

Accepted Manuscript

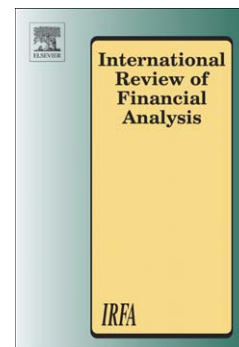
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PII: S1057-5219(14)00162-8
DOI: doi: [10.1016/j.irfa.2014.11.008](https://doi.org/10.1016/j.irfa.2014.11.008)
Reference: FINANA 774

To appear in: *International Review of Financial Analysis*

Received date: 8 July 2014
Revised date: 4 November 2014
Accepted date: 7 November 2014



Please cite this article as: Košak, M., Li, S., Lončarski, I. & Marinč, M., Quality of Bank Capital and Bank Lending Behavior during the Global Financial Crisis, *International Review of Financial Analysis* (2014), doi: [10.1016/j.irfa.2014.11.008](https://doi.org/10.1016/j.irfa.2014.11.008)

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Quality of Bank Capital and Bank Lending Behavior during the Global Financial Crisis¹

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4 November, 2014

Abstract

Using a worldwide bank sample from 2000 to 2010, this article analyzes the determinants of bank lending behavior during the global financial crisis highlighting the role of bank capital. It reveals that the high quality of the bank funding strategy (tier 1 bank capital and retail deposits) and prevalent government backing were crucial to continuous bank lending during the crisis period. This effect was especially pronounced in non-OECD and BRIC countries. We also point out that, although higher use of tier 2 capital and interbank deposits could be important for increased lending during a normal period, this did not support lending activities during the financial crisis. The article concludes by suggesting that in crisis periods high-quality bank capital is a bank's competitive strength.

Keywords: tier 1 capital; bank capital; bank lending; global financial crisis.

JEL Classification: G20, G21, G28.

¹ The authors would like to thank the editor Brian Lucey, two anonymous referees, Jonathan Batten, Arnoud Boot, Iftekhar Hasan, Nadia Massoud, and Razvan Vlahu, as well as the participants at the EBES 2012 Conference, the Australasian Finance and Banking Conference 2012 and INFINITI 2013 conference, as well as seminar participants at Università Cattolica del Sacro Cuore, University of Hartford, and University of Ljubljana for valuable comments. All errors remain our own.

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