

# Foreign Bank Ownership in Transition Economies: The Effects on Performance.

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## ABSTRACT

In this paper we focus on the relationship between foreign ownership and bank performance in transition economies. In line with the literature, we define a bank to be foreign if more than 50% of the equity is held by foreign investors. We compare the performance of the foreign banks with the performance of domestic banks. In addition, we construct a continuous variable “foreign ownership” and examine whether an increase in foreign ownership affects bank performance. We apply our analysis to a cross-section of 216 banks in 22 transition economies for 2001. We find that there is a negative relationship between foreign ownership and the revenues a bank generates. At the same time banks’ overhead costs diminish, but to a lesser extent, resulting in lower profits. This cost advantage of foreign banks seems to diminish in countries with higher per capita income.

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