ABSTRACT

Contrary to previous evidence, the goal of this research is to find out what are the determinants of the effects of macroprudential policy on the outcomes of the banking activity. We shall look at two areas of this banking activity, i.e. profitability and earnings management. These two areas haven't been under scrutiny of empirical research focusing on the role of state policy which aims to enhance financial stability.

In this research we ask two questions. Firslty, what is the effect of macroprudential policy on the profitability or earnings managmement by banks? Secondly, which factors drive the direction of impact of macroprudential policy on profitability or earnings management in the banking sector in the European Economic Area.

The projected research shall merge three large areas of banking and finance literature, including: profitability studies, earnings management and macroprudential policy research. Previous research shows that profitability is driven by: ownership structure, banking market structure, governance, supervision; competition in the banking industry; financial crisis and bank specialisation. The literature on earnings management through loan-loss provisions conducted in a cross-country context identifies several factors which may drive this phenomenon, including: investor protection; quality of regulations, restrictiveness of supervision, transparency and financial development; auditor reputation; the ownership structure in islamic versus conventional banks; the type of banking model – conventional versus „islamic"; the crisis; the propensity of women on boards; market concentration. The research on macroprudential policy has not been interested in the impact of this policy on profitability of banks neither was it focused on earnings management. Generally, previous research on profitability and earinigs management neither considered the role of macroprudential policy for these phenomena nor looked at factors which may potentially affect the link between this policy and both profitability and earnings management.

Thus, looking at previous research on macroprudential policy, as well as at the banking literatue on proftability and earnings management, we have identified several drivers of potential heterogeneity in effects of macroprudential policy including: (1) the structure of and competition in the banking sector; (2) the structure and development of financial sector; (3) the openess of the economy; (4) the status of being a member of the EURO area; (5) the governance standards.

The projected research shall provide significant implications for both academic researchers and for policy decision-makers. Macroprudential policy is a relatively new macro-level management tool, with rather scarce evidence on its role for individual-bank level activity. It is applied across many countries, with different financial systems, market structures and competition, openess of the economy, political membership and governance standards, even withtin the EU/EEA. Therefore the implications of the application of macroprudential policy tools may be perceived as ambiguos, if we do not take into account moderating factors.

In this research – considering its features - we shall apply a diversity of data: microecnomic data (i.e. data from financial statements of individual banks available from the BankScope and BankOrbisFocus databases), macroeconomic data (accessible through the World Bank Repository), data on financial structure and development, competition intensity, banking market structure, governance (also accessible the World Bank Repository, e.g. in the Global Financial Development Database). The data are expected to cover the period of 1996-2017/8. To resolve our research goal, we will run four types of regression models, of which two test the role of macroprudential policy in the profitablity or earnings management, respectively. The two other models, shall include interaction terms and aim to test the heterogeneity of impact of macroprudential policy on profitability and earnings management. In this research we will apply several estimation methods, such as Random Effects, Generalized Least Squares, 1-step and 2-step GMM. The robustness checks thus will include application of modified estimators, changes in the set of explanatory variables or modification in the definition of some of explanatory variables.