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THE TECHNICAL INEFFICIENCY EFFECTS OF TURKISH BANKS AFTER FINANCIAL LIBERALIZATION

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Abstract

The banking sector in Turkey has grown significantly over the last two decades of financial liberalization. One of the aims of the financial liberalization was to improve efficiency through restructuring programs including the privatization of state banks and the encouragement of mergers. In this paper we identify key factors determining the technical efficiency differentials among Turkish commercial banks in the pre- and post-liberalization periods, using the technical inefficiency effects model. We found that loan quality, size, ownership of the banks, and profitability have a positive and significant impact on the technical efficiencies of banks. The results warrant implementation of effective regulatory measures to improve the quality of the earning assets of commercial banks. Furthermore, steps by the government to encourage acquisitions or mergers for private banks and the privatization of state-owned banks seem to be consistent in improving the overall efficiency of commercial banking in Turkey.

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