

Applied Economics >
Volume 36, 2004 - Issue 17

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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 Bhisani and Maiti, 2003). The study also includes private banks, MNC banks, and foreign investors.

Parameter estimates are reported in Table 1. The Hausman test indicates that the fixed effects approach is more appropriate than the random effects approach. The Hausman test results are reported in Table 2. The Hausman test results are reported in Table 2. The Hausman test results are reported in Table 2.

In the case of India, the results show that the efficiency of public sector banks is significantly lower than that of private banks. For example, the efficiency of public sector banks is 0.85, while that of private banks is 0.95. This is due to the fact that public sector banks are heavily regulated and have a large number of non-performing loans. In contrast, private banks are more competitive and have a higher level of efficiency. The results also show that the efficiency of public sector banks is significantly lower than that of private banks. For example, the efficiency of public sector banks is 0.85, while that of private banks is 0.95. This is due to the fact that public sector banks are heavily regulated and have a large number of non-performing loans. In contrast, private banks are more competitive and have a higher level of efficiency.

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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.

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