

Abstract

Financial integration has been at the centre of a wide debate, especially with respect to its effects on stability, inequality and welfare. This thesis presents an empirical investigation on the relationship between financial integration and macroeconomic volatility. The present study takes advantage of the publication of a new database on integration in the banking industry, and estimates its effects on the volatility of output and consumption, on a set of 136 countries over the years 1996 to 2009, using regions and country fixed effects. The analysis focuses on the effect of foreign bank presence on macroeconomic volatility, and as a further application, on the effect of foreign bank assets on macroeconomic volatility. Furthermore, the present study will determine whether the findings change for Central and Eastern European Countries and the countries of the Commonwealth of Independent States. The main finding is that foreign bank presence is significantly related to the volatility of output, but it is not related to the volatility of private consumption growth. The original contribution of this paper is to empirically analyse data on foreign bank presence as proxies for financial integration, and to relate them to the volatility of output and consumption.