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DEPOSIT RATE PASS-THROUGH AND COMPETITION: EVIDENCE FROM MACAU

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ABSTRACT

This paper studies the pass-through of deposit rates in Macau's banking industry. Using monthly interest rates data of Macau for the period 1995-2010, we examine the long-term relationship and short-term dynamics between interbank rate and the deposit rates to see whether the pass-through is complete. We further test if there is any asymmetry in the adjustment speed when deposit rates are above or below their long-term equilibrium level with the wholesale interest rates. Our findings support the long-term relationship between Macau interbank rates and retail rates, but suggest both the long-term and short-term pass-through is not complete. The pass-through rates are statistically higher for 3-month fixed deposit than savings deposit both in the long run and the short run; the 3-month fixed deposit rates also adjust faster than savings deposit rates. The 3-month deposit rates adjust upwards faster than they adjust downwards. The savings deposit rates, on the other hand, adjust more sluggishly when they are below their equilibrium level than when they are above their equilibrium level. The difference, however, is not significant.

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