

On Household and Commercial Credit, and Bank Market Power and Competition

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Abstract

It's been found that the market power exercised by a country's banking institutions has significant impact on its financial system and its real economy. Focusing on the Estonian banking system and the country's interconnections with the whole Baltic-region banking system, on this paper we empirically identify the magnitude and source of the market power exercised by each of the national and international banking institutions operating in the country and its effects on the lending behavior of these institutions towards domestic households and corporations. From estimating the supply of bank credit to households and corporations we find that bank gains on comparative advantage favor one credit market over the other depending if the source of the bank's competitive gains is from the output side (decreases in the price of loans) or the input side (decreases in the price of funds).

Keywords: Market Power, Bank Competition, Credit Markets

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