Restarting European Long-Term Investment Finance
A Green Paper Discussion Document by Giovannini et al.

Comments

by

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The document in short

- Description of ‘facts and patterns’ of SMEs financing
- Different debt maturities: long versus short debt
- Different forms of financing:
    - Bonds versus bank finance
    - Debt versus equity
- “Causing” factors:
    - Supply versus demand
    - Intermediation and financial regulation
    - Information
    - Corporate governance

First general comments

- Very comprehensive document
- Very well organized and structured
- *Wide* collection of existing literature

- It touches upon *almost* all the relevant areas of corporate finance
- It addresses *numerous* interesting research and policy questions
- Impressive attempt to *stimulate* research and inform debate on crucial topics!!

In short…

- All my congratulations!!

- Difficult to find comments!

My other comments

1. Differences in financing patterns: **size** or **country** effect
2. Financial intermediaries (FIs): **risk** and **types** of shocks
3. Financial **regulation** and bank lending
4. FI’s g**overnance** and bank lending

1. Country effect

- Differences in financing patterns **across countries** are more pronounced than **across firms** within a country – **country** effect more than size effect
- Where does it come from?
  - Different **firms’** characteristics across countries? In terms of firms’ size distribution, efficiency, cost structure, etc.
  - Different **demand** characteristics? Industries, exports/imports, etc.
  - Different **supply** characteristics? Very different financial sectors across countries – e.g. Germany
  - Different **country** characteristics? Different strength and resiliency of sovereigns

1. Country effect (cont.)

- Important to dig deeper on country effect
  - What is the “most” efficient/welfare superior system?
  - Do we want (need) “one policy fits all” or “country/industries tailored policies”?
  - See Dell’Ariccia and Marquez (2006), although in different context
- Recent literature on
  - Sovereign fragility on bank lending
  - Maturity of sovereign debt on maturity of corporate debt – nothing to do with supply of lending

1. Country effect (cont.)

- Cross-countries studies are difficult for a variety of reasons
- Data: Orbis and Bureau van Dijk promising dataset
  - Careful with construction of data base
  - Changes across times must be better investigated - focusing only on surviving firms may not give the “full” picture
- Comparison across firms and countries
  - Typically firm fixed effects are used
  - Matching is perhaps better?

2. FIs: risk and types of shocks

- Distinguishing between demand and supply of lending is crucial, but difficult
  - Data limitations – few countries have the data of Italy and Spain!
- Important to distinguish between **types** of shocks
  - Financial products, real estate bubble, sovereign crisis
  - Recent literature on (international) transmission of shocks with real effects
- What about **risk**?
  - How important is financial stability for bank lending?
  - Wide literature on competition, stability and lending

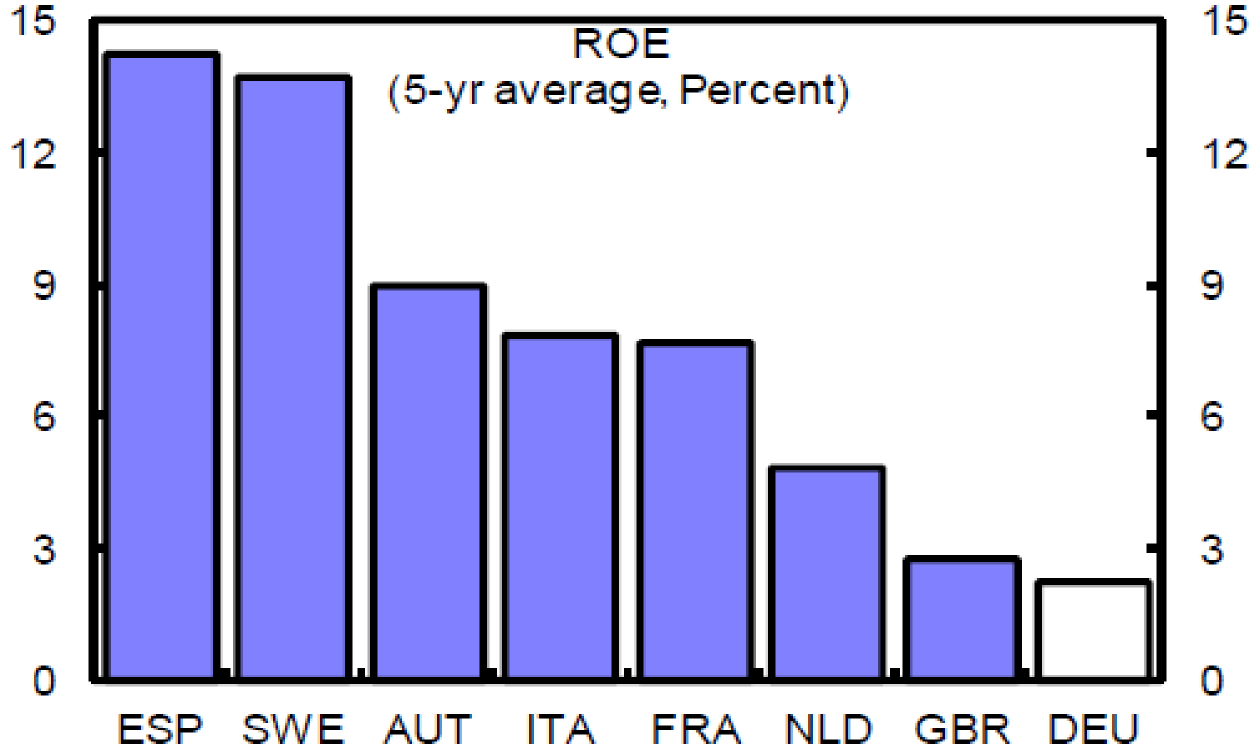
3. Financial regulation and bank lending

- Capital regulation is the most important regulatory tool, but not the only one
  - "Normal" capital level versus additional buffers
  - Recent literature on countercyclical bank capital buffers and credit supply
- Recent literature on impact of other regulation
  - Liquidity requirements on bank stability and lending
  - Role and potential of shadow banking
  - Impact of bailouts on bank risk taking and lending – e.g removal of guarantees in Germany
- More is needed on financial market and insurance regulation

4. FI’s governance and bank lending

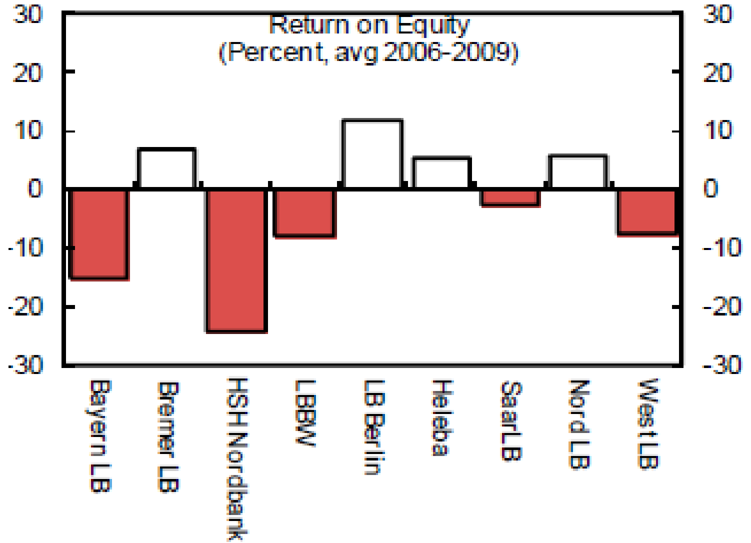
- Emphasis on conflicts shareholders/managers and debtholders
- Not much emphasis on **ownership structure** of banks, while this seems very important
- Take the German case
  - 3 pillar system: private, cooperative and public banks
  - Market share of total assets: 36%, 11%, 31% respectively
  - Public banks:
    - Extend 25% of consumer credit and 24% of SMEs lending
    - Loan supply follow electoral cycles
    - Contribute to low profitability of German banks
    - Contribute to large public subsidies during the crisis

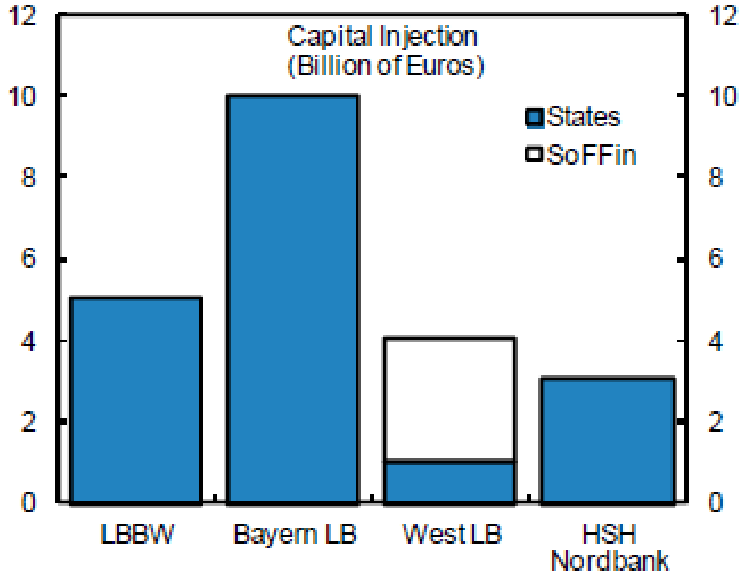
Profitability of different banking systems

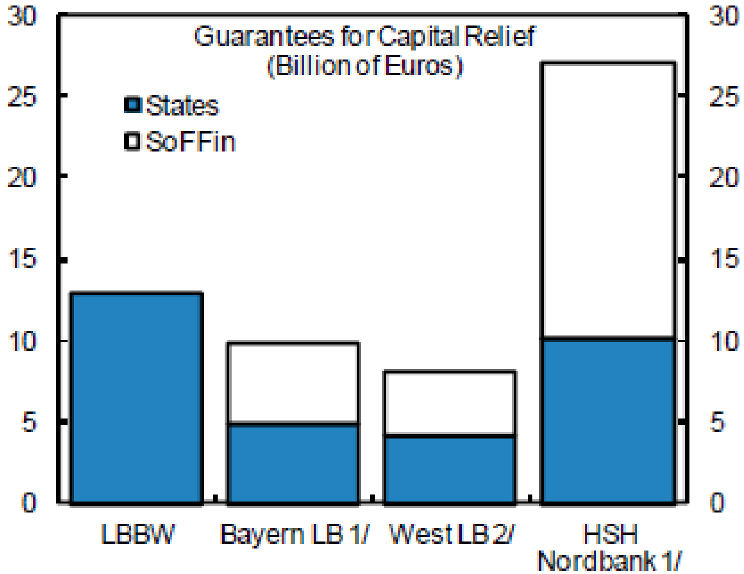


IMF: 2002-2007

Landesbanken







Final remarks

- Remarkable effort in terms of
  - description of current financing patterns across firm type and countries
  - search for “causing” factors
  - stimulation of relevant research to address policy questions
- Room for further enlargement
- But perhaps giving priorities to topics and questions may be useful?
  - Some questions seem to have been already more addressed than others
  - Narrower but more informative final while paper?
  - This may depend on how “large” the project is going to be!