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The Market Structure and Credit Procyclicality: Lessons from Loan's Market in the EU

The aim of this research is to investigate the impact of market structure and foreign ownership on the grow of bank loans (corporate, consumer, and residential mortgage loans) in EU in the context of microprudential capital regulation and macroprudential policy instruments. For the analysis, we used annual bank-level data, which are collected from the Orbis Bank Focus and Bankscope database. Panel data includes commercial banks, savings banks, and cooperative banks that were operating in the EU countries from the period 1999–2016. We start our research in 1999 because, since 1 January 1999, the third stage of EMU began and the international banks became involved in mergers and acquisitions, of a cross-border character.

Using the methodology of panel regression, reghdfe which for multiple levels of fixed effects, this study finds differences of the determinants of the growth of loans for two groups of countries: the CEE countries (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, Romania) and the other countries (Austria, Belgium, Denmark, Finland, France, Greece, Italy, Spain, the Netherlands, Ireland, Luxembourg, Germany, Portugal, Sweden, the United Kingdom).

Panel data analysis of CEE countries against other EU countries also finds differences between determinants of different types of bank loans. The presence of foreign banks has a positive effect on the growth of mortgage loans for CEE-11 countries, but has a negative effect on the growth of consumer loans. The relationship between bank concentration and growth of mortgage loans is mainly positive for EU-17 countries. Bank size has a negative effect on the growth of corporate loans in EU-17 countries.