

How Bank Competition Influences Financial Stability

Abstract

This paper investigates the link between financial stability and bank competition by means of the Arellano & Bond (1991) GMM model using annual panel data over the period 2000 – 2014 for 205 countries. Our data source is a new, richer and updated dataset The Global Financial Development Database available at World Bank. Due to the specifics of this dataset we are able to use new combinations of measures of financial stability and of bank competition and to study their relationship in greater depth. We find a positive link between financial stability and bank competition. Furthermore, our results provide evidence that it matters what measures of financial stability and bank competition we apply. Lastly, we ascertain that the relationship between financial stability and bank competition does not change over time.

Keywords

Financial Stability, Bank Competition,
Dynamic GMM, the Arellano and Bond
Estimator

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