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

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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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ALL GLORY, HONOUR AND PRAISES BE TO THE LIVING GOD.

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Dedicated to
My husband, Ngwu Amaechi Daniel
My father, Low Boon Hong
My mother, Lee Chuan
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**LIST OF ABBREVIATIONS & SYMBOLS**

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