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The Effect of Competition and Capacity on Bank Intermediation Cost: A Cross Country Study

MOCHAMMAD DODDY ARIEFIANTO[a], RINDANG WIDURI[a], EDI ABDURACHMAN[b] AND IRWAN TRINUGROHO[c*]

[a]*Accounting Department, Bina Nusantara University, Indonesia*
[b]*Management Department, Bina Nusantara University, Indonesia*
[c]*Faculty of Business and Economics, Universitas SebelasMaret, Indonesia*

ABSTRACT

We investigate the determinants of bank intermediation cost at the country level by focusing on the role of competition and bank capacity in a cross-country study. Using the Global Financial Development Database – GFDD, we estimate a regression of net interest margins to a set of variables specifically proxies for competition, capacity and some controlling variables. Panel data econometric techniques employed are fixed effect, random effect and pooled OLS. We find that intermediation cost is positively associated with capital adequacy, overhead cost, return on equity and ZSCORE. On the other hand, it is negatively associated with loan to deposit ratio, deposit to GDP and GDP per capita. Finally, our study has shown that income level and financial deepening have positive impact on intermediation efficiency

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[*] Corresponding author: Email: irwan.trinugroho@gmail.com