

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

Havrylchuk & 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 entrepreneurs. 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