

# BANK STOCK RETURNS SENSITIVITY TO INTEREST RATE CHANGES IN THAILAND

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**Abstract:** Many studies were trying to explain the changes of stock returns by finding the factors impact on a certain market, industry, or stock. Focusing on the financial institution especially commercial bank, there are some research proved that interest rate is one of the crucial factor impact the commercial bank stock returns. Interest rate is the cost and return of money in financial market since commercial bank acts as major financial intermediary; therefore, interest rate is still the majority of its cost and return. In Thai stock market shows different result, the changing in interest rate reflects slightly on the change in stock returns. After taking a close look, the conclusion can be drawn from outcomes the bigger size of the bank experience the larger effect. Thus, bank size is not a real moderator affect the relationship, the trading volume of the bank is the real relevant factor. Consequently, the theory can be hold only if the market participants trade all bank stock equally.

**Keyword:** BANK STOCK RETURNS, INTEREST RATE CHANGES, GARCH, THAILAND

## 1 INTRODUCTION

Interest rate acts as a major factor influence commercial bank profit. According to the banking business, accepting deposits and granting loans are the main function of traditional commercial bank. Nowadays, commercial bank tends to expand its products and services for generating greater income apart from interest income even including investment portfolio is now popular in banking industry. Anyhow, interest rate is still playing a vital role influencing commercial bank profitability.

Commercial bank return on equity (ROE) is normally driven by two forces (1) return generate from whole business which can be express in term of return on asset (ROA) and (2) the level of financial leverage that the bank take explained by equity multiplier (EM). Then how interest rate becomes important? Interest rate is the main influencer of ROA, thus, it affect the bank profit indirectly. On the other hand, looking into the stock market, market participants, also called investors, are playing an important role dominating the stock price. The prices of the products are always driven by the market demand and supply, the same theory apply for stock prices. In the stock market the demand and supply forces are motivated by the information flowing in the market. The overall theory has already been proved and explained where interest rate change will impact to the bank stock returns.

Our study has testified the theory in Thai market and the theory is hold but the evident is week to be explained. Therefore we went further in detail and found out that the theory is hold strongly only for a certain circumstances. This paper used the daily stock return from January