Rev World Econ (2018) 154:203–227
https://doi.org/10.1007/s10290-017-0294-0

ORIGINAL PAPER

The main determinants of banking crises in OECD countries

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Published online: 14 August 2017

Abstract Banks' stability can be affected by economic fluctuations, banks' risk-taking behavior, connections among banks and countries' financial system structure. At the same time, banking regulation and supervision were designed to protect banks from failure, but a large number of banking crises were not prevented recently. Using binary response models for panel data and focusing on OECD countries, this paper studies the main determinants of banking crises over a period of 21 years. Results suggest a bank's high debt and a country's low GDP growth rate as the major determinants of banking crises. There is also evidence of contagion across countries from the same geographical region and from G7 to other countries, and that bank-based financial systems are less prone to borderline banking crises. Regulatory and supervision practices are found not to have been relevant in bankruptcy prevention.

Keywords Banking crises · Regulation · Supervision · OECD countries · Contagion effect

JEL Classification G01 · G21 · G28

Electronic supplementary material The online version of this article (doi:10.1007/s10290-017-0294-0) contains supplementary material, which is available to authorized users.

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