

Dynamics of Productive Efficiency of Indian Banks

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Abstract—The Indian banking sector, which was predominantly controlled by the government, was liberalized in early 1990s. The resultant competitive forces, coupled with more stringent regulatory framework, have created pressure on the banks to perform. Efficiency has become critical for banks' survival and growth. This paper analyzes the performance of the Indian banking sector, measured and compared in two stages: Through the construct of productive efficiency using the non-parametric frontier methodology, DEA and finding the determinants of productive efficiency through TOBIT model. Inputs and outputs are measured in monetary value and efficiency scores determined for the period 1999-2003. The study shows that SBI and its group have the highest efficiency, followed by private banks, and the other nationalized banks. The results are consistent over the period, but efficiency differences diminish over period of time. The capital adequacy ratio is found to have a significantly positive impact on the productive efficiency.

Keywords—Data envelopment analysis, Efficiency, Indian banks, TOBIT model
