Maastricht University

From macro to micro

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Chapter 6

Valorization

This dissertation contributes to the understanding of the financial intermediaries from both the macro and micro perspectives, including the role of deposit insurance in providing "Safe Haven" or "Regulatory Arbitrage", the fundamental factors that drive the physical location of bank branches, as well as the banking lending channel for corruption to affect economic growth.

Chapter 2 contributes to the understanding of the role of deposit insurance schemes, as well as the determinants of cross-border banking. This study analyses retail deposits, which are actually covered by deposit insurance and enable us to identify the direct insurance effects. Furthermore, we investigate not only the attractiveness of the bank countries' deposit insurance, but also the differences of deposit insurance between the depositor country and the bank country. Lastly, we investigate not only the effect of explicit deposit insurance but also consider its specific features, as the effectiveness of deposit insurance depends crucially on its design and implementation.

The findings add therefore to the debate on the design of macro-prudential instruments in globalized financial markets. This discussion, currently focused on cross-border banking, questions their effectiveness when parties are able to circumvent these measures via regulatory arbitrage and calls for coordination among national regulators. As our analyses cover regulatory differences across countries we can provide in-depth insights into which features can induce regulatory arbitrage. Likewise, the findings, documenting a novel pattern of save haven and regulatory arbitrage driven behaviour by depositors, also stress the need for a coordinated regulatory strategy with respect to deposit insurance schemes. For example, the analysis shows the potentially changing importance of safe havens and regulatory arbitrage during stable versus crisis times, as well as the impact and efficiency of emergency actions taken by many countries in response to the severity of the 2008/09 financial crisis, which included explicit and often enhanced government guarantees over and above the regular deposit insurance coverage.

Chapter 3 fills the gap that theoretically explains and empirically identifies the fundamental factors that drive the physical location of bank branches. The contribution of the chapter is to develop a simple and intuitive framework in which banks rationally trade off the market-size and price-cutting effects of geographical bank clustering. We then empirically test the model predictions in an international context, using the introduction of information sharing as country-level exogenous shocks that move banks towards a new clustering equilibrium. Second, this chapter uncovers an important mechanism on the economic impacts of

information sharing: the central availability of borrower information leads to different equilibrium levels of branch clustering, which may be associated with a reduction in spatial credit rationing.

Taken together, the results show that branch clustering is a function of the public availability of trustworthy borrower information. When such information is more broadly available, it allows banks to expand their branch networks to new geographical localities that they would previously have avoided. At the same time, it becomes more important for banks to cluster together as a higher local variety of banks makes it easier to attract distant customers. Together these effects mean that banking markets become more homogenous in terms of composition – as they are served by the same banks that now operate across the country – but less homogenous in terms of size. While the public availability of information sharing leads to further clustering of banks in well-served locations, other (smaller) locations may lose out as access to credit deteriorates further. Assessing the real-economics impacts of such spatial variation in access to credit due to information sharing is a promising avenue for further research. Therefore, information sharing can not only directly improve access to credit by reducing information asymmetry, but also lead to denser bank branch networks and expand credit indirectly through increased competition.

Chapter 4 contributes to an important strand of determinants of access to credit in three dimensions. First, this research examines the impact of corruption on credit access at the firm level, where we try to address the endogeneity issue and define a causal relationship by utilizing both an instrumental variable approach and an exact matching strategy. Second, the results show that the detrimental impact of bribery on firms' credit access is mainly driven by supply-side rather than by demand-side factors. In other words, the impact is predominately driven by banks being less willing to lend to the bribing firms. Thus local banking structures are vital in shaping the impact of corruption. Lastly, this chapter, for the first time, presents a bank lending channel for corruption to impede economic growth, which is important to deepen our understanding of the relationship between corruption and economic growth.

This chapter is relevant from a policy perspective, as corruption has been a major challenge in transition countries and lots of countries are making intensive efforts to combat this issue. The findings indicate that banks generally punish bribing firms by tightening their credit access. This punishment could act as a self-correcting mechanism that a sound banking system can be deterrence for corruption. Therefore, this chapter highlights the importance of cooperation among regulatory authorities to combat corruption. The banking market regulations, for example, on foreign bank entry, or on inter-bank competition, might exert a significant impact on the effectiveness of corruption regulations.