Krzysztof Gajewski
National Bank of Poland, Economic Institute

# Cross-border bank deleveraging in Poland?

One of the effects of the financial globalization is the expansion of banks' international activities. In many emerging countries (like Poland), financial systems are dominated by foreign owned banks. Prior to the crisis, the literature pointed out mostly to the benefits that multinational institutions bring to the host economies – foreign owners brought capital and know-how to developing economies, access to the internal capital markets helped banks to insulate from domestic liquidity conditions and import foreign savings to expand lending activity. The collapse of Lehman Brothers and the rapidly worsening financial conditions of global banks made many researchers look more closely at the drawbacks of international banking and the way they amplify shocks and transmit them across different countries (therefore contributing to contagion).

The article uses supervisory reporting data (both at the bank level or at the bank-firm level) to check, to what extent financial distress of global banks affected lending activity of their Polish subsidiaries and branches. It asks whether the cross-border bank deleveraging can be observed – do

Polish banks reduce lending when the financial stance of their parent institutions (proxied with the CDS spread) worsens. Dynamic panel data methods (Blundell-Bond system GMM and Arellano-Bond first differences GMM estimators) are used among others to answer the question. In general, the article finds no evidence of such behaviour. Unlike in other Emerging European countries, foreign banks cannot be blamed for destabilizing Polish credit market.

Keywords: foreign-owned banks, cross-border deleveraging, dynamic panel, supervisory reporting, credit register