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# Bank bailouts in Europe and bank performance☆

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ABSTRACT

During the financial crisis, 114 European banks benefited from government support in Europe. We investigate the financial condition of banks before and after receiving state support using logit regressions. Our results indicate that the equity ratio, loan quality and bank size are the main determinants of bank bailout involvement. However, the aided banks hardly improve their performance indicators in the years following government aid, indicating that bailouts are not sufficient to restore bank health.
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## 1. Motivation

During the banking crisis, several European governments organized rescue packages to support struggling banks. No less than 114 banks benefited from government support during the period 2007–2013. We investigate the financial condition of banks before and after they receive state support. More specifically, we identify the bank characteristics that are associated with bank bailouts and we investigate whether or not aided bank improve their performance following a bailout.

State aid to banks can be classified into measures on the asset or the liability side. On the liability side, the main instruments are liability guarantees which provide an assurance against default on bank debt. They have been the most used instrument within the EU (the outstanding amount reached its peak in 2009 with EUR 835.8 billion or 7.1% of EU GDP).

Another channel for state aid is direct capital injections in undercapitalized banks. The European Commission reports that EUR 413.2 billion (3.2% of EU 2012 GDP) of new capital has been provided to ailing banks by member states in the period 2008–2013.

Fig. 1 provides an overview of the amounts granted to financial institutions in each member state sorted by type of state aid measures over the years 2008–2013. Ireland provided EUR 855 billion in liability guarantees and liquidity measures, followed by the UK with EUR 571 billion and Germany with EUR 339 billion. In absolute numbers, the highest support measures on the asset side were provided in Germany (EUR 144 billion), the UK (EUR 123 billion) and Spain (EUR 88 billion).

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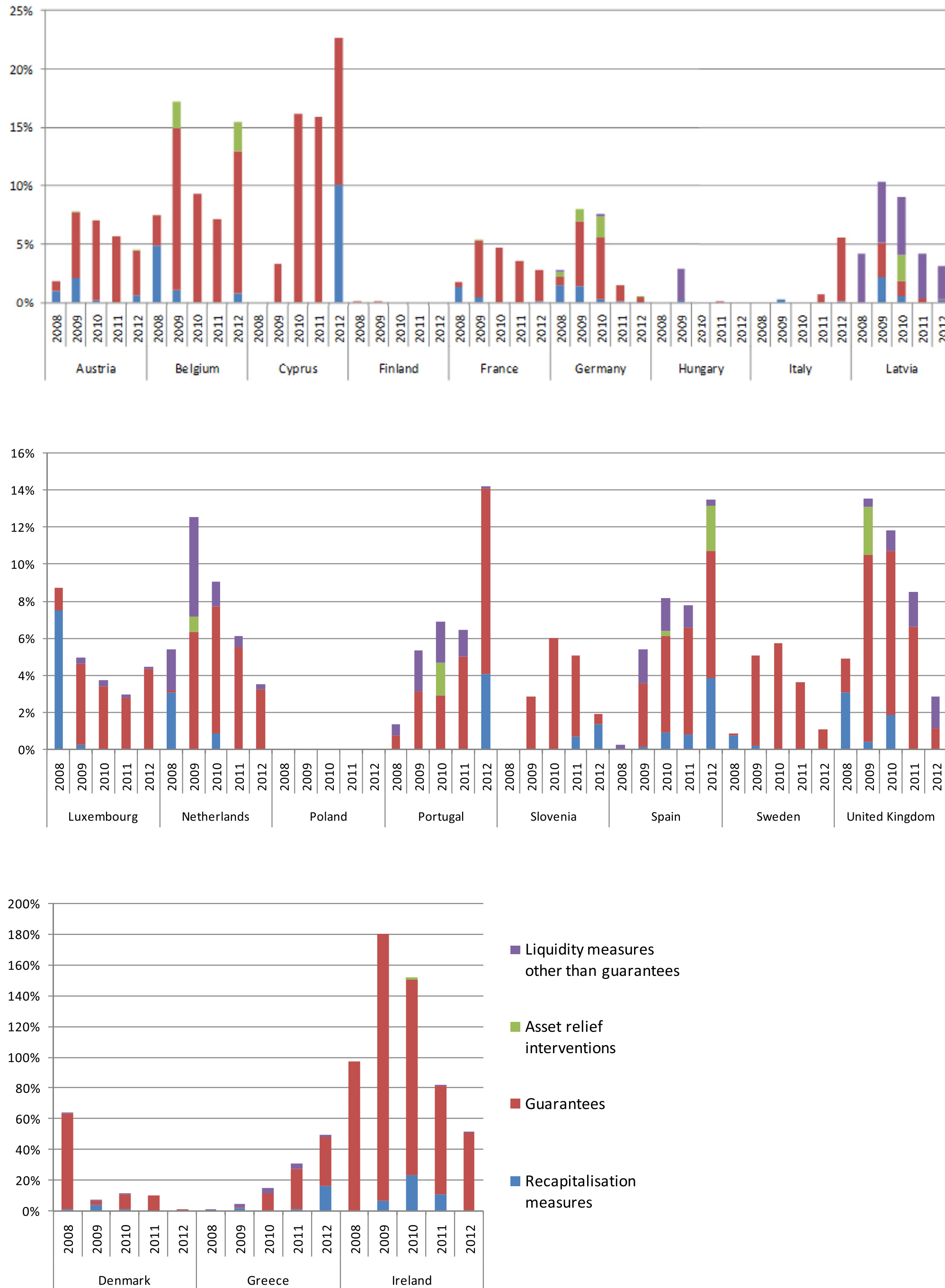


**Fig. 1.** Types of government interventions in European banks, 2008–2013 (in % of GDP).

## 2. Methodology and variables

Following studies on bank distress, we estimate a logit model in which we link a bank bailout involvement dummy to a set of bank-specific variables, controlling for the macroeconomic environment (Arena, 2008; Cihak and Schaeck, 2010). We create a binary variable taking the value 1 when a bank benefited from government support. The banks that never received state aid in the period 2007–2013 constitute the control group and take the value zero. The choice of the explanatory variables is guided by related papers, such as Poghosyan and Cihal (2009) who analyze bank distress from 1997 to 2007 and Betz et al. (2014) who investigate distress in European banks from 2000 to 2013 with a pooled logit model using

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