

Applied Financial Economics >  
Volume 21, 2011 - Issue 7

576 Views | 37 CrossRef citations to date | 0 Altmetric

Original Articles

# Economy-wide corruption and bad loans in banking: international evidence

Rajeev K. Goel &amp; Iftekhar Hasan

Pages 455-461 | Published online: 24 Jan 2011

Cite this article <https://doi.org/10.1080/09603107.2010.532112>

Sample our  
Economics, Finance,  
Business & Industry Journals  
>> [Sign in here](#) to start your access  
to the latest two volumes for 14 days

[Full Article](#) [Figures & data](#) [References](#) [Citations](#) [Metrics](#)  
[Reprints & Permissions](#) [Read this article](#)

## Abstract

This study investigates the effects of economy-wide corruption on bad loans across a large sample of countries. The evidence reveals that greater corruption is associated with more bad loans. Loan defaults are lower in faster growing economies, in economies with higher lending rates and in nations in the Euro zone, ceteris paribus. However, other institutional controls, including central bank autonomy, financial underdevelopment, bank-based economies and transition nations fail to show apprecia

### About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our [Privacy Policy](#).

Accept All

Essential Only

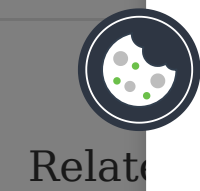
Settings

This research was conducted when Dr. Goel was visiting the Bank of Finland. We are grateful to the bank for its hospitality and to the participants of XVIII ‘Tor Vergata’ conference on money, banking and finance, and Finlawmetrics 2010 for comments. Michael Naretta provided useful research assistance. The views expressed, however, are our own.

## Notes

- <sup>1</sup> A widely accepted definition of corruption takes it to be the abuse of public office for private gain.
- <sup>2</sup> The behaviour of the central bank has also been taken elsewhere to capture banking-sector institutional quality (Huang and Wei, [2006](#); Arnone et al., [2007](#); Hasan and Mester, [2008](#)).
- <sup>3</sup> Year-to-year comparisons of the index, however, are problematic (see [www.transparency.org](http://www.transparency.org) for details). Consequently, we conduct a single-year cross-country study.
- <sup>4</sup> The raw corruption indices have been transformed to unbind them (for consistency with the underlying assumptions of estimation methodology) and for ease of interpretation (higher post-transformation indices values imply greater corruption).
- <sup>5</sup> A positive association between bad loans and corruption has been noted elsewhere, albeit with a different focus (Islam, [2007](#)).
- <sup>6</sup> Details are available upon request.

<sup>7</sup> As noted earlier in this article, we are able to examine the effect of overall corruption in an economy on the presence of corruption in the banking sector.



Related

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our [Privacy Policy](#).

Accept All

Essential Only

Settings

## Information for

Authors

R&D professionals

Editors

Librarians

Societies

## Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

## Open access

Overview

Open journals

Open Select

Dove Medical Press

F1000Research

## Help and information

Help and contact

Newsroom

All journals

Books

## Keep up to date

Register to receive personalised research and resources by email



Sign me up



Copyright © 2024 Informa UK Limited [Privacy policy](#) [Cookies](#) [Terms & conditions](#)

[Accessibility](#)



Taylor & Francis Group  
an informa business

Registered in England & Wales No. 3099067  
5 Howick Place | London | SW1P 1WG

### About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our [Privacy Policy](#).

Accept All

Essential Only

Settings