

# **BANKING COMPETITION, BANKING STABILITY AND ECONOMIC GROWTH: CAUSAL NEXUS IN SINGLE EUROPEAN MARKET ECONOMY**

## **ABSTRACT**

The relationship between banking competition, banking stability, and economic growth has received considerable attention in the finance literature. While the research specifies that there are associations between these variables, the majority of the research on banking competition focuses on the impact of banking competition on banking stability. This study focuses on the causal nexus between banking competition, banking stability, and economic growth across the 31 Single European Market (SEM) countries, namely Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland and the United Kingdom over the period 1996-2015. Specifically, the study first deploys dynamic panel data modelling to examine the determinants of both banking competition and banking stability in these selected countries. The Granger causality test is subsequently applied for studying the causal nexus between banking competition, banking stability, and economic growth. The empirical analysis finds that there exist inter-regional disparities in the availability of banking competition, banking stability, and economic growth in these SEM countries. The Granger causality test shows that both banking competition and banking stability have substantial impact on economic growth. It also shows that both banking competition and banking stability, Granger cause each other. It is, therefore, necessary to have adequate availability of banking competition and to maintain stability in banks, and their integration in these SEM countries for achieving higher economic growth in the European zone. The insufficiency of both bank competition and bank stability brings in different policy implications in these Single European Market countries.

**Keywords:** Banking competition, Banking stability, Economic growth, Single European Market countries