Examining the Effect of Interest Rate Suppression on Credit Risk in the Banking Industry with a Focus on Financial Inclusion: A Simultaneous Equations Approach

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1. Round 1

1.1. Reviewer 1

Reviewer:

The sentence "Interest rate suppression can alter banks' lending behavior..." is conceptually strong, but the claim would be more compelling if it cited recent empirical studies beyond 2014 (e.g., post-COVID-19 banking adaptations).

The definition of financial inclusion from the World Bank is accurate, but the authors should consider expanding the conceptual contrast with interest rate suppression by offering a brief theoretical framework or graphical representation.

The rationale for using Tehran Stock Exchange (TSE) banks as a sample needs clarification. Why were other non-listed but potentially influential banks excluded beyond data availability?

The explanation following Table 2 concludes that the first component (DG) can serve as a composite index. However, using only one component contradicts the multi-dimensional nature of financial inclusion. Justify this decision or consider a weighted index approach.

The authors present descriptive statistics, including skewness and kurtosis, but do not interpret them. Comment on the distributional properties and any implications for normality assumptions in the model.

The conclusion says "panel data estimation is selected," but Table 6 later chooses a random effects model. There is inconsistency between using fixed vs. random effects—please clarify the rationale for final model selection.

The authors use Hadri-Rao tests after finding cross-sectional dependence via Pesaran tests. While commendable, the stationarity test results (e.g., p = 1.000) are unusually uniform and may require further validation or robustness checks.

Coefficients are statistically significant, but practical significance is not discussed. For example, what does a -0.03% change in NPL imply economically? Readers would benefit from such interpretation.

The sentence "Interest rate suppression reduces profitability for banks..." is accurate, but the discussion does not fully reflect the dual-edge nature of suppression in developing economies. Consider adding nuanced views from policy literature.

Authors revised the manuscript and uploaded the new document.

1.2.   *Reviewer 2*

Reviewer:

The authors mention using a "mixed-method" approach, yet the entire methodology seems purely quantitative. Please clarify or remove the qualitative dimension unless explicitly used.

The authors refer to "regression modeling" but do not explicitly state the type of regression model (i.e., 2SLS) until later. It would enhance clarity to mention the use of the 2SLS model up front in the methodology description.

The authors provide directional effects but should explain the mechanisms in more depth. Why does financial inclusion consistently reduce both NPL and BDTC under suppressed interest rates?

The authors mention Colho, Rostui, and Zamil (2023) as a comparative study. However, no such reference exists in the reference list. Please review and correct this citation.

The categorization of some coefficients as "positive" when their magnitudes are tiny (e.g., 0.0015) could be misleading. Consider discussing statistical vs. economic significance here.

Authors revised the manuscript and uploaded the new document.

2.   Revised

Editor's decision after revisions: Accepted.
Editor in Chief's decision: Accepted.