

Abstract

There is an ongoing debate whether the impact of competition on bank soundness is positive or negative. Traditionally, it was assumed that there is a trade-off between competition and bank soundness. On the other hand, some recent studies suggest that competition has a positive effect on bank soundness. In this thesis, we will focus on the concept of efficiency as a possible link between competition and bank soundness. Firstly, we will summarize different approaches to measure competition, efficiency and soundness in banking sector. Subsequently, we will focus on hypotheses formulated to describe the link between competition in financial sector and bank soundness, between efficiency and bank soundness and between bank competition and efficiency. The empirical part, we will examine whether there is a link between competition and soundness via efficiency channel. Our analysis is based on dataset contains commercial banks from Visegrad group during period 2008 – 2012. We will exploit the Boone indicator as a measure of competition, the SFA approach to obtain efficiency score and soundness will be derived from z-score. The empirical evidence confirmed the positive link between competition and bank soundness via efficiency channel.