

## Comment

**María Soledad Martínez Pería:** This paper examines the behavior of foreign bank claims on Latin America during the period 1999–2009. The stated goal of the paper is to “explore how the global financial shocks were transmitted to Latin American countries through the foreign bank lending channel.” Using quarterly data on foreign bank claims provided by the Bank for International Settlements, the authors conduct an econometric analysis of the determinants of foreign claims on twelve Latin American countries. In particular, they assess the effects of three factors that characterized the recent global crisis: the collapse of international money markets, the worsening financial health of parent banks in advanced economies, and tighter lending standards in developed countries’ banking systems. To identify possible mitigating factors, the authors exploit differences in the geographic structure (cross-border versus local affiliates) and currency mix (foreign versus domestic) of foreign bank lending to Latin America, as well as differences in the funding structure (retail versus wholesale) of the foreign affiliates. The results confirm that all three factors that characterized the global crisis affected the behavior of lending to Latin America. Furthermore, the findings indicate that the propagation of the crisis was more muted in countries where foreign banks conducted a higher share of their lending through their local affiliates in local currency and where local affiliates relied more heavily on local funding.

While this paper offers a nice first analysis of the behavior of bank lending to Latin America in 1999–2009, I would have liked to see more evidence and at times a different approach to complement the results of the paper. I discuss my suggestions below.

First, the sample used in the estimations includes a tranquil period and a crisis period, and mixing the two up is not very informative about the behavior of claims during the global crisis. It would have been interesting to see the

authors compare the determinants of foreign bank lending in the period before and during the crisis.

Second, the estimations combine many borrower and lender countries. For the crisis period, it would have been interesting to assess whether results are sensitive to excluding certain countries or to test formally whether some countries are very different from others. For example, toward the end of the paper the authors suggest that Spanish banks are different from other lenders, but they never formally test this. Given that the crisis started in the United States, it would have been nice to see the extent to which U.S. banks behave differently from the rest.

Third, though the authors try to include the role of funding in their estimations, the limited analysis of this issue is disappointing given how much attention it has received in the literature. It is not clear why the authors only focus on the funding structure of the affiliates of foreign banks and not on foreign bank funding in general, as has been the case in other papers.<sup>1</sup> The authors claim that they have a limited number of observations for retail funding, but this is because they only focus on the foreign bank affiliates, and this variable is not defined in the case of countries that receive only cross-border claims. However, the authors could have examined the impact of the ratio of deposits to total liabilities at the parent bank level.

Third, the results are based on regressions with very low explanatory power (in tables 2 and 3 the *R* squared is never above 0.04). This is probably due to the use of quarterly data, which are very noisy. It would have been nice to see if the results held using annual data.

Fourth, the authors use a static framework to conduct their estimations, yet it would have been very interesting to explore the dynamics during the crisis. This could have been done using a panel VAR model which would allow the authors to show impulse response functions, for example, to illustrate the impact of different shocks on foreign bank lending.

Finally, at times the authors state that foreign bank lending to Latin America was more resilient than lending to other regions. While this might be true, this is not something the authors are able show with their estimations, and it remains an important question for future research.

1. See, for example, Claessens and others (2010); Raddatz (2010); Cetorelli and Goldberg (2011).

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