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Bank Market Power and Lending during the Global Financial Crisis

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Highlights

- Analysis on how the GFC affects bank market power and bank loans in 17 countries
- Market power counteracts the negative impact of the GFC on banks' supply of loans
- Less restrictions on bank activities increase the positive effect of market power
- Less supervisory power increase the positive effect of market power

Abstract:
This research examines how the Global Financial Crisis (GFC) affected banks' supply of credit, not only in a direct way but also indirectly through changes in bank market power. We use a sample of 735 banks from 17 countries during the 2003–2012 period. We find that the direct negative impact of the GFC on banks' supply of loans is counteracted by an indirect effect through the increased level of bank market power in the years after the onset of the crisis. This result is particularly relevant in countries with less stringent restrictions on bank activities and less supervisory power.

Keywords:
Global Financial Crisis; Bank lending; Bank market power; Bank regulation and supervision

1. INTRODUCTION

The aim of this research work is to analyze how the Global Financial Crisis 2007/2008 (GFC) affected the amount of credit that banks were willing to lend. We distinguish the global effect of the crisis on banking lending from the specific effect that might have occurred as a result of the changes in market power experienced by banks during the financial turmoil.

It is widely accepted that banking crises have a negative effect on economic growth. While crises tend to occur when there are economic downturns, problems in the banking sector

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