

Bank Deposit Interest Rate Pass-Through and Geographical Segmentation in Japanese Banking Markets: A Panel Cointegration Approach¹

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April, 2011

Abstract

This paper estimates the pass-through between market interest rates and deposit interest rates in Japan, in order to investigate whether the bank deposit markets are geographically segmented. The unique feature of this paper is to make use of monthly deposit interest rates posted by 106 regional banks from March 1999 to March 2010. Following theoretical results from a simple banking activity model with Cournot competition, I estimate the long run pass-through of each regional bank by utilizing the panel cointegration method. The empirical results of this paper show significant negative correlation between regional market concentration and pass-through, which implies the existence of geographical market segmentation.

Key words: Interest rate pass-through, Geographical segmentation, Panel cointegration.

JEL Classifications: E43, G21.

¹ I would like to express my gratitude to Etsuro Shioji for his supervisions and encouragements. I acknowledge Yukinobu Kitamura and Naohisa Hirakata for helpful comments and suggestions. I also thank Takao Hayashi, Wataru Ichida, Eriko Kametani, and Shunsuke Okubo for their provision of valuable data. Of course, all errors are my own.

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