Banking Competition and Leader-Follower Interactions: Panel Estimates on Relevant Markets

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# ABSTRACT

This paper discusses banking competition and leader-follower relationship. Banking competition is investigated using some specification from Monti-Klein model that allows leader-follower (i.e. Stackelberg) relationship, the possibility of Cournot competition and other form of competition. We use monthly observations across 119 banks listed in Indonesia using the standard panel fixed effect methodology to absorb time-invariant unobserved heterogeneity and dynamic panel data as in Arellano-Bond (1991) to minimize the risks of endogeneity.

The estimation results suggest leader-follower relationship among banks on both loan and deposit markets. The results are mostly consistent across different groups and on full sample estimates, although are quite different in magnitudes. While leader-follower relationship is dominantly occur in estimations on credit market, there are some evidence of simultaneous appearance of both leader-follower and Cournot interactions on the deposit market.

JEL Classifications: C70, E50, G21

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