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An Analysis of loan loss provisioning behaviour in Vietnamese banking

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Abstract

This paper investigates loan loss provisioning (LLP) behaviour by Vietnamese banks during the period 2006-2012. We test the capital, income-smoothing and cyclical management hypotheses and examine whether the inclusion of X-efficiencies and/or risk control variables influences provisioning behaviour. When the X-efficiency estimates are incorporated into the models, Vietnamese banks do not exhibit counter-cyclical or capital management manipulation by managers, but counter cyclical income smoothing. Yet, the inclusion of risk control variables in x-efficiency scores (either equity or reserves for impaired loans) supports the addition of capital management hypotheses.

JEL Classification: C33: G01: G28: G21

Keywords: Loan Loss Provisioning, Capital Management Hypothesis, Income Smoothing, Vietnam, X-efficiency.

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