Accepted Manuscript

No Guarantees, No Trade: How Banks Affect Export Patterns

Friederike Niepmann, Tim Schmidt-Eisenlohr

PII: S0022-1996(17)30080-6
DOI: doi:10.1016/j.jinteco.2017.07.007
Reference: INEC 3066

To appear in: *Journal of International Economics*

Received date: 26 November 2016
Revised date: 7 July 2017
Accepted date: 17 July 2017

Please cite this article as: Niepmann, Friederike, Schmidt-Eisenlohr, Tim, No Guarantees, No Trade: How Banks Affect Export Patterns, *Journal of International Economics* (2017), doi:10.1016/j.jinteco.2017.07.007

No Guarantees, No Trade: How Banks Affect Export Patterns*

Friederike Niepmann and Tim Schmidt-Eisenlohr†

Abstract

Employing new data on U.S. banks' trade-finance claims by country, this paper estimates the effect of letter-of-credit supply shocks on U.S. exports. We show that a one-standard deviation negative shock to a country's letter-of-credit supply reduces U.S. exports to that country by 1.5 percentage points. This effect is driven by countries that are small and where few banks are active. It more than doubles during the 2007-09 crisis. The provision of letters of credit is highly concentrated and banks are geographically specialized. Therefore, shocks to individual banks can have sizable effects in the aggregate and affect trade patterns.

Keywords: trade finance, global banks, letter of credit, exports, financial shocks

JEL-Codes: F21, F23, F34, G21

*The authors would especially like to thank Geoffrey Barnes and Tyler Bodine-Smith for excellent research assistance. For their helpful comments, they would also like to thank Mary Amiti, Pol Antras, Andrew Bernard, Gabriel Chodorow-Reich, Stijn Claessens, Giancarlo Corsetti, Pablo D'Erasmo, Martin Goetz, Kalina Manova, Atif Mian, Daniel Paravisini, Steve Redding, Peter Schott, Philipp Schnabl, Mine Z. Senses, David Weinstein, and members of the D.C. trade group as well as participants in seminars at New York Fed, San Francisco Fed, Federal Reserve Board, LMU Munich, Ifo Institute Munich, Bank of England, University of Oxford, University of Passau, University of Cambridge, Graduate Institute, LSE, and the following conferences: NBER SI International Macro & Finance, SED 2015, AEA 2015, Econometric Society World Congress 2015, FIRS 2014, RMET 2014 and CESifo Conference on Macro, Money and International Finance.

†The authors are staff economists in the Division of International Finance, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 U.S.A. The views in this paper are solely the responsibility of the author(s) and should not be interpreted as reflecting the views of the Board of Governors of the Federal Reserve System or of any other person associated with the Federal Reserve System. You can contact the authors at t.schmidteisenlohr@gmail.com and Friederike.Niepmann@frb.gov.