MEASURING COMPETITION IN BANKING INDUSTRY: EVIDENCE FROM LATIN AMERICAN ECONOMIES

Abdul Rafay1 Gabriel Franco2 and Usman Javed Gilani3

Abstract

This study investigates the speed at which the banking sector of Latin American countries adjust to equilibrium levels in the long run. For this purpose partial adjustment process to Panzar and Rosse H-Statistics is used. Markets adjust towards the long-run equilibrium in a non-instantaneous manner. In order to estimate the structure of market the adjustment speed is of crucial importance. In this paper, an empirical model on the basis of partial adjustment model is developed to measure this convergence speed. Empirical results from the Latin American economies suggest that the transition and speed of adjustment towards the long-run equilibrium varies from market to market depending on the profit deviation from market averages. It is suggested that profit deviations should be monitored by the banking regulators and all banks in Latin America should keep an eye on optimization to remain competitive and sustainable in the long run.

Keywords: Banking, Competition, Efficiency, H-Statistics, Partial Adjustment Model.

JEL Classification: G210

1 Professor of Finance & Accounting, University of Management & Technology (UMT), Lahore, Pakistan. Email: rafay.rafay@gmail.com
2 Research Analyst, Instituto de Bancario, Brazil. Email: g.francoidb.com.br
3 Lecturer, University of Management & Technology (UMT), Lahore, Pakistan. Email: ujgilani@gmail.com