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## **CAPITAL BUFFER AND RISK ADJUSTMENTS: THE ROLE OF BUSINESS CYCLES AND INSTITUTIONS**

### **Abstract:**

The aim of this research is to investigate the impact of the business cycle, institutional quality and market power on capital buffer and risk adjustments in the Balkan region banking sector. To this purpose, we use an unbalanced panel of banks operating in the Balkan region between the years 2009 and 2014. Bank-specific data are obtained from the Bankscope database while institutional and macroeconomic data are taken from the World Bank Development Indicators database. Our empirical methodology is based on the three-stage least squares technique. Our preliminary results show that capital buffer adjustments are not affected by the business cycle and institutional quality. On the other hand, real GDP growth is found to have a negative and significant impact on risk adjustments. Our results also show that changes in capital buffer have a positive and significant impact on banks' risk behavior.

### **Keywords:**

Capital buffer, Risk, Banking, Panel data.

**JEL Classification:** G21, G00