Banking Stability, Natural Disasters, and State Fragility: Empirical Evidence for Developing Countries

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Abstract:
Panel VAR methodology is used in this study to empirically evaluate the effects of natural disasters and state fragility on economic and financial dimensions in developing countries such as GDP per capita, banking and financial system deposits, banks' Z-scores, and non-performing loans. Results based on three panels of up to 66 countries and 17 years of annual data indicate that natural disasters and state fragility may cause significant economic and financial disruption in low-income and middle-income countries. Shocks from natural disasters seem to be temporary and detrimental only to non-performing loans, while shocks from state fragility appear to be permanent and to create detrimental economic and financial feedback loops.

Keywords: banking stability, GDP per capita; natural disasters; state fragility

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