EACES Best Dissertation Award 2022

Bank Performance and Stability

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Three essays on banking and stability issues

- **Drivers of a bank's investment performance at a multinational development bank**
- **The impact of government interventions on bank performance**
- **Government-triggered changes in bank performance and financial stability**

Drivers of a bank's investment performance at a multinational development bank

- EBRD performance measures are focused on ex-ante transition development objectives which are non-financial and project dependent
- Previous studies were on World Bank (EBRD is client lending not government lending) first study with long timeframe (2003-2016), 1,600 EBRD projects -- unique data set (proprietary)
- Econometrically very well done, thorough pre-analysis no selection bias (Heckman selection models) strong empirical results
- What project characteristics are associated with successful projects?
  - Repeat projects (associated with a framework agreement)
  - Larger projects
  - No, small role of the state (projects with state partner have lower probability of success)

The impact of government interventions on bank performance

- Transformation, creation of the financial system was critical element of transition
- What type of intervention was most successful? (defined in detail in text)
  - Nationalization
  - Gov’t assisted merger
  - “Bad bank” option
- Success criteria:
  - Future lending, capital and reserves relative to non-performing loans, others
- Unique data set for 39 countries, 1990-2017, ~1000 banks of which 215 received support
- Dif in dif with fixed effects: no clear winner

Government-triggered changes in bank performance and financial stability

- Nearly a trillion Euro of non-performing loans in Euro area.
- Examines effectiveness of govt interventions (same as essay 2) triggered by high levels of NPLs with a CGE model (Goodhart, et al. 2005, 2006) calibrated with data from the seven largest banks in the UK.
- Model has 56 equations, 143 unknowns, 87 exogenous. Parameters are calibrated against UK data, arbitrarily assigned based on official statics or endogenously determined by the model
- Banks are categorized as healthy, moderate or stressed based on value of NPLs and policy interventions (e.g., a capital injection) are a shock to the model
- Nationalization is the least preferred policy, “bad bank” policy is somewhat favorable and capital injection also, but effects are tempered by contagion effects
- Limitations: as usual the CGE model is sensitive to calibration and underlying theoretical assumptions of the model and therefore limited external validity