COMMENTS TO “TECHNOLOGY, STRUCTURE AND COMPETITION IN THE URUGUAYAN BANKING INDUSTRY”

Authors: Miguel Mello and Jorge Ponce

Isabel Argimón

CEMLA: XXIV MEETING OF THE CENTRAL BANK RESEARCHERS NETWORK

Banco de España, Madrid

31/10/2019

THE VIEWS EXPRESSED HEREIN ARE THOSE OF THE AUTHORS ONLY AND DO NOT REPRESENT THE POSITION OF THE BANCO DE ESPAÑA OR THE EUROSYSTEM.
1. OVERVIEW

- Empirical paper, with initial empirical results, policy relevance.

The goal of the paper is twofold: description of market structure and test for economies of scope and scale in the Uruguayan banking system.

Are these characteristics a barrier for the development of the banking system?

They conclude that the Uruguayan banking system is a highly concentrated oligopoly with economies of global scale.

❖ Enjoyed reading and learnt.

Main contributions:

✓ Apply industrial organization concepts to the Banking sector
✓ Characterize the market structure of the Uruguayan Banking sector for the period 2004-2018.
2. SOME COMMENTS

• On data: Scarce information on data and variables used
  • *total costs in the production function: total loss in income statement?*
  • *average interest rates (lower for foreign currency loans), wages, deposit rates in the competition part? What is the definition, the source? In nominal or real terms?*
  • *use of stock (deposits) and flow (loans) data in the estimation of cost functions?*

• On approach: **Lack of theoretical framework** to establish consistency of production function (existence of economies of scale and scope) with market structure and competition. Market power may influence economies of scale and scope

• On econometric specification:
  • *Use of bank fixed effects?* 6+5 out of 14 banks immersed in M&A activities
  • *Scope function: identical cost function for all products*
  • *DD function for HH loans depends on loans for firms?*
• Increase consistency between two parts of paper:
  • Consider all products in both parts of the paper
  • A linear cost function implies $MC=AC$. Not compatible with U shape in first part of the paper
• Present all results and not only a choice
  • On economies of scope. Some results seem to point at diseconomies
  • No instrumental variables for some specifications
  • Global economies of scale: no confidence interval
• Highly dollarized economy: more focus on components in foreign currency
• Conclusions on room for development and increasing competition: stability effects and welfare effects not considered
  • How to take advantage of these economies of scale and scope? Are they socially desirable?
THANK YOU VERY MUCH