

Foreign bank ownership and business regulations

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Abstract

We examine the lending behavior of banks during anxious periods. The main characteristic of anxious periods is that the perceptions and expectations about economic conditions worsen for economic agents even though the economy is not in a recession. We identify distinct periods of anxiety for consumers, CEOs (firms) and analysts. Subsequently, we study the lending behavior of US banks during the anxious quarters from 1985 to 2010, using bank-level data. The results show that banks' lending falls when consumers and analysts are anxious, and this effect is more pronounced when banks hold a higher level of credit risk. These effects are more pronounced in anxious periods that were followed by recessions, and in these periods loan growth also responds negatively to the anxiety of CEOs. Yet, these effects are quite less prevalent in the period after 2001.

JEL classification: G21; E44; E32; D22

Keywords: Banks' lending; Anxious periods; Consumers; CEOs; Analysts

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Table 1.

Variable	Definition	Source
busreg	5C Business Regulations	Fraser Institute
on	Number of foreign onwned banks/total banks	
gdpg	GDP growth annual	World Development Indicators
gdpcap	GDP per capita ppp constant 2005 USD	World Development Indicators
inf	Inflation GDP deflator annual	World Development Indicators
ownership	5Ai Ownership of banks	Fraser Institute
yclerner	mean of lerner by year and country for foreign ownership	
pcrdbgdp	Private credit by deposit money banks / GDP	Financial Development and Structure database
nrbloan	Loans from non-resident banks (amounts outstanding) / GDP	
law	Law and order	
polity	democ-autoc	
religious2	1 if no religion, 0 otherwise	

Table 2

Variable	Obs	Mean	Std. Dev.	Min	Max
busreg	1050	5.828	1.108	2.6	9.4
on	1574	35.922	26.527	0	100
gdpg	1572	4.198	4.241	-17.955	34.5
gdpcap	1678	13600.29	14200.63	446.322	74163.6
inf	1572	8.65	22.781	-32.814	556.939
ownership	1124	7.359	2.782	0	10
yclerner	1693	0.254	0.108	-0.114	0.824
pcrdbgdp	1387	0.501	0.456	0.001	2.698
nrbloan	1636	37.523	113.89	0.131	1295.25
law	1574	0.087	0.984	-1.885	2.014
polity	1601	4.512	7.148	-88	10
religious2	1697	0.518	0.5	0	1

Table 3.

	busreg	On	gdpg	gdpcap	inf	ownership	yclerner	pcrdbgdp	nrbloan	law	polity	religious2
busreg	1											
on	0.031	1										
gdpg	-0.105	-0.015	1									
gdpcap	0.617	-0.112	-0.1	1								
inf	-0.292	-0.019	0.035	-0.145	1							
ownership	0.381	0.179	-0.136	0.338	-0.171	1						
yclerner	-0.024	-0.071	0.233	-0.055	0.038	-0.075	1					
pcrdbgdp	0.541	-0.067	-0.265	0.691	-0.192	0.321	-0.186	1				
nrbloan	0.223	0.275	-0.044	0.472	-0.057	0.171	-0.075	0.399	1			
law	0.717	-0.036	-0.179	0.777	-0.221	0.353	-0.225	0.747	0.325	1		
polity	0.224	0.219	-0.26	0.139	-0.135	0.29	-0.407	0.34	0.076	0.434	1	
religious2	0.037	0.255	-0.014	-0.034	0.021	0.014	-0.064	-0.02	-0.1	0.121	0.23	1

Table 4.

	I	II	III	IV	V	VI	VII
L.lbusreg	0.666*** (9.783)	0.712*** (9.571)	0.547*** (8.912)	0.681*** (9.984)			0.653*** (8.401)
L.lon	0.026** (2.121)	0.039*** (2.610)	0.037*** (2.602)	0.028** (2.162)	0.068*** (3.408)	0.085*** (3.791)	-0.032 (-0.604)
L.lon2							0.008 (0.897)
L.gdpg	-0.000 (-0.163)			-0.000 (-0.083)	-0.001 (-0.687)	0.002 (1.404)	0.002 (1.067)
L.lgdpcap	0.021** (2.333)			0.018* (1.855)	0.168 (1.611)	0.022 (0.315)	0.014 (1.368)
L.inf	-0.002* (-1.954)			-0.003** (-2.215)	-0.000 (-0.020)	0.000 (0.943)	-0.002* (-1.690)
L.ownership		0.001 (0.385)		0.001 (0.422)	0.003 (0.737)	0.005* (1.813)	0.003 (1.433)
L.yclerner		-0.061 (-0.735)		0.032 (0.298)	0.094 (1.365)	0.106* (1.706)	0.075 (0.810)
L.pcrdbgdp		0.069*** (3.479)		0.032 (1.590)	-0.107*** (-2.983)	-0.090*** (-3.421)	0.046** (2.093)
L.nrbloan		-0.000* (-1.662)		-0.000** (-1.972)	0.000 (0.738)	0.000 (0.959)	-0.000 (-1.356)
L.law			0.063*** (4.945)				
L.polity			-0.002 (-1.370)	-0.001 (-0.408)	-0.001 (-0.243)	-0.005* (-1.745)	0.000 (0.139)
L.religious2			-0.023 (-1.483)	0.004 (0.270)			0.005 (0.476)
<i>Diagnostics</i>							
Obs.	679	701	834	673	788	596	673
Wald-test	1204.633	672.818	876.534	948.186			1532.650
p-value	1.8e-248	1.6e-134	4.6e-178	6.0e-189	6.48e-24	.	3.9e-313

Table 5.

	I	II	III	IV	V
L.lbusreg	0.696*** (11.868)	0.677*** (9.295)	0.544*** (9.147)	0.528*** (8.719)	0.705*** (10.946)
L.lon	0.024** (2.186)	0.047*** (3.106)	0.049*** (3.272)	0.045*** (2.869)	0.025** (2.051)
L.gdpg	-0.000 (-0.155)				0.000 (0.105)
L.lgdpcap	0.018** (2.092)				0.016 (1.395)
L.inf	-0.002 (-1.576)				-0.003** (-2.476)
L.ownership		0.001 (0.328)			0.001 (0.494)
L.yclerner		-0.098 (-1.071)			-0.026 (-0.237)
L.pcrdbgdp		0.075*** (3.714)			0.020 (1.045)
L.nrbloan		-0.000 (-0.342)			-0.000 (-1.047)
L.law			0.062*** (5.291)	0.063*** (5.393)	
L.polity			-0.003* (-1.848)	-0.002* (-1.672)	-0.003 (-0.589)
L.religious2			-0.020 (-1.519)	-0.021 (-1.553)	0.011 (0.790)
L.clonlgdpcap	-0.011* (-1.662)				
L.clonpcrdbgdp		-0.050*** (-2.863)			
L.clonpolity			-0.006*** (-2.905)		
L.clonlaw				-0.021*** (-2.625)	
L.ton					-0.002 (-0.050)
L.lonton					-0.000 (-0.018)
<i>Diagnostics</i>					
Obs.	676	699	831	831	671
Wald-test	1773.461	669.8299	1042.992	883.4125	1030.924
p-value	0	5.0e-133	8.2e-213	1.3e-178	7.2e-205

Table 6.

	I	II	III	IV	V	VI	VII
L.lac		0.527*** (5.587)					
L.lbur			0.462*** (6.237)				
L.lsb				0.802*** (7.459)			
L.lip					0.967*** (12.386)		
L.llr						0.489*** (3.468)	
L.ltc							0.906*** (12.553)
L.lon	0.022 (0.296)	-0.045 (-1.079)	0.303*** (2.983)	0.017** (2.150)	-0.038* (-1.809)	0.009 (0.207)	0.008 (0.513)
L.gdpg	-0.030** (-2.505)	0.008 (1.080)	0.025 (0.988)	0.005 (1.139)	-0.004 (-0.727)	-0.001 (-0.120)	-0.002 (-0.563)
L.lgdpcap	0.034 (0.932)	-0.041 (-1.220)	0.023 (0.428)	0.015 (1.108)	0.005 (0.300)	0.030 (0.703)	0.003 (0.440)
L.inf	-0.004 (-0.733)	0.000 (0.150)	-0.001 (-0.130)	0.001 (0.988)	0.001 (0.553)	-0.001 (-0.296)	0.003 (0.989)
L.ownership	0.028 (1.601)	0.015* (1.853)	-0.013 (-0.823)	-0.001 (-0.431)	0.001 (0.187)	0.018* (1.889)	0.003 (1.096)
L.yclerner	-0.675 (-1.034)	0.480 (1.234)	0.113 (0.212)	0.162 (0.845)	-0.220 (-1.445)	-0.005 (-0.019)	-0.017 (-0.159)
L.pcrdbgdp	0.008 (0.061)	0.069 (0.643)	0.167 (1.267)	0.025 (0.973)	-0.016 (-0.421)	0.024 (0.292)	0.036 (1.205)
L.nrbloan	-0.000 (-0.389)	0.001 (0.868)	-0.002** (-2.393)	-0.000 (-0.896)	0.000* (1.674)	-0.000 (-0.281)	-0.000 (-0.808)
L.polity	-0.037* (-1.848)	0.012 (0.657)	-0.011 (-0.474)	0.001 (0.159)	-0.005 (-1.025)	0.001 (0.128)	-0.002 (-0.609)
<i>Diagnostics</i>							
Obs.	558	525	521	543	525	332	321
Wald-test	147.799	425.6945	263.9547	2609.335	6010.314	106.5078	2237.622
p-value	1.99e-22	3.96e-79	1.17e-45	0	0	2.65e-16	0