A Blessing in Disguise?
Banking Crises and Institutional Change

Fredrik N G Andersson[1]
Department of Economics, Lund University
P.O. Box 7082
220 07 Lund
Sweden
Email: ngf.andersson@nek.lu.se
Tel: +46 (0) 46 222 46 44

First draft - please do not cite without the permission of the author!
2014-10-28

Abstract

A weak macroeconomic environment is one important factor behind many banking crises. In this paper we test if banking crises induces long term institutional change aimed at improving the macroeconomic performance and thus indirectly reduce the risk of future banking crises. Our data set consists of 22 developed and 34 developing countries covering the period 1985 to 2009. We include four different indices of institutional quality in our analysis. Our results show that banking crises associated with growth below long term GDP growth cause long term institutional reforms. This result holds for both developed and developing countries.

Key words: banking crisis, institutions, economic growth, reforms,
(six keywords)

Jel-codes: G21, H12, O43, E02

[1] Financial support from the Swedish Research Council (project number 421-2009-2663) is gratefully acknowledged.