

EFFICIENCY OF SELECTED COMMERCIAL BANKS IN SRILANKA: AN APPLICATION OF DATA ENVELOPMENT ANALYSIS

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This study aimed to examine the efficiency of two state banks namely, Bank of Ceylon and Peoples' bank and four private banks namely, Commercial bank, Seylan bank, Hatton National Bank and Sampath bank operating in Sri Lanka during the period from 2009- 2012. The efficiency of the banks was measured in terms of total factor productivity or Malmquist index and its main components and sources of growth also analysed. Data envelopment analysis (DEA) was applied on the variables of interest income and amount of loans which were considered as two outputs and amount of deposits, total assets, number of staff and interest expenses were considered as four inputs in the study. The data were collected from Colombo Stock Exchange (CSE) annual reports in Sri Lanka and they were analysed on the assumption of output oriented method with constant returns to scale. Based on the sample of six banks, the empirical findings revealed that in terms of total factor productivity index, Seylan bank has the highest efficiency of 1.033 and Commercial bank, Hatton National Bank and Sampath bank have the values of 0.889, 0.773 and 0.848, respectively. The other two state banks, Bank of Ceylon and Peoples' bank have the values of 0.773 and 0.801, respectively. In addition, the empirical findings revealed that all six banks operated averagely at 87.2 percent level of overall technical efficiency and, the contribution of technical efficiency in overall total factor productivity index has been observed to be smaller and it was fluctuated than other efficiencies and they have a strong positive impact on the overall technical efficiency of banks. The results concluded that Seylan bank has more efficient and Bank of Ceylon has less efficient as compared to other banks and the results confirmed that comparatively selected private sector banks are more efficient than state banks during the study period in Sri Lanka.

Keywords: Data envelopment analysis, Efficiency change and scale change, Malmquist index