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Publication: Financial Structure and Bank Profitability



Abstract

Countries differ in the extent to which their financial systems are bank-based or market-based. The financial systems of Germany and Japan, for example, are considered bank-based because banks play a leading role in mobilizing savings, allocating capital, overseeing investment decisions of corporate managers, and providing risk management vehicles. The systems of the United States, and the United Kingdom are considered more market-based. Using bank-level data for a large number of industrial and developing countries, the authors present evidence about the impact of financial development, and structure on bank performance. They measure the relative importance of bank or market finance by the relative size of stock aggregates, by relative trading or transaction volumes, and by indicators of relative efficiency. They show that in developing countries, both banks and stock markets are less developed, but financial systems tend to be more bank-based. The richer the country, the more active are all financial intermediaries. The greater the development of a country's banks, the tougher is the competition, the greater is the efficiency, and the lower are the bank margins, and profits. The more under-developed the stock market, the greater are the bank profits. But financial structure per se does not have a significant, independent influence on bank margins, and profits.

Citation

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Author(s)

[Demirgüç-Kunt, Asli](#)

Huizinga, Harry

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