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Running for the Exit? International Bank Lending During a Financial Crisis

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Abstract

We use loan-level data to examine how large international banks reduced their cross-border lending after the collapse of Lehman Brothers. Country, firm, and bank fixed effects allow us to disentangle credit supply and demand and to simultaneously control for the unobserved traits of banks and the countries and firms they lend to. We document substantial heterogeneity in the extent to which different banks retrenched from the same country. Banks reduced credit less to markets that were geographically close; where they were more experienced; where they operated a subsidiary; and where they were integrated into a network of domestic co-lenders.