

The aim of this research is to determine to what extent competition in the banking sector affects the effectiveness of countercyclical macroprudential policy. This research thus focuses on the role of competition in government economic (and regulatory) policy aimed at reduction of procyclicality of banking activity in particular, and financial sector in general. This research is interdisciplinary and refers to two streams in the economic and the banking literature. The first one concentrates on relationships between bank risk-taking and competition. The other, is concerned with regulatory policy of state (i.e. the so called macroprudential policy) and its role in stimulating bank risk-taking to diminish procyclicality. Both streams, thus focus on bank risk-taking. Therefore, it seems justified to ask about the role of intensity of competition in the effectiveness of countercyclical macroprudential policy. A closer look at previous research shows potential gaps in our knowledge, which could be presented as two potential explanations of the relationships between competition in the banking sector and the effectiveness of countercyclical macroprudential policy:

Firstly, intense bank competition in the deposit market increases bank incentives to invest in risky assets by increasing the costs of bank funding, and makes bank activity more procyclical. Consequently, the effectiveness of countercyclical macroprudential policy is reduced.

Secondly, intense bank competition in the loan market reduces the risk of bank assets, and thus increases the effectiveness of countercyclical macroprudential policy.

We plan to adopt several estimation techniques typical in cross-country panels, including time-series data of individual banks covering the period of 2000-2016. The effect of this research will be deepened knowledge on the role of competition in the process of achievement of objectives of regulatory policy aimed at relieving the side effects of financial crises. It seems worth stressing that theoretical and empirical research that can assess the extent to which competition in the banking sector affects procyclicality and effectiveness of countercyclical macroprudential policy has important implications for government agencies responsible for the effective regulation and supervision of the financial system. However, the effects of competition, in particular on risk-taking and procyclicality of banks, are not obvious and are potentially complex. By affecting bank risk-taking competition has the potential to make pressure on the effectiveness of macroprudential policies aimed at procyclicality. This motivates us to contribute to the long-lasting debate on the role of competition in bank risk-taking, by extending previous research in the area by testing the role of competition in procyclicality of banking activity and the impact of competition on the effectiveness of countercyclical macroprudential policy.

The research conducted following this project will have profound impact on the development of the research field, as we should get access to information on the role of competition in the procyclicality of the banking activity as well as finding out how the effectiveness of countercyclical macroprudential policy is affected by competition intensity. This knowledge could be applied in the development of government policy towards banking sector risk and procyclicality, as well as in shaping the standards affecting competition intensity. In the short run, the outcome of the project will be papers to be submitted to internationally recognized journals, e.g.: (1) *The impact of competition on procyclicality of banking activity – cross-country study*; (2) *Effectiveness of countercyclical macroprudential policy and competition – cross-country evidence*. To disseminate the results of projected research, we also intend to organize and participate in scientific seminars and participate in at least three international scientific conferences.