ABSTRACT

Financial development is the back bone of economic development and hence the efficiency of the financial sector foretells on the economic health of the country. The concept of X-efficiency is a new entrant in the field of efficiency measurement. The X-efficiency deviates from other types of efficiency as X-efficiency is said to arise due to changes in qualitative factors like motivation and competition. The unit of analysis in the X-efficiency theory as per Leibenstein is the individual in the organization rather than the firm. The thesis thus studies the X-efficiency of India's Public Banks, particularly the impact of banking sector reforms on X-efficiency. Majority of the banking literature concentrate on the technical, scale and allocative efficiencies while very sparse literature is available on the study of X-efficiency of Indian Banks. The thesis tries to make a comparison between the effect of the first and second generation reforms initiated in 1991 and 1998 respectively. It also tries to make a comparison between the banks on the basis of ownership by comparing the performances of the Public Sector Banks, Private Domestic Banks and Private Foreign Banks.

The X-efficiency has been measured here using two alternative methods, Generalised Least Square (GLS) estimation and Maximum Likelihood Estimation (MLE). The study makes use of the translog cost function and panel data for the period from 1994 to 2012. The panel comprises of 57 banks, comprising of 25 Public Sector Banks, 17 Private Domestic Banks and 15 Private Foreign Banks. The outputs used in the cost function are loans and advances, and investment while the inputs taken into consideration are price of labour, price of fund and price of capital.

It is found that ownership does not play a very significant role in determining X-efficiency. During the period of analysis it is found that the most efficient banksare the public sector banks at 80.24 per cent X-efficiency score, while the private foreign banks score 79.93 per cent and the private domestic banks 77.3 per cent. Taking into account only the second generation reform this study reveals that the private domestic banks register a growth in X-efficiency at 88 per cent while the public sector banks following very closely at 87 per cent while the private foreign banks are at 83 per cent. These signify that X-efficiency is not affected by the ownership of banks. A comparison between the GLS and MLE estimation also reveals that there is quite similarity in the results obtained from both the methods.But the MLE is more appropriate in X-efficiency study as there is a loss of data in the GLS estimation.