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An analysis of the relevance of off-balance sheet items in explaining productivity change in European banking

Barbara Casu  & Claudia Girardone

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Abstract

The 1990s have seen a rapid growth in the use of non-traditional data sources, such as satellite data, to estimate productivity. This paper examines the relevance of off-balance sheet items in explaining productivity change in European banking. The total factor productivity (TFP) is estimated using a non-parametric approach. The results show that off-balance sheet items are a significant determinant of productivity change. The view in the literature that off-balance sheet items are a lead indicator of productivity change is supported. The activities of banks are the biggest contributors to productivity change.

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Notes

¹Important developments in this field have been introduced, among others, by the work of Diewert ([1976](#), [1978](#), [1981](#)), Caves et al. ([1982a](#) and [1982b](#)) and Färe et al. ([1985](#), [1994](#)).

²Shephard's ([1970](#)) distance functions have guided much of the development in efficiency and productivity analysis. In a multi-input multi-output framework, an output distance function is defined as the reciprocal of the maximum proportional expansion of the output vector, given inputs. An input distance function is defined as the reciprocal of the maximum proportional contraction of the input vector, given outputs.

³In his empirical work, Farrell ([1957](#)) defines technical efficiency as the maximum proportional contraction of inputs. He also indicated that, under constant returns to scale, this may be interpreted as the percentage by which output could be increased using the same inputs. The interpretation of Farrell's measures of technical efficiency as reciprocals of distance functions can be found in Färe et al. ([1985](#), [1994](#)).

⁴For a literature survey on the subject, see Grosskopf ([1993](#)) and Färe et al. ([1997](#)). Also, Ray and Desli ([1997](#)) discuss the conceptual framework and Mukherjee et al. ([2001](#)) derive the geometric decomposition for a generalized Malmquist index.

⁵The input distance function is similarly defined.

⁶It is to note that data on OBS items for UK banks were available on for six institutions, namely the Bank of England, the Bank of Scotland, the Bank of Ireland, the Bank of Wales, the Bank of Cyprus and the Royal Bank of Canada.

⁷Specifically, the data for the whole banking sector in Germany is 13.46 (13.46) in the UK.



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