

Foreign Banks and Financial Development – Foreign Bank Lending in CEE Countries

Master thesis

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Abstract

The objective of this paper is to investigate the relation between foreign banks and financial development and to focus on foreign bank lending, in particular. The research focuses on four countries with a high share of foreign banks: Czech Republic, Hungary, Poland and Slovakia. Using a dataset of 122 banks over a 10 year period from 2005 to 2015 a fixed effects panel regression models is used for an empirical analysis. Loan growth as a proxy for lending behaviour and credit stability is used as the dependent variable. The empirical models investigate the determinants of loan growth in foreign and domestic banks as well as the dependence of foreign bank subsidiaries on their parent banks. The regression results indicate that domestic banks are more dependent on local economic conditions and bank performance. Their credit supply depends more on their profitability, loan quality and domestic market share. Foreign bank subsidiaries, in contrast, exhibit greater independence from local economic conditions and also from subsidiary performance indicators such as profitability ratios. Instead their lending behaviour is significantly influenced by the financial characteristics of their parent banks.