Foreign bank presence and its effect on firm entry and exit in transition economies

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- Related literature :
  - The impact of foreign bank penetration on lending to SMEs (Berger et al., 2001, 2008 ; Clarke et al., 2006 ; Mian, 2006 ; Degryse et al., 2009).

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  - The impact of financial development, (Aghion et al., 2007) banking competition (Bonaccorsi di Patti and Dell'Ariccia, 2004) and banking deregulation (Kerr and Nanda, 2009 ; Kerr and Nanda, 2010) on firm demographics.

Theoretical considerations

- Information based theories argue that foreign banks have a comparative advantage in lending based on hard information, such as long credit history and detailed financial statement information, whereas domestic banks are better placed to lend to firms based on soft information (Dell'Ariccia and Marquez, 2004)

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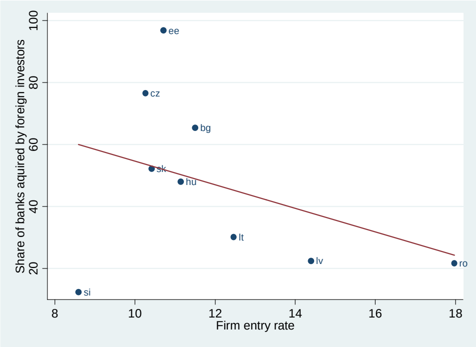
  - Greenfield : segmentation of the market is the outcome and opaque borrowers benefit.
  - Acquisition of domestic banks : number of domestic banks and their ability to service opaque borrowers decline

Firm creation rate vs. share of banks acquired by foreign investors



Data

- Eurostat : firm entry, exit, survival rates on the industry level.
- Amadeus : compute industry characteristics based on balance sheet and income statement data on firm level.
- Analyzed period : 2000 - 2005
- Region : Central and Eastern Europe
- Whereas 75 percent of banking assets are owned by foreign banks, only 14 percent of firms have relationship with a foreign bank.

Identification strategy

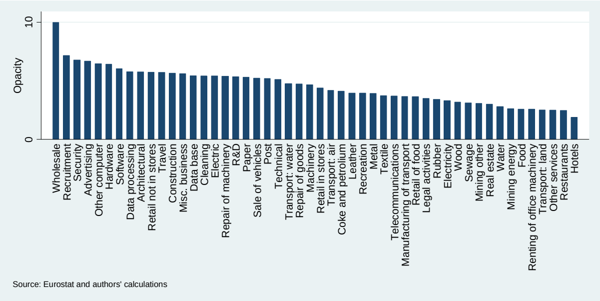
- Implication of theoretical models : Foreign bank entry should disproportionally affect firms from transparent and opaque industries.
- Difference-in-difference (Rajan and Zingales, 1998).

$$Demo_{i,j,t} = a_1 Initial_{i,j} + a_2 Opaqueness_i * Foreign_{j,t-1} + a_3 Industry_i + a_4 Country_j + a_5 Year_{t-1} + e_{i,j,t}$$

How do we measure industry opacity ?

- Opaqueness measures :
  - Ratio of assets to fixed assets in the industry for all firms (or for young ones only).
  - Dependance on skilled labour at the industry level.
- Ratio of small firms in the industry.
- Size vs opaqueness.

Opacity of industries



The impact of foreign bank entry on firm demographics

	Entry	Exit	Net entry	Survival
Panel A				
Initial industry share	-0.030	0.0685	-0.135*	0.336*
Acquired*opacity (fixed assets)	-0.527***	0.322	-0.674***	-0.447
Greenfield*opacity (fixed assets)	0.612	1.286*	-0.693	-0.480
Foreign*Share of small firms	-0.003	0.0604	-0.131	-0.726*
Observations	4399	4063	3999	2368
R-squared	0.083	0.085	0.130	0.270
Panel B				
Initial industry share	-0.028	0.042	-0.117	0.349*
Acquired*opacity (skill dependence)	-0.049**	0.037	-0.105***	0.0361
Greenfield*opacity (skill dependence)	-0.0244	0.074	-0.029	0.342**
Foreign*Share of small firms	0.107	-0.019	0.106	-0.893*
Observations	4318	3996	3933	2320
R-squared	0.082	0.085	0.134	0.274

The impact of foreign bank entry on firm demographics

	Entry	Exit	Net entry	Survival
Panel A				
Initial industry share	0.004	0.107**	-0.134*	0.265*
Acquired*opacity (no employees)	-0.204	0.511***	-0.538*	-0.064
Acquired*opacity (1-4 emp.)	-2.685**	-1.406	0.149	-0.104
Acquired*opacity (4-9 emp.)	-0.642***	0.440***	-1.065***	-0.172
Acquired*opacity (more than 9 emp.)	-0.307**	0.377***	-0.582**	-1.212
Greenfield*opacity (no employees)	1.389***	2.151***	-0.707	1.374
Greenfield*opacity (1-4 emp.)	9.622**	8.550**	-5.588	11.44
Greenfield*opacity (4-9 emp.)	0.613	1.481***	-0.676	-3.685**
Greenfield*opacity (more than 9 emp.)	1.656***	2.366***	-0.581	-1.939
Observations	4399	4063	3999	2368
R-squared	0.544	0.603	0.147	0.368

Conclusions

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- Trade-off between gains from reduced connected lending and losses from less credit to opaque sectors.

Thank you !