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Author: Marcel Fratzscher, Philipp Johann König, Claudia Lambert

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Credit provision and banking stability after the Great Financial Crisis:

The role of bank regulation and the quality of governance

Marcel Fratzscher[a,b,d,1], Philipp Johann König[a], Claudia Lambert[a,c]

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[a]*DIW Berlin, Department of Macroeconomics, Mohrenstraße 58, 10117 Berlin, Germany*

[b]*Humboldt-Universität zu Berlin, Faculty of Economics and Business Administration, Spandauer Str. 1, 10178 Berlin, Germany*

[c]*Research Center SAFE, Goethe University Frankfurt, House of Finance*

[d]*Center for Economic and Policy Research*

Highlights

- Capital and liquidity regulation directly affect credit growth and banking stability.
- Supervisory independence stabilizes credit growth, improves bank stability.
- For some regulatory measures to be effective, pre-crisis institutional quality matters.
- Bank supervision / regulation and institutions are often substitutes, not complements.

Abstract

In response to the Great Financial Crisis (GFC), bank regulatory regimes were tightened world-wide to strengthen banking stability and the resilience of the banking sectors. Yet, it is often claimed that regulatory tightening may lead banks to cut back on lending and comes at the cost of a lower loan supply to the economy. The present paper uses a country panel for 50 advanced and emerging market economies to analyze how the post-crisis tightening in supervision and regulation affected aggregate bank stability and aggregate credit growth. Our results suggest that higher capital buffers improved aggregate bank stability after the GFC. Similarly, a strengthening of supervisory independence helped to reduce the decline in domestic credit and improved the stability of banks. Both effects have been stronger for countries with relatively poor institutions. Overall, our results suggest that bank supervision / regulation and

[1]Corresponding author: mfratzscher@diw.de