



conference

# FINANCE AND GROWTH IN CENTRAL AND EASTERN EUROPE

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## THE INTERNATIONALIZATION OF BANKING: A MICRO-MACRO APPROACH WITH A FOCUS ON ROMANIA

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### *Abstract*

This paper discusses the impact of foreign banks in the structure-conduct-performance (SCP) framework prior to the financial crisis. On the macro side, we discuss the impact of foreign bank penetration on the financial system by estimating cross-country panel data for 10 Central and Eastern and South-Eastern European countries (CESEEs) over the 1997 to 2006. We find that foreign banks increase international capital allocation and general banking market efficiency. On the micro side, we highlight the relationship between foreign bank penetration, through influencing the local banking market structure, and the performance of the banks operating in this market by measuring cross-bank panel data for 17 Romanian banks between 1999 and 2006. We find that increased competition due to foreign bank penetration leads to higher efficiency in the local banking market. The value of the paper lies in (1) estimating the effect of foreign bank penetration at the country and sector level and (2) providing evidence on the SCP paradigm.

*Keywords:* foreign bank penetration, financial sector foreign direct investment, structure-conduct-performance, transitional economies, panel data analysis, Romania

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