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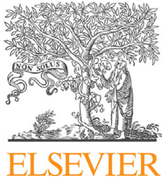

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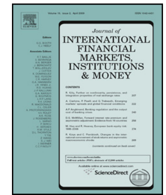

Lending growth during the financial crisis and the sovereign debt crisis: The role of bank ownership type

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ABSTRACT

This study examines lending growth in Western European banks over the 2004–2013 period. Using a panel of 18 Western European countries, the study investigates how lending growth was affected by the 2008–2009 financial crisis and the subsequent sovereign debt crisis. Banks are classified into four groups based on ownership type: commercial banks, cooperative banks, private savings banks and publicly owned savings banks. The results suggest that both the financial crisis and the sovereign debt crisis caused a negative shock in Western European lending growth. The shock was weakened by stakeholder banks whose lending growth either did not decrease during the two crises or decreased substantially less than that of commercial banks. Additionally, the results are particularly strong for cooperative banks. Furthermore, stakeholder banks did not contribute to excess credit growth in the lead-up to the two crises. Given their large market shares, stakeholder banks diminish the procyclicality of the banking sector.

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1. Introduction

The Basel Committee considers the banking system's tendency to amplify financial shocks in a procyclical manner to be one of the most destabilizing elements of the financial crisis of 2008–2009. Therefore, the Basel III regulatory framework aims to improve the banking sector's ability to absorb shocks "arising from financial and economic stress, whatever the source" (BIS, 2010). By raising the quality of the capital base, setting a leverage ratio requirement and enhancing risk coverage, the new framework aims to ensure that the banking sector serves as a shock absorber, rather than transmitting shocks to the financial system and again to the real economy, and to protect the banking sector from periods of excess credit growth. This study investigates whether the banks in Western Europe absorbed or amplified the shocks caused by the two crises.

The financial crisis occurred from 2008 to 2009. In 2009, credit growth in eurozone declined to its lowest level since the introduction of the Economic and Monetary Union (EMU) (ECB, 2010). This credit growth decline was accompanied by a 4% decline in real GDP. In addition, lending growth decreased in the Western European countries outside the eurozone, e.g., in the United Kingdom (BOE, 2010) and Norway (Finanstilsynet, 2010).

According to European Central Bank, the eurozone's short economic recovery in 2010 was stronger than expected (ECB, 2011). As a result, loans in the private sector increased moderately in 2010. Tensions in financial markets intensified anew in 2011 because of concerns about public finances (ECB, 2012). Accordingly, since 2010, there has been a sovereign debt crisis (known as the eurozone crisis). Together with the idling global economy, GDP declined in the latter half of 2011

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(ECB, 2012). Therefore, lending growth was negative in 2012 (EBF, 2013). In certain Western European countries, the shock of the sovereign debt crisis on lending growth was substantial, e.g., in Ireland the decline in banks' total loan stock was 19.7%.

The financial crisis of 2008–2009 has been shown to cause a negative shock in lending growth in Eastern Europe and Latin America (Cull and Pería, 2013). Cull and Pería argue that domestic banks in Eastern Europe decreased credit less than foreign banks during the crisis. In addition, the lending of government-owned banks was not procyclical in Latin America. Similarly, using data on banks in 50 countries from 1994 to 2009, Brei and Schclarek (2013) showed that the financial crisis of 2008–2009 caused a negative shock in private banks' lending growth, but government-owned banks increased their lending during the crisis relative to their lending during normal times. Moreover, Coleman and Feler (2015) studied Brazilian banks from 2005 to 2012 and showed that Brazil's government-owned banks increased their lending after the collapse of Lehman Brothers and mitigated the economic downturn. By contrast, De Haas et al. (2015) studied banks in emerging European countries from 1999 to 2011 and found only weak evidence of state banks reducing their lending to a lesser degree than private banks in 2009. Moreover, both foreign and domestic banks curtailed lending during the financial crisis. Ivashina and Scharfstein (2010) showed that new lending declined substantially during the financial crisis. They suggest that the crisis could have had both demand and supply effects on lending growth. Puri et al. (2011) used data on German savings banks from 2006 to 2008 and showed that the financial crisis had a contractive effect on credit supply in German retail markets. The effect was stronger in the savings banks that were exposed to subprime loans in the US. The latter result was particularly strong in smaller and more liquidity-constrained savings banks. De Haas and van Lelyveld (2006) examined banks in Central and Eastern Europe in 1993–2000, and they suggested that domestic banks decreased credit during economic crises, whereas foreign-owned banks kept their credit base stable. Furthermore, Micco and Panizza (2006) and Bertay et al. (2015) suggest that lending growth procyclically follows business cycles. Micco and Panizza and Bertay et al. argue that the lending of state-owned banks is less procyclical than the lending of private banks. According to Bertay et al., the result holds especially true in the countries where governance is good, and the lending of state-owned banks may even be countercyclical in high-income countries.

This study takes a similar approach to these studies and examines the role of the bank ownership type in lending growth during the financial crisis of 2008–2009 and the sovereign debt crisis of 2010–2013. In particular, stakeholder banks are distinguished from shareholder banks: the bank ownership groups defined in the study are commercial banks, cooperative banks, private savings banks and publicly owned savings banks.[1] In brief, stakeholder banks are not strictly profit-oriented; hence, their financial objectives are different from those of shareholder banks. In addition, their ownership structures are distinct from those of shareholder banks. The characteristics of the bank ownership types are described in detail in the following chapter.

Ferri et al. (2014a) argue that the bank ownership type has an effect on banks' lending policies. According to their results, stakeholder banks in the eurozone decreased their loan supply to a lesser degree than shareholder banks did after the monetary policy contractions in 1999–2011. Moreover, cooperative banks continued to soften the impact of tighter monetary policy on lending during the crisis period of 2008–2011, whereas savings banks did not. This study uses a similar setting and examines the two crises' effects on the lending growth of different bank ownership types. Instead of analyzing monetary policy shocks, the study examines the supply reaction of these bank ownership types to the negative financial shocks that these two crises triggered.

The panel dataset includes banks from 18 Western European countries from 2004 to 2013. Therefore, this study contributes to the literature in several ways. The study includes both the financial crisis of 2008–2009 and the sovereign debt crisis of 2010–2013, hence offering information on the impacts of the two crises on lending growth and on the ways in which the banking system was able to absorb the financial shocks caused by the crises. Furthermore, the role of stakeholder/shareholder ownership in the effects of the financial crisis and the sovereign debt crisis has not been studied. This study thereby offers information on how the heterogeneity of the Western European banking sector should be taken into account in the regulation of the financial sector.

The results suggest that both the financial crisis and the sovereign debt crisis caused a negative shock to lending growth in Western Europe. The shocks were partially absorbed by cooperative and publicly owned savings banks, whose lending growth did not slow down during the two crises. Consequently, cooperative and publicly owned savings banks form a stabilizing element in the financial system of Western Europe because they do not amplify financial shocks. The reasons for this non-cyclical behavior likely stem from their ownership structures. Furthermore, the excess credit growth during the pre-crisis years was mainly fueled by commercial and private savings banks, whose lending growth was, on average, considerably higher than that of cooperative and publicly owned savings banks. Therefore, the lending of cooperative and publicly owned savings banks reduces the procyclicality of the banking system.

The paper is structured as follows: after the introduction, summaries of the characteristics of the bank ownership types are presented. These summaries are followed by a brief description of relationship banking. Descriptions of data and econometric specifications are then presented. These descriptions are followed by summary statistics, regression results, the discussion section, and conclusions.

[1] "Publicly owned" refers to government ownership.

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