

The stability-concentration relationship in the Thailand banking system

ABSTRACT

This paper aims to analyse the relationship between financial stability, as represent by NPLs and macroeconomics variables, bank specific variables, bank regulatory variables and banking concentration. We use Herfindahl–Hirschman dual index which solves some of the weak properties of traditional HHI in measuring banking concentration. We also use a dynamic panel data approach and evaluate the relationship following Arellano and Bond’s techniques. The empirical results suggest that banking concentration has a statistically negative impact on NPLs, suggesting that more concentrated banking systems may improve financial stability. These results can be usefully applied for regulators and banks in order to improve the stability of their banks and the overall Thailand banking system.