Banking Concentration and Financial Stability:
New Evidence from Developed and Developing Countries

Responses to Reviewers' Comments

Reviewer # 1

I suggest the authors to consider employing a structural VAR model in their empirical investigation as it is better suited than GMM specifications.

If interested authors can refer the paper: Testing the interrelatedness of banking stability measures
available at: http://www.emeraldinsight.com/doi/abs/10.1108/JFEP-01-2013-0002.

Response
The reviewer comments are very interesting in the sense to consider VAR model since variables evolution could be impacted by its own lags. To be consistent with the current literature, we run another set of estimations using lagged values of the variables which could comply with the reviewer recommendation. However, a study based on a VAR model has been previously published by Vighneswara.

Reviewer # 2

The authors address the interesting topic of the effect of banking concentration on financial stability. Given the recent mergers and acquisitions in the international banking sector which the authors mention, the banking concentration variable is of high interest - especially in light of the recent financial crisis.

Comment 1

This also leads to the first comment: The authors should include in their robustness section estimations with different samples. A suggestion is to, firstly, arbitrarily split the sample. It is possible that their results would change as the determinants for systematic crisis are likely to differ between the 1980s and more recent years.

Response
We have split our period of study in three subperiods. Our decomposition is based on the occurrence or the absence of international crisis during these subperiods that may affect the stability of the financial system. The first period goes from 1980 to 1985 where no major international crises have been recorded. The second sub period goes from 1996 to 2006. Two main crisis have been recorded during this period: the Asian financial crisis in 1996-97 and the Russian financial crisis that impacted and spread worldwide. The third sub period goes from 2007 to 2011 during which the subprime financial crisis erupted in the United States and that had major repercussions worldwide. Results are displayed in table 8 and 9.

Comment 2

Furthermore, they should think about including additional explanatory variables as, for example, financial development. Levine et al. (2000) have shown that such a variable can have an influence on a country's economic growth and it is also imaginable that it is correlated with the authors' banking concentration variable.

Response

We have followed the existent literature to choose the variables (Boyd et al. 2006; Ruiz-Porras, 2007; Beck et al., 2007; Laeven and Valentia, 2008; Uhde and Heimeshoff, 2009; Shehzad et al., 2009; Bretschger et al., 2012).

Comment 3

Connecting to the previous comment, the authors should include a figure showing the evolution of the concentration variable in, for example, developing and developed countries such that the reader is able to easily get an overview about the development of this key variable.

Response

We tried to have this figure in our manuscript. However, as the dependent variables is rather binary this will not give any figure that could help understanding the concentration-stability nexus trend.

Comment 4

A last comment is that the authors can improve their presentation of results. In the tables' notes they are not specific about whether they use the Sargan or Hansen test to check whether their instruments are valid. Also, they could think about not necessarily using abbreviations for the variables in the tables.

Response

We run Sargan test.

Reviewer # 3

The topic the authors developed is very interesting. Financial instability is a main feature for many banking systems in developing and developed countries as well. The authors are addressing it from different angles and with many extensions. Therefore, the article is worth to be published in the E-economics journal.

Specific comments

Comment 1

- The results reported by the authors are very important however they fail to summarizes them in the abstract. They should improve the abstract's content.

Response
We improved our abstract by summarizing all the results with the new estimations and improvements we have made on the article by considering splitting our period of study to subsample depending on the existence or absence of crises in these subperiods.

Comment 2

- Laeven's data set investigate the incidence of crises in all 173 countries in your data? Authors should consider countries that were examined by Laeven et al.

Response

The recommendation of reviewer is very interesting. However, it is better to have a different sample so as to compare our results with different studies such as Laeven et al.

Comment 3

The effect of macro controls on the incidence of crises is likely to occur with a lag. Authors should examine the dynamics of these lagged influences.

Response
The reviewer recommendations are very interesting in the sense that the effect of macro controls on the incidence of crises is likely to occur with a lag. Therefore, we have used lagged macro controls variables in our estimations.

Comment 4

- The authors should develop some policies implications for the study in the conclusion.

Response
We developed some policy implications in the conclusion.