

# Effects of Foreign Banks on Relation Between Income Distribution and Financial Depth: Evidence from Transition Economies

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## Abstract

One of the common features of transition economies in eastern and central Europe is dominance of foreign institutions in financial systems. In the early stages of the transition process, foreign banks entered financial systems and had big shares via new entrants and also privatization of state banks. No doubt, this affected them in the way of development. But it is not clear that how it affected the distribution of income.

In this study, we query possible relations between income distribution inequality and financial depth via symmetric and asymmetric panel causality tests in selected transition economies between the years 1993 and 2015. According to asymmetric panel causality test, there is only a uni-directional causality running from positive component of financial depth to positive component of income inequality in Ukraine and from negative component of financial depth to negative component of income distribution inequality in Slovakia. The reason of weak relation between financial development via foreign bank entry and income inequality may be the type of foreign bank entry.

**Keywords:** Gini Coefficient, Financial Depth, Foreign bank entry

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