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# Interest margins and bank regulation in Central America and the Caribbean*

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## Abstract

This paper examines empirically the determinants of bank interest margins in Central America and the Caribbean over the period 1998-2014. A particular focus is set on the impact of differences in the regulatory environment and market structure across countries in explaining the interest margins of individual banks. Our results suggest that bank market power, operating costs, credit risk, and liquid asset holdings increase the margin between loan and deposit rates, while increased income diversification and GDP growth are associated with lower loan-deposit spreads. When considering information on banking regulation, we find strong evidence to support our main hypothesis that improvements in market quality and liberalization have a significant effect on interest margins. More specifically, reductions in entry requirements to banking, higher involvement of foreign banks, and increased financial statement transparency are associated with significant reductions in interest margins.


*JEL classification*: G21; L11; E43.
*Keywords*: Bank margin; bank spread; Central America; Caribbean.

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