Abstract

This thesis examines the innovation-growth view and innovation-fragility view on the impacts of financial innovation on banking performances in 22 European countries. It focuses on three aspects of analysis: the relationship between financial innovation and bank growth, the relationship between financial innovation and bank stability, and the relationship between financial innovation and banking performance reduction during the COVID-19 pandemic. The panel data sample consists of 4479 active banks in 22 European Union countries from 2008 to 2020. This paper uses the fixed effects model. The paper finds that financial innovation contributes to both bank asset growth rate and bank loan growth rate. Banks with lower market shares, higher loan to asset ratios, and higher tier 1 capital ratios have faster asset growth rates compared to others. Financial R&D intensity value added leads to both lower bank z-score and lower log bank z-score, while the ratio of off-balance sheet items to total assets leads to a higher log bank z-score. There is also evidence for cross-country variation. During the COVID-19 pandemic, off-balance sheet items divided by total assets negatively impacts the change in ROA for banks between 2018 and 2020, which supports the innovation-fragility view.