Abstract

In this paper we investigate the impact of banking regulation and supervision on the economy during crises and compare our results with current regulatory trends. Specifically, we employ a dataset consisting of 49,183 firms in 85 countries to estimate the influence on availability of credit and 642 banks in 48 countries to evaluate the influence on banking profits. We provide evidence that banks in countries with more independent regulators had higher profits, while the increased power of supervisory agency and disclosure requirements fostering private monitoring had a negative effect on profits. The evidence, on the other hand, suggests that private monitoring did increase the availability of credit during crisis. Although the current global approach to regulation does deal with many issues that arose from our analysis, the analysis did not provide any evidence of the beneficial effect of capital requirements that are at the core of this approach.

JEL Classification	G01, G21, G28
Keywords	Bank performance, Credit availability, Regulation and supervision, Financial crisis