Judit Temesvary: Research Papers and Abstracts.


*Abstract:* This paper develops a model and structural dynamic estimation of bank behavior to map the relationship between U.S. banks’ choices of foreign banking activities, and bank and foreign market traits. This new estimation framework is applied to a unique bank-level dataset compiled from regulatory sources, covering U.S. banks’ foreign activities in 83 host markets over the 2003-2013 period. Bank traits are better able to explain the evolving patterns of foreign banking than host market characteristics. After controlling for these traits, the post-financial crisis period shows a structural shift away from cross-border claims towards foreign affiliate activities. Structural estimates of foreign market entry costs, scrap values and regulatory attitudes towards risk are derived. Simulation exercises confirm the strong impact of banks’ and regulators’ risk stance on bank profits and portfolio composition.


*Abstract:* We explore heterogeneity in the finance-growth relationship by considering the effects of foreign and domestic lending separately. Estimating finite mixture models, we find that the effects of bank finance and foreign bank involvement on growth depend on 1) how well-developed the banking sector is, and 2) if foreign banks are involved via affiliates within the country or via cross-border loans. The experience of lenders with a local presence is important, but only once a threshold level of financial sector development is reached. In countries with underdeveloped banking sectors, the influence of foreign-owned lenders relative to locally-owned banks can hinder growth.


*Abstract:* Foreign currency-based loans and deposits became very popular in Central-Eastern European countries (CEECs) over the 2000-2011 period. This paper employs a structural approach to simultaneously examine the demand-side (consumer-related) and supply-side (bank-related) determinants of the quick spread of FX-based banking. The econometric analysis uses a unique newly constructed dataset on FX and domestic currency loans, deposits and interest rates, covering 16 CEECs overtime. Results show that deregulation and cheap funding from parents abroad helped fuel FX lending. There is substantial heterogeneity across market segments, currencies and maturities. Corporate sector FX lending is fundamentally different from retail and mortgage markets.

**Abstract:** This paper develops a model and dynamic structural estimation framework of the branching and interest rate choices of monopolistically competitive commercial banks. With policy considerations in mind, the analysis examines how client and market characteristics affect banks’ choices over time. The paper contributes by incorporating the dynamic interaction between banks’ pricing and branching decisions, also yielding estimates of the setup costs and scrap values of branching. Estimation on Hungarian bank-level data confirms that banks engage in active branching competition, and use the resultant locational market power to charge a premium in interest rates. Simulation exercises explore the role of dynamics and policy implications.


**Abstract:** This paper builds on the Lucas (1972) overlapping generations “island” model to show that in the presence of a Taylor–rule following monetary authority, the Signal Extraction Problem can lead to hyperinflations. Producers lean about economic shocks through a signal in the price function they observe. When producers know the exact monetary policy targets for inflation and unemployment, monetary shocks have no effects on output: monetary neutrality holds. However, uncertainty about monetary policy means that producers cannot disentangle monetary shocks from real shocks in the price signal, leading them to alter production. This paper presents simulation exercises to show that there are certain monetary policy objectives (weights) such that hyperinflations will result even if the price function is concave in the signal. Finally, the paper presents simulated comparative statics exercises to examine the relationship between the evolution of the price level and monetary policy weights.