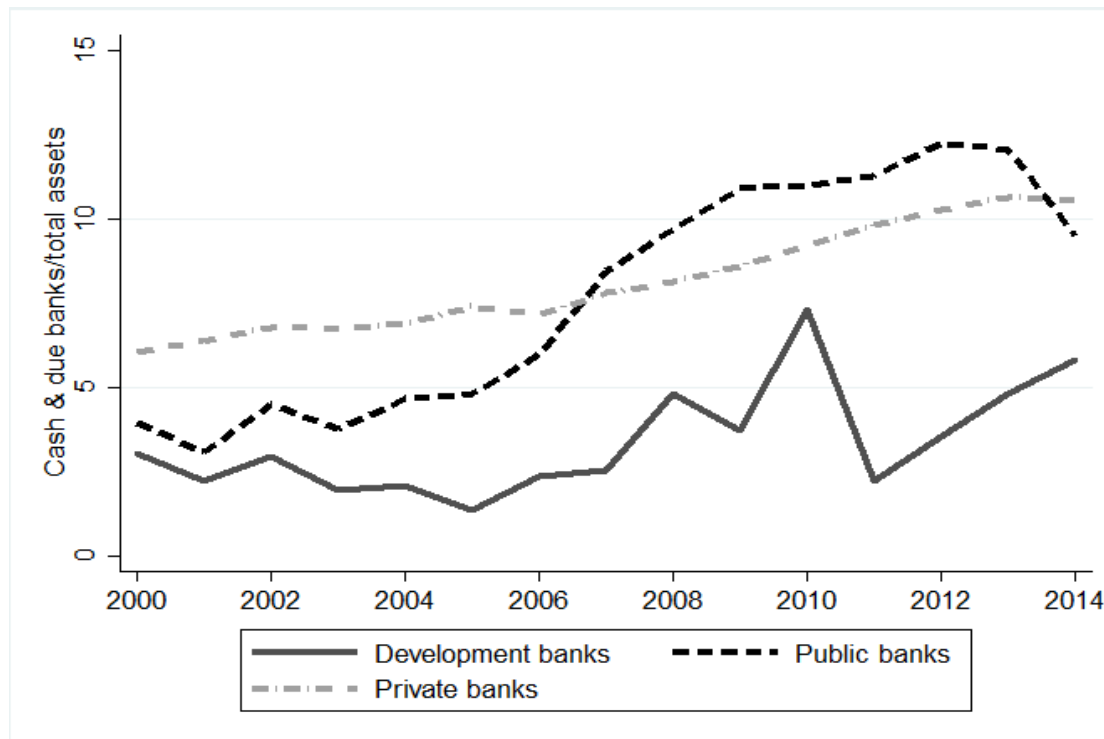
Standard errors in second column

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Possible explanations for countercyclical behavior during crisis

- Dev and Pub banks' objective is not only to maximize profits given risk but also to avoid crisis and lending crash
- Dev and Pub banks are more likely recapitalized; govts have more resources than private bankers during crisis
- Dev and Pub banks suffer less deposit withdrawals and rollover problems of ST instruments; govts higher credibility during crisis
- Dev have better funding structure (more equity and LT funding, less deposits): lower need increase deposits at Central Bank during crisis

Cash and deposits at Central Bank



Average cash and deposits at CB/Total Assets:

- Dev: 3,1% (normal); 3,9% (crisis).
- Priv: 7,3% (normal); 9,1% (crisis).
- Pub: 6,2% (normal); 9,1% (crisis)

Given funding structure (equity and LT funding), Dev need less deposits at CB during crisis?

Conclusions and policy implications

- Dev high proportion of corporate and commercial lending, at lower interest rates
- Dev funding structure is special: more equity and LT funding, less deposits
- Dev behave countercyclical during crisis
 - Due to (hypoteses):
 - Objective function in crisis period: stabilize economy, not max profit given risk
 - Recapitalization: govt more capital than private banker
 - Less withdrawals and roll over problems: govt higher credibility
 - Funding structure: less need for increase in deposits at central bank

Thanks!

Alfredo Schclarek Curutchet

cbaeconomia.com