

**TURKISH BANK SUBSIDIARIES' LENDING BEHAVIOR DURING
ELECTORAL CYCLES**

by
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ELECTORAL CYCLES**

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ABSTRACT

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Bank lending could be influenced by political considerations. Using bank-level financial statements data from the Banks Association of Türkiye (BAT) for the 2008-2022 period, this thesis analyzes the impact of electoral cycles and ownership structures on subsidiary-level bank lending patterns. Further, it examines the roles played by cultural and political proximity between the destination and the origin country, as well as country characteristics and business model of the subsidiaries. The findings of this study show that state-owned subsidiaries reduce their lending during Turkish election periods. Nevertheless, the magnitude of the result decreases considering controls for several heterogeneous effects. Robustness checks across different subsamples validate our findings. The results highlight that foreign bank subsidiaries' lending patterns notably differ depending on the ownership structure.

ÖZET

YURT DIŐI İŐTIRAK BANKALARININ SEÇİM DÖNEMLERİNDE KREDİ VERME DAVRANIŐLARI

MUSTAFA SARAÇ

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Anahtar Kelimeler: Seçimler, Banka Kredileri, Kredi Arzı, İŐtirak Bankalar

Bankaların kredi verme davranıŐları politik kararlardan etkilenebilir. Bu çalıŐma, 2008-2022 dönemine iliŐkin Türkiye Bankalar BirliĐi (TBB) tarafından saĐlanan banka finansal verilerini kullanarak, seçim dönemlerinin ve sahiplik yapılarının Türk bankalarının yurt dıŐında operasyonlarını sürdüren iŐtiraklerinin kredi verme davranıŐları üzerindeki etkisini analiz etmektedir. ÇalıŐma kapsamındaki regresyon analizleri, Türkiye ile iŐtirak bankanın operasyonlarını sürdürdüĐü ölkeler arasındaki kültürel ve politik yakınlıĐın yanı sıra, ölkelerin karakteristik özellikleri ve söz konusu iŐtiraklerin iŐ modellerinin rollerini de incelemektedir. Bu çalıŐmanın bulguları, kamu bankalarının yurt dıŐındaki iŐtiraklerinin Türkiye'deki seçim dönemlerinde kredi büyümesini azalttıĐını göstermektedir. Bununla birlikte, çeŐitli heterojen etkiler için kontroller dikkate alındıĐında söz konusu sonucun büyüklüĐü azalmaktadır. Farklı alt örneklemler kullanılarak yapılan saĐlamlık testleri çalıŐmadaki bulguları doĐrulamaktadır. Bu çalıŐma, Türk bankalarının yurt dıŐındaki iŐtiraklerinin kredi verme davranıŐlarının sahiplik yapısına baĐlı olarak istatistiksel anlamda önemli ölçüde farklılaŐtıĐını göstermektedir.

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Lastly, the biggest appreciation must go to my family. My mom and dad put their faith in me from the first day and backed me in every part of my life journey. I know that it is not possible to express my gratitude to them sufficiently. I will always be grateful and try to honor them.

To my family,

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1. INTRODUCTION

The interplay between electoral and financial cycles has long been an interest in political economy literature. Hardouvelis and Thomakos (2008) found that consumer confidence increases the probability of votes being placed in favor of the incumbent government. Accordingly, an increase in loan growth such as consumer loans would stimulate the economy by causing a surge in consumption, easing and alleviating liquidity constraints, which ultimately boost consumer confidence. Therefore, governments have enough incentive to intervene and stimulate economic activity prior to elections, thereby increasing the probability of re-election. This phenomenon is well-documented for state-owned banks during the election years within several emerging economies, suggesting political considerations could urge state-owned banks to systematically adjust their lending. Nevertheless, the international banking dimension of this issue, especially within the context of foreign bank subsidiaries, is inadequately investigated.

International Monetary Fund (IMF) defines a bank subsidiary as a separate legal entity of the parent bank, which is licensed and supervised by local regulators, with the parent having no legal obligation to support it if it falls into financial distress (Fiechter et al. 2011). There are plenty of potential reasons why a bank might consider expanding its operations to a foreign country by establishing a subsidiary. One possible objective could be further diversifying the risk in the event of economic turbulence in the home country. Another might be higher profitability and economies of scale through the expansion. Alternatively, tax considerations, confidentiality provided by the host country, and client demand could be further motivations (World Bank 2017).

This study aims to explore the lending behavior of Turkish bank subsidiaries in several foreign destination countries during electoral cycles. By investigating how these subsidiaries respond to political developments in the destination and the origin country, we aim to contribute to the existing literature by providing a subsidiary-level analysis in the Turkish context.

Exploring the mechanisms vis-à-vis credit supply during electoral cycles is important since it reveals the degree of influence of political considerations in election results through financial decisions. Prior research has largely concentrated on domestic banking, with striking conclusions that emphasize the strategic expansion of loan growth by government-owned banks as a means of securing the re-election of incumbents in the upcoming major elections. The existing studies mainly focused on two main areas. First, they focused on the lending behavior of state-owned banks in a specific region or within a country during election periods. Second, they investigated the behavior of domestic banks in comparison to foreign banks during periods of economic instability in the host country. The objective of this study is to combine these groups of studies into one study that focuses on the lending behavior of foreign subsidiaries during periods of political uncertainty, i.e., elections. The findings of this study could shed light on whether these foreign subsidiaries follow the same patterns as domestic banks during home-country political cycles.

Our study is primarily focused on two key areas of investigation: (1) whether the incumbents try to influence the voting behavior of the Turkish citizens who live abroad and are eligible to vote for elections in Türkiye through the provision of loans and (2) whether the Turkish government tries to influence foreign country elections through its foreign subsidiaries.

Our sample includes countries in which Türkiye's overall influence might be greater than in others due to closer relations or connections with Türkiye and Türkiye's role as an emerging middle power in international politics (Öniş and Kutlay (2017); Dal (2019)). Similarly, the position of destination countries within the international banking system may also be a contributing factor. Therefore, to reduce heterogeneity, the scope of our study is expanded by including several proximity factors associated with country and subsidiary characteristics. In order to analyze whether closer ties with the destination country affect subsidiaries' operational decisions, proximity variables in the context of culture, social media networks and political alignment are included in our estimations. Regarding country characteristics, we are controlling whether the destination country offers additional benefits to the subsidiaries, such as tax benefits. For subsidiary bank traits, our estimations will account for the business model of the subsidiary in question and determine whether it operates in accordance with the standards set forth by the conventional banking sector.

Regarding (1), it might be anticipated that state-owned foreign subsidiaries would increase their lending during the election period in order to attract the votes of those living abroad. Regarding (2), however, formulating a hypothesis is not straightforward. This is because, several factors might commence and affect banking operations

including the characteristics of the subsidiary bank, such as asset size, the cultural and political ties between the host country and the home country, and macroeconomic fluctuations.

All in all, this study stays at the juncture of international finance and political economy literature and aims to contribute to the existing literature by offering insights from the perspective of foreign bank subsidiaries. The remaining part of the thesis is organized as follows. Section 2 discusses the existing literature. Section 3 describes the data and empirical strategies used in the estimations. Section 4 exhibits the main regression results whereas Section 5 discusses robustness checks. Concluding remarks follow in Section 6.

2. LITERATURE REVIEW

A vast amount of political economy literature covers the relationship between credit supply and electoral cycles. It is possible that incumbent governments might use bank lending as a political tool for securing re-election. Several papers investigated this relationship within a specific region or group of countries (La Porta, Lopez-de-Silanes, and Shleifer (2002); Dinç (2005); Micco, Panizza, and Yanez (2007); Fungáčová et al. (2024); whereas the others concentrated on the country-level analysis (Carvalho (2014); Englmaier and Stowasser (2017); Bircan and Saka (2021); Fungáčová et al. (2023)).

In a pioneering study, Dinç (2005) employed a sample comprising bank lending data from nearly 350 banks across developed and emerging economies to investigate the lending behavior of banks during election years. The findings indicated that government-owned banks exhibited a notable increase in lending activity, with an observed growth of nearly 11 percent in comparison to privately-owned banks during election years. Dinç (2005) also investigated this issue for developed and emerging economies, separately. The results indicated that government-owned banks in emerging markets increased their lending by 5.5 percent. In line with the results of Dinç (2005), Micco, Panizza, and Yanez (2007) found that state-owned bank lending is less pro-cyclical to macroeconomic conditions and is not immune to political considerations as loan growth of public banks is higher during election years. Additionally, according to their results, the divergence in bank performance, measured by return on asset (ROA), between state-owned, private, and foreign-owned banks increases during election years.

Fungáčová et al. (2024), on the other hand, investigated the issue for the banks in Eurozone using an administrative dataset comprising more than 250 banks' monthly bank lending and loan rate details for the 2010-2020 period, along with information on an array of credit types. Their findings exhibited that European banks tend to increase their interest rates on housing and corporate loans and decrease the quantity of housing loans before elections, which means that banks in the Eurozone

are responsive to political uncertainty and adjust their strategies accordingly.

Other studies investigated the relationship at the country level and showed that incumbent politicians might be able to use bank lending for re-election purposes. Carvalho (2014) investigated the impact of state-owned bank lending on election outcomes via firm-level decisions in Brazil. The study revealed that state-owned banks increase their lending which causes an increase in employment in regions with a favorable political climate. Their results suggest that the Brazilian government might leverage credit supply to affect electoral outcomes. In contrast to the aforementioned studies, Englmaier and Stowasser (2017) concentrated this question in the German context, and they found that German regional savings banks systematically adjust their bank lending before local elections. Similarly, Bircan and Saka (2021) studied the relationship between the credit supply of state-owned banks and local elections in Türkiye. Their results indicated that state-owned banks are used via systematic bank lending adjustments for re-election purposes. Another noteworthy study is that of Fungáčová et al. (2023), which concentrated on Russia and showed that even privately owned banks might act in line with incumbent government to be benefited in the post-election periods. According to their results, both state-owned and privately-owned banks increased their lending before the elections, and privately-owned Russian banks are rewarded for their actions with an increase in government deposits.

Under a different strand of literature, several studies have examined the behavior of financial institutions in the context of economic crises or external shocks. Micco and Panizza (2006) and Brei and Schclarek (2013) found that state-owned banks act countercyclical and try to stabilize the economic slowdown. Moreover, Bertay, others Demirgüç-Kunt, and Huizinga (2015) show that state-owned banks are less responsive to financial shocks than privately owned banks, especially in countries with good governance. Temesvary and Banai (2017) investigated the relationship between subsidiary and parent-level banking traits and foreign banks' lending growth during crisis period for the Central and Eastern European (CEE) region. Their results show that higher capital ratios and lower non-performing loan (NPL) ratios are positively associated with subsidiary lending growth. Their findings are significant for both the subsidiary and parent-level bank group traits.

Borsuk, Kowalewski, and Pisany (2024), on the other hand, investigated the linkages between financial shock transmission and bank ownership status with a sample of more than 2,500 banks. Covering the period from 1996 to 2019, they found that banks differ in terms of lending activities based on their ownership structure. The results demonstrate that the expansion of lending by foreign state-owned banks is

more pronounced in comparison to foreign privately-owned banks, particularly in periods of financial turbulence within the host country.

Moreover, cultural and political alignment between countries might affect capital allocation decisions. Several papers investigate the relationship between cross-border capital allocation (lending, bond investment, etc.) and cultural and ideological distance (Guiso, Sapienza, and Zingales (2009); Leblang (2010); Burchardi, Chaney, and Hassan (2019); Kempf et al. (2023)). Guiso, Sapienza, and Zingales (2009) found that trust and perception are built upon culture and higher trust leads to higher bilateral capital flows. Leblang (2010), on the other hand, suggested that diaspora networks¹ positively affect the host country's foreign direct investment (FDI) decisions by reducing transactional and information costs. Burchardi, Chaney, and Hassan (2019) found that the ancestral relationship between two countries increases the probability of FDI from the host country to the ancestral country by four percent. Similarly, Kempf et al. (2023) found that political alignment between countries positively affects investors' capital allocation decisions. These findings are important since our objective is to investigate whether political and cultural proximity affects the lending behavior of Turkish bank subsidiaries in foreign countries during electoral cycles.

Among the abovementioned studies, Borsuk, Kowalewski, and Pisany (2024) is the most similar to ours, in that it focuses on bank lending in the context of both bank ownership and crisis or uncertainty periods. This study attempts to investigate credit supply decisions during periods of political uncertainty (i.e., election periods) and aims to contribute to the existing literature by providing insights from the perspective of foreign bank subsidiaries.

¹Leblang (2010) defined the diaspora network as the connections between migrants residing in investing countries and their home country.

3. DATA AND METHODOLOGY

3.1 Data

The bank-level financial information used in this study is derived from the database of financial statistics reports for bank-level quarterly balance sheets, income statements, and financial information for bank subsidiaries provided by the Banks Association of Türkiye (BAT)¹. BAT has been providing this historical information since 2002, however, we limited the scope of the analysis to the period after 2008 due to the changing nature of international banking following the global financial crisis (De Haas and Van Lelyveld (2014); BIS (2018)). Hence, our sample is limited to the financial records for the 2008-2022 period. During this period, many commercial banks operated in Türkiye or have subsidiaries in hosting foreign countries. However, we have limited the sample to the commercial banks operating in Türkiye for the entire analysis period. Table 3.1 presents the list of parent banks of subsidiaries used in our study, along with their observation frequency, and ownership status.

On the other hand, Table 3.2 shows the countries in which bank subsidiaries are included in our data set along with the number of bank subsidiary observations for our analysis period. Figure 3.1 exhibits the countries in our sample.

To include macroeconomic controls in our regression specification, we also compiled a data set containing macroeconomic variables such as GDP, GDP growth, GDP per capita, inflation and exchange rate depreciation from IMF DataMapper² using World

¹I use the database named “Financial Statements - Consolidated (including investments and associates, subsidiaries, joint ventures (business partners))” which is publicly available on the website of The Banks Association of Türkiye. (<https://www.tbb.org.tr/en/banks-and-banking-sector-information/statistics-and-data-query/statistical-reports/20>)

²The IMF DataMapper is a data tool that allows access to visualize, compare, and download data from a collection of IMF datasets, including a wide selection of regional and country economic indicators. The datasets provided by IMF are publicly available and can be reached at IMF’s DataMapper website. (<https://www.imf.org/external/datamapper/datasets>)

Economic Outlook (WEO) and International Financial Statistics (IFS) databases³.

Table 3.1 List of Parent Banks

Parent Bank	Frequency	Ownership Status
Akbank T.A.Ş.	28	Privately-owned
Anadolubank A.Ş.	20	Privately-owned
Denizbank A.Ş.	58	Privately-owned
ING Bank A.Ş.	15	Privately-owned
Şekerbank T.A.Ş.	35	Privately-owned
Türkiye Cumhuriyeti Ziraat Bankası A.Ş.	92	State-owned
Türkiye Garanti Bankası A.Ş.	124	Privately-owned
Türkiye Halk Bankası A.Ş.	39	State-owned
Türkiye İş Bankası A.Ş.	58	Privately-owned
Türkiye Vakıflar Bankası T.A.O.	41	State-owned
Yapı ve Kredi Bankası A.Ş.	77	Privately-owned
Total	587	

The data for election dates are obtained from the ElectionGuide⁴ database of IFES. ElectionGuide offers a comprehensive historical account of all national elections held since 1998. Table A1 in the Appendix indicates a list and information regarding elections for each country included in our estimations.

We derive several variables to control any potential heterogeneity. To obtain social, cultural, political closeness and distance measurements between host countries and Türkiye, we use the Gravity database as compiled by Conte, Cotterlaz, and Mayer (2022) which is provided by CEPPII⁵. For each of the three-way estimations in Section 4.2.1, we have used different Gravity variables identifying cultural and social closeness, political alignment, and distance between the host and the home country. Regarding cultural and social closeness (Section 4.2.1.1), we have included Ottoman variable which is a dummy variable indicating whether the host country was ruled by the Ottoman Empire, Social Closeness is an index indicating the relative probability that two individuals across two locations are friends with each other on Facebook, and Common Religion is an index demonstrating religious proximity. The political alignment between countries (Section 4.2.1.2) is determined using the Diplomatic Disagreement score which is constructed based on the votes of the host and the home country in the United Nations (UN) sessions. Moreover, Population-weighted

³For Northern Cyprus, we have derived macroeconomics variables from the State Planning Organization and the Turkish Republic Of Northern Cyprus Statistical Institute websites.

⁴<https://www.electionguide.org/>

⁵The Gravity database provides a set of information on gravity equations. Each observation is associated with an exporting country, an importing country and a year (i.e. “origin-destination-year”), for which Gravity provide trade flows, as well as geographic, political, cultural and social closeness, trade facilitation and macroeconomic variables.

Table 3.2 List of Bank Subsidiaries

Country	Frequency	Percent
Austria	43	7.33
Azerbaijan	23	3.92
Bosnia and Herzegovina	15	2.56
Georgia	14	2.39
Germany	52	8.86
Ireland	19	3.24
Kazakhstan	15	2.56
Malta	10	1.70
Montenegro	8	1.36
Netherlands	122	20.78
Northern Cyprus	75	12.78
Republic of North Macedonia	20	3.41
Romania	54	9.20
Russia	59	10.05
Serbia	8	1.36
Switzerland	15	2.56
United Arab Emirates	14	2.39
United Kingdom	15	2.56
Uzbekistan	6	1.02
Total	587	100.00

Arithmetic Distance and Simple Distance are used for estimations shown in Section 4.2.1.3.

For the triple interaction regressions presented in Section 4.2.2, we include the Tax Haven variable. It is a dummy variable takes on the value of one if the destination country is classified as a tax haven provided in Oxfam's list of tax havens.⁶ Lastly, for Section 4.2.3, Business Model is derived from the subsidiary-level data by dividing income from marketable securities by the total interest income of the subsidiary bank. This variable indicates the subsidiary's business model, where a lower ratio signals whether the subsidiary operates as a conventional bank.

At the subsidiary-level, our sample contains the following variables: total assets, fixed assets, shareholders' equity, interest income, income from marketable securities, and profit (loss) for the current period and profit (loss) for the prior period. Based on this information, we have constructed non-fixed assets data and NFA growth variables. Additionally, we have calculated other metrics such as subsidiary equity/asset ratio (SCapRatio), return on assets (SROA), return on equity (SROE) and subsidiary total assets relative to the host country GDP (STAoGDP).

⁶The data for tax havens is derived from worlddata.info which is a project of eglitis-media located in Germany. In worlddata.info website tax haven list based on different criteria of different international institutions are summarized and compared and can be reached at (<https://www.worlddata.info/tax-havens.php>)

Figure 3.1 Countries in the Sample



At the parent-level, however, our sample includes the following financial variables: Total Assets, Loans, Shareholder's Equity, Deposits, Total Operating Income, Net Operating Income, and Net Income/Profit. Based on this information, we have calculated several bank performance metrics including loan over total assets (PLoan-Ratio), equity over assets (PCapRatio), deposits over total assets (PDxTA), loan to deposit ratio (PLxD), return on assets (PROA), and return on equity (PROE).

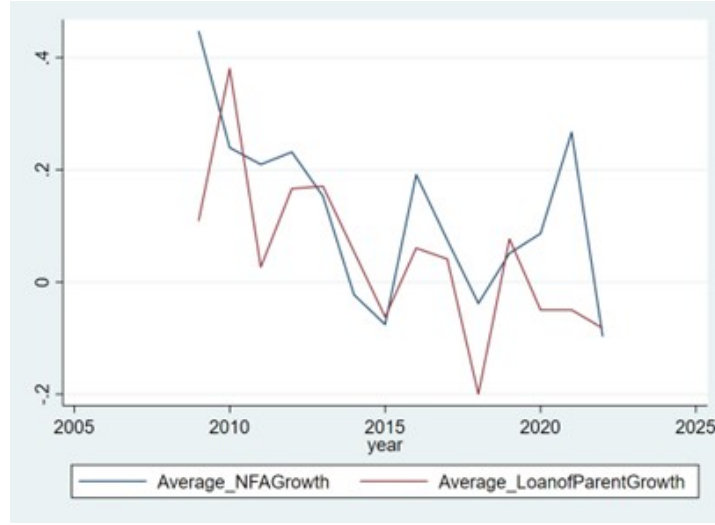
Previous studies have directly employed loan data to investigate the relationship between bank lending and electoral cycles. However, the parent banks do not report their subsidiaries' loan data to BAT in the quarterly financial statistics reports. Hence, we are unable to employ loan data directly in our analysis. To overcome this, we derived non-fixed asset data from these financial statistics reports and used that variable as a proxy for loan data. The non-fixed assets variable for each subsidiary is derived using the following equation:

$$\text{Non-Fixed Assets of Subsidiaries (NFA)} = \text{Total Assets of Subsidiaries} - \text{Total Fixed Assets of Subsidiaries}$$

It should be noted that there is a key distinction between bank balance sheets and firm balance sheets. In the former, loans are classified as assets, whereas in the latter, they are classified as liabilities. Correspondingly, assets can be divided into two groups, fixed assets and non-fixed assets. Fixed assets include non-earning assets such as tangibles (buildings, branches, furniture etc.) and intangibles (IT systems etc.). Non-fixed assets, on the other hand, contain cash and cash equivalents and earning assets (loans, credit, and marketable securities).

By employing the Selected Ratios dataset provided by the BAT Statistical Reports database, we can derive the total loans over the total assets ratio within the banking

Figure 3.2 NFA Growth vs. Parent-Level Loan Growth During 2008-2022



system in Türkiye.⁷ The ratio is 56.6 percent for 2022 and 62.9 percent on average between 2012 and 2022. Moreover, using our sample, the ratio of loans to the total assets of parent banks is 59.8 percent. These findings support the idea that loans represent the predominant component of the non-fixed asset amount. Further, we looked at the annual loan growth rate for parent banks for each year in the sample and compared it with the variable of interest, annual non-fixed asset growth (NFA Growth). Figure 3.2 shows the annual growth rates of these variables, with the lines indicating that these two variables are moving together. Correspondingly, Table 3.3 exhibits pairwise correlations between these two variables. The Pearson correlation coefficient is 0.54, indicating a statistically significant relationship at the 5% level. It can be reasonably proposed that the non-fixed assets variable may serve as an effective proxy for the variable of interest in the context of our study.

Table 3.3 Pairwise Correlations for Growth Rates

Variable	(1)	(2)
Average NFA Growth	1.000	
Average Parent Bank Loan Growth	0.545*	1.000
	(0.000)	

* denotes the statistical significance at the 5% level.

To avoid extreme values, we winsorize all bank-level variables included in our estimation at the 1% and 99% levels. Parent banks report their financial statements in Turkish Lira (TRY); therefore, we converted the bank-level financial observations into US Dollars (USD) with the annual averages of the TRY/USD exchange rate

⁷Selected Ratios dataset provides several banking performance ratios for the Turkish banking system. This dataset is publicly available on the website of The Banks Association of Türkiye. (<https://www.tbb.org.tr/en/banks-and-banking-sector-information/statistics-and-data-query/statistical-reports/20>)

using the data provided by the CBRT's Electronic Data Delivery System (EVDS). Additionally, we annualized the quarterly financial information for the purposes of estimation.

Table 3.4 Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
NFA Growth	478	.102	.375	-.67	1.928
Total Assets of Subsidiary	587	955.93	1719.77	.018	10164.39
Shareholders' Equity of Subsidiary	575	152.51	243.52	.018	1524.53
Total Fixed Assets of Subsidiary	544	7.98	14.36	0	82.58
Non-Fixed Assets of Subsidiary	544	1011.46	1765.97	.004	10154.99
Interest Income of Subsidiary	588	73.30	125.88	0	716.60
Marketable Securities Income (Subs)	588	7.90	17.93	0	105.53
Profit/Loss (Current Period) (Subs)	588	19.23	41.25	-26.18	266.99
Profit/Loss (Prior Period) (Subs)	588	17.87	47.71	-46.81	329.66
Total Assets of Parent	588	72841.10	34767.03	3562.55	137032.52
Shareholders' Equity of Parent	588	7452.83	3840.52	341.02	13851.23
Loans of Parent	588	42980.51	21302.74	1963.49	83484.88
Deposits of Parent	588	44301.54	21950.45	2175.92	104141.3
Total Operating Income of Parent	588	3902.56	1942.79	202.46	8582.25
Net Operating Income of Parent	588	1469.32	955.08	27.54	4079.31
Net Profit of Parent	588	1165.93	738.18	26.10	3140.40
StateBank (dummy)	588	.223	.416	0	1
Election (TR) (dummy)	588	.277	.448	0	1
Election (Dest) (dummy)	588	.259	.438	0	1
GDP Growth	588	.019	.04	-.162	.245
GDP	584	869144.72	1111107.4	3048.6	4281348
GDP per Capita	588	.031	.022	.002	.103
Inflation	588	.055	.096	-.025	.945
FX Depreciation	588	.066	.169	-.168	1.513
Population-weighted Arithmetic Distance	481	7.544	.424	6.726	8.159
Simple Distance	481	7.340	.566	6.100	8.273
Diplomatic Disagreement	447	.542	.314	.004	1.48
Social Closeness	425	9676.353	6248.421	1980	28146
Common Religion	467	.138	.266	.001	.941
Tax Haven (dummy)	588	.347	.476	0	1
Business Model	457	.087	.117	0	.537
Asset Size (Parent)	588	10.953	.887	8.178	11.828
Asset Size (Subsidiary)	587	11.855	2.874	2.871	16.134
PLoanRatio	588	.598	.077	.295	.737
PCapRatio	588	.102	.019	.047	.165
PDxTA	588	.615	.075	.432	.829
PLxD	588	.989	.177	.368	1.654
SCapRatio	565	.349	.326	.002	1
SROA	575	.019	.197	-.937	3.564
SROE	566	.171	.405	-.877	2.647
PROA	588	.016	.007	.002	.051
PROE	588	.152	.063	.031	.418
STAoGDP	583	.009	.026	0	.237

Note 1: All variables, other than ratios or log values, are denominated in USD million. Dummy variables are indicated in the table. Note 2: Asset Size (Subsidiary) variable is derived by taking the logarithm of Total Assets of Subsidiary in USD thousand terms.

Overall, our final sample is an unbalanced panel of 478 observations from 73 subsidiaries of 11 parent banks which are operating in 19 different countries.⁸ The summary statistics for all variables in our sample are exhibited in Table 3.4.⁹

⁸The observation regarding Trifoi Investments of Türkiye Garanti Bankası A.Ş. in 2010 is removed because subsidiary-level financial information for that bank-year was not provided.

⁹A detailed description of these variables can be found in Table 7.2 of the Appendix.

3.2 Empirical Strategy

In accordance with the methodology proposed by Dinç (2005), we use a panel fixed effects model to investigate whether political motives affected the growth of non-fixed assets in state-owned subsidiaries during election years. The specified model is presented below:

$$\begin{aligned} \text{NFA Growth}_{it} = & \alpha + \beta_1 \text{Election}_{it} + \beta_2 \text{StateBank}_i + \beta_3 \text{Election}_{it} \times \text{StateBank}_i \\ & + \delta \text{Macro}_t + \theta \text{BankControls}_{it-1} + \psi_i + \gamma_t + \epsilon_{it} \end{aligned}$$

where the variable of interest is NFA Growth_{it}, which is calculated with the following formula $(\text{NFA}_{it} - \text{NFA}_{it-1}) / \text{NFA}_{it-1}$, representing the non-fixed asset growth for subsidiary i at year t , Election_{it} is a dummy variable takes on a value of 1 if an election is taking place in year t at the home country or the host country (depending on the regression specification, Election (TR) or Election (Dest)) where subsidiary i is located, StateBank_i is another dummy variable which equals to 1 if the subsidiary is state-owned and equals to 0 if the subsidiary is privately-owned, the interaction term Election_{it} x StateBank_i equals 1 when the country in which subsidiary bank i is operating has a parliamentary election in year t and is a state-owned bank otherwise zero, Macro_t denotes macroeconomic controls for destination countries at year t , BankControls_{it-1} denotes the bank-level controls lagged by one year, ψ_i denotes subsidiary bank fixed effects and γ_t denotes year fixed effects, and ϵ_{it} denotes the unobserved heterogeneity. All specifications use fixed effects models including subsidiary-bank fixed effects which account for the differences between state-owned and privately-owned subsidiaries independent of time. The year fixed effects, on the other hand, control for time-dependent variations in our sample. Standard errors are clustered around parent banks.

Three different concerns need to be addressed, to investigate the relationship between subsidiary bank lending and election cycles: (1) an exogenous shock that urges the Turkish government to intervene by using state-owned subsidiaries, (2) subsidiary-level variations across countries, (3) differences in bank operations between state-owned and privately-owned subsidiaries other than politically-driven actions.

Regarding (1), national parliamentary elections are exogenous shocks to incentivize incumbents to use state-owned subsidiaries to increase the probability of re-election. With regard to point (2), conducting a subsidiary-level regression (instead of a country-level cross-sectional analysis) would enable researchers to control institu-

tional differences. Cross-sectional country-level analysis cannot account for numerous differences across countries; hence, subsidiary-level analysis might prevent misleading results due to country-specific factors. For (3), the panel nature of our sample enables us to analyze the differences between state-owned subsidiary lending and privately-owned subsidiaries in election years compared to other years, isolating political decisions from other considerations. Another concern would be the potential endogeneity between our variable of interest and bank-level controls. To put it another way, for example, one can reasonably argue that the capital ratio for subsidiaries is affected by the changes in non-fixed asset growth. Hence, to prevent reverse causality, we use lagged versions of bank-specific controls in our regression model.

Table 3.5 Pairwise Correlations

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) NFA Growth	1.000												
(2) Election (TR)	-0.148*	1.000											
(3) Election (Dest)	0.086	-0.149*	1.000										
(4) StateBank	0.211*	-0.030	0.047	1.000									
(5) Asset Size (Parent)	0.062	0.049	0.088*	0.310*	1.000								
(6) Asset Size (Subsidiary)	-0.050	-0.009	0.020	0.080	0.060	1.000							
(7) SCapRatio	0.102*	-0.012	0.030	-0.038	0.058	-0.641*	1.000						
(8) SROA	0.115*	0.079	-0.031	0.029	0.032	0.161*	0.005	1.000					
(9) PCapRatio	0.005	0.085	0.070	-0.331*	-0.092*	-0.049	0.044	0.090*	1.000				
(10) GDP Growth	0.050	0.160*	-0.022	0.053	0.074	0.008	-0.018	0.076	0.004	1.000			
(11) Inflation	-0.111*	-0.077	-0.126*	-0.023	-0.147*	-0.081	-0.066	0.034	-0.326*	0.223*	1.000		
(12) FX Depreciation	-0.188*	0.226*	-0.123*	-0.021	-0.118*	-0.056	-0.059	0.040	-0.180*	0.088*	0.450*	1.000	
(13) STAoGDP	-0.090*	0.000	-0.098*	-0.002	-0.093*	0.148*	-0.264*	-0.005	-0.157*	0.016	0.172*	0.139*	1.000

* denotes the statistical significance at the 5% level.

Table 3.5 exhibits the pairwise correlations of coefficients of variables used in our baseline estimations. At first glance, the results for the relationship between dependent variable and explanatory variables are consistent with our expectations. Our dependent variable NFA Growth is negatively associated with macro variables Inflation and FX Depreciation but positively associated with equity to asset ratio (SCapRatio) and subsidiary-level and parent-level return on assets ratios (PROA and SROA). The largest coefficient is between Asset Size (Subsidiary) and SCapRatio (-0.64*) indicating a negative relation between the two. This is an expected outcome, given that SCapRatio represents equity over assets for subsidiaries and an increase in asset size is associated with a reduction in the equity over asset ratio. Secondly, the coefficient between Inflation and FX Depreciation is 0.45*, which is plausible since exchange rate fluctuations have a passthrough effect on inflation. Conclusively, Table 3.5 demonstrates that independent variables in our estimations

are not highly correlated and the risk for multicollinearity is minimal.

Furthermore, we extend our analysis to investigate the impact of heterogeneous effects using Mechanism_{it} variables on the interplay between non-fixed assets and electoral cycles. Following equation exhibits the specification:

$$\begin{aligned} \text{NFA Growth}_{it} = & \alpha + \beta_1 \text{Election}_{it} + \beta_2 \text{StateBank}_i + \beta_3 \text{Mechanism}_{it} \\ & + \beta_4 \text{Election}_{it} \times \text{StateBank}_i + \beta_5 \text{Election}_{it} \times \text{Mechanism}_{it} \\ & + \beta_6 \text{StateBank}_i \times \text{Mechanism}_{it} \\ & + \beta_7 \text{Election}_{it} \times \text{StateBank}_i \times \text{Mechanism}_{it} + \delta \text{Macro}_t \\ & + \theta \text{BankControls}_{it-1} + \psi_i + \gamma_t + \epsilon_{it} \end{aligned}$$

where the dependent variable is NFA Growth_{it} , and covariates Election_{it} , StateBank_{it} , Macro_t and $\text{BankControls}_{it-1}$ indicate the same variables denoted in baseline specification above. Mechanism_{it} contains several variables representing proximity, country characteristics and subsidiary bank traits. All of the covariates used to detect heterogeneity are assumed to be strictly exogenous and for the year t . A more detailed account of the Mechanism_{it} variables is given in the respective sections below.

4. RESULTS

This section presents the findings of our baseline estimations. The first section (4.1) exhibits two-way interaction estimations of election cycles and bank ownership for subsidiary banks' lending behavior. The second section (4.2), on the other hand, reports three-way interaction regression results with *Mechanism* variables added to the specification.

4.1 Main Results

Table 4.1 exhibits our baseline regression results. Our findings are not consistent with our initial hypothesis that state-owned foreign subsidiaries would increase their lending during the election period to attract the votes of those living abroad. On the contrary, our results show that the *Election (TR) x StateBank* interaction is negative suggesting that the annual non-fixed asset growth of state-owned subsidiaries is markedly lower compared to their privately-owned counterparts, during Turkish national election periods. The negative and statistically significant coefficient indicates that the change in non-fixed asset growth of state-owned banks is approximately 20 percent less than that of privately-owned banks, yet the magnitude of the impact diminishes when accounted for a more comprehensive set of control variables. Given that the mean value of NFA Growth is 10 percent, this result is also economically significant. One possible explanation for this outcome is that state-owned banks strategically prioritize their domestic operations during elections in Türkiye. Moreover, many studies have proven that state-owned banks adjust their lending patterns to influence voter behavior in domestic elections. Bircan and Saka (2021) found a similar outcome regarding Turkish local elections. Conversely, results for elections in destination countries are insignificant.

When we check the results for control variables, we observe that Asset Size (Sub-

Table 4.1 Main Results - Panel A

	(1)	(2)	(3)	(4)	(5)	(6)
Election (Dest)	-0.008 (0.033)	-0.015 (0.032)	-0.015 (0.031)	0.008 (0.039)	-0.007 (0.035)	-0.010 (0.036)
Election (TR) x StateBank	-0.211** (0.070)	-0.205** (0.072)	-0.202** (0.070)	-0.206** (0.069)	-0.188** (0.072)	-0.187** (0.074)
Election (Dest) x StateBank	-0.002 (0.044)	-0.002 (0.040)	0.004 (0.045)	-0.012 (0.050)	-0.007 (0.044)	-0.005 (0.044)
Asset Size (Parent)		-0.010 (0.178)	-0.018 (0.174)	-0.074 (0.169)	-0.091 (0.168)	-0.022 (0.178)
Asset Size (Subsidiary)		-0.248** (0.092)	-0.252** (0.091)	-0.299*** (0.091)	-0.297*** (0.089)	-0.366** (0.128)
SCapRatio		0.686** (0.251)	0.646** (0.269)	0.540* (0.263)	0.545* (0.257)	0.495 (0.305)
SROA		0.384 (0.220)	0.385 (0.227)	0.392 (0.236)	0.389 (0.242)	0.415 (0.239)
PCapRatio		-1.964 (1.640)	-2.204 (1.587)	-3.235* (1.640)	-3.466* (1.668)	-3.311* (1.689)
GDP Growth			0.667 (0.829)	1.024 (0.801)	0.740 (0.801)	0.700 (0.815)
Inflation				-0.697** (0.286)	-0.414 (0.274)	-0.346 (0.246)
FX Depreciation					-0.335*** (0.075)	-0.309*** (0.080)
STAoGDP						2.951 (2.008)
Subs-Bank FEs	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Observations	477	462	462	462	462	462
R^2	0.292	0.405	0.407	0.419	0.426	0.435

Notes: The dependent variable is the change in the non-fixed assets (NFA) for a given year. Asset Size (Parent) and Asset Size (Subsidiary) are log values of Total Assets variables for parent-level and subsidiary-level information. SCapRatio is subsidiary-level total equity divided by total assets, SROA is return on assets at the subsidiary-level, PCapRatio is parent-level total equity divided by total assets. All bank-level controls are indicating t-1, lagged by 1 year. Macroeconomic controls indicate current-year values. StateBank is a dummy variable taking the value of one if that subsidiary's parent bank is a state-owned bank. Election (TR) and Election (Dest) are dummy variables equal to one if an election is held in Türkiye or in the destination country, respectively. Standard errors are clustered around parent banks and denoted in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

subsidiary) is negatively associated with NFA Growth. The findings indicate a potential correlation between bank size and lending growth rates, with larger banks exhibiting lower growth rates. Also, larger banks generally have more diversified revenue streams, meaning that they rely less on lending growth to generate revenue. In line with our expectations, the capital ratio of subsidiaries (SCapRatio), has a positive relation with non-fixed asset growth, as its coefficient is positive for all but one specification. The positive coefficient is consistent with the findings of previous studies (Dinç (2005); Temesvary and Banai (2017)), and might be explained by the rationale that banks with higher equity are financially stronger and more stable. A solid financial base fosters greater confidence among borrowers as these banks are better positioned to absorb financial risks and shocks.

As further macro controls were included, *StateBank x Election (TR)* continued to exhibit a negative but diminishing significance. These results suggest that the decrease in lending by state-owned banks during Turkish elections is not merely a reflection of fluctuations in the macroeconomic environment during election years. Regarding macroeconomic controls, our findings show that Inflation and FX Depreciation coefficients are negatively significant, depending on the specification. GDP Growth, on the other hand, is insignificant. The negative effect of inflation fades when exchange rate depreciation is introduced to the specification, yet the coefficient for exchange rate depreciation remains negative and significant. This result is emphasized by the high correlation among these variables, as indicated in pairwise correlations table. One potential explanation for this high correlation would be the exchange rate pass-through. However, the negative association with NFA growth can be explained by higher borrowing costs and the erosion of purchasing power due to high inflation and exchange rate depreciation. Correspondingly, higher interest rates might deter borrowers and decrease their demand. From the banks' point of view, foreign banks might adopt more conservative approaches during economic uncertainty, resembling the findings of Borsuk, Kowalewski, and Pisany (2024).

Table 4.2 Main Results - Panel B

	(1)	(2)	(3)	(4)	(5)	(6)
Election (TR) x StateBank	-0.178**	-0.173**	-0.173**	-0.173**	-0.173**	-0.171**
	0.059	0.055	0.055	0.055	0.055	0.055
Election (Dest) x StateBank	0.047	0.050	0.050	0.050	0.050	0.050
	0.059	0.055	0.055	0.055	0.055	0.053
Asset Size (Parent)		-0.167	-0.167	-0.167	-0.167	-0.067
		0.158	0.158	0.158	0.158	0.112
Asset Size (Subsidiary)		-0.241***	-0.241***	-0.241***	-0.241***	-0.304***
		0.060	0.060	0.060	0.060	0.080
SCapRatio		0.491*	0.491*	0.491*	0.491*	0.432
		0.240	0.240	0.240	0.240	0.263
SROA		-0.061	-0.061	-0.061	-0.061	-0.107
		0.291	0.291	0.291	0.291	0.284
PCapRatio		-4.130***	-4.130***	-4.130***	-4.130***	-3.350**
		1.152	1.152	1.152	1.152	1.322
STAOGDP						2.311***
						0.639
Subs-Bank FEs	Yes	Yes	Yes	Yes	Yes	Yes
Destination-Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Observations	357	342	342	342	342	342
R^2	0.601	0.642	0.642	0.642	0.642	0.647

Notes: The dependent variable is the change in the non-fixed assets (NFA) for a given year. Asset Size (Parent) and Asset Size (Subsidiary) are log values of Total Assets variables for parent-level and subsidiary-level information. SCapRatio is subsidiary-level total equity divided by total assets, SROA is return on assets at the subsidiary-level, PCapRatio is parent-level total equity divided by total assets. All bank-level controls are indicating t-1, lagged by 1 year. Macroeconomic controls indicate current-year values. StateBank is a dummy variable taking the value of one if that subsidiary's parent bank is a state-owned bank. Election (TR) and Election (Dest) are dummy variables equal to one if an election is held in Türkiye or in the destination country, respectively. Standard errors are clustered around parent banks and denoted in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

Alternatively, in order to isolate demand-side fluctuations in destination countries, we run a different specification using destination-year fixed effects. In this specification, macroeconomic variables are dropped since destination-year fixed effects captures their effects. Table 4.2 exhibits the results. Our findings mimic baseline estimations with a negative interaction term, indicating a nearly 17% decrease in non-fixed asset growth in state-owned subsidiaries.

4.2 Heterogeneous Effects

Given that the two-way interaction estimation results did not align with our initial expectations, we tested whether heterogeneity was a contributing factor to the aforementioned deviation from the expected outcomes. In order to investigate the heterogeneous effects, we have extended our regression specification with several different variables. Tables in Section 4.2 shows related to heterogeneous effects. Each estimation includes a different *Gravity* variables to measure cultural and social closeness, political alignment, and distance. In addition, Tables 4.6 and 4.7 illustrates the impact of destination countries' tax haven status and the effects of heterogeneous subsidiary-level bank traits, respectively.

4.2.1 Gravity Variables

4.2.1.1 Cultural and social closeness

The cultural and social connections could affect capital allocation decisions. As shown by Guiso, Sapienza, and Zingales (2009), higher trust between countries leads to more capital inflows. Hence, we use three different variables to check the heterogeneous effects of cultural and social closeness. According to our estimation results, Ottoman heritage and closeness in the context of social media usage are not significant factors in bank lending. However, the coefficient on *Election (TR) x Common Religion* is 0.215, indicating that Turkish banks increase their lending in destination countries when an election is taking place in Türkiye. However, when we add *StateBank* into the specification, the result changes and becomes negative as *Election (TR) x StateBank x Common Religion* is -0.358. This means that during the electoral periods in the home country, state-owned banks increase their lending at a slower rate in destination countries which are culturally and socially close to the origin country, compared to their privately-owned counterparts.

Table 4.3 Cultural and Social Closeness

	(1)	(2)	(3)	(4)	(5)	(6)
StateBank x Election (TR)	-0.203**	-0.138	-0.143			
	(0.089)	(0.115)	(0.087)			
Election (TR) x Ottoman	-0.030					
	(0.075)					
StateBank x Election (TR) x Ottoman	0.048					
	(0.085)					
Election (TR) x Social Closeness		0.000				
		(0.000)				
StateBank x Election (TR) x Social Closeness		-0.000				
		(0.000)				
Election (TR) x Common Religion			0.215**			
			(0.091)			
StateBank x Election (TR) x Common Religion			-0.358**			
			(0.126)			
Election (Dest)				-0.029	-0.048	-0.041
				(0.038)	(0.129)	(0.039)
StateBank x Election (Dest)				0.013	0.055	-0.009
				(0.042)	(0.129)	(0.036)
Election (Dest) x Ottoman				0.026		
				(0.057)		
StateBank x Election (Dest) x Ottoman				0.010		
				(0.114)		
Election (Dest) x Social Closeness					-0.000	
					(0.000)	
StateBank x Election (Dest) x Social Closeness					-0.000	
					(0.000)	
Election (Dest) x Common Religion						-0.066
						(0.148)
StateBank x Election (Dest) x Common Religion						0.140
						(0.160)
Bank Controls	Yes	Yes	Yes	Yes	Yes	Yes
Macro Controls	Yes	Yes	Yes	Yes	Yes	Yes
Subs-Bank FEs	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Observations	462	329	368	462	329	368
R^2	0.435	0.427	0.420	0.426	0.425	0.408

Notes: The dependent variable is the change in the non-fixed assets (NFA) for a given year. Asset Size (Parent) and Asset Size (Subsidiary) are log values of Total Assets variables for parent-level and subsidiary-level information. SCapRatio is subsidiary-level total equity divided by total assets, SROA is return on assets at the subsidiary-level, PCapRatio is parent-level total equity divided by total assets. All bank-level controls are indicating t-1, lagged by 1 year. Macroeconomic controls indicate current-year values. StateBank is a dummy variable taking the value of one if that subsidiary's parent bank is a state-owned bank. Election (TR) and Election (Dest) are dummy variables equal to one if an election is held in Türkiye or in the destination country, respectively. Standard errors are clustered around parent banks and denoted in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

The double interaction outcome implies that Turkish bank subsidiaries might be using cultural closeness as leverage for increasing activity in these countries. Regarding the negative three-way interaction coefficient, one potential explanation could be the greater operational flexibility of privately-owned banks to maximize their returns in the destination countries. State-owned banks, however, might have different objectives and priorities such as operational stability which leads to a more conservative approach to lending, particularly during election periods.

4.2.1.2 Political closeness

The political ties between the host and the home country might affect the lending behavior of subsidiaries. Kempf et al. (2023) documented that political alignments affect capital allocations positively, indicating that the greater the alignment, the greater the capital inflow. Therefore, we have used a diplomatic disagreement score derived from votes in the UN assembly to test whether political disagreements have heterogeneous effects. In line with our expectations, regression findings indicate that Turkish bank subsidiaries decrease their non-fixed asset growth when an election is held in a destination country with whom Türkiye is not politically close.

Table 4.4 Political Closeness

	(1)	(2)
StateBank x Election (TR)	-0.170 (0.117)	
Diplomatic Disagreement	0.036 (0.180)	0.194 (0.188)
StateBank x Diplomatic Disagreement	-0.443 (0.379)	-0.613 (0.356)
Election (TR) x Diplomatic Disagreement	-0.062 (0.235)	
StateBank x Election (TR) x Diplomatic Disagreement	0.027 (0.223)	
Election (Dest)		0.099* (0.054)
StateBank x Election (Dest)		-0.187** (0.076)
Election (Dest) x Diplomatic Disagreement		-0.273* (0.122)
StateBank x Election (Dest) x Diplomatic Disagreement		0.324** (0.141)
Bank Controls	Yes	Yes
Macro Controls	Yes	Yes
Subs-Bank FEs	Yes	Yes
Year FEs	Yes	Yes
Observations	347	347
R^2	0.477	0.479

Notes: The dependent variable is the change in the non-fixed assets (NFA) for a given year. Asset Size (Parent) and Asset Size (Subsidiary) are log values of Total Assets variables for parent-level and subsidiary-level information. SCapRatio is subsidiary-level total equity divided by total assets, SROA is return on assets at the subsidiary-level, PCapRatio is parent-level total equity divided by total assets. All bank-level controls are indicating t-1, lagged by 1 year. Macroeconomic controls indicate current-year values. StateBank is a dummy variable taking the value of one if that subsidiary's parent bank is a state-owned bank. Election (TR) and Election (Dest) are dummy variables equal to one if an election is held in Türkiye or in the destination country, respectively. Standard errors are clustered around parent banks and denoted in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

The abovementioned result is reversed once we add the StateBank variable to the regression specification. Namely, during the host country's national elections, where the host and home country are not politically close, the decline in non-fixed asset growth for privately-owned banks is higher than that for state-owned banks.

In line with our expectations, Turkish banks decreased their lending growth in a country where the destination country and Türkiye have diplomatic disagreements. This outcome may be partially explained by Turkish banks adopting a more conservative approach during political uncertainty. On the other hand, in terms of ownership, the reason for state-owned banks' lower reduction in lending compared to privately-owned banks may be attributed to the differing motives and mandates between these banking institutions. The primary objective of privately-owned banks is to maximize profits, and diplomatic disagreements coupled with political uncertainty might exacerbate their lending motives. Despite the differing political orientations of the countries, state-owned banks may be subject to a wider range of mandates. They cannot act only with profit maximization motives, and they might have a role in maintaining economic ties between the countries with which the origin country is engaged in disputes within the international area

4.2.1.3 Distance

It may be the case that the distance between the destination and the origin country affects the subsidiary-level lending behavior. Subsidiaries located further away from the parent banks' headquarters might act differently. To investigate this, we have added two different distance variables, *Population-weighted Arithmetic Distance* and *Simple Distance*, to the specification. In order to avoid outliers, both variables have been transformed into natural logarithms. Table 4.5 presents the findings. We could not find any significant results. Our analysis reveals that the distance has no visible impact on subsidiary lending behavior either for state-owned or privately-owned banks. This could be due to the countries in our sample are located in a relatively close geographical proximity to one another, as exhibited in Figure 3.1.

4.2.2 Country Characteristics

As previously stated, tax considerations might affect international banking activity. de Jantschei (1976) defines Tax Haven as places/countries where foreigners may receive income or own assets without paying high taxes. Moreover, the high-level

Table 4.5 Distance

	(1)	(2)	(3)	(4)
StateBank x Election (TR)	0.901 (0.797)	0.696 (0.551)		
Population-weighted Arithmetic Distance	20.452 (17.758)		18.875 (21.316)	
StateBank x Population-weighted Arithmetic Distance	-18.499 (17.233)		-15.019 (20.232)	
Election (TR) x Population-weighted Arithmetic Distance	0.078 (0.118)			
StateBank x Election (TR) x Population-weighted Arithmetic Distance	-0.146 (0.113)			
Election (TR) x Simple Distance		0.101 (0.096)		
StateBank x Election (TR) x Simple Distance		-0.121 (0.084)		
Election (Dest)			-0.266 (0.773)	-0.107 (0.499)
StateBank x Election (Dest)			-0.330 (1.209)	0.034 (1.007)
Election (Dest) x Population-weighted Arithmetic Distance			0.029 (0.105)	
StateBank x Election (Dest) x Population-weighted Arithmetic Distance			0.049 (0.160)	
Election (Dest) x Simple Distance				0.008 (0.071)
StateBank x Election (Dest) x Simple Distance				-0.000 (0.136)
Bank Controls	Yes	Yes	Yes	Yes
Macro Controls	Yes	Yes	Yes	Yes
Subs-Bank FEs	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes
Observations	380	380	380	380
R^2	0.436	0.437	0.427	0.426

Notes: The dependent variable is the change in the non-fixed assets (NFA) for a given year. Asset Size (Parent) and Asset Size (Subsidiary) are log values of Total Assets variables for parent-level and subsidiary-level information. SCapRatio is subsidiary-level total equity divided by total assets, SROA is return on assets at the subsidiary-level, PCapRatio is parent-level total equity divided by total assets. All bank-level controls are indicating t-1, lagged by 1 year. Macroeconomic controls indicate current-year values. StateBank is a dummy variable taking the value of one if that subsidiary's parent bank is a state-owned bank. Election (TR) and Election (Dest) are dummy variables equal to one if an election is held in Türkiye or in the destination country, respectively. Standard errors are clustered around parent banks and denoted in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

privacy that tax havens offer might attract clients to consider these places for investments. Oxfam classifies countries whether they are acting as tax havens and provides a list regarding this classification. Based on this list, proceeded to categorize a number of countries in our sample as tax havens and investigated whether being a tax haven affects subsidiary lending behavior.

Table 4.6 reports the findings. The results for macroeconomic controls and bank-level controls are consistent with those of our previous findings. Regarding destination election cycles, our estimations show no statistically significant correlation. However, vis-à-vis Turkish election periods, we obtain two noteworthy results. *Election (TR) x StateBank* is negative, highlighting our previous findings that state-owned subsidiaries may be primarily focused on their local operations in the origin country. Nonetheless, *Election (TR) x Tax Haven* is positive and shows a 20.3

Table 4.6 Being a Tax Haven

	(1)	(2)
StateBank x Election (TR)	-0.177*** (0.049)	0.021
Election (TR) x Tax Haven	0.203** (0.069)	
StateBank x Election (TR) x Tax Haven	-0.048 (0.080)	
Election (Dest)		-0.021 (0.035)
StateBank x Election (Dest)		0.001 (0.037)
Election (Dest) x Tax Haven		0.001 (0.075)
StateBank x Election (Dest) x Tax Haven		0.060 (0.084)
Bank Controls	Yes	Yes
Macro Controls	Yes	Yes
Subs-Bank FEs	Yes	Yes
Year FEs	Yes	Yes
Observations	462	462
R^2	0.446	0.428

Notes: The dependent variable is the change in the non-fixed assets (NFA) for a given year. Asset Size (Parent) and Asset Size (Subsidiary) are log values of Total Assets variables for parent-level and subsidiary-level information. SCapRatio is subsidiary-level total equity divided by total assets, SROA is return on assets at the subsidiary-level, PCapRatio is parent-level total equity divided by total assets. All bank-level controls are indicating t-1, lagged by 1 year. Macroeconomic controls indicate current-year values. StateBank is a dummy variable taking the value of one if that subsidiary's parent bank is a state-owned bank. Election (TR) and Election (Dest) are dummy variables equal to one if an election is held in Türkiye or in the destination country, respectively. Standard errors are clustered around parent banks and denoted in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

percent increase during Turkish national elections, implying a potential outflow of resources from Türkiye during political uncertainty periods. However, three-way interaction results are insignificant.

4.2.3 Subsidiary-Bank Traits

Some subsidiaries might operate similarly to an investment bank instead of operating as a traditional bank. As we use non-fixed asset growth as a proxy for loan growth, we need to check other elements of non-fixed assets in the subsidiaries' balance sheets. Interest income mainly represents the income from conventional banking activities, i.e., revenue generated from the provisions of loans. Marketable securities, on the other hand, are a component of liquid assets which are included in non-fixed asset calculation. Hence, a lower income from marketable securities as a portion

of interest income could imply that the subsidiary could be operating more similar to a conventional bank. Accordingly, we used the Business Model variable which is calculated by the ratio of the income from marketable securities over the interest income for foreign subsidiaries to examine the heterogeneous effects of different business models on our variable of interest. We may suspect that a positive outcome when accounting the business model of the subsidiary suggests that state-owned subsidiaries do not attempt to intervene in destination country elections. Table 4.7 exhibits the findings.

Table 4.7 Business Model

	(1)	(2)
StateBank x Election (TR)	-0.155*	
	(0.080)	
Business Model	0.033	0.001
	(0.233)	(0.153)
StateBank x Business Model	0.725	0.972**
	(0.458)	(0.319)
Election (TR) x Business Model	-0.132	
	(0.288)	
StateBank x Election (TR) x Business Model	-0.508	
	(0.319)	
Election (Dest)		0.003
		(0.057)
StateBank x Election (Dest)		0.163**
		(0.060)
Election (Dest) x Business Model		0.023
		(0.310)
StateBank x Election (Dest) x Business Model		-1.844***
		(0.383)
Bank Controls	Yes	Yes
Macro Controls	Yes	Yes
Subs-Bank FEs	Yes	Yes
Year FEs	Yes	Yes
Observations	439	439
R^2	0.475	0.477

Notes: The dependent variable is the change in the non-fixed assets (NFA) for a given year. Asset Size (Parent) and Asset Size (Subsidiary) are log values of Total Assets variables for parent-level and subsidiary-level information. SCapRatio is subsidiary-level total equity divided by total assets, SROA is return on assets at the subsidiary-level, PCapRatio is parent-level total equity divided by total assets. All bank-level controls are indicating t-1, lagged by 1 year. Macroeconomic controls indicate current-year values. StateBank is a dummy variable taking the value of one if that subsidiary's parent bank is a state-owned bank. Election (TR) and Election (Dest) are dummy variables equal to one if an election is held in Türkiye or in the destination country, respectively. Standard errors are clustered around parent banks and denoted in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

Our findings indicate that state-owned banks increase their non-fixed assets during the election periods of destination countries. Also, when we account for the *Business Model*, however, the marginal effect calculation shows that the positive coefficient

of state-owned foreign bank subsidiaries' non-fixed asset growth is still positive and significant, despite the impact is diminished. A positive correlation coefficient indicates a potential validation of our initial hypothesis that Turkish government might try to affect foreign elections. Still, considering our previous findings, we could only find positively significant results in this specification and making strong conclusion using these results are not sufficient to make strong conclusions regarding election intervention.

5. ROBUSTNESS CHECKS

Due to the considerable diversity in the characteristics of our sample subsidiaries, we wanted to concentrate on different sub-samples and investigate the potential impact of these on our dependent variable. In order to validate and control the heterogeneity of our baseline specification results, we tried to split our sample into different sub-samples. Hence, this section studies the robustness of our finding that state-owned foreign subsidiaries decrease their non-fixed asset growth during periods of Turkish national elections.

5.1 Subsidiary Total Assets over GDP (STAoGDP)

Since our sample contains great heterogeneity regarding subsidiary bank size, we wanted to limit our estimations only to large foreign subsidiaries with significant banking activity in destination countries. This is because some subsidiaries might not operate according to usual banking practices. *STAoGDP* presents the ratio of subsidiary total assets over the host country. The median value for this variable is 0.0011 (1.1 over a thousand), hence we picked 0.1 percent (one over a thousand) as the threshold and split the sample into above median and below median. For this robustness check, we only include the above median observations.

Table 5.1 reports the estimation results for this sub-sample. In this estimation, the number of observations almost halved due to the exclusion. Regression results of this robustness test are consistent with our main estimations. *Election (TR) x StateBank* is negative, suggesting a reduction in lending.

The positive coefficient of *STAoGDP* suggests that subsidiaries with larger and more significant market presence tend to lend more as they are of greater importance to the stability of the banking system in the destination country.

Table 5.1 Subsidiary Asset Size over Destination Country GDP

	(1)	(2)	(3)	(4)	(5)	(6)
Election (Dest)	0.018 (0.035)	0.031 (0.036)	0.031 (0.036)	0.069 (0.046)	0.060 (0.043)	0.061 (0.044)
Election (TR) x StateBank	-0.221 ^{***} (0.055)	-0.245 ^{***} (0.048)	-0.240 ^{***} (0.047)	-0.253 ^{***} (0.050)	-0.239 ^{***} (0.059)	-0.246 ^{***} (0.060)
Election (Dest) x StateBank	-0.028 (0.054)	-0.058 (0.059)	-0.056 (0.063)	-0.084 (0.074)	-0.073 (0.071)	-0.077 (0.069)
Asset Size (Parent)		-0.119 (0.138)	-0.126 (0.132)	-0.189 (0.123)	-0.211 (0.120)	-0.109 (0.095)
Asset Size (Subsidiary)		-0.234 ^{**} (0.083)	-0.234 ^{**} (0.082)	-0.296 ^{***} (0.073)	-0.302 ^{***} (0.070)	-0.417 ^{***} (0.083)
SCapRatio		0.265 (0.245)	0.250 (0.250)	0.121 (0.240)	0.111 (0.234)	-0.051 (0.266)
SROA		-0.970 (0.794)	-1.037 (0.776)	-0.962 (0.657)	-0.906 (0.696)	-0.868 (0.688)
PCapRatio		-2.465 (2.334)	-2.775 (2.283)	-3.851 (2.512)	-4.316 (2.500)	-4.011 (2.559)
GDP Growth			0.478 (0.403)	0.869 ^{***} (0.267)	0.606 [*] (0.327)	0.467 (0.352)
Inflation				-0.662 ^{***} (0.188)	-0.427 [*] (0.195)	-0.434 ^{**} (0.189)
FX Depreciation					-0.349 ^{***} (0.084)	-0.307 ^{***} (0.087)
STAoGDP						2.920 ^{**} (1.024)
Subs-Bank FEs	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Observations	268	268	268	268	268	268
R^2	0.371	0.491	0.493	0.506	0.522	0.527

Notes: The dependent variable is the change in the non-fixed assets (NFA) for a given year. Asset Size (Parent) and Asset Size (Subsidiary) are log values of Total Assets variables for parent-level and subsidiary-level information. SCapRatio is subsidiary-level total equity divided by total assets, SROA is return on assets at the subsidiary-level, PCapRatio is parent-level total equity divided by total assets. All bank-level controls are indicating t-1, lagged by 1 year. Macroeconomic controls indicate current-year values. StateBank is a dummy variable taking the value of one if that subsidiary's parent bank is a state-owned bank. Election (TR) and Election (Dest) are dummy variables equal to one if an election is held in Türkiye or in the destination country, respectively. Standard errors are clustered around parent banks and denoted in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

5.2 Number of Voters

Furthermore, our sample was divided based on the number of eligible voters residing abroad and participating in the Turkish national elections. The reason for this is to investigate whether the higher voter presence in a destination country might affect state-owned subsidiary behavior. Using the data for the number of voters provided by the Supreme Election Council (YSK) regarding the national elections held in 2015 and 2018, we split our sample based on a materiality threshold. The median value for the number of voters data is 94,816, thus we have selected one hundred thousand (100K) as the threshold and divided the sample into two sub-groups.

5.2.1 Number of Voters Lower Than 100K

Results for the destination countries accommodating voters less than our materiality threshold are consistent with our baseline estimation findings. Election (TR) \times StateBank is negative indicating a decline in lending for state-owned subsidiaries during Turkish election periods. The negative outcome could be interpreted as during Turkish national elections, Turkish subsidiaries reduce the capital provided to these destination countries where the number of voters is not significant.

Contrary to our previous findings, SROA has a positive coefficient which might mean that these subsidiaries may be attempting to gain market share through better financial performance given the relatively smaller number of Turkish citizens, compared to other destination countries.

5.2.2 Number of Voters Higher Than 100K

For destination countries hosting a higher number of voters than our materiality threshold, *Election (TR) \times StateBank* variable remains insignificant though it is negative for all specifications. When we check the summary statistics of STAoGDP for these two sub-samples, the mean values differ greatly. In this sub-sample, the mean value for subsidiary asset size over destination country GDP is 0.4 percent, which indicates that these subsidiaries are comparatively small for the host country's banking system. In the other split of our sample, this value is 1.2 percent. One possible hypothesis is that a smaller bank size relative to the banking system might reduce the capacity to affect voters.

Table 5.2 Number of Voters Lower Than 100K

	(1)	(2)	(3)	(4)	(5)	(6)
Election (Dest)	-0.008 (0.057)	0.018 (0.058)	0.022 (0.061)	0.018 (0.062)	0.015 (0.064)	0.011 (0.066)
Election (TR) x StateBank	-0.253** (0.096)	-0.235** (0.087)	-0.228** (0.083)	-0.233** (0.081)	-0.224** (0.083)	-0.218** (0.087)
Election (Dest) x StateBank	0.078 (0.075)	0.045 (0.059)	0.051 (0.069)	0.049 (0.070)	0.044 (0.071)	0.047 (0.074)
Asset Size (Parent)		0.266 (0.358)	0.289 (0.358)	0.224 (0.376)	0.241 (0.368)	0.284 (0.376)
Asset Size (Subsidiary)		-0.302** (0.133)	-0.309** (0.132)	-0.318** (0.131)	-0.316** (0.130)	-0.371* (0.170)
SCapRatio		0.748** (0.289)	0.694** (0.286)	0.676** (0.272)	0.683** (0.268)	0.639* (0.317)
SROA		0.574** (0.182)	0.581** (0.199)	0.567** (0.209)	0.563** (0.211)	0.590** (0.199)
PCapRatio		0.165 (3.711)	0.398 (3.667)	-0.232 (3.815)	(0.002) (3.754)	-0.279 (3.592)
GDP Growth			1.089 (1.014)	0.890 (0.985)	0.832 (0.995)	0.969 (0.948)
Inflation				-1.178*** (0.270)	-0.858** (0.344)	-0.810* (0.417)
FX Depreciation					-0.198** (0.070)	-0.178* (0.084)
STAoGDP						2.629 (2.363)
Subs-Bank FEs	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Observations	302	288	288	288	288	288
R^2	0.309	0.448	0.452	0.458	0.461	0.467

Notes: The dependent variable is the change in the non-fixed assets (NFA) for a given year. Asset Size (Parent) and Asset Size (Subsidiary) are log values of Total Assets variables for parent-level and subsidiary-level information. SCapRatio is subsidiary-level total equity divided by total assets, SROA is return on assets at the subsidiary-level, PCapRatio is parent-level total equity divided by total assets. All bank-level controls are indicating t-1, lagged by 1 year. Macroeconomic controls indicate current-year values. StateBank is a dummy variable taking the value of one if that subsidiary's parent bank is a state-owned bank. Election (TR) and Election (Dest) are dummy variables equal to one if an election is held in Türkiye or in the destination country, respectively. Standard errors are clustered around parent banks and denoted in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

Table 5.3 Number of Voters Higher Than 100K

	(1)	(2)	(3)	(4)	(5)	(6)
Election (Dest)	-0.063	-0.058	-0.065	-0.053	-0.117	-0.118
	0.061	0.059	0.064	0.071	0.088	0.090
Election (TR) x StateBank	-0.167	-0.122	-0.116	-0.117	-0.101	-0.102
	0.093	0.080	0.084	0.084	0.088	0.086
Election (Dest) x StateBank	-0.153	-0.134	-0.124	-0.127	-0.116	-0.115
	0.131	0.138	0.135	0.134	0.138	0.140
Asset Size (Parent)		-0.152	-0.165	-0.180	-0.198	-0.210
		0.163	0.169	0.171	0.165	0.175
Asset Size (Subsidiary)		-0.405**	-0.391**	-0.395**	-0.396**	-0.412
		0.149	0.138	0.142	0.142	0.233
SCapRatio		1.190	1.197	1.126	1.128	1.079
		1.111	1.081	1.096	1.120	1.291
SROA		0.030	0.039	0.049	0.085	0.088
		0.347	0.341	0.340	0.340	0.349
PCapRatio		-5.270*	-5.590*	-5.764*	-6.229**	-6.199**
		2.840	2.632	2.702	2.656	2.710
GDP Growth			0.741	1.536	0.448	0.341
			1.568	1.665	1.532	1.648
Inflation				-0.310	0.178	0.196
				0.244	0.337	0.348
FX Depreciation					-0.629**	-0.639**
					0.245	0.262
STAoGDP						2.443
						13.615
Subs-Bank FEs	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Observations	174	174	174	174	174	174
R^2	0.308	0.463	0.465	0.467	0.477	0.478

Notes: The dependent variable is the change in the non-fixed assets (NFA) for a given year. Asset Size (Parent) and Asset Size (Subsidiary) are log values of Total Assets variables for parent-level and subsidiary-level information. SCapRatio is subsidiary-level total equity divided by total assets, SROA is return on assets at the subsidiary-level, PCapRatio is parent-level total equity divided by total assets. All bank-level controls are indicating t-1, lagged by 1 year. Macroeconomic controls indicate current-year values. StateBank is a dummy variable taking the value of one if that subsidiary's parent bank is a state-owned bank. Election (TR) and Election (Dest) are dummy variables equal to one if an election is held in Türkiye or in the destination country, respectively. Standard errors are clustered around parent banks and denoted in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

6. CONCLUSION

In this study, we have investigated whether bank ownership and electoral cycles affect bank lending patterns from an international banking perspective with a particular focus on foreign bank subsidiaries. Our key findings indicate the differing behavior of state-owned and privately-owned subsidiaries during home country electoral cycles. The baseline estimations indicate that state-owned subsidiaries significantly reduced their non-fixed assets by 18.7% during the Turkish national election years controlling for subsidiary and parent-level bank traits and the macroeconomic environment of the destination country. However, no notable patterns were identified during the election periods in the destination countries with regard to either type of foreign bank subsidiary.

In order to investigate the potential heterogeneity, we have added several factors explaining the impact of three possible mechanisms: (1) the proximity between the origin country and the destination countries, (2) country characteristics, and (3) subsidiary-level bank traits. Regarding cultural proximity, the presence of a shared religion significantly and positively affects foreign bank subsidiary bank lending in destination countries during the Turkish national elections. In terms of bank ownership, however, state-owned subsidiaries have been observed to increase their lending at a slower rate. Conversely, no significance was found for destination country election cycles. Political alignment between the host and the home country is another possible mechanism causing disparities. Our heterogeneity analysis reveals that foreign bank subsidiaries decrease their lending during destination country elections, particularly when the destination country has a higher level of diplomatic disagreements with the origin country. In terms of ownership structure, the reduction in privately-owned subsidiaries is larger. This might be due to state-owned banks having broader mandates such as maintaining their presence in the country to preserve economic ties despite political disagreements. Nevertheless, distance-based analysis does not provide any statistically significant effect.

Considerations other than proximity might affect banking behavior. Tax optimization purposes could be one example. Tax haven countries are places in which investors do not pay high taxes regarding their returns. Using Oxfam’s list of tax haven countries, we categorize the destination countries whether they are tax havens or not. Strikingly, our estimations show that non-fixed asset growth in these tax haven countries increases during Turkish election years, suggesting capital outflows from Türkiye to avoid election uncertainty.

That being said, we control our findings for the business model of the subsidiary. Regression results exhibit that state-owned subsidiaries which work more akin to hedge funds tend to increase their non-fixed assets during destination country elections. Considering our results for destination country elections, we could not find any evidence that the Turkish government attempts to intervene in foreign elections through the mechanism examined in our study.

Furthermore, we tried to check the robustness of our main findings using different sub-samples. Our sample has been divided into different sub-samples, each based on a different method. First, the set of subsidiaries with a larger market presence in the destination country was investigated. The results resembled our main findings as state-owned subsidiaries reduced lending during home country elections, but no significant result is documented for the destination country elections. Secondly, we divide our sample into two sub-samples (above-median vs. below-median) based on the number of voters living in the destination country. The findings regarding home country elections, for the below-median sub-sample are consistent with our main results. Conversely, no notable findings were identified for the above-median sub-sample.

Overall, our findings do not present conclusive evidence regarding any attempt from the Turkish government to either influence the voting behavior of citizens who live abroad through its state-owned subsidiaries or leverage these subsidiaries to intervene in destination country elections. On the contrary, our results showed that state-owned subsidiaries decreased their non-fixed assets during the Turkish national elections.

However, our study has several limitations. First, the primary limitation is that we do not have access to the loan data for the foreign subsidiaries included in our sample. As an alternative approach, we attempted to derive this variable by using a proxy and run our models based on this proxy. Hence, acquiring more detailed and higher-quality data would enable future researchers to find more reliable results. Secondly, our sample contains a limited number of observations with an unbalanced nature which may possibly distort the results. Therefore, a larger and more balanced

dataset would enable a more accurate response to the research question.

Yet, this study is one of the first attempts to uncover the relationship and provide insights in the context of foreign bank subsidiaries of Turkish banks. Noting the limitations indicated above, future researchers could concentrate on the specific election periods or regions.

7. APPENDIX

Table 7.1 List of Elections

Country	Election for	Election years
Austria	Austrian National Council	2008; 2017; 2019
Azerbaijan	Azerbaijani National Assembly	2010; 2015; 2020
Bosnia and Herzegovina	Bosnia and Herzegovina House of Representatives	2010; 2014; 2018; 2022
Georgia	Georgian Parliament	2008; 2012; 2016; 2020
Germany	German Federal Diet	2009; 2013; 2017
Ireland	Irish House of Representatives	2011; 2016; 2020
Kazakhstan	Kazakh House of Representatives	2012; 2016; 2021
Malta	Maltese House of Representatives	2008; 2013; 2017; 2022
Montenegro	Montenegrin Assembly	2009; 2012; 2016; 2020
Netherlands	Dutch Second Chamber	2010; 2012; 2017; 2021
Northern Cyprus	Northern Cypriot Assembly of the Republic	2009; 2013; 2018; 2022
Republic of North Macedonia	North Macedonian Assembly	2008; 2011; 2014; 2016; 2020
Romania	Romanian Chamber of Deputies	2008; 2012; 2016; 2020
Russia	Russian Federal Duma	2011; 2016; 2021
Serbia	Serbian National Assembly	2008; 2012; 2014; 2016; 2020; 2022
Switzerland	Swiss National Council, Swiss Council of States	2011; 2015; 2019 2011; 2015; 2019
Türkiye*	Turkish Grand National Assembly, Turkish Presidency	2011; 2014; 2015; 2018
United Arab Emirates	Emirati Federal National Council	2015; 2019
United Kingdom	British House of Commons	2010; 2015; 2017
Uzbekistan	Uzbekistani Legislative Chamber	2009; 2010; 2014; 2019

* Turkish Presidency elections are added to the list because this is the first time Turkish citizens living abroad can vote in national presidency elections.

Table 7.2 Variable List and Descriptions

Variable	Description
<i>Outcome of interest</i>	
NFA Growth	Change in the total non-fixed assets of a particular subsidiary from the previous year
<i>Subsidiary-level bank information</i>	
Total Assets of Subsidiary	Total assets of a subsidiary bank in that particular year, in million USD.
Shareholders' Equity of Subsidiary	Total equity of a subsidiary bank in that particular year, in million USD.
Total Fixed Assets of Subsidiary	Total fixed assets of a subsidiary bank in that particular year, in million USD.
Non-Fixed Assets of Subsidiary	Total fixed assets of a subsidiary bank in that particular year, in million USD.
Interest Income of Subsidiary	Total interest income of a subsidiary bank in that particular year, in million USD.
Marketable Securities Income of Subsidiary	Total income from marketable securities of a subsidiary bank in that particular year, in million USD.
Profit/Loss (Current Period) of Subsidiary	Total current-year profit/loss of a subsidiary bank in that particular year, in million USD.
Profit/Loss (Prior Period) of Subsidiary	Total previous-year profit/loss of a subsidiary bank in that particular year, in million USD.
<i>Parent-level bank information</i>	
Total Assets of Parent	Total assets of a parent bank in that particular year, in million USD.
Shareholders' Equity of Parent	Total equity of a parent bank in that particular year, in million USD.
Loans of Parent	Total loans of a parent bank in that particular year, in million USD.
Deposits of Parent	Total deposits of a parent bank in that particular year, in million USD.
Total Operating Income of Parent	Total operating income of a parent bank in that particular year, in million USD.
Net Operating Income of Parent	Net operating income of a parent bank in that particular year, in million USD.
Net Profit of Parent	Net profit of a parent bank in that particular year.

Table 7.2 Variable List and Descriptions

Variable	Description
<i>Ownership and election variables</i>	
StateBank	Dummy variable that is equal to one if the parent bank of that subsidiary is a state-owned bank, owned by the government, directly or indirectly, at least at the 20% level.
Election (TR)	Dummy variable that is equal to one if a parliamentary election is held in that year in Türkiye.
Election (Dest)	Dummy variable that is equal to one if a parliamentary election is held in that year, in the destination country where subsidiary is located.
<i>Macroeconomic variables</i>	
GDP Growth	Real growth rate of GDP for a country in that year
GDP	Gross domestic product for a country in that year
GDP per Capita	Per capita GDP for a country in that year
Inflation	Year-end consumer price index for a country
FX Depreciation	The percentage change of a country's local currency against USD in that year
<i>Gravity variables</i>	
Population-weighted Arithmetic Distance	Population-weighted average distance between the most populated cities of each country, arithmetic mean, in km.
Simple Distance	Distance between the most populated city of each country, in km, bilateral.
Diplomatic Disagreement	Diplomatic disagreement, measured through UN votes, bilateral.
Social Closeness	The relative probability that two individuals across two locations are friends with each other Facebook, bilateral.
Common Religion	Religious proximity index (Disdier and Mayer 2007): obtained by summing the products of the shares of Catholics, Protestants and Muslims in the origin and destination countries. Varies between 0 and 1, increases when pair common religion the country practiced by a large share of the population.

Table 7.2 Variable List and Descriptions

Variable	Description
Tax Haven	Dummy variable that is equal to one if a destination country is classified as a tax haven in Oxfam's list.
<i>Bank traits</i>	
Business Model	Income from marketable securities divided by total interest income of a subsidiary bank.
Asset Size (Parent)	The logarithm of total assets of that parent bank.
Asset Size (Subsidiary)	The logarithm of total assets of that subsidiary bank.
PLoanRatio	Total loans divided by total assets of a parent bank in that particular year.
PCapRatio	Equity divided by total assets of a parent bank in that particular year.
PDxTA	Total deposits divided by total assets of a parent bank in that particular year.
PLxD	Total loans divided by total deposits of a parent bank in that particular year.
SCapRatio	Equity divided by total assets of a subsidiary bank in that particular year
SROA	Current period's profit/loss over total assets of a subsidiary bank in the particular year.
SROE	Current period's profit/loss over total equity of a subsidiary bank in the particular year.
PROA	Net income over total assets of a parent bank in that particular year.
PROE	Net income over total equity of a parent bank in that particular year.
STAoGDP	Ratio of subsidiary bank's total assets to destination country GDP

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