

The Determinants of Bank Margins in Thailand

Peerawong Promyod

5302042220

Master of Science Program in Finance (International Program) Faculty of Commerce and
Accountancy Thammasat University, Bangkok, Thailand

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ABSTRACT

This paper analyzes the factors that determine bank margins in Thailand. These factors include the determinants of pure spreads, specialization diversification variables, other bank-specific factors, and macro-economic and regulatory control variables. Bank margins definition is defined from a basic concept of net interest margins to a broader concept of gross margins. Empirical results suggest that the degree of risk aversion and the specialization variables significantly affect both net interest margins and gross margins. Moreover, the net interest margins are also determined by the transaction sizes, the risk- premium variables such as the credit risk and the interest rate risk, the management efficiency, and the regulatory variable, while the market power has a significant impact on the gross margins. In addition, the diversification variables significantly affect the gross margins if we focus only on the large banks.