



Foreign Bank Entry and Domestic Bank Performance in Developing Countries: A Systematic Review and Thematic Synthesis of the Empirical Evidence (1999-2024)

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abstract

This systematic review synthesizes empirical evidence (1999–2024) on how foreign bank entry affects domestic bank performance in developing countries. Following PRISMA 2020, 40 high-quality quantitative studies (mean quality score 9.2/10) were extracted from 1,370 records. Findings show that foreign banks compress domestic banks' profitability through heightened competition while improving operational efficiency via technology and knowledge spillovers. Effects on financial stability and credit access—particularly for SMEs—are mixed and strongly conditioned by host-country institutional quality, regulatory oversight, bank size, and whether foreign presence is measured at the market-share or ownership level. Policymakers should sequence liberalization with strengthened supervision and institutions rather than treating openness as an automatic remedy.

1. Introduction

The structural landscape of banking sectors across low- and middle-income nations has undergone a profound transformation over the past three decades, driven primarily by wide-ranging financial liberalization programs initiated in the late 1980s and accelerated throughout the 1990s. Proponents of cross-border financial integration traditionally argue that the entry of foreign-owned financial institutions acts as an institutional catalyst for host economies. This perspective posits that foreign banks introduce advanced technical architecture, superior risk-management methodologies, and robust corporate governance practices, thereby exerting a discipline-enforcing competitive pressure that elevates the operational performance of

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incumbent domestic banks (Claessens et al., 2001; Demirgüç-Kunt & Huizinga, 1999). According to this conventional framework, the spillover effects of foreign penetration operate through both direct knowledge transfers and indirect allocative mechanisms, resulting in tighter interest rate spreads, lower overhead costs, and enhanced systemic efficiency.

Conversely, an influential body of critical literature suggests that foreign bank entry may induce severe structural frictions and adverse distribution effects within developing host economies. Critics articulate concerns that foreign banks, bound by global corporate mandates and arms-length lending technologies, disproportionately engage in 'cherry-picking' or 'cream-skimming' strategies. By capturing the most creditworthy, transparent multinational corporations and large domestic enterprises, foreign intermediaries leave asymmetric informational segments—such as small and medium-sized enterprises (SMEs) and localized agricultural sectors—dependent on financially constrained domestic banks (Gormley, 2010; Detragiache & Gupta, 2006). Furthermore, critics highlight the risk of cross-border shock transmission, arguing that foreign bank subsidiaries can act as structural conduits for global financial instability, transmitting macroeconomic distress from home countries to vulnerable domestic banking systems during international liquidity crises.

Despite an immense volume of primary empirical research generated over the 1999-2024 period, the academic community has yet to reach a definitive consensus regarding the net macroeconomic and microeconomic impacts of foreign bank entry. The existing evidence base remains fragmented and occasionally contradictory, featuring single-country case studies and cross-country panel analyses that yield diametrically opposed conclusions. This empirical divergence stems from substantial variation in historical timelines, econometric specifications, country-specific institutional configurations, and operational measures of bank performance. For policymakers, central bank regulators, and development economists, this lack of analytical consensus creates a major challenge when trying to design and sequence financial openness policies.

The existing body of literature reviews has failed to comprehensively resolve these contradictions. Prior surveys often exhibit significant limitations in scope, typically focusing exclusively on a single operational dimension (such as cost efficiency or profitability metrics) or confining their geographical focus to an isolated region (such as transition economies in Central and Eastern Europe). Consequently, the literature lacks a unified, methodologically transparent framework that synthesizes the multidimensional interactions across profitability, efficiency, competition, stability, and credit access within a single, PRISMA-compliant systematic review.

To address this critical gap, this study constructs a structural conditionality model designed to map the multi-layered transmission pathways through which foreign bank entry propagates through host country banking sectors. As illustrated conceptually in our underlying framework, foreign bank entry operates through two distinct analytical levels: macro-level market presence (e.g., aggregate asset or deposit market share) and micro-level individual ownership (e.g., direct foreign equity acquisition of domestic banking assets). These entry modalities activate three primary operational channels: competitive pressure, direct technology and product transfer, and corporate governance spillovers. The performance outcomes of these channels manifest across five core target domains: profitability metrics, efficiency frontiers, competitive intensity, financial stability/risk metrics, and credit access dynamics. Crucially, the intensity, direction, and magnitude of these effects are systematically moderated by three underlying structural variables: host-country institutional and regulatory quality, structural bank size, and the specific modality of foreign ownership (macro vs. micro). This integrative structural lens serves as the organizing foundation for the systematic thematic synthesis presented in Section 3.4.

1.1. Objectives and Research Questions

This review pulls together insights from 40 detailed, data-driven studies-pulled from a pool of 60 high-quality sources published between 1999 and 2024. The big question here: how does foreign bank entry and ownership actually shape the way local banks perform in developing countries?

We broke things down into six main questions:

- What really happens to local banks' profits and net interest margins when foreign banks show up?
- Does foreign ownership push domestic banks to run more efficiently-are they better at controlling costs or using resources?
- How does increased foreign presence change the way banking markets work-does it shake up competition, pricing, or market structure?
- Are there big-picture risks or rewards tied to foreign banks coming in, especially when it comes to the stability and risk habits of local banks?
- Do foreign banks make it easier or harder for domestic banks to lend, especially to small and mid-sized businesses or those left out by the system?
- And finally, how do local rules, institutions, and individual bank traits shape all these outcomes?

2. Methods

We followed the PRISMA 2020 framework the whole way, keeping the process open and replicable-from picking sources to how we dug into and analyzed the data.

2.1. Protocol

Before getting started, we created a formal protocol. It listed out every research question, who or what qualified, search terms, how we'd pull data, and how we'd judge study quality. We didn't actually register this protocol before digging in, but we posted it afterward on the Open Science Framework for transparency (<https://doi.org/10.17605/OSF.IO/B5EYX>). Following the Joanna Briggs Institute's advice, we made it clear which version was the summary and which was the full working protocol-there's no confusion about what counted or didn't.

2.2. Eligibility Criteria

We only included original, empirical studies that focused on foreign bank entry, ownership, or presence in developing or emerging markets-with at least one measure of domestic bank performance as the outcome. Cross-country studies with a clear angle on developing nations made the cut, too. Only peer-reviewed journal pieces or thoroughly vetted institutional working papers (think World Bank or IMF) were in. Studies had to show actual econometric results with significance tests, be in English, and fit our time window (1999-2024).

We passed on purely theoretical pieces, work focused on developed markets, non-data reviews, studies on non-bank institutions, non-English studies, or duplicates using the same data and models.

2.3. Information Sources and Search Strategy

To find everything relevant, we used two main strategies. First, we ran keyword searches through five big scholarly databases: Scopus, Web of Science, EconLit, RePEc/IDEAS, and Google Scholar. Then, we went hands-on-chasing citations forward and backward from core studies, hand-searching specialty banking journals, and combing through repositories from places like the World Bank and IMF.

Our search terms covered every possible angle of foreign bank activity and domestic bank performance in developing markets, and we updated findings right up through 2024, including anything new or still in press.

2.4. Study Selection Process

We screened studies in several steps. First, we gathered all the records, removed duplicates, then went through titles and abstracts using our criteria. Two reviewers checked everything separately. If they disagreed, they talked it out, and if there was still no consensus, a third reviewer stepped in. Studies that made the cut or were unclear got reviewed in full. The whole path is mapped out in our PRISMA flow diagram (see Section 3.1 and Appendix B).

2.5. Data Extraction

Of the 60 studies that fit our criteria, 40 had detailed, reliable quantitative data we could actually use for close comparison and scoring. The other 20 didn't make it into our main data tables-basically, their results were too vague, used oddball measures, or just gave us graph summaries without numbers. We did review what these 20 said, though, and their overall conclusions weren't at odds with the full set of 40 we analyzed. Their details and reasons for exclusion are all in Appendix C.

2.6. Quality Assessment

We rated each of the core 40 studies using a six-part quality checklist made for banking research-scored out of 10. We looked at things like study design, sample size and how well it represented the topic, data quality, statistical methods, measurement, and whether it actually told us something useful for policy. We didn't drop studies just for a low score, but high scorers carried more weight when drawing overall conclusions-and quality differences helped explain any oddball results (more on this in Section 3.3).

2.7. Synthesis Methods

These studies cover a lot of ground-different places, timelines, and statistical methods-so a straight statistical meta-analysis wouldn't really work and could be misleading. Instead, we leaned on a structured, thematic synthesis (Thomas & Harden, 2008).

We organized everything into five main themes: profitability and net interest margins, operational efficiency, market competition/pricing, financial stability and risk, and lending/credit access. Within those themes, we compared not just the direction but the size of impacts, explored what was really driving results, and pointed out institutional or firm-level factors that mattered. At the end, we mapped how these themes interact, painting a more

nuanced picture of what foreign bank entry actually means for local banks in developing countries.

3. Results

3.1. Study Selection

The comprehensive multi-track search strategy identified a total of 1,370 bibliographic records. Of these, 1,247 records were retrieved via primary electronic database searches, and 123 records were gathered through supplementary manual citation tracking and institutional repositories. Following the algorithmic elimination of 355 duplicate records, 892 unique titles and abstracts were screened. This preliminary screening resulted in the exclusion of 687 records that failed to satisfy basic thematic boundaries. The full text of the remaining 205 reports was successfully retrieved and assessed for eligibility. Out of these 205 full-text reports, 145 were excluded based on explicit, documented reasons, including the absence of a clear foreign entry measure (n = 42), lack of domestic bank performance metrics (n = 38), and severe methodological weaknesses (n = 25). This screening pipeline yielded 60 studies that met all inclusion criteria. From this set, 40 studies provided the comprehensive quantitative data necessary for structured thematic synthesis and data extraction, establishing the primary analytical sample (visually structured in Appendix B).

3.2. Study Characteristics

The 40 core studies synthesized in this review represent a diverse, high-quality body of research spanning an underlying empirical sample period from 1974 to 2024, with formal publication dates distributed between 1999 and 2024. Geographically, the evidence base encompasses single-country analyses focused on pivotal emerging economies (e.g., China, India, Turkey, Colombia, Argentina, Vietnam) alongside large-scale, cross-country panel datasets tracking up to 137 countries simultaneously. Sample sizes vary extensively, ranging from granular single-country panels of fewer than 300 banks to massive international datasets exceeding 7,900 unique bank-year observations. Table 1 provides a streamlined overview of the primary characteristics of these 40 studies, detailing author identifiers, regional scope, sample size, primary econometric methodology, core theoretical frameworks, and overall quality scores. The full 14-field extraction matrix is maintained in Appendix A.

Table 1
The 40 core studies synthesized in this review

ID	Author(s), Year	Country/Re gion	Sample (Period)	Methodology	Theoretical Framework	Quality
S01	Claessens et al. (2001)	80 countries	7,900+ bank obs. (1988–95)	Cross-country panel reg.	Bank competition; Market structure	10
S02	Demirgüç- Kunt & Huizinga (1999)	80 countries	7,900+ bank obs. (1988–95)	Panel regression	Financial intermediation	10

S03	Barajas et al. (2000)	Colombia	Bank-level data (1974–1996)	Time-series & sector analysis	Financial liberalization	9
S04	Clarke et al. (2001)	Argentina	Bank observations (1990s)	Bank-level empirical analysis	Competition; Info asymmetry	9
S05	Denizer (1999)	Turkey	Commercial banks (1980s–90s)	Panel regression	Industrial organization	8
S06	Kraft et al. (2002)	Croatia	Croatian banks (1994–2000)	Stochastic frontier (SFA)	Efficiency theory	9
S07	Unite & Sullivan (2003)	Philippines	Commercial banks (1990s)	Panel regression	Market competition theory	8
S08	Lensink & Hermes (2004)	Developing countries	International sample (1990s)	Cross-country regression	Financial development theory	10
S09	Bayraktar & Wang (2005)	30 dev countries	Country-level data (1994–03)	Cross-country panel	Liberalization sequencing	9
S10	Detragiache & Gupta (2006)	Malaysia	Malaysian banks (1990s–00s)	Bank-level empirical analysis	Credit market theory	9
S11	Cull & Martínez Pería (2007)	Developing countries	International dataset (1990s–00s)	Cross-country panel reg.	Intermediation ; Info asymmetry	9
S12	Claessens & Van Horen (2007)	Developing / emerging	Bank database (1995–2006)	Cross-country empirical	Global banking integration	9
S13	Naaborg & Lensink (2007)	Transition econ.	Bank observations (1990s–00s)	Panel regression	Resource-based view; Ownership	9
S14	Lensink et al. (2008)	Developing/ transition	International sample (1990s–04)	Panel regression	Institutional; Financial dev	9
S15	Micco et al. (2007)	119 countries	5,000+ banks (1995–2002)	Cross-country bank panel	Bank ownership; Institutional	10
S16	Gormley (2010)	India	Banks and firms (1993–2004)	Firm/bank empirical analysis	Info asymmetry; Credit market	10
S17	Hermes & Nhung (2010)	Vietnam	Vietnamese banks (1990s–00s)	Panel regression	Efficiency; Liberalization	9
S18	De Haas & van Lelyveld (2010)	Central & Eastern Europe	Multinational subs (1993–2006)	Dynamic panel (GMM)	Internal capital market	10
S19	Lin (2011)	Taiwan /	Bank observations	Panel	Competition;	8

		Asia EM	(1990s–00s)	regression	Liberalization	
S20	Hassan et al. (2012)	MENA countries	MENA bank panels (1996–2007)	Panel data regression	Financial dev; Ownership-perf	9
S21	Bruno & Hauswald (2014)	Developing / emerging	Bank & firm dataset (1990s–00s)	Cross-country empirical	Intermediation ; Globalization	9
S22	Claessens & Van Horen (2014)	137 countries	5,000+ banks (1995–2009)	Large cross-country panel	Globalization; Ownership-perf	10
S23	Fang et al. (2014)	Transition Europe	Bank-level panel (1998–2010)	SFA; panel regression	Ownership; Efficiency theory	9
S24	Herwartz & Walle (2014)	Developing / emerging	International sample (1990s–10)	Panel data analysis	Financial dev; Competition	9
S25	Hermes & Meesters (2015)	Developing countries	International dataset (1990s–06)	Panel regression	Institutional; Liberalization	10
S26	Bertay et al. (2015)	Global sample	International dataset (1998–2010)	Panel regression	Bank lending cycle theory	9
S27	Bonin et al. (2005)	11 transition economies	225 banks (1996–2000)	DEA; regression analysis	Ownership-perf; Efficiency	10
S28	Fries & Taci (2005)	15 transition economies	289 banks (1994–2001)	Stochastic frontier (SFA)	Efficiency theory	9
S29	Kouretas & Tsoumas (2016)	European emerging	Bank panel data (1998–2012)	Panel regression	Industrial org; Competition	8
S30	Wu et al. (2017)	China	Chinese banks (2000–2014)	Dynamic panel (GMM)	Competition; Risk-taking	9
S31	Williams (2003)	Australia / EM	Bank observations (1990s)	Stochastic frontier (SFA)	Efficiency; Ownership-perf	8
S32	Yildirim & Philippatos (2007)	12 CEE countries	Bank panel dataset (1993–2004)	Panel reg; competition indices	Industrial org; SCP framework	9
S33	Jeon et al. (2011)	Asia & Latin America	Cross-country bank (1997–2008)	Dynamic panel estimation	Institutional; Globalization	10
S34	Berger et al. (2009)	China	Chinese banking (1994–2004)	Efficiency & regression	Resource-based view; Ownership	9
S35	Leroy & Lucotte	European markets	Bank panel dataset (1999–2015)	Panel regression	Financial stability;	9

	(2019)				Lending cycle	
S36	Kusi et al. (2021)	Sub-Saharan Africa	African commercial (2006–2015)	Panel regression (GMM)	Institutional; Corp governance	10
S37	Çolak & Öztekin (2021)	Global banking	International sample (2000–2019)	Cross-country panel reg.	Bank lending; Crisis management	9
S38	Yuan (2024)	54 dev countries	Cross-country bank (2002–2020)	Meta-frontier & regression	Institutional; Bank efficiency	10
S39	Gondwe et al. (2024)	Sub-Saharan Africa	African commercial (2005–2019)	Panel regression	Financial stability; Competition	9
S40	Bouzidi & Nefzi (2024)	54 dev countries	International dataset (2000s–20)	Meta-frontier stochastic	Efficiency; Financial dev	9

3.3. Methodological Quality

The multi-dimensional quality appraisal scores (summarized in Table 2b) indicate a high standard of methodological rigor across the 40 synthesized studies, with a calculated sample mean of 9.2 out of 10. Twelve papers (30%) achieved a maximum score of 10, demonstrating exhaustive datasets, robust controls for endogeneity, and multi-proxy validation checkmarks. Twenty-three papers (58%) scored 9, representing robust multi-country or single-country panel investigations with minor limitations in control variables or sample length. The remaining five papers (12%) scored 8, typically reflecting earlier single-country studies with smaller sample sizes or constrained econometric frameworks. Rather than excluding lower-scoring papers, their empirical findings were down-weighted in terms of analytical generalizability within the thematic narrative.

Table 2a
Quality-Assessment Rubric

Criterion	Score Range	Description
Research design	0–2	Clear research question; appropriate methodology; strong theoretical grounding
Sample size & representativeness	0–2	Adequate sample size; cross-country or representative sample; appropriate generalizability
Data quality & period	0–1.5	Reliable data source; appropriate time period; panel data preferred
Methodological rigor	0–2	Appropriate econometric techniques; robustness checks; endogeneity addressed
Variable operationalization	0–1.5	Clear definitions; appropriate proxies; multiple measures considered
Contribution & novelty	0–1	Advances literature; addresses research gap; policy relevance

Table 2b
Distribution of Quality Scores

Quality Score	Number of Studies (n = 40)	Percentage
10	12	30%
9	23	58%
8	5	12%
Mean	9.2	—

3.4. Thematic Synthesis

To dissect the empirical linkages between foreign bank integration and domestic financial sector performance, the extracted evidence base was synthesized across five distinct operational themes, mapping specific dependent financial variables against foreign ownership and presence vectors.

a. Theme 1: Foreign Entry and Domestic Bank Profitability

Twenty-two studies explicitly evaluated accounting profitability outcomes—operationalized primarily through Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margins (NIM). The systematic synthesis indicates a powerful consensus: macro-level foreign bank penetration exerts a substantial depressing effect on the profitability metrics of domestic commercial banks. As pioneered by Claessens, Demirgüç-Kunt, and Huizinga (2001), the introduction of foreign intermediaries compresses net interest margins and erodes the pricing power of domestic incumbents by challenging their historic market control.

However, a notable empirical nuance is introduced by Lensink and Hermes (2004), who present evidence of an inverted U-shaped performance curve. Their model demonstrates that in the short term, foreign entry increases domestic operating costs and net interest margins due to severe structural adjustment costs and heavy defensive technology investments by local institutions. Over longer horizons, as competitive intensity stabilizes, domestic profits compress significantly. This profit-reducing mechanism is strongly moderated by institutional quality; as documented by Hermes and Meesters (2015), the negative pressure on domestic margins is mitigated in host nations characterized by premium regulatory oversight, where domestic intermediaries possess higher baseline absorptive capacity.

The primary research gap within this theme centers on the lack of direct granular evidence regarding micro-level strategic adaptations and internal managerial cost-cutting protocols executed by domestic banks to defend their bottom-line profitability when facing foreign competition.

b. Theme 2: Foreign Entry and Operational Efficiency Frontiers

Eighteen papers analyzed operational efficiency, utilizing frontier methodologies such as Stochastic Frontier Analysis (SFA) and Data Envelopment Analysis (DEA) to map cost, technical, and allocative efficiency trajectories. The empirical consensus is robustly positive: foreign bank entry serves as an effective driver of efficiency enhancements among domestic banking institutions. Studies across diverse regions—such as Kraft et al. (2002) in Croatia, Bonin et al. (2005) in Eastern Europe, and Hermes and Nhung (2010) in Vietnam—uniformly confirm that foreign presence pushes domestic incumbents closer to the global efficiency frontier.

Two distinct transmission mechanisms drive these efficiency gains: (1) direct knowledge and technology spillovers, where domestic banks actively replicate advanced foreign architectural frameworks, consumer credit scoring systems, and portfolio management techniques; and (2) the exit or restructuring of inefficient domestic banks. Crucially, as articulated by Lensink, Meesters, and Naaborg (2008), these efficiency spillovers are highly conditional on institutional quality. In environments with weak governance, legal protections, or credit registries, domestic banks lack the institutional capacity to absorb foreign technical spillovers, leading to wasted capital expenditure. The dominant research gap involves defining the precise corporate and structural limits of this absorptive capacity.

c. Theme 3: Foreign Entry and Market Competition Intensity

Twelve studies investigated changes in baseline market architecture, concentration indexes, and pricing competition via non-structural indicators like the Panzar-Rosse H-statistic or Lerner indexes. The evidence confirms that foreign bank entry breaks down oligopolistic market structures, driving down cost-to-income ratios and narrowing interest spreads across the financial sector (Denizer, 1999; Yildirim & Philippatos, 2007).

An important moderating insight is provided by Jeon, Olivero, and Wu (2011), who demonstrate that competitive spillovers are dictated by 'institutional distance'-the regulatory and legal divergence between the foreign bank's home country and the host nation. When the institutional distance is narrow, foreign entries integrate more aggressively into local consumer segments, triggering powerful competitive reactions from domestic incumbents. Conversely, wider institutional distance restricts foreign banks to corporate niches, dampening competitive pressure on local retail networks. The primary gap is a lack of dynamic modeling tracking how domestic banks shift into alternative asset classes or non-interest revenue streams when faced with intense competition.

d. Theme 4: Foreign Entry, Financial Stability, and Solvency Risk

Fourteen studies evaluated financial stability and default risk, utilizing Z-scores, non-performing loan (NPL) ratios, and equity volatility measures. Unlike profitability and efficiency, the evidence base for financial stability is highly fragmented and structurally divided. One camp, exemplified by De Haas and van Lelyveld (2010), establishes a powerful 'stabilizing effect,' showing that multinational bank subsidiaries actively stabilize host country credit supply during localized macroeconomic crises, backed by parent funding lines.

Conversely, an opposing camp demonstrates a potent 'destabilizing effect.' Wu et al. (2017) show that intense competitive pressure from foreign banks can compress domestic profit margins to a degree that triggers aggressive, destabilizing risk-shifting behaviors among domestic incumbents. Facing market share erosion, local banks often extend higher-risk loans to unhedged consumer segments, leading to an inflation of systemic NPLs. This relationship is strongly moderated by bank size and capitalization; Gondwe et al. (2024) show that while large domestic institutions can absorb foreign competitive pressures, small and undercapitalized domestic banks face severe instability and solvency threats. The core research gap lies in mapping the exact regulatory triggers and capital buffers needed to mitigate this competition-driven risk-shifting behavior.

e. Theme 5: Foreign Entry, Credit Supply, and Access to Finance

Ten papers analyzed credit allocation, structural portfolio composition, and financial inclusion metrics. The empirical findings reject a uniform conclusion, revealing a deep structural bifurcation. On one hand, cross-country analyses indicate that foreign bank entry expands the aggregate credit supply and lowers financing constraints across the host economy (Cull & Martínez Pería, 2007; Bruno & Hauswald, 2014).

On the other hand, granular microeconomic and firm-level analyses uncover pervasive evidence of information-driven 'cherry-picking.' Gormley (2010), utilizing detailed firm-level data from India, demonstrates that foreign entry causes a statistically significant drop in credit access for small and medium-sized enterprises. Because foreign institutions focus their lending technologies on highly transparent, large corporate borrowers, domestic banks lose their premium clients. Consequently, domestic banks are forced to retrench, leaving informationally opaque SMEs facing severe credit constraints. The critical research gap involves a lack of longitudinal data tracking whether long-term credit allocation stabilizes as domestic banks adopt advanced credit-scoring technologies for SME underwriting.

3.5. Cross-Thematic Synthesis Matrix

To establish an integrated framework of financial openness, Table 3 synchronizes the dominant empirical direction, critical structural moderators, transmission mechanisms, and residual research gaps across all five outcome domains.

Table 3
Cross-Thematic Synthesis Matrix

Theme	Direction of Effect	Key Moderators	Key Mechanisms	Research Gap
Profitability	Mostly negative (↓)	Institutional quality, regulatory environment, bank size, ownership level	Competitive pressure, margin compression, market share erosion	Granular managerial cost-cutting and strategic adjustment data
Efficiency	Predominantly positive (↑)	Host regulatory quality, institutional governance, absorptive capacity	Technology transfer, operational spillovers, exit of weak institutions	Corporate boundaries and thresholds of local absorptive capacity
Competition	Predominantly positive (↑)	Institutional distance, sequencing of reforms, market concentration	Oligopolistic disruption, pricing pressure, strategic contestability	Dynamic modeling of domestic non-interest income shifting
Stability / Risk	Highly mixed / Conditional (±)	Corporate governance, bank size, capital buffers, crisis conditions	Parent funding liquidity, margin erosion, risk-shifting incentives	Optimal macro-prudential triggers and buffer calibrations

3.6. Methodological Approaches Across the Evidence Base

Methodologically, the literature is dominated by linear and dynamic panel data configurations, reflecting the structural requirement to capture both time-series and cross-sectional dynamics within banking systems. Standard fixed- and random-effects models are utilized in 21 of the 40 synthesized papers to map direct directional impacts. Advanced frontier frameworks-including SFA and non-parametric DEA-appear in 7 papers focused on technical frontier displacements. Dynamic GMM models (4 papers) are deployed to control for severe internal endogeneity and reverse-causality vectors, particularly regarding bank risk and ownership trajectories (summarized in Table 4).

Table 4
Methodological Approaches

Analytical Method	Studies Using Method (Study ID References)	Frequency (n)
Panel regression (fixed/random effects)	S01, S02, S05, S07, S08, S09, S10, S13, S14, S17, S19, S20, S25, S26, S29, S30, S32, S35, S36, S37, S39	21
Cross-country panel analysis	S01, S02, S08, S09, S11, S12, S14, S15, S21, S22, S25, S33, S38	13
Stochastic Frontier Analysis (SFA)	S06, S23, S28, S31	4
Dynamic panel GMM	S18, S30, S33, S36	4
Meta-frontier analysis	S38, S40	2
Data Envelopment Analysis (DEA)	S27	1
Time-series analysis	S03	1
Bank-level empirical analysis	S04, S10, S16	3

3.7. Geographic Coverage

The geographical distribution of the evidence base is heavily concentrated in specific economic clusters. Multi-country panels account for 17 of the 40 synthesized papers, driven by large cross-country datasets. Regionally, the transition economies of Central and Eastern Europe (9 papers) and fast-growing Asian economies (8 papers) are well represented, due to their sweeping financial reforms in the 1990s and 2000s. Conversely, Sub-Saharan Africa (2 papers), Latin America (2 papers), and the MENA region (1 paper) remain significantly underrepresented. This geographic imbalance highlights a critical limitation in generalizability, as findings from middle-income transition economies may not apply directly to low-income frontier markets (Table 5).

4. Discussion

This review shakes up how we usually think about foreign banks by making three big contributions. First off, it's the only PRISMA-compliant review that pulls together evidence across five main banking domains at once. Earlier reviews just look at one area, but here the big picture comes through - you see how things like institutional quality, bank size, and ownership type shape performance everywhere, not just in silos. Second, this study draws a clear line between two kinds of foreign bank presence: overall market share versus direct ownership

stakes. They're not the same thing. Aggregate market share ramps up competition and pushes local banks to get leaner, while direct stakes actually change how banks are governed from the inside out. Third, there's a conditionality framework here that ties up years of conflicting evidence. Turns out, foreign banks only improve outcomes if the host country already has strong governance, supervision, and well-capitalized banks.

Table 5
Geographic Coverage of the Evidence Base

Region	Studies (Study ID References)	Key Contributing Research Clusters
Multi-country (global)	S01, S02, S08, S09, S11, S12, S14, S15, S21, S22, S24, S25, S26, S33, S37, S38, S40	Claessens, Demirgüç-Kunt, Hermes, Lensink, Yuan, Bouzidi
Transition economies (CEE)	S06, S13, S18, S23, S27, S28, S29, S31, S32	Kraft et al., Bonin et al., Fries & Taci, De Haas & van Lelyveld
Asia (China, India, East Asia)	S04, S07, S10, S16, S17, S19, S30, S34	Gormley, Hermes & Nhung, Wu et al., Berger et al.
Latin America	S03, S04	Barajas et al., Clarke et al.
Sub-Saharan Africa	S36, S39	Kusi et al., Gondwe et al.
Middle East & North Africa	S20	Hassan, Sanchez & Yu

4.1. Principal Findings

After going through the data, three main patterns stand out. One: Profitability and competition are joined at the hip. When foreign banks enter, they break up local monopolies and squeeze margins, though some banks get hit with extra costs before profits drop. Two: Efficiency always gets a boost - foreign entry consistently drives better cost and technical performance in all regions. Three: Stability and credit access are the wild cards. Here, results depend on the country's regulatory strength, institutional quality, bank size, and exactly how you measure them.

4.2. Theoretical Implications

One piece that keeps showing up: there's no single theory that explains everything foreign banks do. Industrial organization and market-structure models nail the competitive piece - they show why profits shrink and banks hustle harder. But they fall short on stability and credit access, where institutional quality and info gaps matter more. Basically, future research needs a hybrid model that marries competitive pressure with institutional context.

And that distinction between macro-level presence and micro-level ownership? That's pretty important. On the big-picture side, foreign banks entering a market bring competition and force everyone to up their game. But when they get involved through direct ownership, they fix governance issues and bring in new tech, products, and oversight. Yuan (2024) shows that blending these effects just muddies the water, which explains why studies across countries keep contradicting each other.

4.3. Practical and Policy Implications

For bank supervisors and central bankers, the message is clear: it's not just whether you open the market, but how you do it, and whether your regulatory system can really handle it. Efficiency gains only show up when regulators are strong enough to enforce solid standards. In weak settings, letting foreign banks charge in can push shaky local banks into risky business.

So, here's a three-step policy roadmap: First, build up local supervision, good governance, and strong credit registries before opening the doors. Second, let foreign banks in gradually, capping their market shares so locals have time to adjust. Third, only go full liberalization once local banks are efficient and well-capitalized. And to protect small and medium enterprises - the SME sector - pair liberalization with credit guarantees and set minimum lending targets.

4.4. Strengths and Limitations

This review stands out for sticking closely to the PRISMA 2020 framework and covering five major operational themes, backed up by a rigorous 10-point quality rubric. Still, there are a few limits. The huge variety in methods and contexts across 40 studies meant we couldn't calculate pooled effect sizes, so the synthesis relies on narrative instead. Also, we left out 20 studies from structured extraction because they didn't have the detailed data, even though their findings pointed in the same direction. Sticking to English-language sources likely skews things away from Latin America, especially Spanish- or Portuguese-language studies. And honestly, most of the evidence clusters in Central/Eastern Europe and East Asia, leaving Sub-Saharan Africa and the MENA region in the shadows.

4.5. Future Research Directions

Here are four big questions for future work. One: Track SME credit access over time at the bank or firm level to see if foreign entry really eases info barriers. Two: Use econometric models that separate the effects of overall market presence from direct ownership. Three: Dig deep into domestic banks - their management, human capital, and organizational structure - to see what helps them absorb new practices. Four: Study stability and risk transmission in markets that rarely get attention, especially in Sub-Saharan Africa.

5. Conclusion

Looking across twenty-five years of studies, the review makes it clear: foreign bank entry doesn't produce the same outcomes everywhere. Success depends on the quality of the country's institutions, regulation, and the way foreign banks enter - not just the act itself. Foreign banks push competition and efficiency forward, but their real impact on profits, stability, and lending hinges on local conditions. In the end, opening up financial markets won't fix broken institutions. It only works when paired with strong, step-by-step reforms and supervision.

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6. Appendices

6.1. Appendix A: Full Data-Extraction Matrix (40 Studies)

Table A1

Study Identification, Sample, and Methodology

ID	Author(s), Year	Country/ Region	Sample Size	Period	Methodology
S01	Claessens et al. (2001)	80 countries	7,900+ bank obs.	1988–95	Cross-country panel reg.
S02	Demirgüç-Kunt & Huizinga (1999)	80 countries	7,900+ bank obs.	1988–95	Panel regression
S03	Barajas et al. (2000)	Colombia	Bank-level data	1974–1996	Time-series & sector analysis
S04	Clarke et al. (2001)	Argentina	Bank observations	1990s	Bank-level empirical analysis
S05	Denizer (1999)	Turkey	Commercial banks	1980s–90s	Panel regression
S06	Kraft et al. (2002)	Croatia	Croatian banks	1994–2000	Stochastic frontier (SFA)
S07	Unite & Sullivan (2003)	Philippines	Commercial banks	1990s	Panel regression
S08	Lensink & Hermes (2004)	Developing countries	International sample	1990s	Cross-country regression
S09	Bayraktar & Wang (2005)	30 dev countries	Country-level data	1994–03	Cross-country panel
S10	Detragiache & Gupta (2006)	Malaysia	Malaysian banks	1990s–00s	Bank-level empirical analysis
S11	Cull & Martínez Pería (2007)	Developing countries	International dataset	1990s–00s	Cross-country panel reg.
S12	Claessens & Van Horen (2007)	Developing / emerging	Bank database	1995–2006	Cross-country empirical
S13	Naaborg & Lensink (2007)	Transition econ.	Bank observations	1990s–00s	Panel regression
S14	Lensink et al. (2008)	Developing/transition	International sample	1990s–04	Panel regression
S15	Micco et al. (2007)	119 countries	5,000+ banks	1995–2002	Cross-country bank panel
S16	Gormley (2010)	India	Banks and firms	1993–2004	Firm/bank empirical analysis
S17	Hermes & Nhung (2010)	Vietnam	Vietnamese banks	1990s–00s	Panel regression
S18	De Haas & van Lelyveld (2010)	Central & Eastern Europe	Multinational subs	1993–2006	Dynamic panel (GMM)
S19	Lin (2011)	Taiwan / Asia EM	Bank observations	1990s–00s	Panel regression
S20	Hassan et al.	MENA	MENA bank	1996–2007	Panel data regression

	(2012)	countries	panels		
S21	Bruno & Hauswald (2014)	Developing / emerging	Bank & firm dataset	1990s–00s	Cross-country empirical
S22	Claessens & Van Horen (2014)	137 countries	5,000+ banks	1995–2009	Large cross-country panel
S23	Fang et al. (2014)	Transition Europe	Bank-level panel	1998–2010	SFA; panel regression
S24	Herwartz & Walle (2014)	Developing / emerging	International sample	1990s–10	Panel data analysis
S25	Hermes & Meesters (2015)	Developing countries	International dataset	1990s–06	Panel regression
S26	Bertay et al. (2015)	Global sample	International dataset	1998–2010	Panel regression
S27	Bonin et al. (2005)	11 transition economies	225 banks	1996–2000	DEA; regression analysis
S28	Fries & Taci (2005)	15 transition economies	289 banks	1994–2001	Stochastic frontier (SFA)
S29	Kouretas & Tsoumas (2016)	European emerging	Bank panel data	1998–2012	Panel regression
S30	Wu et al. (2017)	China	Chinese banks	2000–2014	Dynamic panel (GMM)
S31	Williams (2003)	Australia / EM	Bank observations	1990s	Stochastic frontier (SFA)
S32	Yildirim & Philippatos (2007)	12 CEE countries	Bank panel dataset	1993–2004	Panel reg; competition indices
S33	Jeon et al. (2011)	Asia & Latin America	Cross-country bank	1997–2008	Dynamic panel estimation
S34	Berger et al. (2009)	China	Chinese banking	1994–2004	Efficiency & regression
S35	Leroy & Lucotte (2019)	European markets	Bank panel dataset	1999–2015	Panel regression
S36	Kusi et al. (2021)	Sub-Saharan Africa	African commercial	2006–2015	Panel regression (GMM)
S37	Çolak & Öztekin (2021)	Global banking	International sample	2000–2019	Cross-country panel reg.
S38	Yuan (2024)	54 dev countries	Cross-country bank	2002–2020	Meta-frontier & regression
S39	Gondwe et al. (2024)	Sub-Saharan Africa	African commercial	2005–2019	Panel regression
S40	Bouzidi & Nefzi (2024)	54 dev countries	International dataset	2000s–20	Meta-frontier stochastic

Table A2

Independent and Dependent Variables

ID	Author(s), Year	Independent Variable(s)	Dependent Variable(s)
S01	Claessens et al. (2001)	Foreign bank presence indices	Accounting profits, interest margins, overhead costs
S02	Demirgüç-Kunt & Huizinga (1999)	Foreign equity ownership shares	Net interest margins, return on assets, overhead structures
S03	Barajas et al. (2000)	Liberalization vectors & foreign entries	Intermediation spreads, operational efficiency indicators
S04	Clarke et al. (2001)	Foreign banking market penetration	Credit availability matrices, SME loan distributions
S05	Denizer (1999)	Foreign bank entry occurrences	Market concentration, interest spreads, net profits
S06	Kraft et al. (2002)	Foreign ownership dummy metrics	Technical and cost efficiency frontiers via SFA
S07	Unite & Sullivan (2003)	Foreign asset ownership structures	Interest spreads, capitalization ratios, profit rates
S08	Lensink & Hermes (2004)	Macro foreign presence ratios	Incumbent operational costs, interest margins
S09	Bayraktar & Wang (2005)	Foreign presence & reform timelines	Sector-wide cost and efficiency matrices
S10	Detragiache & Gupta (2006)	Foreign bank asset shares	Credit growth rates, risk indicators over crises
S11	Cull & Martínez Pería (2007)	Foreign bank ownership shares	Gross credit portfolios, sectoral asset allocations
S12	Claessens & Van Horen (2007)	Foreign equity participation vectors	Bank location clusters, performance outcomes
S13	Naaborg & Lensink (2007)	Foreign equity ownership variables	Return on assets, operational cost distributions
S14	Lensink et al. (2008)	Foreign bank ownership indicators	Technical efficiency scores vs. institutional proxies
S15	Micco et al. (2007)	Foreign vs. state ownership shares	Return on assets, net margins, structural risk parameters
S16	Gormley (2010)	Foreign bank entry indicators	Firm-level credit access, loan volume distributions
S17	Hermes & Nhung (2010)	Foreign bank market share vectors	Cost and technical efficiency parameters
S18	De Haas & van Lelyveld (2010)	Foreign parent equity control metrics	Subsidiary loan volumes, systemic credit variations
S19	Lin (2011)	Foreign bank entry vectors	Lending concentrations, pricing contestability indices
S20	Hassan et al. (2012)	Foreign ownership shares	Return on equity, net margins, capital adequacy
S21	Bruno & Hauswald (2014)	Foreign bank asset penetration	Firm external financing metrics, output volatility
S22	Claessens & Van	Exhaustive foreign	ROA, interest margins, structural risk

	Horen (2014)	ownership databases	buffers
S23	Fang et al. (2014)	Foreign bank ownership proportions	SFA cost efficiency scores, insolvency Z-scores
S24	Herwartz & Walle (2014)	Foreign bank asset market shares	Allocative and technical banking efficiency scores
S25	Hermes & Meesters (2015)	Foreign equity stakes	Stochastic frontier efficiency coordinates
S26	Bertay et al. (2015)	Foreign control indicators	Lending cyclical metrics across business periods
S27	Bonin et al. (2005)	Foreign ownership percentages	DEA efficiency parameters, return on assets
S28	Fries & Taci (2005)	Foreign equity percentages	Stochastic frontier cost efficiency parameters
S29	Kouretas & Tsoumas (2016)	Foreign bank market shares	Incumbent cost margins, sector Lerner indices
S30	Wu et al. (2017)	Foreign market asset shares	Insolvency Z-scores, non-performing loan ratios
S31	Williams (2003)	Foreign ownership vectors	Stochastic cost frontier parameters, gross profits
S32	Yildirim & Philippatos (2007)	Foreign banking participation percentages	Panzar-Rosse H-statistics, net interest margins
S33	Jeon et al. (2011)	Foreign bank equity concentrations	Lerner indices, cost-to-income efficiency ratios
S34	Berger et al. (2009)	Foreign strategic minority stakes	Cost and technical efficiency frontier coordinates
S35	Leroy & Lucotte (2019)	Foreign ownership dummy vectors	Credit pro-cyclicality matrices, solvency buffers
S36	Kusi et al. (2021)	Foreign asset market shares	Bank solvency Z-scores, non-performing loans
S37	Çolak & Öztekin (2021)	Foreign ownership indicators	Credit supply growth loops during crisis periods
S38	Yuan (2024)	Disaggregated macro presence vs micro ownership	Meta-frontier technical efficiency scores
S39	Gondwe et al. (2024)	Foreign bank market share variables	Insolvency Z-scores, non-performing loan parameters
S40	Bouzidi & Nefzi (2024)	Foreign asset penetration vectors	Meta-frontier stochastic technical efficiency scores

62. Appendix B: PRISMA Stage Tracking Summary

Table A3
PRISMA Stages

PRISMA Stage	n	Description
Identification	1,370	All potential empirical records identified through electronic database algorithms and manual citation trails.
Screening	892	Unique records screened based on title and abstract boundaries following automated duplicate removal (n = 355).
Eligibility	205	Full-text reports retrieved and rigorously assessed against strict contextual inclusion/exclusion criteria.
Full-text Included	60	Primary investigations meeting all peer-review, geographical, and temporal parameters.
Analytical Synthesis Sample	40	Core subset featuring comprehensive, comparable quantitative data matrices extracted for systematic synthesis.