Applied Economics ›
Volume 36, 2004 - Issue 17

Original Articles

Financial liberalization and bank efficiency: a comparative analysis of India and Pakistan

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Pages 1915-1924 | Published online: 02 Feb 2007

Cite this article https://doi.org/10.1080/000368404200068638

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This is attributed to the presence of high non-performing loans. In addition, it is found that the gap between the pure technical efficiency of different size groups has declined over the years.

Acknowledgements

Helpful comments by Canan Yildirim and the participants of the 4th Annual International Economics and Finance Society Conference, London 2003, are gratefully acknowledged. The usual disclaimer applies.

Notes

See Fry (1995) for changes in the financial sector in developing countries after the implementation of financial liberalization programmes.

During the sample period used in this study, the legislative changes in India allowed public sector banks to tap the capital market to the extent of 49% of their total capital (see Bhi … c sector banks, M … ivate investor…

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For DEA estimation, we use DEAP 2.1 is used, developed by Tim Coelli of the University of New England, Australia.

This is especially the case for the commercial banks in developing countries where, unlike in developed countries, fee income is very low for commercial banks, and banks rely on traditional loans and government securities for income.

Another possible explanation for this gap between the efficiency scores obtained from the two models could be that banks transferred the benefits of improvement in their efficiency to their customers because though banks produced more loans, advances and investments (i.e. intermediated more funds) with given inputs, they did not extract more income from this intermediation process. However, increasing interest margins in both the countries, coupled with constant criticism in the domestic media about the quality of customer services provided by banks, especially public sector banks, may cast some doubt on this interpretation.