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Opinion Article

Bank Levies and Financial Risk: Impact on Stability in Different Countries

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DESCRIPTION

Many people believe that one of the reasons behind the global financial crisis was the risk-taking practices of financial organizations. Bank Levies (BLs) have been imposed by regulators in an effort to lessen the likelihood of crises and internalize the costs associated with financial institution distress. In this study, how the German and Hungarian BLs affect financial organizations' propensity for taking risks has been explained. The findings clearly show that a BL on assets has an adverse effect on the stability of the financial sector. Credit risk is reduced by BLs on liabilities, according to the findings of an analysis of the impact that BLs have had on the German financial system. One of the main reasons for the global financial crisis of 2007-2008 is generally believed to have been financial institution's excessive risk-taking.

Crises exacerbate the danger of public sector default by dramatically increasing the amount of public debt. Moreover, recessions brought on by debt crises are especially severe and protracted. Policymakers have implemented a number of new tools to internalize the costs of financial institution crisis and lower the likelihood and expense of future crises. Among these were Bank Levies (BLs), which were imposed to reduce the risks associated with financial institution's lending activity. In scholarly literature, BLs is a recent development. The idea behind it has always been to charge the highest-risk activities in order to discourage banks from taking on too much risk, even though it has undergone ongoing evolution. The role of bank levies has not been extensively studied in the literature to date. There are still a few unanswered questions: Do BLs accomplishes their goals? In light of the role that BLs are supposed to play, which BL format is the most effective in the eyes of regulators? Which BL structure poses the greatest threat to the banking industry? It is imperative that these questions, which are still hotly contested, have answers. Academic literature hasn't, however, yet offered any satisfactory responses. As so, we add to the very recent, but as of yet quite small, body of work on BL control. Academics typically focus on specific facets of BLs rather than the idea in general. More precisely, they examine the results of implementing BLs in certain nations, frequently examining data from a short time period. They conclude that if banks have different lending opportunities, a tax is better than quantity-based regulation (funding ratios, for example), but if institutions have different charter values and risk-taking incentives, a tax is worse.

They discover that levies cause systemic risk to be partially internalized. Examine the prevalence of the German bank levy; the majority of the evidence currently available is at the national level. They investigate the differences between big banks subject to taxes and smaller banks not subject to taxes using a difference-in-differences method, and they find no proof of any effect on the average lending volume or deposit and lending rates of a bank. Reviewing the aforementioned literature reveals that, in the contexts of two distinct BL models, not much is known about how BLs influences institution's risk-taking behaviors. Thus, we contend that this study might make a substantial contribution to the corpus of knowledge already available regarding the BL notion. One of the most significant economic sectors, the finance industry fulfills a number of crucial functions. It makes the transfer of money from savers to borrowers easier and offers a reliable and effective payment method that makes trading products and services easier. In terms of risk management and diversification, it also offers insurance. The regression estimates demonstrate that the impact of BLs varies on how they are constructed, even while the both agree that governments want to reduce the negative effects of financial crises and the likelihood of subsequent economic downturns by regulating the financial industry. The challenge is in determining which regulatory tools, or tools combined with tools, will work best to lower risk and how best to implement them. More precisely, the findings show that the size and kind of the institution affects the reduction of risk-taking behavior. The findings also show that sector stability in Hungary is adversely impacted by the BL on assets in the financial sector.

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