

The Impact of Development of Financial Markets on Banking Industry Risk in Iran

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Abstract:

In the present study, the effect of financial market development on banking industry risk with three criteria (capital ratio, income diversification, and beta coefficient) is investigated. Due to statistical constraints, a set of 8 active banks in Tehran Stock Exchange is investigated during the period of 2005-2015. For estimation purposes, the generalized least squares panel method (GLS) is used. The results of the study indicate that the development of financial markets in both stock and bank has increased the systematic risk of banks. Moreover, the stock index development has a positive effect on capital ratio and increases the quality of banks' income. Foreign direct investment has increased the capital ratio of the studied banks and the degree of open trade in the studied period has reduced the systemic risk of the banking industry. Among the three benchmarks that show the performance of banks, including return on assets, return on equity, and cost-to-income ratio, only return on equity has increased the quality and variability of banks' income.

JEL classification: G15, G21

Keywords: Bank Risk; Development of Financial Markets; Beta Coefficient; Bank Capital; Income Diversification

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