

# EUROPEAN COMMERCIAL BANK'S SCREENING POLICY

## POLITICA DE „SCREENING” A BĂNCILOR COMERCIALE EUROPENE

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**Abstract:**

*This paper studies the effect of banking deregulation on credit risk. Its theoretical model shows that a bank is willing to invest more resources in screening borrowers when there is an entry threat, even though loan rates are driven lower. Thus, deregulation may result in improved loan quality and lower credit risk. This result is tested using bank-level balance sheet data and macroeconomic data for the European Union. The data reveal that competition intensified after the completion of the Second Banking Directive, while loan quality improved in most markets. Evidence is found that the loan quality improvement is associated with lower interest margin.*

**Key words:**

*Banking deregulation; Credit risk; Screening; European Union*