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## The X-Efficiency in Islamic Banks

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### Abstract

This paper investigates relative efficiency of the Islamic banking industry in the world by analyzing a panel of banks during the period of 1995-2001. Both parametric (cost and profit efficiency) and nonparametric (data envelopment analysis) techniques are used to examine efficiency of these banks. Five DEA efficiency measures such as cost, allocative, technical, pure technical and scale efficiency scores are calculated and correlated with conventional accounting measures of performance. The results indicate that, on average, the Islamic banking industry is relatively less efficient compared to their conventional counterparts in other parts of the world. The results also show that these efficiency measures are highly correlated with ROA and ROE, suggesting that the efficiency measures can be used concurrently with conventional accounting ratios in determining Islamic bank performance.

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