International Banking and Cross-border effects of regulation: Lessons from Poland

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Paper summary

- Research question:
  - The link between foreign banks' lending growth in Poland and changes in the regulatory policy in their home countries
- Why Poland:
  - Polish banking system is dominated by foreign-owned banks
  - Nearly all activity of Polish banks is domestic
  - Loan extension is the main source of variation in the banks' activities.

Main results

- Changes in general prudential policy in home countries **do not** affect credit extension of Polish banks
- Cumulative changes since 2000 reduce credit growth by 0.8 percentage points
- There is lagged effect of tightening capital requirements at home (1.4 percentage points)
- Liquidity requirement at home **reduces** credit growth in short term.

- Tightening reserve requirements in local currency increases lending growth by nearly **8 percentage points** (giving that average **increase is 3%).**

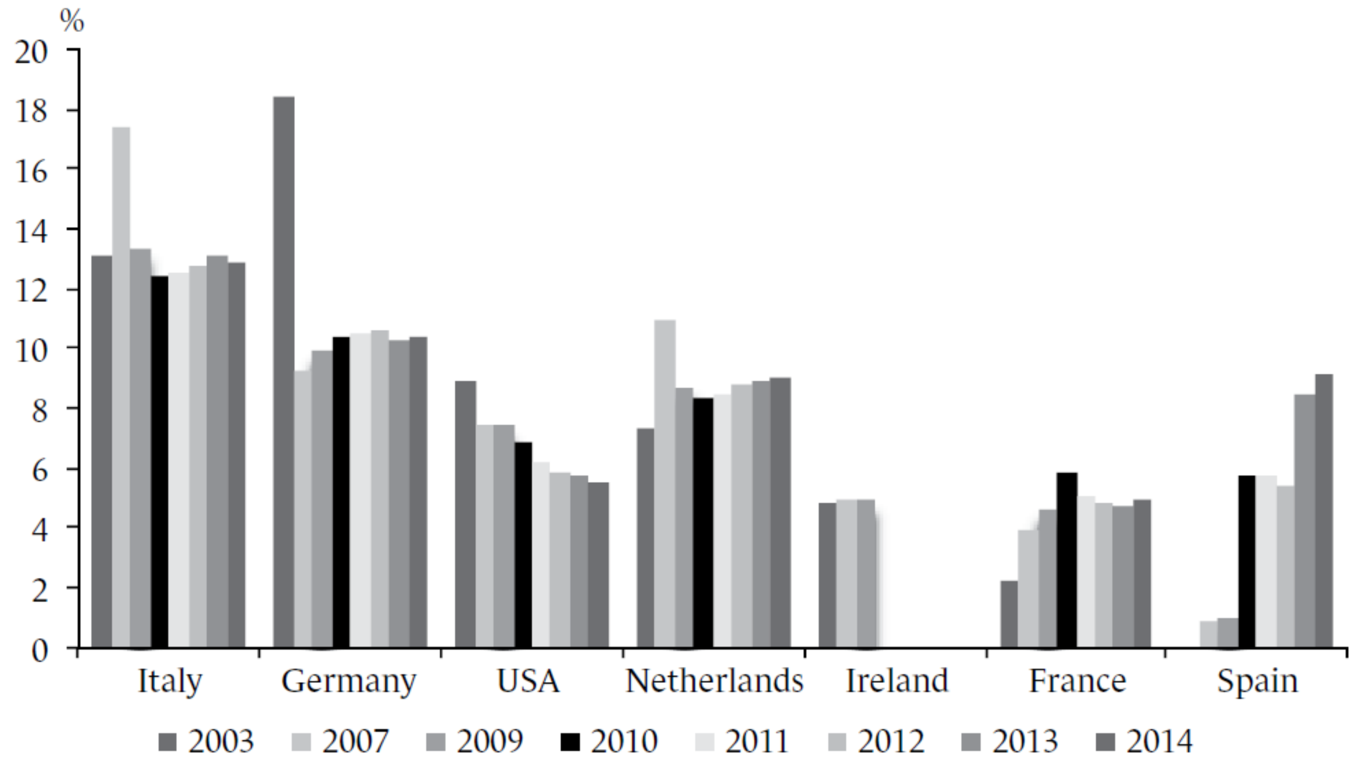
Comments

- Why do foreign banks increase loans?
  - Profitability
  - Diversification
  - Liquidity

- Figures from Pawlowska (2016)

Figure 4

Share of foreign investors in assets of the Polish banking sector by country of origin

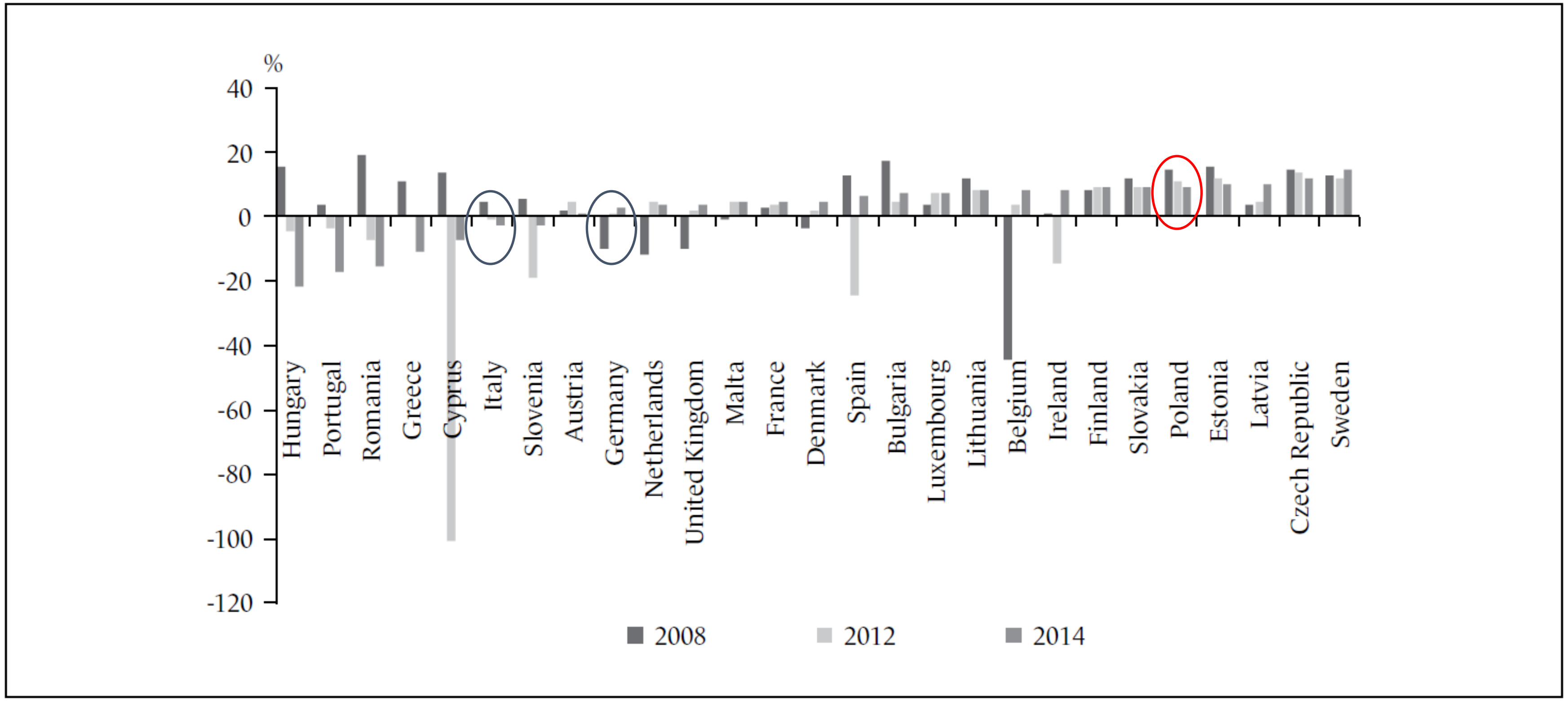


Source: PFS.

Why do foreign banks operate in Poland?

Figure 7

Profitability ratio in EU (ROE)



Note: ROE and ROA indicators are derived using profit after tax.

Source: ECB.

Main comments: Identification

- Difference-in-difference
- Timing (dependent variable is difference from *t-1* to *t* while key independent variables are timed *t*, *t-1* and *t-2*)

$$\Delta Y_{b,j,t} = \alpha_0 + (\alpha_1 HomeP_{j,t} + \alpha_2 HomeP_{j,t-1} + \alpha_3 HomeP_{j,t-2}) + \alpha_4 X_{b,j,t-1} + \alpha_5 Z_{j,t} + f_b + f_t$$
$$+ \epsilon_{b,j,t}$$

Data

- Special Banks
- New entity with a new id is created when there is a merge
- Observations with 100% of lending growth
- **10% observations with highest absolute quarterly change in claims**
- **Less than 8 consecutive quarters of data**

- Median of Net Intragroup Funding % is 0, meaning that at least half of all banks do not have any net intragroup funding.

Minor Suggestions

- Table 2: Incorrect labelling for columns 3 and 4
- Table 3: Report more control variables in data

Overall

- Very interesting paper and I really enjoyed reading it.