Bank Volatility and Economic Growth

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Abstract

Built on the previous empirical research on finance and growth, we extend the work of Cole et al (2008) to examine the relationship between banking industry volatility and future economic growth using the recent dynamic GMM estimation techniques for the panel data including 18 developed and 18 emerging markets. We adopt the disaggregated approach of Campbell et al (2001) to measure bank idiosyncratic volatility, and find a negative relationship between bank volatility and future economic growth. This negative link is significantly influenced by the government ownership of banks, the enforcement of insider trading law, systemic banking crisis, and bank accounting disclosure standards. And the results are more prominent for the emerging market.

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