Foreign bank presence and its effect on firm entry and exit in transition economies

Havrylchyk & Jurzyk

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Summary

- Do foreign banks spur or limit growth in transition economies?
  - Other studies report an increase in “marginal” lending, following foreign bank entry
  - Foreign entrants compete in the large business sector, as domestic banks enjoy competitive advantages in small business lending
Summary

• Contributions:
  – An interesting and timely topic area with ample policy implications
    • M&A & FDI activity in banking in the CEECs

• Findings:
  – Foreign bank penetration leads to additional financing constraints among SMEs
  – Differential effect between M&A and greenfield entries
  – Does not apply to sole entrepreneurships
Suggestions/Comments

– The authors assume that:
  • Foreign = large hierarchical institution, using hard data
  • Domestic = smaller institution with a “cost advantage in gathering and using soft information” p. 5

– Why would foreign entrants “throw away” a competitive advantage?
  • I would focus more on the Stein (2002) idea on hierarchical structures, and less on informational asymmetries

– Is the choice of the entry mode endogenous?
– Why are sole entrepreneurs different?
Suggestions/Comments

– Difference-in-difference estimation:
  • The entire sample undergoes very similar type of developments during the sample period – bias against findings?
  • Should countries’ level of economic development be controlled for?
  • The findings rely heavily on the choice of the opacity measure – more discussion on why the fixed assets measure is superior
  • Potential problems with group-specific heterogeneity (see Donald and Lang, 2007, RES)
Suggestions/Comments

– Minor comments:
  • Are small business loan decisions made abroad/how strict guidelines are typical within international banks?
  • In fn 11, you mention use of new lending technologies with sole entrepreneurships. Are these technologies used in the CEECs?
  • Does industry skill level in the U.S. apply? – Carlin and Mayer (2003) includes only Western industrialized countries