First of all, I would like to thank the anonymous reviewer for his/her work and valuable comments that will certainly improve the quality of the paper.

The **first major issue** of the referee report is the lack of "...*a theoretical model which explains in a consistent and complete way the channels through the features of the financial regulation impact the macroeconomic performances.*" However, the reviewer stresses that this weakness of the paper is in line with recent related research on the topic.
I am in complete agreement with the reviewer with regard to this issue. This has already been reflected in the Introduction (Page 3) and the Conclusion (Page 24) of the paper. And there is no doubt that this is a broad field for future empirical and theoretical research. Nevertheless, the paper includes some empirical indications, which have not been sufficiently discussed in the paper yet: As mentioned at the bottom of Page 11 of the paper, for all three models it is tested whether controlling for the size of the financial sector ("financial deepening") changes the estimated effect of financial regulation (Columns (7) and (8) in Tables 2, 3 and 4). Since this is not the case, one may conclude that the effect does not work through the (relative) size of financial markets, but through some qualitative / structural features of financial markets. I will lay emphasis on this result in the revision of the paper.

The **second major issue** of the reviewer – which is also stressed in the paper – is the methodological weakness of the econometric analysis resulting from the cross-section data. I do agree that using cross-sectional econometric methods is associated with some problems – already discussed on Page 11 (et. seq.) of the paper. This is one reason why the robustness of the results has been tested with regard to several issues in the paper (outliers, functional form etc.; see Page 11).
Furthermore, I do agree that future research should (re-)evaluate the effects of financial regulation on macroeconomic performance and stability with panel econometric methods. However, this is a different research question. The main objective of this paper is the analysis of the effects of the shock in 2007 – I certainly do not intend to analyze the effects of financial regulation on macroeconomic stability *in general*. As stressed by Giannone, Lenza, and Reichlin (2011), the shock of 2007 provides "… *a unique opportunity to identify the link between the structural characteristics of economic and institutional systems before the crisis and their resilience with respect to the global recessionary shock*." In other words: the shock of 2007 can be interpreted as exogenous – and, analyzing its effect implies a cross-sectional approach by definition.