

Macroeconomic, Market and Bank-Specific Determinants of the Net Interest Margin in Austria

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The objective of this article is to identify key determinants of the net interest margin (NIM) in the Austrian banking sector. In Austria, the NIM is one of the most important income drivers of banks given the importance of relationship banking, where interest income dominates other sources of revenue. However, the NIM differs substantially among Austrian banks. Drawing on a unique supervisory dataset for the Austrian banking sector of around 42,000 observations between the first quarter of 1996 and the second quarter of 2012, we analyze under which circumstances a bank has a relatively high or low NIM. We contribute to the empirical literature on the NIM by factoring in a bank's business model in terms of its balance sheet structure and by accounting for the financial crisis from the third quarter of 2007 onward. Our estimation results suggest that not only the determinants identified in the existing empirical literature (different types of non-interest income and expenses, various risk measures, competition, macroeconomic environment) have a significant influence on the NIM, but also our two innovations (balance sheet structure, financial crisis).

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