

## DESCRIPTION FOR THE GENERAL PUBLIC

Foreign banks play an important role in the financial markets of emerging European economies. They are important source of financing of private sector spending, including investment. However, they also extend credit to governments and hold public bonds. The first objective of the proposed research is to study the impact of sovereign borrowings from foreign banks on their willingness to finance private expenditures.

Foreign banks presence involves also some risks because their activity and credit supply may depend on parent countries' economic conditions which may not be synchronized with the domestic business cycle and domestic credit demand. The second objective of the project is to analyze the determinants of the mismatch between the demand for and supply of external financing due to divergent business cycle dynamics in emerging European countries and the parent countries of foreign banks penetrating their financial markets. We conjecture that fiscal policy in general, and sovereign debt and deficit in particular are among the aforementioned determinants of the mismatch between external financing demand and supply.

The research addresses two issues which are important in light of high and growing levels of sovereign debts and massive international flows of capital. It will show the influence of fiscal policy on the availability and stability of external financing provided by foreign banks for private sector.

A quantitative analysis will be conducted to achieve both goals of the research. The data on foreign banks assets, the levels of output and fiscal indicators in 20 emerging European countries in the 2000-2015 period will be analyzed by means of econometric methods to uncover causal relations between the variables of interest.