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Determinants of loans growth in cooperative banks in Poland: Does capital ratio matter?

This paper examines the impact of bank capital ratios on bank lending by comparing differences in loan growth to differences in capital ratios at sets of banks that are clustered based on bank size and capital ratio size. Applying fixed-effects estimator to sample of cooperative banks operating in Poland and using a unique quarterly dataset covering the period of 1999:4-2012:4 we find that loans growth is particularly capital constrained in poorly-capitalized banks, but only in non-recessionary. Lending of poorly capitalized banks is strongly affected by interest rate margin. Interest rate margin is also important in determining loans growth of medium and large cooperative banks. Generally, our results give support for the view that small banks, such as cooperative banks are not capital constrained in recessionary periods, thus their customers do not suffer from capital crunch in unfavourable macroeconomic conditions. However, their lending activity is procyclical, because increases in unemployment rate result in decreases in loans growth of cooperative banks in Poland.

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