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The Determinants of Commercial Bank Interest Margin and Profitability: Evidence from Tunisia

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Abstract

This paper investigates the impact of banks' characteristics, financial structure and macroeconomic indicators on banks' net interest margins and profitability in the Tunisian banking industry for the 1980-2000 period. Individual bank characteristics explain a substantial part of the within-country variation in bank interest margins and net profitability. High net interest margin and profitability tend to be associated with banks that hold a relatively high amount of capital, and with large overheads. Size is found to impact negatively on profitability which implies that Tunisian banks are operating above their optimum level. On the other hand, we found that macroeconomic variables have no impact on Tunisian bank's profitability. Turning to financial structure and its impact on banks' interest margin and profitability, we find that stock market development has a positive effect on bank profitability. This reflects the complementarities between bank and stock market growth. We have found that the disintermediation of the Tunisian financial system is favourable to the banking sector profitability. On the ownership side, we reach the conclusion that private banks tend to perform better than state owned ones. Finally, interest rate liberalization has contrasting effect on net interest margins. In fact, partial liberalization has a negative impact on the interest margin whereas complete liberalization strengthens the ability of Tunisian banks to generate profit margins.

Keywords: bank interest margin, bank profitability, panel data, Tunisia**JEL Classification:** G18, G21, O16[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID1538810_code1329729.pdf?abstractid=1538810&mirid=1\)](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2153119&abstractid=1538810&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN_ID1538810_code1329729.pdf?abstractid=1538810&mirid=1&type=2\)](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2153119&abstractid=1538810&mirid=1&type=2)

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