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# Turkish banking efficiency and its relation to stock performance

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## Abstract

In this study, technical, allocative and economic efficiency scores of the banks whose stocks traded in Istanbul Stock Exchange are measured using data envelopment analysis (DEA) for the time period 1998 to 2004. Economic efficiency scores of banks obtained from DEA model was related to their stock prices to determine whether there is an explanatory power of efficiency scores on stock price returns. The average banks' efficiency decreased from 0.781 in 1999 to 0.504 in 2001 and started to increase after this year except the year of 2003 indicating that financial crises affected the efficiency scores of the banks. During the time period 1998 to 2004, six banks appeared to be technically efficient at least once.

# Notes

<sup>1</sup> A value of  $\theta = 1$  indicates an efficient DMU according to Farrell's (1957) definition.

<sup>2</sup> In the case of an efficient DMU, all the values of  $\lambda$  will be equal to zero. For the inefficient DMUs,  $\lambda$  values are the weights used in the combination of efficient DMUs that projects each efficient DMU onto the frontier.



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