

ABSTRACT

Bank stability plays an essential role in maintaining the resilience of the financial system, particularly in the ASEAN-3 region, which has experienced banking liberalization, regulatory reforms, and economic pressures resulting from the COVID-19 pandemic. However, empirical findings regarding the effects of banking competition and market concentration on bank stability remain inconclusive. This study aims to analyze the effect of banking competition and market concentration on bank stability in ASEAN-3 during the period 2017–2024 and to examine whether these effects differ between the normal period and the COVID-19 crisis period.

The study uses a population of 96 banks, from which 73 banks with 552 observations were selected through purposive sampling. Bank stability is measured using the Z-Score, banking competition using the Panzar–Rosse H-Statistic, and market concentration using the Concentration Ratio (CR3) and the Herfindahl–Hirschman Index (HHI). The analysis is conducted using the Fixed Effect Model (FEM) in Stata 17, and interaction terms with the COVID-19 dummy are included to capture differences in effects during the crisis period.

The findings indicate that banking competition has a positive and significant effect on bank stability, supporting the competition–stability hypothesis that greater competition enhances market discipline, reduces borrower moral hazard, and improves bank efficiency. In contrast, market concentration has a negative and significant effect, suggesting that dominance by a few large banks increases systemic vulnerability. In the interaction model, the effect of banking competition becomes insignificant, implying that the COVID-19 crisis does not alter the competition–stability relationship. Conversely, the negative effect of market concentration persists and becomes stronger during the crisis period. These results highlight the need for regulatory policies that promote healthy competition, balance market structure, and mitigate systemic risks to strengthen bank stability in ASEAN-3.

Keywords: Banking Competition, Market Concentration, Bank Stability, Panzar-Rosse H-Statistic, CR3, HHI, Z-Score, COVID-19, ASEAN-3.