

Bank Capital: Lessons from the Financial Crisis

ASLI DEMIRGUC-KUNT, ENRICA DETRAGIACHE, OUARDA MERROUCHE

First published: 15 August 2013

<https://doi.org/10.1111/jmcb.12047>

Citations: 303

The views expressed in this paper are those of the authors, and should not be attributed to the World Bank, the International Monetary Fund, or the European Securities and Markets Authority. We thank Stijn Claessens, Martin Hellwig, Noel Sacasa, and seminar participants at Williams College, Chicago Federal Reserve Bank Structure Conference, and the IMF Institute for useful comments.

Abstract

Using a multicountry panel of banks, we study whether better capitalized banks experienced higher stock returns during the financial crisis. We differentiate among various types of capital ratios: the Basel risk-adjusted ratio, the leverage ratio, the Tier 1 and Tier 2 ratios, and the tangible equity ratio. We find several results: (i) before the crisis, differences in capital did not have much impact on stock returns; (ii) during the crisis, a stronger capital position was associated with better stock market performance, most markedly for larger banks; (iii) the relationship between stock returns and capital is stronger when capital is measured by the leverage ratio rather than the risk-adjusted capital ratio; (iv) higher quality forms of capital, such as Tier 1 capital and tangible common equity, were more relevant.

LITERATURE CITED

Basel Committee on Banking Supervision. (2009) "Consultative Proposals to Strengthen the Resilience of the Banking Sector." Bank of International Settlements, <http://www.bis.org/press/p091217.htm>.

[Google Scholar](#)

Berger, Allen N., and Christa H.S. Bouwman. (2009) "Bank Capital, Performance, and Survival around Financial Crises." Unpublished manuscript.

[Google Scholar](#)

Blum, M. Jürg. (2007) "Why Basel II May Need a Leverage Ratio Restriction." Swiss National Bank Working Paper 2007-4.

[Google Scholar](#)

Calem, Paul, and Rafael Rob. (1999) "The Impact of Capital-Based Regulation on Bank Risk-Taking." *Journal of Financial Intermediation*, 8, 317–52.

[Web of Science®](#) | [Google Scholar](#)

Caprio, Gerard, and Patrick Honohan. (1999) "Beyond Capital Ideas: Restoring Banking Stability." World Bank Policy Research Working Paper No. 2235.

[Google Scholar](#)

Caprio, Gerard, Asli Demirgüç-Kunt, and Edward Kane. (2010) "The 2007 Meltdown in Structured Securitization: Searching for Lessons, Not Scapegoats." *The World Bank Research Observer*, 25, 125–55.

[Web of Science®](#) | [Google Scholar](#)

Demirgüç-Kunt, Asli, and Luis Servén. (2010) "Are All Sacred Cows Dead? Implications of the Financial Crisis for Macro and Financial Policies." *The World Bank Research Observer*, 25, 91–124.

[Web of Science®](#) | [Google Scholar](#)

Diamond, Douglas W., and Raghuram Rajan. (2000) "A Theory of Bank Capital." *Journal of Finance*, 55, 2431–65.

[Web of Science®](#) | [Google Scholar](#)

Drukker, David M. (2003) "Testing for Serial Correlation in Linear Panel Data Models." *Stata Journal*, 2, 168–77.

[Google Scholar](#)

Estrella, Arturo, Sangkyun Park, and Stavros Peristiani. (2000) "Capital Ratios as Predictors of Bank Failure." *Economic Policy Review*, Federal Reserve Bank of New York, July, 33–52.

[Google Scholar](#)

Fama, Eugene F., and Kenneth R. French. (1996) "Multifactor Explanations of Asset Pricing Anomalies." *Journal of Finance*, 51, 55–84.

[Web of Science®](#) | [Google Scholar](#)

Financial Stability Institute. (2010) "Survey on the Implementation of the New Capital Adequacy Framework." Occasional Paper No. 9.

[Google Scholar](#)

Furlong, Frederick, and Michael Keeley. (1989) "Capital Regulation and Bank Risk-Taking: A Note." *Journal of Banking and Finance*, 13, 883–91.

[Web of Science®](#) | [Google Scholar](#)

Furlong, Frederick, and Michael Keeley. (1990) "A Re-examination of the Mean-Variance Analysis of Bank Capital Regulation." *Journal of Banking and Finance*, 15, 69–84.

[Google Scholar](#)

Hellwig, Martin. (2010) "Capital Regulation after the Crisis: Business as Usual?" Max Planck Institute Working Paper.

[Google Scholar](#)

Kim, Daesik, and Anthony Santomero. (1988) "Risk in Banking and Capital Regulation." *Journal of Finance*, 43, 1219–33.

[Web of Science®](#) | [Google Scholar](#)

Koehn, Michael, and Anthony M. Santomero. (1980) "Regulation of Bank Capital and Portfolio Risk." *Journal of Finance*, 35, 1235–44.

[Web of Science®](#) | [Google Scholar](#)

Merrouche, Ouarda, and Erland Nier. (2010) "What Caused the Global Financial Crisis? Evidence on Drivers of Financial Imbalances 1999–2007." IMF Working Paper 10/265.

[Google Scholar](#)

Rochet, Jean-Charles. (1992) "Capital Requirements and the Behaviour of Commercial banks." *European Economic Review*, 36, 1137–78.

[Web of Science®](#) | [Google Scholar](#)

Santos, Joao A.C. (2001) "Bank Capital Regulation in Contemporary Banking Theory: A Review of the Literature." *Financial Markets, Institutions, and Instruments*, 10, 41–84.

[Google Scholar](#)

Tong, Hui, and Shang-jin Wei. (2010) "The Composition Matters: Capital Inflows and Liquidity Crunch during a Global Economic Crisis." *Review of Financial Studies*, 24, 2023–52.

[Web of Science®](#) | [Google Scholar](#)

Viñals, José, Jonathan Fiechter, Ceyla Pazarbasioglu, Laura Kodres, Aditya Narain, and Marina Moretti. (2010) "Shaping the New Financial System." *IMF Staff Position Note*, 10/15.

[Google Scholar](#)



ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

[Developing World Access](#)

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

CONNECT WITH WILEY

[The Wiley Network](#)

[Wiley Press Room](#)