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Bank Regulation and Market Discipline around the World

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Abstract

This paper investigates the effectiveness of depositor discipline and its relationship with bank regulation using a panel of about 18,000 bank-year data during 1992-2002 around 63 countries. We first conduct country-by-country estimation, finding that deposit growth is significantly correlated with bank risk for about a half of the countries and deposit interest rate for about a quarter of the countries. We then conduct pooled estimation, finding that strict capital regulation, as well as deposit insurance, attenuates depositor sensitivity to bank risk. This result is consistent with the hypothesis that regulatory authorities act as a representative monitor of banks for the sake of depositors. We also find that the less a financial system develops, either a bank-oriented or stock-market-oriented system, the more sensitive to bank risk depositors are. Underdevelopment of financial system and underlying weakness of rule of law seem to compel depositors to select banks according to their risk.

Key words: Market Discipline, Regulation, Deposit Insurance, Financial System

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1. Introduction

To maintain a stable banking system, market discipline by private agents is attracting more and more attention by policy-makers and expected to supplement bank regulation (e.g., Basel, 2003). Despite its growing importance, it is not yet well known under what conditions market discipline works well. This paper aims at exploring this issue by examining depositors' sensitivity to bank risk using a panel of about 18,000 bank-year data during 1992-2002 around 63 countries.

Demirguc-Kunt and Huizinga (2003) is the first, to our knowledge, that examined the conditions under which depositor discipline works effectively. They focused on the effect of deposit insurance and found that explicit deposit insurance reduced depositor's sensitivity to bank risk and that the more it did as its coverage was broader. This paper complements them by examining broad conditions for depositor discipline using a larger sample set. We investigate the effects of bank regulation and development of financial system as well as deposit insurance on depositor's sensitivity to bank risk.

In section 2, we preset our working hypothesis concerning how bank regulations and other institutional factors affect depositors' risk-sensitivity. Sections 3 and 4 describe our empirical methodology and data set, respectively. Section 5 presents our empirical results. Section 6 concludes.

2. Hypotheses

Depositors have to gather and process information in order to select banks according to bank risk. If they change banks, they must go to banks to open a new account or transfer funds. These activities are costly and time-consuming. Therefore, they do so only if it is beneficial. The more likely a bank failure is, and the more costs depositors incur in case of bank failure, the more it pays to select safer banks. Deposit insurance and bank regulation are probably most important

among the various institutional factors that affect the risk and costs of bank failure that depositors are burdened with. Rule of law and other general quality of governance may also affect the quality of regulation and thereby depositors' behavior. In addition to these institutional factors, industrial structure of banking sectors, such as the degree of concentration, often affects bank profitability and bank failure risk (Beck et al., 2003). Lastly, financial crises deeply harm bank healthiness and may change depositors' behavior (Martinez Peria and Schmukler, 2001). We describe these factors in details below.

2.1 Deposit Insurance

Explicit deposit insurance reduces the losses that depositors incur in the case of bank failure. The broader the coverage is, the fewer depositors' losses are, and the less sensitive to bank risk depositors are. This is what Demirguc-Kunt and Huizinga (2003) found using a panel of about 6500 bank-year data during 1990-97 around 52 countries. We extend sample countries and periods to reexamine their results.

2.2 Bank Regulation and Supervision

According to the representation hypothesis, advocated by Dewatripont and Tirole (1994), regulatory authorities act as a representative monitor of banks for the sake of depositors. Small depositors are often "unable to understand the intricacies of balance and off-balance activities" of banks (Dewatripont and Tirlolle, 1994, p. 32). In addition, each depositor has little incentive to monitor a bank due to the free-ride problem. This is the reason why public authorities regulate banks. If regulatory authorities intervene with bank management when bank capital is poor, depositors do not have to care about bank management and thus the safety of their deposits. Therefore, bank regulation reduces depositors' sensitivity to bank risk as long as regulation is effective.

We mainly investigate the effects of capital regulation among other bank regulations,

considering that it occupies a central role in both developing and developed countries. Other regulatory frameworks including disclosure requirements and external audit requirements may enhance the effectiveness of bank monitoring by private representatives, including large shareholders, pension funds, and other banks. This may, in turn, reduce depositors' sensitivity to bank risk. We also check this possibility.

2.3 Rule of Law and Financial Development

Well-established rule of law is associated with strong enforcement of contracts, powerful protection of property rights, high quality of bureaucracy, and low degree of corruption. Such legal environment might enable regulatory authorities to effectively control banks. As a result, depositors are less sensitive to bank risk in a country with well-established rule of law.

Highly developed financial systems, either bank-based or market-based systems, are also suggestive of strong protection of shareholder and creditor right, powerful contract enforcement, low levels of corruption, and good accounting standards as well as high income and low inflation (e.g., Demirguc-Kunt and Levine, 2001). Therefore, depositors in a country with a developed financial system may be less sensitive to bank risk.

2.4 Bank Concentration

Bank concentration may affect market discipline through its effect on financial stability. As for the effect of bank concentration on banking stability, there are two opposing views: "concentration-stability view," and "concentration-fragility" view (Beck et al. 2003). The "concentration stability view" asserts that a concentrated banking sector with large banks is more stable. For example, large banks can diversify better than small banks. If the banking industry is concentrated due to entry regulation, a small number of large banks that can enjoy rents or franchise values tend to operate in a prudent manner (Hellman, Murdock and Stiglitz, 2001). In addition, corporate control of banks may be easier when the number of banks is small

(Allen and Gale, 2000). Under such a stable banking system, depositors do not have to care about bank failure.

On the other hand, “the concentration-fragility” view insists that a concentrated banking structure enhances bank fragility. Large banks may be more informationally opaque and hence difficult to monitor, resulting in risky management. Large banks often receive subsidy under “too-big-to-fail” policy and hence may engage in excessive risk-taking (Boyd and Runkle, 1993 and Mishkin, 1999). Finally, banks with large market power may charge higher interest rates and thus induce borrowers’ risky investment (Boyd and De Nicolo, 2003). Depositors who face a fragile banking system generally tend to care about bank failure and be sensitive to bank risk. It should be noted, however, that they may be insensitive to bank risk if they do not incur any costs from bank failure when the government always bails out a risky bank under a too-big-to-fail policy.

2.6 Systemic Banking Crisis

In addition to the above institutional variables, systemic banking crises may strengthen depositors’ sensitivity to bank risk either because it “wakens up” depositors (Martinez Peria and Schmukler, 2001) or it dries up deposit insurance fund and thereby derives confidence in depositor protection.

3 Methodology

First, we see if depositors are sensitive to bank risk by conducting country-by-country estimation of depositors’ sensitivity to bank risk. Then, we examine how institutional differences across countries and time affect depositors’ sensitivity to bank risk.

3.1 Country-by-country estimation

If market discipline is to work effectively, depositors withdraw deposits from it and/or demand

a risk premium. Deposit withdrawal is measured by the rates of increase in deposits and the deposit interest rates (Park and Peristiani, 1998; Martinez Peria and Schmukler, 2001; Demirguc-Kunt and Huizinga, 2002; and Barajas and Steiner, 2000). Using panel data on banks' balance sheets for each country, we estimate the following two equations:

$$\Delta Deposits_{i,t} = \mu_i + d_t + \beta' Bank\ Fundamentals_{i,t-1} + \varepsilon_{i,t} \quad (1)$$

$$Interest\ Rates_{i,t} = \mu_i + d_t + \beta' Bank\ Fundamentals_{i,t-1} + \omega_{i,t} \quad (2)$$

, where $\Delta Deposits$ is the rate of changes in real deposits outstanding, $Interest\ Rates$ is the average interest rate on deposits, μ_i is a bank-fixed effect, d_t is a time-fixed effect, and $Bank\ Fundamentals$ is a vector of the measures of bank risk and other bank characteristics described below. We use one-period lagged values of $Bank\ Fundamentals$ to take into account that depositors know bank characteristics with a certain delay. We measure the average interest rates by dividing total interests paid on deposits by deposits outstanding. If depositors respond to bank risk, the coefficients of bank risk characteristics in equations (1) and (2) are negative and positive, respectively.

Bank fundamentals include equity (Equity), liquid assets (Liquidity), operating income (Profit), and overhead costs (Cost) as a proportion of total assets, as well as the logarithm of total assets (Size). In equation (2), we control for the difference in interest rates across deposits with different maturities by adding the ratio of customer and short-term funding to total interest bearing liability (Maturity) to the bank fundamental variables. It should be noted that Liquidity may depend on unobserved bank risk and hence may be subject to an endogeneity problem. To avoid this problem, we also estimate Equations 1 and 2 that exclude Liquidity from the explanatory variables.

3.2 Pooled Estimation

Pooling all the bank-year data across countries, we estimate the following two equations:

$$\begin{aligned}\Delta Deposits_{i,j,t} = & \beta' Bank\ Fundamentals_{i,j,t-1} \\ & + \gamma' Bank\ Fundamentals_{i,j,t-1} * Institutions_{j,t} \\ & + \delta Macroeconomic\ Variables_{j,t-1} + \varepsilon_{i,j,t}\end{aligned}\quad (3)$$

$$\begin{aligned}Interest\ Rates_{i,j,t} = & \beta' Bank\ Fundamentals_{i,j,t-1} \\ & + \alpha' Institutions_{j,t} \\ & + \gamma' Bank\ Fundamentals_{i,j,t-1} * Institutions_{j,t} \\ & + \delta Macroeconomic\ Variables_{j,t-1} + \varepsilon_{i,j,t}\end{aligned}\quad (4)$$

, where $Institutions_{j,t}$ denote bank regulation and other institutional indexes at time t at country j that may affect depositors' risk sensitivity as is discussed in section 2. The interaction terms of *Bank Fundamentals* and *Institutions* represent how institutional variables affect depositors' sensitivity to bank risk. We add *Institutions* to an explanatory variable of interest rate equation (Equation 4) solely because institutional variables is likely to affect the nation-wide banking stability and hence risk premium, but is not likely to affect the growth rate of deposits itself. *Macroeconomic Variables_{j,t}* includes inflation rate, per capita real GDP, its growth rate, Government bill rate, and total financial asset as a proportion of GDP.

4 Data

4.1 Sample Selection and Bank-Level Variables

Our main data source of bank financial statements is BankScope compiled by Fitch IBCA. We select countries that contain 20 banks or more. We exclude the bank-year samples that displayed 50% or more growth rate of deposits because they seem to have been involved with mergers and acquisitions. We also exclude obvious data errors. We do not restrict sample banks to commercial banks but include savings banks, cooperative banks, real estate mortgage banks, medium and long-term credit banks, non-banking credit institutions, specialized governmental credit institutions, and multi-lateral governmental banks. We are left with 6666 banks across 63

countries. The sample covers the period of 1992-2002. The longest period in a country is 11 years. The number of bank-year samples that we can use for estimation is 18094 at most. The definitions of bank-level variables are given by Table 1. Descriptive sample statistics of bank-level variables are given by Table 2 by country.

4.2 Institutional Variables

Bank regulation indexes include capital regulation index (CapReg), prompt corrective action index (PCAct) and private monitoring index (PMonitor). These are all collected by World Bank (Barth, Capiro and Levine, 2001). CapReg denotes the degree of capital stringency that ranges in value from 0 to 9 with a higher value indicating greater stringency. PCAct indicates whether a law establishes pre-determined levels of bank solvency deterioration which forces automatic enforcement actions such as intervention. If it does not, the value is zero. If it does, the value increases from 1 to 6 as the supervisory authorities has more powerful enforcement actions. PMonitor is the aggregate measure of the requirement of certified audit, the percentage of the top 10 banks that are rated by international credit rating agencies, the accounting disclosure and director liability, and no explicit deposit insurance scheme. PMonitor ranges from 0 to 7, with higher values indicating more private oversight. Unfortunately, these regulatory indexes are available only at 1998. We apply these values as of 1998 for all the sample period.

The level of financial development is measured by three variables: Stock market capitalization to GDP, deposit money bank assets to GDP, and the percentage of banking system's assets in banks that are 50% or more government owned. The first two variables are available for all the sample years from World Bank (2003b), while the last one is available only for 1998 from Barth et al. (2001). We applied the 1998 values of government-owned bank asset ratio to all the sample years.

Rule of law index is the degree to which agents have confidence in and abide by the rules

of society. This index includes perceptions of the incidence of crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts. It is constructed by the World Bank so that the mean is zero and the variance is one, with higher values indicating stronger confidence (Kaufmann, Kraay, and Mastruzzi, 2003). The data is available for every two years from 1996 to 2002. We applied the 1996 values to the pre-1996 period and took average of the neighboring years for the omitted years during 1996 and 2002.

Bank concentration (ConAss) is the share of three largest commercial banks' assets (World Bank, 2003a).

Deposit Insurance dummies (Insure) take the value of zero if there is no explicit deposit insurance, one if there is explicit deposit insurance with limited coverage, and two if there is explicit deposit insurance with unlimited coverage. The data source is Demirguc-Kunt and Huizinga (2003).

Systemic banking crisis dummies take the value of one if the country is undergoing systemic crisis and zero otherwise. The data source is Capiro and Klingebiel (2003).

The definitions of institutional variables and their descriptive sample statistics are shown by Tables 3 and 4, respectively.

5. Estimation Results

5.1 Country-by-Country Estimation

Table 5 shows the estimation results of deposit growth for each country (Equation 1). In Panel A, we exclude Liquidity from the explanatory variables. The coefficients of Equity are positive for 52 countries and significantly positive for 28 countries among 63 countries. The coefficients of Profit are positive for 37 countries and significantly positive for 11 countries among 63 countries. These results suggest that depositors are sensitive to bank risk to a more or less degree for many countries. In Panel B, we include Liquidity in the explanatory variables. The coefficients of Equity and Profit are similar to those in Panel A, while the coefficients of

Liquidity tend to be insignificant or even significantly negative, possibly due to the endogeneity problem. They are positive for 19 countries and significantly positive for only 4 countries among 58 countries.

Table 6 shows the estimation results of deposit interest rate for each country (Equation 2). In Panel A, without Liquidity, the coefficients of Equity are negative for 36 countries and significantly positive for 17 countries among 63 countries. The coefficients of Profit are positive for 35 countries and significantly positive for 10 countries among 63 countries. In Panel B, with Liquidity, the coefficients of Equity and Profit are again similar to those in Panel A. In addition, the coefficients of Liquidity tend to be negative for many countries. They are negative for 33 countries and significantly negative for 10 countries among 58 countries. Depositors tend to require risk premium to deposit interest rates to less capitalized, less profitable, or less liquid banks for many countries.

5.2 Pooled Estimation

5.2.1 Deposit growth

Table 7 shows the estimation results of deposit growth using pooled data (Equation 3). We first focus on the effects of institutional factors related to deposit insurance, bank regulation, rule of law, and financial development. Then, we look at the effects of concentration and crises.

Panel A shows the results when we use Equity as a bank risk measure. Looking at the coefficients of the interaction terms between Equity and institutional variables, we first see that explicit deposit insurance dummy (Insure) reduces depositors' risk sensitivity as Demirguc-Kunt and Huizinga (2003) found using a smaller set of samples. Among regulatory indexes, capital regulation index (CapReg) and private monitoring index (PMonitor) both reduce depositors' sensitivity to bank equity. These results are consistent with the representation hypothesis (Dewatripont and Tirole, 1994). Though prompt corrective action index (PCAct) seems to reinforce depositors' risk-sensitivity, the coefficient of Equity itself is negative on the contrary

to our expectation (Column 3). As for financial development, stock market capitalization to GDP and bank asset to GDP reduce depositors' risk sensitivity, while the proportion of government-owned bank asset reinforces depositors' risk sensitivity. All these results imply that depositors are forced to be selective among banks when financial system is underdeveloped. Rule of law reduces risk sensitivity, suggesting that it leads to strict bank regulation and/or financial development, which, in turn, reduces depositors' needs to be selective among banks.

Panel B shows the results when we use Profit as a bank risk measure. Deposit insurance reduces depositors' sensitivity to bank profits. As for financial development indices, stock market capitalization to GDP reduces risk sensitivity, while the proportion of government-owned bank assets reinforces risk sensitivity. These results are similar to the results for Equity.

Panel C shows the results when we use Liquidity as a bank risk measure. The interaction terms of Liquidity and institutional variables are mostly similar to those of Equity and institutional variables).

Looking at the effects of concentration, we see that the results are mixed. In Panel A, the interaction term of ConAss with Equity has a significantly positive coefficient, while in Panels B and C, its interaction terms with Profit and Liquidity have significantly negative coefficients. As is discussed in Section 2.4, concentration has two opposing effects on bank stability and hence depositors' risk sensitivity, which may result in the mixed results.

Lastly, we find weak evidence that a systemic banking crisis increases depositors' sensitivity to bank risk. The interaction term of Crisis with Equity has a significantly positive coefficient in Panel A, while its interaction terms with Profit and Liquidity do not have a significant coefficient in Panels B and C.

5.2.2 Deposit Interest Rate

Table 8 shows the estimation results of deposit interest rate using pooled data (Equation 4).

Panel A shows the results for Equity. Note that a negative (positive) coefficient of the interaction term between Equity and an institutional variable suggests that that institutional factor reinforces (reduces) depositors' risk sensitivity in terms of risk premium. Deposit insurance, capital regulation, stock market capitalization to GDP, and bank asset to GDP reduce depositors' risk sensitivity in terms of risk premium, while the proportion of government-owned bank asset reinforces it. These are consistent with the results for deposit growth equations shown by Table 7. Unlike deposit growth equations, prompt corrective action reduces depositors risk sensitivity.

Panel B shows the results for Profit. They are similar to those for Equity as far as deposit insurance and regulation-related variables are concerned.

Panel C shows the results for Liquidity. Deposit insurance, prompt corrective action, private monitoring index, and stock market capitalization to GDP reduce depositors' risk sensitivity in terms of risk premium. Unlike the results for Equity and Profit, bank asset to GDP has a strengthening effect.

As for the effects of concentration and systematic banking crises on risk premium, we see that the results are mixed.

6. Conclusion

First, we have found that depositors' risk sensitivity is different among countries. Then, we have explored the reasons for such a difference. In sum, our results show that a strict financial regulation and a well-developed financial system tend to reduce depositors' risk sensitivity. Though the effect of these institutional factors on depositors' sensitivity is similar to the effect of explicit deposit insurance, the mechanism may be totally different. While deposit insurance tends to induce banks' excessive risk-taking without imposing its costs on depositors, a strict regulation and a well-developed financial system may restrain banks' excessive risk-taking, which makes depositors unnecessary to watch banks. It is left for a future work to identify two opposing effects.

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Table 1. Definitions of Bank Data

Variables	Definitions
Deposit Growth	Total Deposits (6080) / GDP Deflator
Deposit Interest Rate	Interest Expense (6250) / (Customer & Short Term Funding (2030) + Other Funding (2035)) - Rate of change in GDP deflator
Equity	Equity (2055) / Total Assets (2025)
Liquidity	Liquid Assets (2075) / Total Assets (2025)
Profit	Operating Income (2190) / Total Assets (2025)
Cost	Overheads (2090) / Total Assets (2025)
Maturity	Customer & Short Term Funding (2030) / (Total Liability (6290) - Non-Interest-Bearing Liability (2040))
Size	Logarithm of Total Assets (2025) / GDP Deflator

Note

1. Numbers in parentheses denote code numbers from BankScope
2. GDP deflators are from International Financial Statistics by IMF.
3. GDP deflators are replaced with CPI for Bahamas, Bulgaria, Kenya and Luxemburg due to data availability.

Table 2. Descriptive Statistics of Bank Data by Country

Panel A. Mean

country name	Deposit Growth	Interest Expense	Equity	Liquidity	Profit	Cost	Maturity	Scale
ARGENTINA	0.02	0.05	0.18	.	0.10	0.08	0.96	6.1
AUSTRALIA	0.03	0.05	0.07	0.07	0.03	0.02	0.86	8.6
AUSTRIA	0.05	0.02	0.06	0.15	0.04	0.02	0.88	6.4
BAHAMAS	0.03	0.05	0.16	0.42	0.07	0.04	0.97	5.7
BANGLADESH	0.11	0.03	0.04	0.21	0.03	0.02	1.00	9.7
BELGIUM	0.04	0.03	0.07	0.16	0.03	0.02	0.92	6.9
BRAZIL	0.00	0.09	0.15	.	0.11	0.08	0.83	7.1
BULGARIA	0.03	-0.13	0.17	0.45	0.10	0.08	0.99	2.7
CANADA	0.03	0.03	0.08	0.05	0.03	0.02	0.98	7.4
CHILE	0.04	0.02	0.18	0.27	0.07	0.04	0.90	12.8
CHINA-PEOPLE'S REP.	0.15	0.02	0.10	0.30	0.03	0.01	0.87	10.7
COLOMBIA	0.01	-0.01	0.13	0.14	0.11	0.09	0.91	13.4
COSTA RICA	0.09	0.01	0.20	0.29	0.08	0.06	1.00	9.3
CROATIA	0.08	-0.02	0.19	0.24	0.08	0.05	0.87	6.8
CZECH REPUBLIC	0.07	0.01	0.07	0.22	0.06	0.05	0.95	10.1
DENMARK	0.05	0.01	0.13	0.23	0.05	0.04	0.95	7.6
DOMINICAN REPUBLIC	0.12	0.02	0.10	0.27	0.09	0.07	0.86	7.7
ECUADOR	0.02	0.19	-0.39	0.24	0.09	0.08	0.96	4.6
EGYPT	0.07	0.02	0.10	0.16	0.04	0.02	0.95	8.0
FRANCE	0.03	0.05	0.06	0.11	0.04	0.03	0.89	7.7
GERMANY	0.04	0.03	0.09	0.32	0.04	0.03	0.95	6.6
GREECE	0.06	0.02	0.09	0.34	0.05	0.03	0.99	8.1
GUATEMALA	0.07	0.01	0.07	0.17	0.07	0.06	0.80	6.5
HONDURAS	0.08	-0.02	0.13	0.23	0.08	0.06	0.88	6.9
HONG KONG	0.01	0.06	0.19	0.34	0.04	0.02	0.90	8.1
HUNGARY	0.09	-0.04	0.11	0.08	0.08	0.05	0.92	11.2
INDIA	0.11	0.02	0.06	0.35	0.04	0.03	0.97	10.7
INDONESIA	0.07	-0.06	0.07	0.14	0.05	0.03	0.81	14.0
IRELAND	0.12	0.00	0.09	0.22	0.02	0.01	0.97	8.1
ITALY	0.04	0.01	0.12	0.34	0.04	0.03	0.81	6.0

country name	Deposit Growth	Interest Expense	Equity	Liquidity	Profit	Cost	Maturity	Scale
JAPAN	0.02	0.02	0.05	0.20	0.02	0.02	0.97	12.5
KENYA	0.01	0.04	0.16	0.35	0.09	0.06	0.95	8.2
KOREA REP. OF	0.09	0.04	0.05	0.12	0.03	0.02	0.84	16.5
LATVIA	0.11	-0.04	0.10	0.10	0.08	0.08	0.98	3.9
LUXEMBOURG	0.02	0.04	0.05	0.45	0.02	0.01	0.92	7.3
MALAYSIA	0.08	0.02	0.08	0.21	0.04	0.02	0.99	8.8
MEXICO	0.04	0.10	0.13	0.24	0.06	0.05	0.95	8.9
NETHERLANDS	0.05	0.04	0.08	0.31	0.03	0.02	0.87	7.8
NIGERIA	0.10	-0.13	0.13	0.53	0.14	0.09	1.00	8.8
NORWAY	0.05	0.01	0.08	0.06	0.04	0.02	0.82	9.1
PAKISTAN	0.09	0.00	0.07	0.38	0.04	0.03	0.98	9.7
PANAMA	0.07	0.05	0.09	0.26	0.03	0.02	0.96	5.7
PARAGUAY	0.03	0.13	0.17	0.42	0.10	0.10	0.96	12.5
PERU	0.10	0.01	0.12	0.19	0.09	0.08	0.98	6.8
PHILIPPINES	0.07	-0.01	0.16	0.28	0.06	0.04	0.97	10.3
POLAND	0.14	0.00	0.12	0.11	0.06	0.04	0.99	7.4
PORTUGAL	0.06	0.02	0.07	0.11	0.04	0.02	0.92	7.8
ROMANIA	-0.09	-0.28	0.21	0.19	0.13	0.07	0.99	11.5
RUSSIAN FEDERATION	0.02	-0.32	0.17	0.39	0.09	0.06	0.97	9.2
SINGAPORE	0.11	0.04	0.14	0.19	0.03	0.01	0.99	8.5
SLOVAKIA	0.04	0.04	0.05	0.39	0.07	0.04	0.97	9.7
SLOVENIA	0.12	-0.04	0.13	0.15	0.06	0.04	0.95	10.7
SOUTH AFRICA	0.08	0.02	0.11	0.17	0.08	0.05	0.91	8.6
SPAIN	0.05	0.00	0.10	0.16	0.04	0.03	0.94	7.5
SWEDEN	-0.01	0.02	0.06	0.17	0.03	0.02	0.65	10.6
SWITZERLAND	0.03	0.02	0.14	0.22	0.05	0.03	0.84	6.2
THAILAND	0.06	0.04	0.08	0.15	0.02	0.02	0.88	12.0
TUNISIA	0.08	0.05	0.15	0.12	0.05	0.02	0.81	6.6
TURKEY	-0.03	-0.48	0.10	0.45	0.09	0.06	0.96	18.1
UNITED KINGDOM	0.05	0.03	0.11	0.28	0.04	0.02	0.96	6.8
URUGUAY	0.09	0.19	0.09	0.22	0.09	0.07	0.98	7.6
USA	0.05	0.02	0.09	0.08	0.05	0.03	0.89	7.4
VENEZUELA	0.02	-0.22	0.18	0.34	0.13	0.09	0.98	10.2

Panel B. Std.Dev.

country name	Deposit Growth	Interest Expense	Equity	Liquidit y	Profit	Cost	Maturity	Scale
ARGENTINA	0.22	0.05	0.15		0.07	0.06	0.07	1.9
AUSTRALIA	0.21	0.03	0.07	0.07	0.03	0.02	0.23	1.6
AUSTRIA	0.12	0.01	0.04	0.11	0.02	0.01	0.16	1.6
BAHAMAS	0.22	0.04	0.15	0.31	0.17	0.13	0.11	1.4
BANGLADESH	0.13	0.07	0.06	0.11	0.02	0.01	0.01	1.0
BELGIUM	0.15	0.02	0.07	0.18	0.02	0.02	0.13	2.2
BRAZIL	0.24	0.21	0.14		0.08	0.06	0.17	2.0
BULGARIA	0.20	0.20	0.10	0.20	0.10	0.10	0.02	2.0
CANADA	0.18	0.02	0.06	0.06	0.04	0.03	0.02	1.9
CHILE	0.19	0.04	0.18	0.17	0.04	0.02	0.10	1.8
CHINA-PEOPLE'S	0.18	0.06	0.10	0.16	0.01	0.01	0.18	2.6
COLOMBIA	0.18	0.07	0.10	0.10	0.05	0.05	0.14	1.0
COSTA RICA	0.20	0.06	0.15	0.14	0.04	0.04	0.01	1.6
CROATIA	0.22	0.11	0.15	0.13	0.04	0.03	0.14	1.3
CZECH REPUBLIC	0.20	0.06	0.05	0.20	0.10	0.10	0.12	1.4
DENMARK	0.11	0.01	0.05	0.18	0.02	0.01	0.16	1.8
DOMINICAN	0.22	0.04	0.22	0.10	0.07	0.07	0.12	1.8
ECUADOR	0.24	0.24	1.41	0.15	0.13	0.07	0.08	1.8
EGYPT	0.14	0.03	0.06	0.04	0.01	0.01	0.11	1.3
FRANCE	0.16	0.06	0.25	0.14	0.04	0.02	0.18	1.8
GERMANY	0.16	0.02	0.10	0.23	0.03	0.03	0.10	1.8
GREECE	0.17	0.02	0.05	0.12	0.02	0.01	0.02	1.6
GUATEMALA	0.19	0.04	0.28	0.09	0.03	0.02	0.18	0.8
HONDURAS	0.16	0.07	0.05	0.09	0.02	0.02	0.09	0.8
HONG KONG	0.20	0.07	0.16	0.22	0.03	0.02	0.18	2.7
HUNGARY	0.19	0.06	0.06	0.07	0.09	0.09	0.11	1.3
INDIA	0.12	0.02	0.04	0.12	0.01	0.01	0.11	1.4
INDONESIA	0.22	0.17	0.19	0.14	0.06	0.02	0.22	1.7
IRELAND	0.17	0.03	0.10	0.14	0.02	0.01	0.05	1.2
ITALY	0.12	0.03	0.06	0.15	0.01	0.01	0.15	1.9

country name	Deposit Growth	Interest Expense	Equity	Liquidit y	Profit	Cost	Maturity	Scale
JAPAN	0.08	0.01	0.07	0.11	0.02	0.01	0.12	2.1
KENYA	0.18	0.06	0.11	0.13	0.04	0.03	0.15	1.2
KOREA REP. OF	0.16	0.03	0.04	0.06	0.02	0.03	0.18	1.4
LATVIA	0.25	0.05	0.09	0.07	0.05	0.06	0.04	1.1
LUXEMBOURG	0.18	0.03	0.07	0.24	0.02	0.01	0.16	1.5
MALAYSIA	0.20	0.03	0.04	0.10	0.02	0.01	0.04	1.3
MEXICO	0.23	0.17	0.10	0.18	0.04	0.04	0.11	2.0
NETHERLANDS	0.18	0.04	0.09	0.24	0.03	0.02	0.22	2.1
NIGERIA	0.24	0.26	0.08	0.13	0.04	0.03	0.01	1.3
NORWAY	0.12	0.06	0.03	0.04	0.02	0.02	0.17	1.4
PAKISTAN	0.17	0.04	0.04	0.15	0.02	0.01	0.11	1.3
PANAMA	0.18	0.02	0.05	0.17	0.01	0.01	0.08	1.1
PARAGUAY	0.21	0.16	0.10	0.12	0.05	0.06	0.07	1.0
PERU	0.22	0.09	0.06	0.10	0.07	0.05	0.05	1.2
PHILIPPINES	0.19	0.02	0.07	0.11	0.02	0.01	0.16	1.3
POLAND	0.19	0.09	0.10	0.09	0.03	0.02	0.02	1.6
PORTUGAL	0.18	0.03	0.05	0.09	0.02	0.02	0.12	1.6
ROMANIA	0.23	0.08	0.12	0.12	0.05	0.04	0.03	4.2
RUSSIAN	0.31	0.81	0.11	0.18	0.06	0.04	0.08	2.0
SINGAPORE	0.18	0.03	0.08	0.13	0.01	0.01	0.02	1.6
SLOVAKIA	0.19	0.05	0.30	0.19	0.15	0.02	0.06	1.5
SLOVENIA	0.13	0.02	0.06	0.11	0.02	0.02	0.08	1.2
SOUTH AFRICA	0.20	0.03	0.11	0.16	0.05	0.04	0.20	2.3
SPAIN	0.15	0.02	0.10	0.15	0.02	0.02	0.13	1.9
SWEDEN	0.20	0.08	0.04	0.21	0.04	0.03	0.34	1.8
SWITZERLAND	0.15	0.03	0.14	0.21	0.05	0.04	0.14	1.7
THAILAND	0.15	0.03	0.07	0.15	0.02	0.01	0.19	1.0
TUNISIA	0.18	0.14	0.14	0.11	0.01	0.01	0.24	1.1
TURKEY	0.23	0.18	0.07	0.16	0.08	0.04	0.11	1.7
UNITED KINGDOM	0.14	0.02	0.11	0.23	0.04	0.03	0.10	2.3
URUGUAY	0.18	0.26	0.06	0.19	0.06	0.05	0.04	1.7
USA	0.14	0.02	0.05	0.09	0.04	0.03	0.16	1.6
VENEZUELA	0.22	0.27	0.18	0.16	0.05	0.04	0.07	2.4

Table 3. Definitions and Sources of Institutional and Macroeconomic Variables

Variable	Variable Name	Content	Source
Insure	Deposit Insurance Dummy	Zero for no explicit deposit insurance, one for explicit deposit insurance with coverage limit, and two for explicit deposit insurance with unlimited coverage.	3
SCrisis	Systemic Banking Crisis Dummy	Zero for no systemic banking crisis, One for systemic banking crisis.	2
CapReg	Capital Regulation Index	Ranges from zero to nine with a higher value indicating greater stringency.	1
PcAct	Prompt Corrective Action Index	Ranges from zero to six with a higher value indicating stronger supervisory power.	1
ConAss	Concentration of Bank Asset Index	Proportion of the three largest banks' assets	5
Pmonitor	Private Monitoring Index	Ranges from zero to seven with a higher value indicating more private oversight	1
GovBank	Proportion of Government-Owned Bank Asset	Percentage of banking system's assets in banks that are 50% or more government-owned.	1
BankassGDP	Depository Bank Asset to GDP	Depository bank asset as a proportion of GDP	6
StockcapGDP	Stock Market Capitalization to GDP	Stock market capitalization as a proportion of GDP	6
RuleLaw	Rule of Law Index	Index with mean zero and standard deviation one with a higher value indicating more confidence in rules of the society.	4
Inflation	Inflation Rate	Rate of change in GDP deflators	7
Growth	Real Per capita GDP Growth Rate	Rate of change in real per capita GDP	7,8
GNP/Cap	Real Per capita GNP	Nominal GDP denominated by home currency divided by GDP deflator and population	7,8
GovRate	Short-Term Government Bond Rate	T-bill rate, discount rate or bank rate	7
Asset Size	Total Bank Asset to GDP	Logarithm of total asset to GDP	7,8

Source

- [1] Barth, James R., Gerard Capiro, Jr., and Ross Levine (2001), "The Regulation and Supervision of Banks Around the World: A New Database." http://www.worldbank.org/research/interest/worddocs/Database%20WP_050701_all.pdf
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- [3] Demircug-Kunt, Asli, and Harry Huizinga (2003), "Market Discipline and Deposit Insurance," Journal of Monetary Economics forthcoming.
- [4] Kaufman, Daniel, Aart Kraay, and Massimo Mastruzzi, (2003) "Governance Matters : Governance Indicators for 1996-2002," <http://www.worldbank.org/wbi/governance/govdata2002/>
- [5] World Bank (2003a) "Conference on Bank Concentration and Competition: Data," <http://www.worldbank.org/research/interest/confs/042003/data.htm>
- [6] World Bank (2003b) "Financial structure and economic development database" <http://www.worldbank.org/research/projects/finstructure/database.htm>
- [7] International Monetary Fund, International Financial Statistics.
- [8] The World Bank, World Development Indicators.

Table 4. Descriptive Statistics of Institutional and Macroeconomic Variables

Mean														
country name	Government Rate	Inflation	GDP/cap	Growth	Insure	CapReg	ConAss	SCrisis	PcAct	Pmonitor	GovBank	Bankass GDP	Stockcap GDP	RuleLaw
AUSTRIA	2.76	0.01	315125	0.02	1.00	6.00	0.44	0.00	6.00	6.00	4.10	0.57	0.14	2.03
BAHAMAS	2.58	0.01	13928	0.04	0.00			0.00				0.64		1.01
BELGIUM	3.97	0.02	837130	0.02	1.00	8.00	0.75	0.00		6.00		1.05	0.56	1.51
BULGARIA	15.42	0.20	91	0.03	0.99			0.13			17.60	0.25	0.60	-0.11
CANADA	4.58	0.02	28219	0.02	1.00	4.00	0.56	0.00	0.00	7.00	0.00	0.73	0.82	1.88
CHILE	8.07	0.05	1846161	0.02	1.00	3.00	0.48	0.00	3.00	8.00	11.70	0.55	0.80	1.27
CHINA-PEOPLE'S REP.	6.20	0.03	5826	-5.10	0.80	0.00	0.00	0.08	2.00	0.88	7.00		1.06	0.23
COLOMBIA	26.64	0.14	2142976	-0.01	1.00			0.00				0.23	0.11	-0.61
COSTA RICA	32.42	0.12	655236	0.03	0.00			1.00				0.22	0.09	0.75
CROATIA	6.54	0.07	27390	0.06	0.79	4.00	0.62	0.11	4.00	7.00	36.99	0.50	0.13	-0.10
CZECH REPUBLIC	8.20	0.07	137639	0.02	1.00	2.00	0.72	1.00	5.00	5.00	19.00	0.69	0.20	0.63
DOMINICAN REPUBLIC	6.40	0.07	24803	0.06	1.00			0.00				0.73		-0.29
EGYPT	8.39	0.05	3676	0.03	0.00	3.00	0.58	0.00	6.00	8.00	66.60	0.75	0.26	0.19
FRANCE	4.32	0.01	138704	0.02	1.00	8.00	0.33	0.00	0.00	6.00		0.70	0.59	1.49
GERMANY	3.70	0.01	44448	0.02	1.00	6.00	0.32	0.00	0.00	5.00	42.00	1.18	0.41	1.84
GREECE	10.02	0.06	2747289	0.02	0.99	4.00	0.71	0.00	0.00	6.00	13.00	0.67	0.53	0.72
HONG KONG	4.82	0.00	177426	0.02	0.00			0.00				1.68	2.59	1.62
HUNGARY	16.70	0.13	614399	0.04	1.00	5.00	0.53	0.08	6.00	6.00	2.50	0.36	0.14	0.78
INDIA	9.14	0.06	14123	0.04	1.00	7.00	0.37	0.00	0.00	6.00	80.00	0.36	0.27	0.13
INDONESIA	16.99	0.18	2286298	0.02	0.00	3.00	0.51	0.56	6.00	8.00	44.00	0.51	0.20	-0.64
IRELAND	5.80	0.05	14303	0.08	1.00	6.00	0.68	0.00	0.00	6.00		1.03	0.60	1.78
ITALY	4.87	0.03	32900000	0.02	1.00	6.00	0.30	0.00	0.00	6.00	17.00	0.40	0.43	0.96
JAPAN	0.40	-0.02	4183241	0.02	2.00		0.27	1.00	6.00	8.00	1.15	1.32	0.67	1.71
KENYA	16.64	0.07	17803	0.01	1.00	4.00	0.57	0.01	6.00	4.00		0.35	0.13	-0.98
KOREA REP. OF	3.91	0.03	8897884	0.04	1.65	8.00	0.37	0.66	4.00	6.00	29.70	0.67	0.37	0.77
LATVIA	8.41	0.07	1118	0.06	0.66	4.00	0.53	1.00	0.00	4.00		0.18	0.04	0.21
MEXICO	18.23	0.14	22768	0.03	1.00	7.00	0.64	0.16	3.00	6.00	25.00	0.32	0.16	-0.30
NORWAY	7.95	0.04	232275	0.03	1.00		0.61	0.02				0.69	0.35	2.04
PAKISTAN	11.67	0.08	15018	0.01	0.00			0.00				0.38	0.13	-0.60
PARAGUAY	19.78	0.09	3399868	-0.04	0.00			0.40				0.24	0.04	-0.80
PERU	15.64	0.08	5160	0.02	1.00	8.00	0.64	0.00	4.00	8.00	2.50	0.22	0.19	-0.42
PHILIPPINES	11.89	0.08	29072	0.01	1.00	6.00	0.40	0.62	6.00	8.00	12.12	0.53	0.55	-0.22
POLAND	20.96	0.11	9262	0.08	0.95	6.00	0.57	0.71	0.00	7.00	43.70	0.31	0.07	0.55
country name	Government Rate	Inflation	GDP/cap	Growth	Insure	CapReg	ConAss	SCrisis	PcAct	Pmonitor	GovBank	Bankass GDP	Stockcap GDP	RuleLaw
ROMANIA	56.33	0.45	2969628	0.00	1.00	2.00	0.78	1.00	0.00	6.00	70.00	0.15	0.00	-0.21
SINGAPORE	1.72	0.00	36102	0.05	0.00	4.00	0.85	0.00	0.00	9.00	0.00	1.09	1.50	2.09
SLOVENIA	9.96	0.09	1241911	0.03	0.00	6.00	0.64	0.01	6.00	6.00	39.60	0.40	0.07	0.81
SOUTH AFRICA	14.09	0.08	13691	0.01	0.00	6.00	0.78	0.00	0.00	8.00	0.00	0.68	1.45	0.28
SPAIN	4.72	0.04	1978882	0.03	1.00	6.00	0.54	0.00	3.00	8.00	0.00	0.65	0.56	1.27
SWEDEN	4.40	0.05	204967	0.02	0.98	4.00	0.78	0.00	0.00	6.00	0.00	0.45	1.10	1.95
SWITZERLAND	2.10	0.01	924	0.15	1.00	7.00	0.77	0.00	0.00	8.00	15.00	1.80	1.97	2.17
TUNISIA	8.15	0.03	2184	0.04	0.00			0.00				0.53	0.14	0.34
TURKEY	48.70	0.51	136000000	0.03	2.00	3.00	0.55	0.85	0.00	6.00	35.00	0.38	0.03	0.06
UNITED KINGDOM	5.71	0.03	13078	0.02	1.00	9.00	0.47	0.00	0.00	8.00	0.00	1.19	1.43	1.91
URUGUAY	27.52	0.10	41458	0.01	0.00			0.00				0.41	0.01	0.57
USA	4.48	0.02	29344	0.03	1.00	6.00	0.20	0.00	5.00	8.00	0.00	0.72	1.21	1.77

Table 5. Within Estimates: Deposit Growth: Panel A

country name	Equity	Profit	Cost	Scale	Adj R-sq	Number of Banks	Number of observatins	R-sq Difference	Sample period
ARGENTINA	0.09	0.98	0.07	-0.15 **	0.36	117	323	0.004	1994 - 2002
AUSTRALIA	0.31	-3.70	2.82	-0.18 ***	0.09	55	257	0.005	1992 - 2002
AUSTRIA	0.24	0.79	2.48	-0.27 ***	0.20	190	725	0.001	1992 - 2001
BAHAMAS	0.26	3.79 *	-5.60 **	-0.06	0.29	31	85	0.034	1993 - 2002
BANGLADESH	-0.31	1.34	3.10	-0.35 ***	0.54	26	108	0.007	1994 - 2002
BELGIUM	1.49 ***	0.65	1.38	-0.05	0.25	105	490	0.020	1992 - 2001
BRAZIL	0.49 **	-0.35	0.54	-0.04	0.18	144	446	0.011	1995 - 2001
BULGARIA	0.66	-0.36	0.47	0.04	0.30	24	72	0.016	1992 - 2002
CANADA	1.67 **	-1.50	0.90	-0.18 ***	0.27	60	301	0.014	1992 - 2002
CHILE	0.85 *	-1.64	10.26 **	0.05	0.21	32	143	0.022	1993 - 2002
CHINA-PEOPLE'S REP.	-1.96 ***	0.87	-9.03 **	-0.30 ***	0.54	36	120	0.041	1994 - 2000
COLOMBIA	0.00	-1.04	0.85	-0.22 **	0.11	48	209	0.007	1992 - 2002
COSTA RICA	-0.16	4.99 ***	-4.44 *	-0.13	0.34	40	140	0.037	1992 - 2002
CROATIA	0.79 ***	1.17 *	-1.14 **	0.06	0.57	45	167	0.029	1994 - 2001
CZECH REPUBLIC	0.24	-0.20	0.28	-0.07	0.20	35	133	0.001	1994 - 2002
DENMARK	1.31 ***	1.81 *	0.80	-0.12 ***	0.31	106	624	0.018	1994 - 2002
DOMINICAN REPUBLI	-0.28	1.56	0.69	0.10	0.32	26	95	0.007	1993 - 2002
ECUADOR	0.01	-0.77 *	-0.79	-0.23 *	0.14	37	82	0.044	1992 - 2001
EGYPT	1.87 ***	0.25	-0.36	-0.22 ***	0.33	36	217	0.044	1993 - 2002
FRANCE	0.11 *	-0.01	1.03	-0.08 ***	0.23	449	1933	0.002	1992 - 2002
GERMANY	0.44 ***	-0.33	-0.35	-0.10 ***	0.19	251	1309	0.007	1992 - 2002
GREECE	4.67 ***	-1.87	-3.62	-0.01	0.61	22	70	0.158	1992 - 2001
GUATEMALA	0.91 *	0.05	-0.12	-0.09	0.26	35	167	0.019	1993 - 2001
HONDURAS	0.69	1.92	-0.95	-0.23 ***	0.09	21	85	0.028	1993 - 2002
HONG KONG	0.01	0.91	-1.06	-0.21 ***	0.22	87	360	0.001	1993 - 2002
HUNGARY	0.47	0.38	-1.11	-0.17 *	0.10	37	135	0.007	1993 - 2001
INDIA	1.19 ***	2.35 **	-0.10	-0.16 ***	0.43	74	418	0.033	1993 - 2001
INDONESIA	0.21 *	-0.25	-0.62	-0.27 ***	0.29	100	381	0.008	1992 - 2001
IRELAND	0.58	8.09 *	-9.15	-0.11 *	0.44	41	155	0.036	1992 - 2002
ITALY	0.63 ***	2.16 ***	0.68 **	-0.12 ***	0.20	754	3176	0.018	1992 - 2002
JAPAN	0.39 ***	1.02 ***	0.20	-0.19 ***	0.32	829	2527	0.007	1992 - 2002

***, **, * indicate statistical significance levels of 1,5 and 10 percent, respectively.

country name	Equity	Profit	Cost	Scale	Adj R-sq	Number of Banks	Number of observatins	R-sq Difference	Sample period
KENYA	0.83 *	1.77 *	-0.53	-0.08	0.04	50	184	0.037	1992 - 2002
KOREA REP. OF	0.81	-0.32	1.01	-0.19 ***	0.12	37	172	0.008	1992 - 2002
LATVIA	1.60	1.02	0.56	0.06	0.11	23	59	0.036	1995 - 2002
LUXEMBOURG	-0.66 **	0.07	-0.19	-0.20 ***	0.22	137	689	0.006	1992 - 2002
MALAYSIA	1.34 **	1.56	-0.80	-0.07	0.43	53	208	0.043	1993 - 2001
MEXICO	1.03	-2.27 **	-2.13 *	-0.25 **	0.07	44	154	0.027	1992 - 2002
NETHERLANDS	-0.71	0.11	4.88	-0.07	0.32	61	313	0.007	1992 - 2002
NIGERIA	1.76 ***	-0.19	0.56	-0.03	0.40	52	170	0.039	1993 - 2001
NORWAY	-1.02	3.19 **	-2.48	-0.30 ***	0.22	59	270	0.019	1992 - 2002
PAKISTAN	2.96 ***	0.82	-0.58	-0.10	0.32	24	137	0.075	1993 - 2002
PANAMA	1.64 ***	3.03	1.42	-0.14 *	0.32	68	185	0.04	1992 - 2001
PARAGUAY	3.33	-2.01	13.04 *	0.21	-0.17	21	43	0.014	1995 - 2001
PERU	-0.53	-1.80 *	-0.21	-0.17 *	0.28	28	115	0.021	1993 - 2002
PHILIPPINES	0.56	1.23	-3.49	-0.36 ***	0.39	40	170	0.008	1992 - 2001
POLAND	0.59 **	-2.79 **	4.91 **	-0.03	0.39	49	173	0.026	1993 - 2001
PORTUGAL	2.47 ***	-2.46	3.05	-0.02	0.32	41	218	0.034	1992 - 2002
ROMANIA	1.78	0.81	-3.33	-0.48 **	-0.16	26	62	0.041	1996 - 2001
RUSSIAN FEDERATIO	1.17	-0.84	0.86	-0.43	0.44	73	92	0.012	1995 - 2002
SINGAPORE	3.14 **	-2.83	2.35	-0.12	0.42	25	91	-0.005	1992 - 2001
SLOVAKIA	0.82	-1.79	2.71	-0.27 ***	0.39	21	75	0.024	1995 - 2002
SLOVENIA	-0.57	0.22	2.26	-0.19 **	0.45	23	110	0.004	1994 - 2002
SOUTH AFRICA	1.89 **	0.46	-4.45	-0.32 **	0.48	26	90	0.058	1992 - 2002
SPAIN	-0.19	0.99	1.02	-0.14 ***	0.28	171	863	0.002	1992 - 2002
SWEDEN	5.02 **	-2.88	3.21	-0.01	0.23	34	123	0.032	1992 - 2001
SWITZERLAND	0.27 **	0.39	-0.98 **	-0.15 ***	0.26	347	1635	0.003	1992 - 2002
THAILAND	0.51	1.53	-6.26 *	-0.25 **	0.31	23	92	0.025	1992 - 2001
TUNISIA	0.40	7.28 ***	-7.78	-0.47 **	0.37	22	96	0.073	1993 - 2002
TURKEY	1.08	-0.06	0.57	-0.12	0.55	43	113	0.029	1992 - 2002
UNITED KINGDOM	0.17	0.16	-0.26	-0.06 ***	0.21	232	1174	0.001	1992 - 2002
URUGUAY	6.33 ***	-4.03	3.66	-0.31 *	0.23	33	82	0.095	1993 - 2001
USA	0.45 ***	0.05	-0.26	-0.04 **	0.18	833	4645	0.004	1994 - 2002
VENEZUELA	0.21	-0.06	1.21	-0.10 *	0.46	54	119	0.000	1992 - 2001

***, **, * indicate statistical significance levels of 1,5 and 10 percent, respectively.

Table 5. Within Estimates: Deposit Growth: Panel B

country name	Equity	Liquidity	Profit	Cost	Scale	Adj R-sq	Number of Banks	Number of observations	R-sq difference	Sample period
AUSTRALIA	0.43	-0.11	-3.76	3.10	-0.18 ***	0.08	55	255	0.001	1992 - 2002
AUSTRIA	0.48	0.15 **	0.85	1.84	-0.28 ***	0.20	190	725	0.006	1992 - 2001
BAHAMAS	0.61	-0.35	3.79 *	-4.86 **	-0.03	0.31	31	85	0.052	1993 - 2002
BANGLADESH	-0.32	-0.81 ***	1.21	0.33	-0.48 ***	0.61	26	108	0.052	1994 - 2002
BELGIUM	1.40 ***	-0.12	0.49	1.59	-0.05	0.25	104	489	0.024	1992 - 2001
BULGARIA	0.63	0.12	-0.40	0.52	0.05	0.28	24	72	0.017	1992 - 2002
CANADA	1.64 **	0.01	0.02	-0.64	-0.18 ***	0.24	59	291	0.001	1992 - 2002
CHILE	0.84 **	0.83 ***	-2.17	11.16 ***	0.03	0.29	32	143	0.082	1993 - 2002
CHINA-PEOPLES REI	-1.92 ***	-0.12	0.55	-8.80 **	-0.29 ***	0.53	36	120	0.042	1994 - 2000
COLOMBIA	-0.20	-0.40	-1.19	0.97	-0.23 **	0.12	48	209	0.016	1992 - 2002
COSTA RICA	-0.16	0.01	4.98 ***	-4.42 *	-0.13	0.33	40	140	0.037	1992 - 2002
CROATIA	0.79 ***	-0.01	1.16 *	-1.14 **	0.06	0.57	45	167	0.029	1994 - 2001
CZECH REPUBLIC	0.22	0.02	-0.18	0.28	-0.07	0.19	35	133	0.001	1994 - 2002
DENMARK	1.32 ***	0.01	1.82 *	0.80	-0.12 ***	0.31	106	624	0.018	1994 - 2002
DOMINICAN REPUBLI	-0.27	-0.47	1.03	0.61	0.12	0.31	26	95	0.011	1993 - 2002
ECUADOR	0.07	0.38	-0.67	-0.70	-0.34 **	0.14	37	82	0.057	1992 - 2001
FRANCE	0.11 *	-0.11 ***	0.01	1.01	-0.08 ***	0.23	448	1929	0.003	1992 - 2002
GERMANY	0.41 ***	-0.08 *	-0.32	-0.42	-0.11 ***	0.19	251	1309	0.009	1992 - 2002
GREECE	4.48 ***	-0.36	-1.00	-4.92	-0.01	0.62	22	70	0.172	1992 - 2001
GUATEMALA	0.83 *	-0.32	0.17	-0.28	-0.09	0.26	35	167	0.026	1993 - 2001
HONDURAS	0.51	0.57 **	2.60	-1.12	-0.19	0.15	21	85	0.072	1993 - 2002
HONG KONG	0.07	-0.19	0.52	-1.31	-0.22 ***	0.23	86	356	0.007	1993 - 2002
HUNGARY	0.25	-0.53	-0.62	-0.11	-0.22 **	0.10	36	130	0.021	1993 - 2001
INDIA	1.16 ***	-0.20	2.33 **	0.03	-0.16 ***	0.44	74	418	0.036	1993 - 2001
INDONESIA	0.21 *	0.19	-0.31	-0.58	-0.26 ***	0.29	100	381	0.012	1992 - 2001
IRELAND	0.57	0.21	7.66	-8.56	-0.14 **	0.44	41	155	0.040	1992 - 2002
ITALY	0.72 ***	-0.24 ***	1.60 ***	-0.07	-0.27 ***	0.26	689	2305	0.112	1992 - 2002
JAPAN	0.38 ***	-0.08 *	0.99 ***	0.17	-0.19 ***	0.32	829	2527	0.008	1992 - 2002

***, **, * indicate statistical significance levels of 1, 5 and 10 percent, respectively.

country name	Equity	Liquidity	Profit	Cost	Scale	Adj R-sq	Number of Banks	Number of observations	R-sq difference	Sample period
KENYA	1.68	0.11	5.60 **	-8.13 **	-0.54 *	0.21	22	63	0.338	1992 - 2002
KOREA REP. OF	1.10	-0.60 *	-0.59	1.14	-0.19 ***	0.14	37	172	0.026	1992 - 2002
LATVIA	1.47	0.41	1.04	0.82	0.08	0.07	23	59	0.038	1995 - 2002
LUXEMBOURG	-0.70 **	-0.09	0.06	-0.37	-0.21 ***	0.22	137	689	0.008	1992 - 2002
MALAYSIA	1.38 **	-0.26	1.43	-0.28	-0.07	0.43	53	208	0.045	1993 - 2001
MEXICO	0.99	-0.23	-2.36 **	-1.75	-0.24 **	0.08	44	154	0.034	1992 - 2002
NETHERLANDS	-0.67 *	-0.21 **	0.01	5.61 *	-0.06	0.33	61	313	0.016	1992 - 2002
NIGERIA	1.75 ***	-0.01	-0.18	0.54	-0.03	0.40	52	170	0.039	1993 - 2001
NORWAY	-1.05	0.29	3.21 **	-2.26	-0.31 ***	0.22	59	270	0.021	1992 - 2002
PAKISTAN	3.07 ***	-0.62 ***	1.15	-0.46	-0.09	0.38	24	137	0.116	1993 - 2002
PANAMA	0.88	-0.46 ***	3.34	-1.02	-0.16 **	0.37	68	185	0.064	1992 - 2001
PARAGUAY	4.45	-1.12	-1.89	11.14	0.02	-0.11	21	43	0.051	1995 - 2001
PERU	-0.22	0.77 *	-1.79 *	-0.25	-0.16	0.30	28	115	0.042	1993 - 2002
PHILIPPINES	0.43	-0.49 **	2.35	-4.30	-0.37 ***	0.42	40	170	0.029	1992 - 2001
POLAND	0.60 **	0.09	-2.78 **	4.82 **	-0.04	0.39	48	172	0.025	1993 - 2001
ROMANIA	1.83	-0.06	0.84	-3.37	-0.48 *	-0.22	26	62	0.041	1996 - 2001
RUSSIAN FEDERATIC	1.25	0.16	-0.96	1.22	-0.43	0.26	73	92	0.012	1995 - 2002
SINGAPORE	1.90	0.30	-2.36	2.24	-0.19	0.44	25	89	0.021	1992 - 2001
SLOVAKIA	0.78	-0.12	-1.67	2.67	-0.26 **	0.38	21	75	0.025	1995 - 2002
SLOVENIA	-0.72	-0.37 *	-0.61	2.54 *	-0.25 **	0.47	23	110	0.019	1994 - 2002
SOUTH AFRICA	1.78 **	0.43	0.71	-4.36	-0.32 **	0.48	26	90	0.064	1992 - 2002
SPAIN	-0.19	-0.09	0.92	1.16	-0.13 ***	0.28	171	863	0.004	1992 - 2002
SWEDEN	-13.91 **	-0.70	-8.08 *	20.17 **	-0.50 *	0.14	22	66	0.133	1992 - 2001
SWITZERLAND	0.26 **	-0.09 **	0.38	-0.97 **	-0.16 ***	0.26	347	1635	0.005	1992 - 2002
THAILAND	0.85 *	-0.24 *	1.11	-6.71 **	-0.28 **	0.34	23	92	0.048	1992 - 2001
TUNISIA	0.04	-0.56	8.00 ***	-8.45	-0.45 **	0.38	22	96	0.085	1993 - 2002
UNITED KINGDOM	0.22	-0.01	0.15	-0.24	-0.06 ***	0.21	229	1167	-0.001	1992 - 2002
URUGUAY	5.93 ***	-0.30	-3.85	3.40	-0.30	0.22	33	82	0.100	1993 - 2001
USA	0.42 ***	-0.34 ***	0.04	-0.20	-0.05 ***	0.19	833	4645	0.015	1994 - 2002
VENEZUELA	1.17	-0.87	-1.61	0.33	-1.39	-1.16	32	50	0.142	1992 - 2001

***, **, * indicate statistical significance levels of 1, 5 and 10 percent, respectively.

Table 6. Within Estimates:Interest Expense: Panel A

country name	Equity	Profit	Cost	Maturity	Scale	Adj R-sq	Number of Banks	Number of observatins	R-sq Difference	Sample period
ARGENTINA	0.05	-0.01	0.05	-0.15 ***	0.01 *	0.86	117	323	0.000	1994 - 2002
AUSTRALIA	-0.11	0.28	-0.41	-0.01	0.01 **	0.68	55	257	0.003	1992 - 2002
AUSTRIA	-0.05	0.09	-0.18	-0.02 *	0.01 ***	0.75	190	725	0.001	1992 - 2001
BAHAMAS	0.15	-0.29	0.37	-0.03	0.02	0.70	31	85	0.009	1993 - 2002
BANGLADESH	0.07 **	-0.01	0.13	0.14 ***	0.03 ***	1.00	26	108	0.000	1994 - 2002
BELGIUM	-0.05	0.07	-0.27 ***	0.01	0.00	0.68	105	490	0.002	1992 - 2001
BRAZIL	-0.36 ***	0.84 ***	-1.00 **	0.11	-0.03	0.57	144	446	0.016	1995 - 2001
BULGARIA	1.40 **	-0.21	0.27	-0.30	-0.10	0.52	24	72	0.035	1992 - 2002
CANADA	0.00	-0.22	-0.21	0.12	0.01	0.73	60	301	0.002	1992 - 2002
CHILE	-0.11 ***	-0.08	-0.39	-0.01	-0.01	0.89	32	143	0.014	1993 - 2002
CHINA-PEOPLE'S REP.	-0.23 ***	0.14	0.49	-0.02	-0.02 *	0.97	36	120	0.005	1994 - 2000
COLOMBIA	0.09	0.05	-0.10	-0.06 **	0.01	0.84	48	209	0.001	1992 - 2002
COSTA RICA	-0.31 ***	-0.99 ***	1.29 ***	1.36 *	-0.02	0.82	40	140	0.026	1992 - 2002
CROATIA	-0.04 **	-0.03	0.05 *	-0.01	0.00	1.00	45	167	0.000	1994 - 2001
CZECH REPUBLIC	-0.36 **	-0.06	-0.03	0.00	0.00	0.55	35	133	0.021	1994 - 2002
DENMARK	0.00	-0.06 *	-0.14 ***	0.00	0.00 **	0.89	106	624	0.000	1994 - 2002
DOMINICAN REPUBLJ	0.17 ***	-0.32 **	0.02	0.05	0.00	0.90	26	95	0.041	1993 - 2002
ECUADOR	0.00	0.15	0.11	0.63	0.06	0.89	37	82	0.002	1992 - 2001
EGYPT	-0.11 ***	-0.02	0.06	0.01	0.01 ***	0.95	36	217	0.004	1993 - 2002
FRANCE	0.03 ***	-0.07	-0.26 *	0.01	-0.03 **	0.79	449	1933	0.001	1992 - 2002
GERMANY	0.10 ***	-0.04	-0.06	-0.02	0.01 ***	0.58	251	1309	0.015	1992 - 2002
GREECE	-0.15	-0.35	-0.10	0.23	-0.01	0.62	22	70	0.019	1992 - 2001
GUATEMALA	-0.04	-0.24	0.00	0.02	0.01	0.81	35	167	0.004	1993 - 2001
HONDURAS	0.12	-0.61 **	0.47	0.09 *	0.07 **	0.85	21	85	0.008	1993 - 2002
HONG KONG	-0.01	0.53 *	-0.66	-0.01	0.02	0.61	87	360	0.003	1993 - 2002
HUNGARY	-0.23 **	0.32	0.04	0.00	0.00	0.71	37	135	0.013	1993 - 2001
INDIA	-0.03	-0.13 **	-0.34 **	-0.03 *	0.00 *	0.94	74	418	0.001	1993 - 2001
INDONESIA	-0.02	-0.03	0.15	-0.04 *	0.01	0.96	100	381	0.000	1992 - 2001
IRELAND	-0.01	-0.20	0.25	-0.03	0.00	0.88	41	155	0.001	1992 - 2002
ITALY	0.01	-0.32 ***	0.44 ***	-0.01 ***	0.00 ***	0.94	754	3176	0.004	1992 - 2002
JAPAN	0.00	0.00	0.00	-0.03 ***	0.00 ***	0.83	829	2527	0.000	1992 - 2002

***,**,* indicate statistical significance levels of 1,5 and 10 percent,respectively.

country name	Equity	Profit	Cost	Maturity	Scale	Adj R-sq	Number of Banks	Number of observatins	R-sq Difference	Sample period
KENYA	0.22 *	0.38	-2.05 ***	0.17	-0.01	0.36	50	184	0.019	1992 - 2002
KOREA REP. OF	0.00	-0.01	0.06	-0.01	0.00	0.94	37	172	0.000	1992 - 2002
LATVIA	0.07	-0.11	0.19	0.10	0.01	0.85	23	59	0.001	1995 - 2002
LUXEMBOURG	-0.05	-0.07 ***	-0.27 **	-0.03 **	0.00	0.69	137	689	0.005	1992 - 2002
MALAYSIA	0.00	0.01	0.37	0.05	0.00	0.82	53	208	0.000	1993 - 2001
MEXICO	-0.41	-0.09	-0.98	0.10	-0.09	0.64	44	154	0.003	1992 - 2002
NETHERLANDS	-0.11 **	0.69 ***	-0.93 **	0.00	0.00	0.69	61	313	0.012	1992 - 2002
NIGERIA	-0.10	0.07	-0.38 **	0.35 *	0.00	0.99	52	170	0.000	1993 - 2001
NORWAY	0.20 ***	-0.09	0.09	-0.01	0.02 ***	0.99	59	270	0.001	1992 - 2002
PAKISTAN	-0.17 **	0.04	0.04	0.01	0.01 *	0.91	24	137	0.004	1993 - 2002
PANAMA	0.03	-0.13	-0.50 *	0.01	0.01 ***	0.82	68	185	0.001	1992 - 2001
PARAGUAY	-1.25	-2.76	-0.10	1.36	-0.26	-0.37	21	43	0.116	1995 - 2001
PERU	0.04	0.33 ***	-0.14	0.01	0.02 *	0.97	28	115	0.004	1993 - 2002
PHILIPPINES	-0.09 ***	-0.01	-0.03	0.14 **	0.02 ***	0.85	40	170	0.008	1992 - 2001
POLAND	-0.10 **	-0.09	0.00	0.22	0.00	0.95	49	173	0.003	1993 - 2001
PORTUGAL	-0.18 *	0.56 **	-0.26	0.02	0.00	0.64	41	218	0.011	1992 - 2002
ROMANIA	-0.45 *	-0.91 ***	0.38	0.14	0.01	0.68	26	62	0.090	1996 - 2001
RUSSIAN FEDERATIO	-0.13	0.32	-0.45	1.07	0.05	1.00	73	92	0.000	1995 - 2002
SINGAPORE	0.00	-0.54 **	-0.82 ***	-0.14	-0.01	0.95	25	91	0.003	1992 - 2001
SLOVAKIA	0.02	0.17	0.19	-0.01	-0.02	0.86	21	75	0.003	1995 - 2002
SLOVENIA	0.02	0.18 *	-0.10	-0.04 *	0.01	0.91	23	110	0.003	1994 - 2002
SOUTH AFRICA	-0.26 **	0.31	-0.28	0.02	0.01	0.70	26	90	0.020	1992 - 2002
SPAIN	-0.02	0.14 ***	0.02	-0.01	0.01 ***	0.87	171	863	0.002	1992 - 2002
SWEDEN	-1.42 ***	0.96 ***	-0.10	0.02	-0.03 *	0.92	34	123	0.015	1992 - 2001
SWITZERLAND	-0.04 ***	-0.05 ***	0.02	-0.01 ***	0.00 ***	0.95	347	1635	0.001	1992 - 2002
THAILAND	-0.04	0.11	-0.15	-0.05 **	0.01	0.82	23	92	0.003	1992 - 2001
TUNISIA	-0.01	0.04	0.20	0.03	0.01	0.99	22	96	0.000	1993 - 2002
TURKEY	0.25	-0.17	0.18	-0.39 *	0.13 ***	0.95	43	113	0.001	1992 - 2002
UNITED KINGDOM	0.00	0.01	-0.02	0.01	0.00	0.83	232	1174	0.000	1992 - 2002
URUGUAY	-0.79	1.61	-1.59	0.69	0.01	0.85	33	82	0.002	1993 - 2001
USA	0.00	0.01 ***	-0.04 ***	-0.01 ***	0.00 ***	0.86	833	4645	0.001	1994 - 2002
VENEZUELA	0.28 **	-0.17	-0.72 **	-0.32 **	-0.01	0.99	54	119	0.000	1992 - 2001

***,**,* indicate statistical significance levels of 1,5 and 10 percent,respectively.

Table 6. Within Estimates: Interest Expend: Panel B

country name	Equity	Liquidity	Profit	Cost	Maturity	Scale	Adj R-sq	Number of Banks	Number of observations	R-sq Difference	Sample period
AUSTRALIA	-0.11	-0.02	0.24	-0.40	-0.02	0.01 **	0.68	55	255	0.005	1992 - 2002
AUSTRIA	-0.03	0.02 ***	0.10	-0.27 *	-0.03 **	0.01 ***	0.75	190	725	0.005	1992 - 2001
BAHAMAS	0.17 *	-0.04 *	-0.26	0.42 *	-0.02	0.02	0.72	31	85	0.020	1993 - 2002
BANGLADESH	0.07 **	0.00	-0.01	0.14	0.14 ***	0.03 ***	1.00	26	108	0.000	1994 - 2002
BELGIUM	-0.04	0.01 **	0.09	-0.29 ***	0.01	0.00	0.68	104	489	0.005	1992 - 2001
BULGARIA	1.37 **	0.13	-0.25	0.32	-0.36	-0.10	0.51	24	72	0.036	1992 - 2002
CANADA	-0.02	-0.01	-0.29	-0.18	0.11	0.00	0.74	59	291	0.009	1992 - 2002
CHILE	-0.11 ***	-0.04 *	-0.05	-0.43	0.02	-0.01	0.89	32	143	0.016	1993 - 2002
CHINA-PEOPLE'S REP.	-0.24 ***	0.02	0.21	0.43	-0.02	-0.02 **	0.97	36	120	0.005	1994 - 2000
COLOMBIA	-0.08	0.01	0.06	-0.10	-0.05 *	0.01	0.84	48	209	0.001	1992 - 2002
COSTA RICA	-0.31 ***	-0.01	-0.98 ***	1.28 ***	1.35 *	-0.02	0.82	40	140	0.026	1992 - 2002
CROATIA	-0.04 ***	-0.02 **	-0.04	0.05 **	-0.01	0.00	1.00	45	167	0.000	1994 - 2001
CZECH REPUBLIC	-0.32 **	-0.04	-0.09	-0.04	-0.02	0.00	0.55	35	133	0.024	1994 - 2002
DENMARK	0.00	0.00	-0.07 *	-0.13 ***	0.00	0.00 **	0.89	106	624	0.001	1994 - 2002
DOMINICAN REPUBLI	0.17 ***	0.02	-0.30 *	0.03	0.04	0.00	0.90	26	95	0.042	1993 - 2002
ECUADOR	0.01	0.11	0.18	0.15	0.71	0.03	0.89	37	82	0.003	1992 - 2001
FRANCE	0.03 ***	0.03 ***	-0.07	-0.27 *	0.00	-0.03 ***	0.80	448	1929	0.002	1992 - 2002
GERMANY	0.10 ***	0.01	-0.04	-0.05	-0.02	0.01 ***	0.58	251	1309	0.016	1992 - 2002
GREECE	-0.11	0.08 ***	-0.47	0.18	0.08	-0.01	0.69	22	70	0.054	1992 - 2001
GUATEMALA	-0.04	0.00	-0.25	0.01	0.02	0.01	0.81	35	167	0.004	1993 - 2001
HONDURAS	0.10	0.08 *	-0.52 *	0.46	0.08 *	0.08 ***	0.85	21	85	0.013	1993 - 2002
HONG KONG	-0.01	-0.04	0.45	-0.74	-0.01	0.02	0.61	86	356	0.003	1993 - 2002
HUNGARY	-0.11	0.11 *	-0.10	0.19	0.01	0.01	0.75	36	130	0.042	1993 - 2001
INDIA	-0.03	-0.01	-0.13 **	-0.33 **	-0.03 **	0.01 **	0.94	74	418	0.002	1993 - 2001
INDONESIA	-0.02	-0.01	-0.03	0.15	-0.04 *	0.01	0.96	100	381	0.000	1992 - 2001
IRELAND	0.00	-0.07 ***	-0.09	0.11	-0.05	0.01 **	0.90	41	155	0.014	1992 - 2002
ITALY	0.02 **	0.00	-0.22 ***	0.62 ***	-0.01 ***	0.01 ***	0.95	689	2305	0.018	1992 - 2002
JAPAN	0.00	0.00 **	0.00	0.00	-0.03 ***	0.00 ***	0.83	829	2527	0.000	1992 - 2002

***,**, * indicate statistical significance levels of 1,5 and 10 percent, respectively.

country name	Equity	Liquidity	Profit	Cost	Maturity	Scale	Adj R-sq	Number of Banks	Number of observations	R-sq Difference	Sample period
KENYA	-0.40	0.36 **	-0.09	-0.66	-0.39	0.03	0.56	22	63	0.263	1992 - 2002
KOREA REP. OF	0.01	-0.03 *	-0.03	0.07	-0.01	0.00	0.95	37	172	0.001	1992 - 2002
LATVIA	0.09	-0.05	-0.11	0.15	0.08	0.01	0.85	23	59	0.002	1995 - 2002
LUXEMBOURG	-0.06 *	-0.02 ***	-0.07 ***	-0.32 **	-0.02	0.00	0.70	137	689	0.010	1992 - 2002
MALAYSIA	0.00	0.01	0.02	0.35	0.05	0.00	0.82	53	208	0.000	1993 - 2001
MEXICO	-0.35	0.27 ***	0.01	-1.42 **	0.08	-0.10 *	0.67	44	154	0.019	1992 - 2002
NETHERLANDS	-0.11 **	-0.01	0.68 ***	-0.90 **	0.00	0.00	0.69	61	313	0.012	1992 - 2002
NIGERIA	-0.15 ***	-0.10 ***	0.14	-0.54 ***	0.32 *	0.00	0.99	52	170	0.001	1993 - 2001
NORWAY	0.19 ***	0.05 **	-0.09	0.12	-0.01	0.02 ***	0.99	59	270	0.001	1992 - 2002
PAKISTAN	-0.17 **	0.02	0.03	0.04	0.01	0.01	0.91	24	137	0.005	1993 - 2002
PANAMA	0.05	0.01	-0.14	-0.44	0.01	0.01 ***	0.82	68	185	0.003	1992 - 2001
PARAGUAY	-1.17	-0.10	-2.73	-0.33	1.31	-0.27	-0.64	21	43	0.116	1995 - 2001
PERU	0.02	-0.05	0.33 ***	-0.14	-0.01	0.01 *	0.97	28	115	0.005	1993 - 2002
PHILIPPINES	-0.09 ***	0.00	-0.02	-0.02	0.14 **	0.02 ***	0.85	40	170	0.008	1992 - 2001
POLAND	-0.10 ***	-0.03	-0.09	0.03	0.20	0.00	0.95	48	172	0.003	1993 - 2001
ROMANIA	-0.45	0.01	-0.92 ***	0.38	0.14	0.01	0.66	26	62	0.090	1996 - 2001
RUSSIAN FEDERATIO	-0.14	-0.03	0.33	-0.52	0.98	0.05	1.00	73	92	0.000	1995 - 2002
SINGAPORE	0.08	-0.02	-0.62 ***	-0.80 ***	-0.12	-0.01	0.96	25	89	0.010	1992 - 2001
SLOVAKIA	0.02	-0.01	0.18	0.19	-0.01	-0.02	0.86	21	75	0.003	1995 - 2002
SLOVENIA	0.01	-0.03 *	0.11	-0.08	-0.04 *	0.00	0.91	23	110	0.006	1994 - 2002
SOUTH AFRICA	-0.25 **	-0.08	0.25	-0.31	0.05	0.02	0.71	26	90	0.025	1992 - 2002
SPAIN	-0.02	0.00	0.14 ***	0.03	-0.01	0.01 ***	0.87	171	863	0.002	1992 - 2002
SWEDEN	0.22	-0.02	0.39 *	-0.74 *	0.04	0.02	0.99	22	66	0.055	1992 - 2001
SWITZERLAND	-0.04 ***	0.00	-0.05 ***	0.02	-0.01 ***	0.00 ***	0.95	347	1635	0.001	1992 - 2002
THAILAND	-0.01	-0.02	0.08	-0.19	-0.05 **	0.00	0.83	23	92	0.007	1992 - 2001
TUNISIA	0.03	0.05 *	-0.03	0.30	0.03	0.01	0.99	22	96	0.000	1993 - 2002
UNITED KINGDOM	0.00	-0.02 ***	0.01	-0.02	0.01	0.00	0.83	229	1167	0.001	1992 - 2002
URUGUAY	-1.48	-0.51 *	1.78	-1.85	0.33	0.02	0.86	33	82	0.008	1993 - 2001
USA	-0.01	-0.02 ***	0.01 ***	-0.04 ***	-0.01 ***	0.00 ***	0.86	833	4645	0.003	1994 - 2002
VENEZUELA	0.40	0.13	0.72	-1.40	0.17	0.01	0.63	32	50	-0.004	1992 - 2001

Table 7: Panel A. Pooled Estimation 1: Deposit Growth (Equity)

	(1)	(2)	(3)	(4)	(5)
Equity	<u>0.065</u> ***	<u>0.065</u> ***	-0.019 *	<u>0.155</u> ***	<u>0.129</u> ***
Cost	0.083 ***	0.192 ***	0.172 ***	0.205 ***	0.082 ***
Inflation	-0.051 ***	-0.103 ***	-0.051 **	-0.049 **	-0.103 ***
Growth	0.280 ***	0.191 ***	0.290 ***	0.287 ***	0.328 ***
GDP/cap	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***
AssetSize	-0.001 *	0.000	-0.001 **	-0.001 *	-0.001 ***
Equity*Insure	<u>-0.085</u> ***				
Equity*CapReg		<u>-0.011</u> **			
Equity*PCAct			0.015 ***		
Equity*Pmonitor				<u>-0.024</u> ***	
Equity*Rulelaw					<u>-0.103</u> ***
C	0.036 ***	0.045 ***	0.029 ***	0.033 ***	0.035 ***
Adj R-sq	0.009	0.009	0.010	0.009	0.013
Number of observations	18094	15178	16460	16902	18094

***, **, * indicate statistical significance levels of 1, 5 and 10 percent, respectively.

	(6)	(7)	(8)	(9)	(10)
Equity	<u>0.104</u> ***	<u>0.084</u> ***	-0.065 ***	<u>0.065</u> ***	-0.012
Cost	0.074 ***	0.079 ***	0.061 **	0.212 ***	0.088 ***
Inflation	-0.070 ***	-0.067 ***	-0.071 ***	-0.037 *	-0.046 ***
Growth	0.343 ***	0.372 ***	0.216 ***	0.310 ***	0.286 ***
GDP/cap	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***
AssetSize	-0.001	-0.001	-0.002 ***	-0.001	-0.001 *
Equity*StockcapGDP	<u>-0.116</u> ***				
Equity*BankassGDP		<u>-0.155</u> ***			
Equity*GovBank			0.002 ***		
Equity*ConAss				<u>-0.168</u> ***	
Equity*Scrisis					0.058 **
C	0.036 ***	0.040 ***	0.033 ***	0.032 ***	0.035 ***
Adj R-sq	0.013	0.015	0.010	0.010	0.009
Number of observations	17905	17186	14572	17085	18094

***, **, * indicate statistical significance levels of 1, 5 and 10 percent, respectively.

Table 7: Panel B. Pooled Estimation 2: Deposit Growth (Profit)

	(1)	(2)	(3)	(4)	(5)
Profit	<u>0.381</u> ***	-0.040	0.013	0.508	0.111 ***
Cost	0.063	0.260 ***	0.215 ***	0.190 ***	-0.010
Inflation	-0.075 ***	-0.092 ***	-0.048 **	-0.060 ***	-0.061 ***
Growth	0.268 ***	0.192 ***	0.260 ***	0.275 ***	0.293 ***
GDP/cap	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***
AssetSize	-0.001	0.000	-0.001 *	-0.001	-0.001 **
Profit*Insure	<u>-0.396</u> ***				
Profit*CapReg		0.000			
Profit*PCAct			-0.010		
Profit*Pmonitor				-0.068	
Profit*Rulelaw					-0.065
C	0.037 ***	0.044 ***	0.031 ***	0.031 ***	0.035 ***
Adj R-sq	0.013	0.009	0.010	0.010	0.009
Number of observations	18096	15179	16461	16903	18096

***, **, * indicate statistical significance levels of 1,5 and 10 percent, respectively.

	(6)	(7)	(8)	(9)	(10)
Profit	<u>0.210</u> ***	0.174 ***	-0.030	-0.075 **	-0.006
Cost	0.125 ***	-0.022	0.021	0.207 ***	0.094 **
Inflation	-0.080 ***	-0.061 ***	-0.089 ***	-0.066 ***	-0.033 *
Growth	0.334 ***	0.319 ***	0.194 ***	0.239 ***	0.274 ***
GDP/cap	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***
AssetSize	-0.001 *	-0.001 ***	-0.002 ***	-0.001 **	-0.001
Profit*StockcapGDP	<u>-0.232</u> ***				
Profit*BankassGDP		-0.233			
Profit*GovBank			0.004 ***		
Profit*ConAss				0.193 **	
Profit*Scrisis					-0.081
C	0.032 ***	0.039 ***	0.032 ***	0.032 ***	0.036 ***
Adj R-sq	0.011	0.010	0.010	0.009	0.008
Number of observations	17907	17188	14573	17086	18096

***, **, * indicate statistical significance levels of 1,5 and 10 percent, respectively.

Table 7: Panel C. Pooled Estimation 3: Deposit Growth (Liquidity)

	(1)	(2)	(3)	(4)	(5)
Liquidity	<u>0.051</u> ***	<u>0.055</u> **	-0.003	<u>0.059</u> **	<u>0.085</u> ***
Cost	0.080 ***	0.186 ***	0.177 ***	0.192 ***	0.065 **
Inflation	-0.062 ***	-0.100 ***	-0.043 **	-0.047 **	-0.110 ***
Growth	0.264 ***	0.180 ***	0.256 ***	0.265 ***	0.310 ***
GDP/cap	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***
AssetSize	-0.001	0.000	-0.001 *	-0.001 **	-0.001 ***
Liquidity*Insure	<u>-0.066</u> ***				
Liquidity*CapReg		<u>-0.009</u> ***			
Liquidity*PCAct			-0.002		
Liquidity*Pmonitor				<u>-0.010</u> **	
Liquidity*Rulelaw					<u>-0.066</u> ***
C	0.039 ***	0.047 ***	0.034 ***	0.035 ***	0.036 ***
Adj R-sq	0.01	0.01	0.01	0.01	0.01
Number of observations	17603	14686	15968	16410	17603

***, **, * indicate statistical significance levels of 1, 5 and 10 percent, respectively.

	(6)	(7)	(8)	(9)	(10)
Liquidity	<u>0.043</u> ***	<u>0.086</u> ***	-0.057 ***	-0.041 *	-0.002
Cost	0.070 ***	0.050 *	0.055 **	0.187 ***	0.080 ***
Inflation	-0.052 ***	-0.080 ***	-0.079 ***	-0.060 ***	-0.037 *
Growth	0.322 ***	0.312 ***	0.199 ***	0.221 ***	0.264 ***
GDP/cap	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***
AssetSize	0.000	0.000	-0.002 ***	-0.001 **	-0.001
Liquidity*StockcapGDP	<u>-0.051</u> ***				
Liquidity*BankassGDP		<u>-0.090</u> ***			
Liquidity*GovBank			0.002 ***		
Liquidity*ConAss				0.076 **	
Liquidity*Scrisis					-0.023
C	0.037 ***	0.041 ***	0.037 ***	0.034 ***	0.038 ***
Adj R-sq	0.010	0.013	0.011	0.008	0.007
Number of observations	17414	16695	14093	16593	17603

***, **, * indicate statistical significance levels of 1, 5 and 10 percent, respectively.

Table 8: Panel A. Pooled Estimation 4: Interest Expense (Equity)

	(1)	(2)	(3)	(4)	(5)
Equity	-0.016 **	-0.047 ***	0.010 ***	0.002	-0.013 **
Cost	0.003	-0.031 ***	-0.010	-0.030 ***	-0.010
Maturity	-0.022 ***	-0.021 ***	-0.028 ***	-0.027 ***	-0.028 ***
Government Rate	0.004 ***	0.004 ***	0.005 ***	0.004 ***	0.003 ***
Inflation	-0.972 ***	-0.977 ***	-0.973 ***	-0.967 ***	-0.976 ***
Growth	-0.121 ***	-0.121 ***	-0.120 ***	-0.028 ***	-0.066 ***
GDP/cap	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***
AssetSize	0.001 ***	0.001 ***	0.001 ***	0.001 ***	0.000 ***
Insure	-0.019 **				
CapReg		0.002 ***			
PCAct			-0.003 ***		
Pmonitor				-0.007 ***	
Rulelaw					-0.014 ***
Equity*Insure	0.031 ***				
Equity*CapReg		0.008 ***			
Equity*PCAct			0.003 **		
Equity*Pmonitor				0.002	
Equity*Rulelaw					0.022 ***
C	0.080 ***	0.047 ***	0.067 ***	0.108 ***	0.082 ***
Adj R-sq	0.557	0.544	0.536	0.538	0.556
Number of observations	17571	14802	16084	16526	17571

***, **, * indicate statistical significance levels of 1,5 and 10 percent, respectively.

	(6)	(7)	(8)	(9)	(10)
Equity	-0.002	-0.010 **	0.043 **	0.046 **	0.019 **
Cost	-0.008	-0.005	0.005	-0.008	-0.002
Maturity	-0.028 ***	-0.025 ***	-0.017 ***	-0.027 ***	-0.022 ***
Government Rate	0.004 ***	0.004 ***	0.004 ***	0.005 ***	0.004 ***
Inflation	-0.955 ***	-0.963 ***	-0.975 ***	-0.997 ***	-0.956 ***
Growth	-0.046 ***	-0.097 ***	-0.050 ***	-0.109 ***	-0.124 ***
GDP/cap	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***
AssetSize	0.001 ***	0.001 ***	0.001 ***	0.000	0.001 ***
StockcapGDP	-0.008 **				
BankassGDP		-0.005 ***			
GovBank			0.000 ***		
ConAss				0.032 ***	
Serisis					-0.014 ***
Equity*StockcapGDP	0.020 ***				
Equity*BankassGDP		0.042 ***			
Equity*GovBank			-0.001 ***		
Equity*ConAss				-0.085 ***	
Equity*Serisis					-0.051
C	0.066 ***	0.062 ***	0.040 ***	0.041 ***	0.063 ***
Adj R-sq	0.537	0.559	0.629	0.530	0.556
Number of observations	17388	16796	14246	16709	17571

***, **, * indicate statistical significance levels of 1,5 and 10 percent, respectively.

Table8: PanelB. Pooled Estimation 5: Interest Expense (Profit)

	(1)	(2)	(3)	(4)	(5)
Profit	-0.051 ***	-0.149 ***	-0.216 ***	-0.730 ***	-0.067 ***
Cost	0.047 ***	0.016	0.134 **	0.085 ***	0.066 ***
Maturity	-0.022 ***	-0.021 ***	-0.026 ***	-0.025 ***	-0.027 ***
Government Rate	0.004 ***	0.004 ***	0.005 ***	0.005 ***	0.003 ***
Inflation	-0.969 ***	-0.975 ***	-0.968 ***	-0.963 ***	-0.972 ***
Growth	-0.112 ***	-0.118 ***	-0.102 ***	-0.014	-0.055 ***
GDP/cap	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***
AssetSize	0.001 ***	0.001 ***	0.001 ***	0.001 ***	0.000 ***
Insure	-0.018 ***				
CapReg		0.002 ***			
PCAct			-0.004 ***		
Pmonitor				-0.011 ***	
Rulelaw					-0.013 ***
Profit*Insure	<u>0.023</u>				
Profit*CapReg		<u>0.021</u> ***			
Profit*PCAct			<u>0.038</u> ***		
Profit*Pmonitor				<u>0.089</u> ***	
Profit*Rulelaw					<u>0.025</u> ***
C	0.079 ***	0.048 ***	0.069 ***	0.132 ***	0.080 ***
Adj R-sq	0.556	0.543	0.542	0.543	0.555
Number of observations	17573	14803	16085	16527	17573

***, **, * indicate statistical significance levels of 1,5 and 10 percent, respectively.

	(6)	(7)	(8)	(9)	(10)
Profit	-0.054 **	-0.058 ***	-0.022 ***	0.029 ***	-0.027 **
Cost	0.016	0.058 ***	0.136 ***	0.109 ***	0.042 **
Maturity	-0.028 ***	-0.024 ***	-0.016 ***	-0.027 ***	-0.022 ***
Government Rate	0.004 ***	0.004 ***	0.004 ***	0.005 ***	0.004 ***
Inflation	-0.955 ***	-0.960 ***	-0.965 ***	-0.996 ***	-0.952 ***
Growth	-0.039 ***	-0.079 ***	-0.027 ***	-0.106 ***	-0.117 ***
GDP/cap	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***
AssetSize	0.001 ***	0.001 ***	0.001 ***	0.000	0.001 ***
StockcapGDP	-0.007 ***				
BankassGDP		-0.002 **			
GovBank			0.001 ***		
ConAss				0.036 ***	
Scrisis					-0.017 ***
Profit*StockcapGDP	<u>0.037</u> ***				
Profit*BankassGDP		<u>0.040</u> ***			
Profit*GovBank			-0.006 ***		
Profit*ConAss				-0.277 ***	
Profit*Scrisis					-0.031 *
C	0.065 ***	0.058 ***	0.037 ***	0.039 ***	0.064 ***
Adj R-sq	0.536	0.557	0.636	0.532	0.555
Number of observations	17390	16798	14247	16710	17573

***, **, * indicate statistical significance levels of 1,5 and 10 percent, respectively.

Table 8: Panel C. Pooled Estimation 6: Interest Expense (Liquidity)

	(1)	(2)	(3)	(4)	(5)
Liquidity	<u>-0.015</u> ***	0.065 ***	<u>-0.018</u> ***	<u>-0.034</u> ***	<u>-0.005</u>
Cost	0.008	-0.016 **	0.007	-0.013	-0.001
Maturity	-0.021 ***	-0.021 ***	-0.026 ***	-0.025 ***	-0.027 ***
Government Rate	0.004 ***	0.004 ***	0.004 ***	0.004 ***	0.003 ***
Inflation	-0.967 ***	-0.968 ***	-0.961 ***	-0.958 ***	-0.971 ***
Growth	-0.113 ***	-0.115 ***	-0.108 ***	-0.011	-0.050 ***
GDP/cap	0.000	0.000	0.000	0.000	0.000
AssetSize	0.001 ***	0.001 ***	0.001 ***	0.001 ***	0.000 ***
Insure	-0.020 ***				
CapReg		0.005 ***			
PCAct			-0.004 ***		
Pmonitor				-0.008 ***	
Rulelaw					-0.012 ***
Liquidity*Insure	<u>0.011</u> **				
Liquidity*CapReg		-0.011 ***			
Liquidity*PCAct			<u>0.004</u> ***		
Liquidity*Pmonitor				<u>0.003</u> **	
Liquidity*Rulelaw					0.000
C	0.081 ***	0.028 ***	0.068 ***	0.112 ***	0.080 ***
Adj R-sq	0.56	0.55	0.54	0.54	0.56
Number of observations	17083	14313	15595	16037	17083

***, **, * indicate statistical significance levels of 1, 5 and 10 percent, respectively.

	(6)	(7)	(8)	(9)	(10)
Liquidity	<u>-0.013</u> ***	0.009 **	-0.004 *	<u>-0.018</u> ***	<u>-0.002</u>
Cost	-0.002	0.008	0.015 **	-0.005	0.006
Maturity	-0.028 ***	-0.025 ***	-0.016 ***	-0.028 ***	-0.022 ***
Government Rate	0.004 ***	0.004 ***	0.004 ***	0.005 ***	0.004 ***
Inflation	-0.950 ***	-0.956 ***	-0.965 ***	-0.994 ***	-0.949 ***
Growth	-0.036 ***	-0.074 ***	-0.033 ***	-0.114 ***	-0.120 ***
GDP/cap	0.000 ***	0.000 ***	0.000 ***	0.000 ***	0.000 ***
AssetSize	0.000 ***	0.001 ***	0.001 ***	0.000	0.001 ***
StockcapGDP	-0.008 ***				
BankassGDP		0.000			
GovBank			0.000 ***		
ConAss				0.023 ***	
Scrisis					-0.023 ***
Liquidity*StockcapGDP	<u>0.013</u> ***				
Liquidity*BankassGDP		-0.007 *			
Liquidity*GovBank			0.000		
Liquidity*ConAss				<u>0.028</u> ***	
Liquidity*Scrisis					<u>0.026</u> ***
C	0.066 ***	0.057 ***	0.041 ***	0.046 ***	0.065 ***
Adj R-sq	0.54	0.56	0.63	0.53	0.56
Number of observations	16900	16308	13770	16220	17083

***, **, * indicate statistical significance levels of 1, 5 and 10 percent, respectively.

Appendix. Country Ranking of Depositors' Sensitivity to Bank Equity

Panel A: Deposit Growth (Table 5, Panel A)

country name	Equity	country name	Equity
1 URUGUAY	6.33 ***	32 IRELAND	0.58
2 SWEDEN	5.02 **	33 PHILIPPINES	0.56
3 GREECE	4.67 ***	34 THAILAND	0.51
4 PARAGUAY	3.33	35 BRAZIL	0.49 **
5 SINGAPORE	3.14 **	36 HUNGARY	0.47
6 PAKISTAN	2.96 ***	37 USA	0.45 ***
7 PORTUGAL	2.47 ***	38 GERMANY	0.44 ***
8 SOUTH AFRICA	1.89 **	39 TUNISIA	0.40
9 EGYPT	1.87 ***	40 JAPAN	0.39 ***
10 ROMANIA	1.78	41 AUSTRALIA	0.31
11 NIGERIA	1.76 ***	42 SWITZERLAND	0.27 **
12 CANADA	1.67 **	43 BAHAMAS	0.26
13 PANAMA	1.64 ***	44 AUSTRIA	0.24
14 LATVIA	1.60	45 CZECH REPUBLIC	0.24
15 BELGIUM	1.49 ***	46 INDONESIA	0.21 *
16 MALAYSIA	1.34 **	47 VENEZUELA	0.21
17 DENMARK	1.31 ***	48 UNITED KINGDOM	0.17
18 INDIA	1.19 ***	49 FRANCE	0.11 *
19 RUSSIAN FEDERATION	1.17	50 ARGENTINA	0.09
20 TURKEY	1.08	51 HONG KONG	0.01
21 MEXICO	1.03	52 ECUADOR	0.01
22 GUATEMALA	0.91 *	53 COLOMBIA	0.00
23 CHILE	0.85 *	54 COSTA RICA	-0.16
24 KENYA	0.83 *	55 SPAIN	-0.19
25 SLOVAKIA	0.82	56 DOMINICAN REPUBLIC	-0.28
26 KOREA REP. OF	0.81	57 BANGLADESH	-0.31
27 CROATIA	0.79 ***	58 PERU	-0.53
28 HONDURAS	0.69	59 SLOVENIA	-0.57
29 BULGARIA	0.66	60 LUXEMBOURG	-0.66 **
30 ITALY	0.63 ***	61 NETHERLANDS	-0.71
31 POLAND	0.59 **	62 NORWAY	-1.02
		63 CHINA-PEOPLE'S REP.	-1.96 ***

***, **, * indicate statistical significance levels of 1,5 and 10 percent, respectively.

Panel B: Depoist Interest Rate (Table 6: PanelA)

country name	Equity	country name	Equity
1 SWEDEN	-1.42 ***	32 INDONESIA	-0.02
2 PARAGUAY	-1.25	33 SPAIN	-0.02
3 URUGUAY	-0.79	34 HONG KONG	-0.01
4 ROMANIA	-0.45 *	35 IRELAND	-0.01
5 MEXICO	-0.41	36 TUNISIA	-0.01
6 CZECH REPUBLIC	-0.36 **	37 USA	0.00
7 BRAZIL	-0.36 ***	38 KOREA REP. OF	0.00
8 COSTA RICA	-0.31 ***	39 ECUADOR	0.00
9 SOUTH AFRICA	-0.26 **	40 JAPAN	0.00
10 CHINA-PEOPLE'S REP.	-0.23 ***	41 UNITED KINGDOM	0.00
11 HUNGARY	-0.23 **	42 DENMARK	0.00
12 PORTUGAL	-0.18 *	43 SINGAPORE	0.00
13 PAKISTAN	-0.17 **	44 MALAYSIA	0.00
14 GREECE	-0.15	45 CANADA	0.00
15 RUSSIAN FEDERATION	-0.13	46 ITALY	0.01
16 NETHERLANDS	-0.11 **	47 SLOVENIA	0.02
17 CHILE	-0.11 ***	48 SLOVAKIA	0.02
18 AUSTRALIA	-0.11	49 FRANCE	0.03 ***
19 EGYPT	-0.11 ***	50 PANAMA	0.03
20 NIGERIA	-0.10	51 PERU	0.04
21 POLAND	-0.10 **	52 ARGENTINA	0.05
22 PHILIPPINES	-0.09 ***	53 LATVIA	0.07
23 COLOMBIA	-0.09	54 BANGLADESH	0.07 **
24 AUSTRIA	-0.05	55 GERMANY	0.10 ***
25 BELGIUM	-0.05	56 HONDURAS	0.12
26 LUXEMBOURG	-0.05	57 BAHAMAS	0.15
27 THAILAND	-0.04	58 DOMINICAN REPUBLI	0.17 ***
28 GUATEMALA	-0.04	59 NORWAY	0.20 ***
29 CROATIA	-0.04 **	60 KENYA	0.22 *
30 SWITZERLAND	-0.04 ***	61 TURKEY	0.25
31 INDIA	-0.03	62 VENEZUELA	0.28 **
		63 BULGARIA	1.40 **

***, **, * indicate statistical significance levels of 1,5 and 10 percent, respectively.