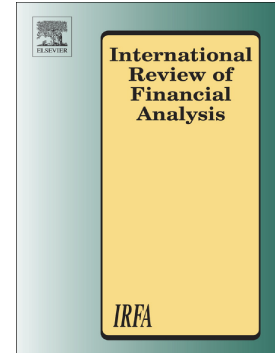


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Financial stability, competitiveness and banks' innovation capacity: evidence from the Global Financial Crisis

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Abstract

This paper provides nuanced evidence on the effect of competitiveness and financial stability on banks' innovation-capacity (technological-change) levels during the Global Financial Crisis (GFC) in 2007-2008. We applied contemporary developments in non-parametric frontier analysis, employing a new index, the Global Financial Centres Index, to measure the business competitiveness of 45 financial centres. Our findings indicated a nonlinear and positive relationship between financial centres' competitiveness, banks' stability and innovation-capacity levels. This suggests that banks' ability to increase stability alongside financial centres' stability in a highly competitive environment acts as a protective measure against the GFC's negative effects.

Keywords; Global Financial Crisis; Financial centres; Innovation capacity; Non-parametric frontier analysis.

JEL Codes: G21, D24, C14, O16

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