Is full banking integration desirable?

Iván Arribas, Jesús Peiró-Palomino, Emili Tortosa-Ausina

PII: S0378-4266(17)30188-7
DOI: 10.1016/j.jbankfin.2017.08.002
Reference: JBF 5185

To appear in: *Journal of Banking and Finance*

Received date: 26 August 2016
Revised date: 22 June 2017
Accepted date: 6 August 2017

Is full banking integration desirable?*

Iván Arribas
Universitat de València, ERI-CES and Ivie

Jesús Peiró-Palomino
Universitat Jaume I

Emili Tortosa-Ausina
Universitat Jaume I and Ivie

Abstract

We analyze the links between banking integration and economic development for a sample of OECD countries. We measure banking integration considering indicators that merge not only openness but also connectedness with other banking systems. We plug these indicators into income regressions, also controlling for other relevant variables considered by the literature. In contrast to previous initiatives, this second stage explicitly takes into account the differing levels of economic development of the countries in our sample, since the benefits of enhanced banking integration might not be generalizable. To this end, we implement quantile regression, also considering the presence of endogenous regressors. Results show that bank connectedness is more important for economic development than bank openness, but the combined effect (i.e., banking integration) overall is positive and significant. The quantile regression models used in the second stage show that the effects are stronger for the poorest economies.

Key words and phrases: banking, growth, integration, quantile regression
JEL Classifications: C21, F15, F36, F62, F65.

Contact information: Jesús Peiró-Palomino, Departament d'Economia, Universitat Jaume I, Campus del Riu Sec, E-12071 Castelló de la Plana, Spain, e-mail: peiroj@uji.es

*The authors thank Mohamed Shaban and other participants in the IFABS 2016 Conference for their constructive comments. Suggestions by Erwin Diewert, Giorgio Fagiolo, Kevin Fox, Co-Pierre Georg, Paul Schreyer, Dan Sichel, Nigel Stapledon and Michael Arghyrou are also gratefully acknowledged. This paper is a result of the BBVA Foundation-Ivie Research Program. All authors acknowledge financial support from the Ministerio de Ciencia e Innovación (ECO2011-27227 and ECO2013-46550-R), the Generalitat Valenciana (ACOMP/2014/283, PROMETEOII/ 2014/046 and PROMETEOII/2014/054, ISIC/2012/021) and Universitat Jaume I (P1.1B2014-17). The usual disclaimer applies.