



World Bank Research E-Newsletter

A Monthly Summary of Our New Research

December 2017 — International Banking

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Sound domestic policies are key to unlocking the benefits of international banking

Policymakers in developing countries may wish to reconsider their stance toward international banks in the aftermath of the global financial crisis, as these institutions can provide the capital, expertise, and technologies needed to stimulate a vibrant private sector. This is one of the main messages of the new World Bank report [Global Financial Development Report 2017/2018: Bankers without Borders](#), which outlines several policy measures developing countries can take to reap the benefits of international banking, including vigorously enforcing property and contract rights, guaranteeing strong supervision of banks, and upgrading their credit registries. The report also points out three trends that countries may face in reopening their doors to international banks; the rise of fintech, a growth in alternative sources of funding, and a rise in South-South banking.

[Story](#) | [Video](#) | [Presentation](#) | [Report](#)

International banks in developing countries perform well

Many developing country banks expanded internationally after the global financial crisis, in part to fill gaps left by international banks from high-income countries. The implications of this expansion of developing-country international banks are assessed using data for 113 countries between 2000 and 2015, along with variables on bank valuation, risk, and return, and a range of variables reflecting the business model and funding strategies. International banks in high-income countries tend to show lower valuations and lower returns on equity than domestic banks, potentially because of corporate governance failures or too-big-to-fail subsidies. Yet, developing-country bank internationalization comes with financial stability benefits at home such as reduced cyclical growth of their domestic credit with respect to domestic GDP growth, potentially smoothing out local downturns. The opposite is true of international banks from high-income countries, whose lending is relatively procyclical and can be destabilizing.

[Are international banks different? Evidence on bank performance and strategy](#), Ata Can Bertay, Asli Demirgüç-Kunt, and Harry Huizinga, World Bank Policy Research Working Paper 8286, December 2017.

Protecting affiliates from default risk of parent banks

What happens to the default risk of foreign subsidiaries in developing countries when their parent bank is in distress? Although the correlation in default risk between the parents and their foreign subsidiaries is positive and significant for the average bank, several factors can help insulate affiliates from their parents. The correlation is lower for subsidiaries with a higher share of retail deposit funding and that are managed more independently. The correlation is also lower for subsidiaries operating in host countries with bank regulations that impose higher capital, reserve, provisioning, and disclosure requirements, and tougher restrictions on bank activities.

[Foreign bank subsidiaries' default risk during the global crisis: What factors help insulate affiliates from their parents?](#) Deniz Anginer, Eugenio Cerutti, Maria Soledad Martinez Peria, *Journal of Financial Intermediation* 29: 19–31, January 2017.

How foreign monetary policy affects the supply of credit via foreign banks

Analyzing the corporate loan sector in Mexico — a country with a high presence of European and U.S. banks — the international credit channel of monetary policy is identified by matching firm and bank balance-sheet data, and by exploiting foreign monetary policy shocks. When foreign monetary policy softens, it increases the credit supply of foreign banks to Mexican firms. Each regional policy shock affects supply via their respective banks (U.K. monetary policy affects credit supply in Mexico via U.K. banks), implying strong real effects, with more sensitivity to monetary rates than quantitative easing. Lower foreign monetary policy rates and expansive quantitative easing increase the supply of credit to borrowers with higher ex ante loan rates — reach-for-yield — and with substantially higher ex post loan defaults. Thus, the results suggest foreign quantitative easing increases risk-taking in emerging markets more than it improves the real outcomes of firms.

[The international bank lending channel of monetary policy rates and quantitative easing: credit supply, reach-for-yield, and real effects](#), Bernardo Morais, José-Luis Peydró, and Claudia Ruiz Ortega, World Bank Policy Research Working Paper 7216, 2015 | Forthcoming in *Journal of Finance*.

Greater foreign bank entry is associated with more stable cross-border credit flows

Loan-level data from 124 countries over 1995–2015 is used to examine the transmission of monetary policy through the cross-border syndicated loan market. Expansion of monetary policy increases cross-border credit supply especially to weaker firms. However, greater foreign bank presence in the borrower country appears to reduce the potentially destabilizing impact of lower policy interest rates on cross-border lending. This happens because foreign banking presence attenuates increases in loan volume and maturity while magnifying increases in collateralization and covenant use. The results remain even after controlling for borrower-country economic and financial development, and a range of borrower and lender country policies and institutions, including the strength of bank regulation and supervision, exchange rate flexibility, and restrictions on capital flows. These findings qualify the characterization of international banks as sources of credit instability, and suggest that foreign bank entry can improve the stability of cross-border credit in the face of international monetary policy shocks.

[Foreign banks and international transmission of monetary policy: evidence from the syndicated loan market](#), Asli Demirgüç-Kunt, Bálint L. Horváth, and Harry Huizinga, World Bank Policy Research Working Paper 7937, January 2017.

Large firms use different debt markets as complements and substitutes

World debt issuance activity during 1991–2014 shows that different markets provide financing to corporations at different terms and that the importance of each market varies over time. Thus, the type of debt issued and its composition affect corporate maturity. During the global financial crisis of 2008–09, firms issued more bonds and, in developing countries, more domestic loans. Because the maturity of these markets is longer, the substitution across them allowed the largest firms that switched markets to maintain their average borrowing maturity, even when the maturity within each market declined for switchers and non-switchers. This suggests that firms use different debt markets as complements and substitutes, and that compositional effects across firms and markets have a material impact on firm-specific and aggregate maturity.

[How long is the maturity of corporate borrowing? evidence from bond and loan issuances across markets](#), Juan Jose Cortina-Lorente, [Tatiana Didier](#), and [Sergio L. Schmukler](#), World Bank Policy Research Working Paper 7815, September 2016 | Updated working paper forthcoming: Corporate Borrowing and Debt Maturity: Market Access and Crisis Effects.

For large firms, capital market access cushions shocks to bank lending

A dataset covering about 277,000 firms across 79 countries over the period 2004–11 is used to examine the evolution of firms' capital structure during the global financial crisis and its aftermath in 2010–11. The study finds that firm leverage and debt maturity declined in advanced economies and developing countries, even in countries that did not experience a crisis. The deleveraging and maturity reduction were particularly significant for privately held firms, including small and medium enterprises. For small and medium-size enterprises, these effects were larger in countries with less efficient legal systems, weaker information-sharing mechanisms, shallower banking systems, and more restrictions on bank entry. In contrast, there is weaker evidence of a significant decline of leverage and debt maturity among firms listed on a stock exchange, which are typically much larger than other firms and likely benefit from the “spare tire” of easier access to capital market financing.

[The impact of the global financial crisis on firms' capital structure](#), [Asli Demirgüç-Kunt](#), [Maria Soledad Martinez-Peria](#), and Thierry Tresselt, Policy Research Working Paper 7522, December 2015 (updated in 2017).

UPCOMING EVENTS

- **January 30, 2018:** [Policy Research Talk: Employment and Violence in Fragile States: Evidence and Insights from Impact Evaluations of Employment Programs](#)
- **March 19–23, 2018:** [Land and Poverty Conference 2018: Land Governance in an Interconnected World](#)
- **June 12–15, 2018:** [Disruptive Innovations, Value Chains, and Rural Development](#)
- **June 25–26, 2018:** [Annual Bank Conference on Development Economics 2018: Political Incentives and Development Outcomes](#)

[All upcoming events](#)

MORE RESEARCH

Are Public Credit Guarantees Worth the Hype?

Facundo Abraham and [Sergio L. Schmukler](#)

This brief shows that public credit guarantees have become a popular instrument to expand lending to financially limited firms. In many cases, they have proven useful to increase access to finance. The authors suggest that public interventions to extend guarantees need to be designed, evaluated, and monitored properly. Otherwise, they could turn out to be unnecessary or increase moral hazard or implicit subsidies.

MEDIA AND BLOGS

12 of our favorite development papers of the year

Development Impact, 21 December 2017

Development Impact will now be on break over the next couple of weeks for the holidays, resuming in early January after the AEA annual meetings. Inspired by some of the interesting lists of favorite papers of the year (e.g. [Noah Smith](#), [Matt Notowidigdo](#)) we thought we'd each offer three of our favorite development economics papers for the year...

Read the blog by [Berk Ozler](#), [David Evans](#), [Markus Goldstein](#), and [David McKenzie](#).

Migration: The future depends on our actions today

Let's Talk Development, 18 December 2017

Around 250 million migrants currently live outside their countries of birth, making up approximately 3.5 percent of the world population. Despite the widespread perception of a global migration crisis, this ratio has stayed remarkably stable since the end of the Second World War and lags well behind other major metrics of globalization — international trade, capital flows, tourism etc. A more remarkable statistic is that refugees, at around 15 million, account for 6 percent of the migrant population and only 0.2 percent of world population. In other words, we can fit all refugees in the world in a city with an area of 5000 square kilometers — roughly the size of metropolitan Istanbul or London or Paris — and still have some space left over.

Read the [blog](#) by [Çağlar Özden](#).

Populism and development policy

Let's Talk Development, 12 December 2017

Populism — the idea that a particular social group speaks for the nation as a whole, and should be first in the line for social benefits — threatens the core values of the post-World War order. It also challenges the World Bank's own approach to development policy. As the world prepares for the 50th anniversary of the signing of the Universal Declaration of Human Rights with [a year-long commemoration](#), culminating on December 10, 2018, we at the World Bank can use the occasion to reflect on our commitments and uphold them courageously.

Read the [blog](#) by [Varun Gauri](#).

Global poverty today, the 1908 winter in St. Petersburg, and 'controversy bias'

Let's Talk Development, 11 December 2017

Robert Allen's recent AER paper on "[Absolute Poverty: When Necessity Displaces Desire](#)" is a fascinating read, on many levels. The paper uses linear programming (LP) to compute (four variants of) least-cost diets for twenty countries, using prices from the International Comparisons Project (ICP) microdata. To the resulting least-cost food budgets, estimates of non-food

costs covering housing, fuel, lighting, clothing and soap are added, generating “basic need poverty lines” (BNPL) for each country.

The paper makes many interesting claims. One is that, although linear programming algorithms generate unrealistic diets in rich countries, among very poor people in the world’s poorest countries deprivation is so constraining that little latitude is left to taste, and the LP predictions turn out to be reasonable approximations of actual diets. This is an interesting hypothesis, although the actual diets to which the LP predictions are compared are averages for 1961, from the FAO Food Balances Sheets. As Martin Ravallion notes in this [comment](#), it should have been possible to use data for — or near — 2011 and, furthermore, what appears as a reasonable match to Allen can seem like large differences to others.

Read the [blog](#) by [Francisco Ferreira](#).

Feeding the appetite for more precise global poverty numbers

Let’s Talk Development, 8 December 2017

Online pundits, hurried journalists and policymakers love precision. They crave numbers. Preferably exact numbers; ranges suggest uncertainty and make them anxious. As a result, they will love the [World Poverty Clock](#) (WPC), a new website that claims to track progress towards ending global poverty in real time (see also this [blog](#) and [Financial Times article](#) (gated)). The website tells you that 632,470,507 people are currently living in extreme poverty — or were, on December 6 at 10:00am... Even more amazingly, the site claims to forecast poverty at any point in the future until 2030, the deadline for the UN’s Sustainable Development Goals. By scrolling along the elegant timeline on the bottom of the WPC screen you will learn, for example, that in 2028, 459,309,506 people will be living in extreme poverty!

If you pause for a moment to consider the myriad sources of uncertainty about what may happen to our world in the next ten years, this must strike you as a remarkably precise forecast. And it is presented down to the decimal point, with no indication of possible error, or of the margin of confidence viewers should place on it. Because, as its ‘methodology’ tab reluctantly admits, the WPC is based primarily on poverty data from the World Bank’s [PovcalNet](#), with which we are involved, we felt it was probably incumbent on us to clarify a few points.

Read the [blog](#) by [Francisco Ferreira](#), [Joao Pedro Azeved](#), and [Christoph Lakner](#).

NOAA satellite data illuminate oil production trends in Iraq and Syria

CIRES (Cooperative Institute for Research in Environmental Sciences), 7 December 2017

Technique promises to help in rapid response assessments of oil production anywhere

Between 2014 and 2016, it was taxation and extortion — not oil — that filled the coffers of the militant Islamic group ISIS, according to a new assessment that relied on NOAA satellite data. The publication also describes how anyone can use rapidly updated NOAA data to quickly assess the production status of oil wells around the world.

Quy-Toan Do, a senior economist with the World Bank’s Development Economics Research Group, led the research, which estimated 2012-2016 oil production rates in areas of Iraq and Syria taken over by ISIS, also called ISIL, Daesh or the Islamic State.

Do and his colleagues — including NOAA's Chris Elvidge and CIRES/University of Colorado Boulder's Mikhail Zhizhin and Kimberly Baugh — found that production in 43 key sites peaked in 2014 at about 80,000 barrels per day. That figure dropped to about 35,000 in 2015, and plummeted to just 16,000 in 2016.

Read the [article](#).

Didn't make it to our trade research conference? Here's what you missed

Let's Talk Development, 6 December 2017

What would bring together the China trade shock, road blocks in the West Bank, and the Belt and Road initiative? The 6th Annual IMF-World Bank-WTO Trade Research Conference, at which staff of the three institutions presented the results of twelve research projects.

The Conference is over, but the [website](#) lives on, and here you can find preliminary versions of papers. To whet your appetite, here are three examples of research that use creative methodologies and raise provocative questions.

Read the [blog](#) by [Ana Fernandes](#) and [Aaditya Mattoo](#).

Invisible walls? Why Indian men don't cross borders for work and opportunity

Let's Talk Development, 5 December 2017

That international borders limit migration is obvious. But why should provincial or state borders prevent people from moving within a country? After all, most countries do not impose restrictions on mobility like the "hukou" system in China. Yet, in an article forthcoming in the *Journal of Economic Geography*, we find evidence of "invisible walls" between Indian states (Zovanga Louis Kone, Aaditya Mattoo, Çağlar Özden, Siddharth Sharma, [2017](#)). Indians, particularly men seeking education and jobs, display a puzzling reluctance to cross state borders.

On the face of it, internal migrants represented 30 percent of India's population in 2001. But this number is deceptively large: two-thirds were migrants within districts, and more than half were women migrating for marriage. Figure 1 reveals internal migration rates across states were nearly four times higher in Brazil and China, and more than nine times higher in the United States in the five years ending in 2001. Other researchers found that in a comparison of internal migration in 80 countries, India ranked last ([Martin Bell, Elin Charles-Edwards, Philipp Ueffing, John Stillwell, Marek Kupiszewski, Dorota Kupiszewska 2015](#)).

Read the [blog](#) by [Aaditya Mattoo](#), [Çağlar Özden](#), and [Siddharth Sharma](#).

Future Development Reads: Surprises, support, and surveys on economics and poverty

Future Development, 2 December 2017

This week, I have been examining a wide variety of literature that offers both support and surprising contradictions to many of the assumptions we take for granted in development economics. Here's a selection of a few of my favorites.

Read the [blog](#) by [Shanta Devarajan](#).

How India's internal borders inhibit migration

VoxEU, 30 November 2017

Indian men looking for education and jobs display a puzzling reluctance to cross state borders. This column explores the reasons for this surprising migration pattern. A major culprit is India's system of 'fragmented entitlements', whereby welfare benefits are administered at the state level, and state residents get preferential treatment when it comes to higher education and government employment. These administrative rules prevent the more efficient allocation of labour across the country.

Read the [article](#) by [Zovanga Kone](#), [Maggie Y. Liu](#), [Aaditya Mattoo](#), [Çağlar Özden](#), and [Siddharth Sharma](#).

China makes inroads in its battle against inequality

Financial Times, 23 November 2017

Xi Jinping's determination to tackle China's social inequalities was one of the most trumpeted elements of his marathon three-and-a-half-hour presidential address at this year's Communist party congress. Less well reported, however, is that inequality in the world's most populous nation has already been falling since 2008. Moreover, the fall is part of a broader, though far from universal, trend that has seen income inequality decline across emerging markets, led by Latin America, historically the most unequal region on earth.

Since the early 2000s, income inequality, as measured by the Gini coefficient, has fallen significantly in all of the 16 Latin American countries for which the World Bank has a reasonable run of data (it has nothing for Venezuela since 2006).

Read the [article](#) (gated).

[All World Bank blogs](#)

List of New Policy Research Working Papers

- 8265. [Change Management That Works: Making Impacts in Challenging Environments](#) by Caroline Hughes, Sokbunthoeun So, Erwin Ariadharma, and Leah April
- 8266. [The Value of Reference Letters](#) by Martin Abel, Rulof Burger, and Patrizio Piraino
- 8267. [The Whys of Social Exclusion: Insights from Behavioral Economics](#) by Karla Hoff, and James Walsh
- 8268. [Capital and Labor: The Factor Income Composition of Top Incomes in the United States, 1962-2006](#) by Anthony B. Atkinson and Christoph Lakner
- 8269. [Appraisal Econometrics for Proposed Transport Corridors: Optimal Placement, Intervention Design, and Wider Economic Benefits](#) by Martin Melecky
- 8270. [Mission and the Bottom Line Performance Incentives in a Multi-Goal Organization](#) by Xavier Giné, Ghazala Mansuri, and Slesh A. Shrestha
- 8271. [Man vs. Machine in Predicting Successful Entrepreneurs: Evidence from a Business Plan Competition in Nigeria](#) by David McKenzie and Dario Sansone
- 8272. [A GEM for Streamlined Dynamic CGE Analysis: Structure, Interface, Data, and Macro Application](#) by Martín Cicowiez and Hans Lofgren

- 8273. [Building Macro SAMs from Cross-Country Databases: Method and Matrices for 133 Countries](#) by Martín Cicowiez and Hans Lofgren
- 8274. [How Do Multinationals Report Their Economic, Social, and Environmental Impacts? Evidence from Global Reporting Initiative Data](#) by Deborah Winkler
- 8275. [The Impact of Hurricane Strikes on Short-Term Local Economic Activity: Evidence from Nightlight Images in the Dominican Republic](#) by Oscar A. Ishizawa, Juan José Miranda, and Eric Strobl
- 8276. [Are Psychometric Tools a Viable Screening Method for Small and Medium-Size Enterprise Lending? Evidence from Peru](#) by Irani Arráiz, Miriam Bruhn, Claudia Ruiz Ortega, and Rodolfo Stucchi
- 8277. [The Global Costs of Protectionism](#) by Zornitsa Kutlina-Dimitrova and Csilla Lakatos
- 8278. [Mobile Infrastructure and Rural Business Enterprises: Evidence from Sim Registration Mandate in Niger](#) by Francis Annan and Aly Sanoh
- 8279. [The Profits of Wisdom: The Impacts of a Business Support Program in Tanzania](#) by Elena Bardasi, Marine Gassier, Markus Goldstein, and Alaka Holla
- 8280. [Quasi-Fiscal Deficits in the Electricity Sector of the Middle East and North Africa: Sources and Size](#) by Daniel Camos, Antonio Estache, and Mohamad M. Hamid
- 8281. [Business Environment and Firm Performance in European Lagging Regions](#) by Thomas Farole, Issam Hallak, Peter Harasztos, and Shawn Tan
- 8282. [Data Gaps, Data Incomparability, and Data Imputation: A Review of Poverty Measurement Methods for Data-Scarce Environments](#) by Hai-Anh Dang, Dean Jolliffe, and Calogero Carletto
- 8283. [Increasing the Sustainability of Rural Water Service: Findings from the Impact Evaluation Baseline Survey in Nicaragua](#) by Christian Borja-Vega, Joshua Gruber, and Alexander Spevack
- 8284. [Poverty from Space: Using High-Resolution Satellite Imagery for Estimating Economic Well-Being](#) by Ryan Engstrom, Jonathan Hersh, and David Newhouse
- 8285. [Public Infrastructure and Structural Transformation](#) by Fidel Perez Sebastian and Jevgenijs Steinbuks
- 8286. [Are International Banks Different? Evidence on Bank Performance and Strategy](#) by Ata Can Bertay, Asli Demirgüç-Kunt, and Harry Huizinga
- 8287. [Cost Recovery and Financial Viability of the Power Sector in Developing Countries: A Literature Review](#) by Joern Huentelera, Istvan Doboza, Ani Balabanyana, and Sudeshna Ghosh Banerjee
- 8288. [State Ownership of Financial Institutions in Europe and Central Asia](#) by Aurora Ferrari, Davide S. Mare, and Ilias Skamnelos
- 8289. [How \(Not\) to Fix Problems That Matter: Assessing and Responding to Malawi's History of Institutional Reform](#) by Kate Bridges and Michael Woolcock
- 8290. [Preschool and Child Development under Extreme Poverty: Evidence from a Randomized Experiment in Rural Mozambique](#) by Sebastian Martinez, Sophie Naudeau, and Vitor Pereira