

Liquidity Risk of Banks in Light of a Dominant Share of Foreign Capital in the Polish Banking Sector

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Abstract : This article investigates liquidity risk management by banks, which has gained significant importance since the global financial crisis of 2008. The issue is of particular interest for countries like Poland, in which foreign capital plays a dominant role. Such an ownership structure poses certain risks to the local banking sector, which faces an increased probability of the withdrawal of funding or assets' transfers abroad in case of a crisis. Both these factors can have a detrimental influence on the liquidity position of foreign-owned banks and hence negatively affect the financial stability of the whole banking sector. The aim of this study is to evaluate the impact of a dominating share of foreign investors in the Polish banking sector on the liquidity position of commercial banks. The study hypothesizes that the ownership structure of the Polish banking sector, in which there are banks predominantly controlled by foreign investors, does not pose a threat to the liquidity position of Polish banks. A supplementary research hypothesis is that the liquidity risk profile of foreign-owned banks differs from that of domestic banks. The sample consists of 14 foreign-owned banks and 5 domestic banks owned by local investors, which together constitute approximately 87% of the banking sector's assets. The data covers the period of 2004–2014. The results of the regression models show no evidence of significant differences in terms of the dynamics of changes of the liquidity buffers between the foreign-owned and domestic banks, although the signs of the coefficients might suggest that the foreign-owned banks were decreasing the holdings of liquid assets at a slower pace over the examined period, compared to the domestic banks. However, no proof of the statistical significance of these findings has been found. The supplementary research hypothesis that the liquidity risk profile of foreign-controlled banks differs from that of domestic banks was rejected.

Keywords : foreign-owned banks, liquidity position, liquidity risk, financial stability

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