

**DETERMINANTS OF BANK PROFITS AND
NET INTEREST MARGINS
IN
EAST ASIA AND LATIN AMERICA**

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Determinants of Bank Profits and Net Interest Margins
in
East Asia And Latin America

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ABSTRACT

This paper identifies the determinants of bank profits and net interest margins using bank level data, macroeconomic indicators and concentration ratio for ten countries in the East Asia and Latin America economies for the period of 2003–2008. A balanced panel of 167 banks operating in Argentina, Brazil, Colombia, Korea, Indonesia, Malaysia, Mexico, Thailand, Peru and Venezuela is used for this study. Of the 167 banks, 78 banks represent East Asia, while the balance 89 banks, Latin America. For purpose of this study, we first examine the determinants of bank profits and net interest margins based on the full sample of 167 banks, and then on two sub-groups, namely, East Asia (78 banks) and Latin America (89 banks). Firstly, the results show that for these two regions as a group, and as sub-groups, internal factors or bank characteristics, rather than external factors explain a substantial part of within-country variation in bank interest margins and profits. Secondly, there are determinants of bank profits and interest rate margins in East Asia and Latin America that are common to both regions, and determinants which are unique to a particular region only. Finally, external determinants are not statistically significant to the interest margins of banks operating in East Asia and Latin America.

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**Dedicated to
My husband, Ngwu Amaechi Daniel
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TABLE OF CONTENTS

ABSTRACT

ACKNOWLEDGEMENT

CHAPTER 1 : INTRODUCTION	1
1.1 BACKGROUND OF RESEARCH	1
1.2 STATEMENT OF THE PROBLEM.....	4
1.3 PURPOSE AND SIGNIFICANT OF RESEARCH	5
1.4 RESEARCH OBJECTIVES.....	6
1.5 RESEARCH QUESTIONS.....	7
1.6 SCOPE OF STUDY	7
1.7 ORGANISATION OF THE STUDY	7
CHAPTER 2 : BANKING SYSTEMS IN EAST ASIA AND LATIN AMERICA	9
2.1 BACKGROUND	9
2.2 KEY CHARACTERISTICS OF BANKING SYSTEM	10
2.3 SELECTED BANKING SYSTEMS.....	15
2.3.1 BRAZIL.....	15
2.3.2 KOREA.....	16
2.3.3 MALAYSIA	17
2.3.4 THAILAND	18
2.4 CHAPTER SUMMARY	20
CHAPTER 3 : LITERATURE REVIEW	21
3.1 CROSS COUNTRIES AND SINGLE COUNTRY STUDIES	21
3.2 INTERNAL AND EXTERNAL DETERMINANTS.....	22
3.3 BANK PROFITS.....	23
3.4 BANK INTEREST MARGINS.....	28
3.5 BANK PROFITS AND INTEREST MARGINS.....	32
3.6 BANK PROFITS AND BUSINESS CYCLE	36

3.7	BANK PROFITS AND INTEREST MARGINS IN EAST ASIA AND LATIN AMERICA	38
3.8	CHAPTER SUMMARY	43
CHAPTER 4 : RESEARCH METHODOLOGY		44
4.1	RESEARCH HYPOTHESIS	44
4.2	RESEARCH METHODOLOGY	45
4.3	DATA ANALYSIS TECHINQUES	47
4.4	DETERMINANTS AND VARIABLES SELECTION	49
4.5	PERFORMANCE MEASURES	49
4.6	INDEPENDENT VARIABLES: INTERNAL DETERMINANTS	50
4.6.1	CAPITAL ADEQUACY	51
4.6.2	MANAGEMENT EFFICIENCY/EXPENSES MANAGEMENT	51
4.6.3	LIQUIDITY	52
4.6.4	CREDIT RISK/ASSET QUALITY	53
4.6.5	SIZE	54
4.7	INDEPENDENT VARIABLE : EXTERNAL DETERMINANTS	54
4.7.1	MACROECONOMIC VARIABLE : GROSS DOMESTIC PRODUCT ...	55
4.7.2	MACROECONOMIC VARIABLE : INFLATION	55
4.7.3	CONCENTRATION	56
4.8	DATA COLLECTION PROCEDURE	61
4.9	CHAPTER SUMMARY	63
CHAPTER 5 : EMPIRICAL RESULTS AND ANALYSIS		65
5.1	DESCRIPTIVE STATISTICS	65
5.2	MULTICOLLINEARITY	68
5.3	TESTING THE MODEL	70
5.3.1	STEP 1	70
5.3.2	STEP 2	71
5.3.3	STEP 3	72
5.3.4	STEP 4	73
5.4	FINDINGS AND RESULTS	74

5.5	EAST ASIA AND LATIN AMERICA (FULL SAMPLE, 167 BANKS) - BANK PROFITS AND NET INTEREST MARGINS	75
5.5.1	INTERNAL DETERMINANTS	76
5.5.2	EXTERNAL DETERMINANTS	80
5.6	EAST ASIA (SUB-GROUP, 78 BANKS) & LATIN AMERICA (SUB-GROUP, 89 BANKS) - BANK PROFITS.....	83
5.7	EAST ASIA (SUB-GROUP, 78 BANKS) AND LATIN AMERICA (SUB-GROUP, 89 BANKS) - NET INTEREST MARGINS	87
5.8	SUMMARY AND DISCUSSION OF FINDINGS.....	91
5.9	ROBUSTNESS CHECK.....	96
5.9.1	EAST ASIA AND LATIN AMERICA (FULL SAMPLE, 167 BANKS) - ... ROBUSTNESS CHECK, OWNERSHIP	96
5.9.2	EAST ASIA AND LATIN AMERICA (FULL SAMPLE, 167 BANKS) – ROBUSTNESS CHECK, LARGE AND SMALL BANKS	101
5.10	CHAPTER SUMMARY	106
CHAPTER 6 CONCLUSION AND RECOMMENDATIONS		108
6.1	OVERVIEW	108
6.2	MAJOR FINDINGS	110
6.3	LIMITATION OF THE STUDY	115
6.4	SUGGESTIONS FOR FUTURE RESEARCH.....	116
6.5	CHAPTER SUMMARY	117
BIBLIOGRAPHY.....		119
REFERENCES		124
DATA SOURCES		125
APPENDIX – LIST OF BANKS, ROAA and NIM		126

TABLE OF TABLES

Table 1 : International Comparison - Banking System, 2003 (% of GDP)	11
Table 2 : Brazil Banking System - Type of Institutions and Number of Banks, as at end.....	15
Table 3 : Brazil Banking System - Distribution of Banking System by Capital Origin (Number).....	16
Table 4 : Malaysia Banking Institutions	18
Table 5 : Thailand Financial Institution	19
Table 6 : Definitions, Notation and Expected Effect of the Explanatory Variables of Bank Profits and Net Interest Margins	59
Table 7 : Summary of Expected Sign on the 7 Variables with Respect to Previous Studies.....	60
Table 8 : Countries and Number of Banks.....	62
Table 9 : East Asia and Latin America (Full Sample, 167 Banks) - Descriptive Statistics (%), 2003 – 2008 Period	66
Table 10 : East Asia (Sub-group, 78 Banks) - Descriptive Statistics (%), 2003 – 2008 Period	67
Table 11 : Latin America (Sub-group, 89 Banks) - Descriptive Statistics (%), 2003 – 2008 Period	68
Table 12 : East Asia and Latin America (Full Sample, 167 Banks) - Independent Variables Correlation	69
Table 13 : East Asia (Sub-group, 78 Banks) - Independent Variables Correlation	69
Table 14 : Latin America (Sub-group, 89 Banks) - Independent Variables Correlation.....	69
Table 15 : East Asia and Latin America (Full Sample, 167 Banks) - Summary Results for ROAA and NIM.....	76
Table 16 : East Asia and Latin America (Full Sample, 167 Banks) - Robustness Check, Isolate Internal and External Factors.....	82

Table 17 : East Asia (Sub-group, 78 Banks) & Latin America (Sub-group, 89 Banks) – Summary Results for ROAA.....	86
Table 18 : East Asia (Sub-group, 78 Banks) & Latin America (Sub-group, 89 Banks) - Summary Results for NIM	88
Table 19 : East Asia (Sub-group, 78 Banks) & Latin America (Sub-group, 89 Banks) – Summary Results for ROAA and NIM	90
Table 20 : East Asia and Latin America (Full Sample, 167 Banks) – Robustness Check, Ownership	99
Table 21 : East Asia and Latin America (Full Sample, 167 Banks) – Robustness Check, Ownership (Sign/Significant Level).....	100
Table 22 : East Asia and Latin America (Full Sample, 167 Banks) – Robustness Check, Large and Small Banks	104
Table 23 : East Asia and Latin America (Full Sample, 167 Banks) – Robustness Check, Large and Small Banks (Sign/Significant Level).....	105

TABLE OF FIGURES

Figure 1 : Bank Credit to the Private Sector in East Asia and Latin America (% of GDP).....	12
Figure 2 : Bank Credit to the Private Sector by Countries, 2008 (% of GDP)	13
Figure 3 : Ex-Ante Banking Spreads of Latin America, East Asia, United States (in percentage points, 11 countries), 2008.....	14

LIST OF ABBREVIATIONS & SYMBOLS

CON3	Assets of three largest banks to the assets of all banks (Concentration ratio)
COST	Cost/Income ratio
EMH	Efficiency market hypothesis
EQAS	Equity/Total assets ratio
FSMP	Financial sector master plan
GDP	Gross domestic product
HH	Herfindahl-Hirschman index
IBF	International banking facilities
INF	Inflation
LNDEP	Net loans/Customer and short-term funding ratio
LOSRES	Loan loss reserves/gross loan ratio
NIM	Net interest margins (Net interest income/Average earning assets)
OECD	Organisation for Economic Co-operation and Development
ROAA	Return on average assets (Net profit before tax/Average total assets)
SCP	Structure-conduct performance
SIZE	Natural log of total assets of bank
B_0	Constitute the bank specific fixed effects constant term in the regression model
$B_1 - \beta_8$	Parameters to be estimated
ε_{ijt}	Random variable