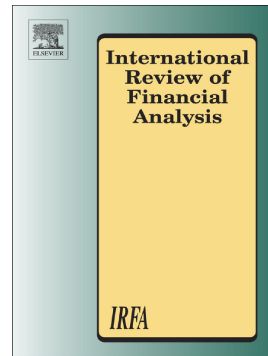


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INSTITUTIONAL DEVELOPMENT AND FOREIGN BANKS IN CHILE

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Abstract

This paper analyzes the effects of foreign banks on developing countries' bank performance. We study this relationship from a different perspective by focusing on Chile, an emerging market with strong institutions. The results from dynamic panel regressions on hand-collected financial statement data from 2005 to 2014 indicate that foreign banks improve banking sector competitiveness, reduce the volatility of returns, and increase commercial and consumption loans. The overall evidence suggests that, in the presence of solid institutions, foreign banks improve the banking sector in developing countries. Therefore, public policies on foreign banks should be more effective when accompanied by advances in institutions.

JEL Classification: F3, G1, G2, O1

Keywords: Foreign banks; Institutional development; Chile

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