

Summary

Liebeg, David, and Schwaiger, Markus S.

“What Drives the Interest Rate Margin Decline in EU Banking –
The Case of Small Local Banks”

Bank interest rate margins have been declining in most EU countries over the last decade. This paper investigates the determinants of bank interest rate margins drawing on a unique sample of small local banks in Austria. The reduction of small local banks interest rate margins is mainly driven by a combination of decreasing operating costs, enabling banks to charge lower margins, and increasing competition. In addition, there seems to be a tradeoff between small local banks margins and non-interest revenues. In contrast to findings in the literature we furthermore document a small, but significantly positive effect of relationship banking on interest rate margins. (JEL G21, E40, C33)