

Impact of Global Financial Crisis on the Efficiency of Indian Public Sector Banks

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Abstract

The world economy was shaken to core by the Global financial crisis 2008. The crisis started off as the sub-prime mortgage crisis in USA which later developed into the bank crisis. Its effect was seen all over the world with the decline in the growth rates of many developed and some developing countries. However, it was contended that the Indian banks being relatively insulated remained safe. The paper investigates the same in terms of one of the vital parameters of bank performance i.e., the efficiency of banks. Since, public sector banks still dominate the Indian banking, the study has been conducted on the technical efficiency of public sector banks in the period covering pre, during and post-crisis sub-periods i.e., from 2003 to 2015. DEA has been employed to empirically measure technical efficiency. It was found that there was no decline in the efficiency of the banks. Fluctuations were found in some accounting ratios. The study attributes the resilience to both intrinsic make up of the Indian public banks as well as the swift policy initiatives of RBI following the crisis.

I. Introduction

IN SEPTEMBER 2008, THE Global economy received a major shock with defaulting of the leading bank in United States of America namely, Lehman Brothers. Some other banks followed the suit. The fear psychosis and the systemic effect led to the Great recession known as Global financial crisis 2008. This was primarily triggered by the sub-prime crisis. The real estate sector at that time was booming. The burst in the household bubble triggered the bank crisis as the banks were left with the lower value defaulted assets than they had lent to the borrowers. The loss of inter-bank confidence on account of the fear that the other bank might give the defaulted asset as the security led to decline in the inter-bank lending. However, the main reason often cited is the lax regulation and the supervision. The US Financial Crisis Inquiry Commission that reported its findings in January 2011 blamed the

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treated as a final verdict on the effect of crisis on the public bank sector efficiency as the present study deals with the frontier within the public sector and not the comparison with domestic private and foreign private banks. Also, only the technical efficiency has been analysed. Effect of the global financial crisis on the other types of efficiencies can also be examined in the future research. The ranking of the individual banks could also be done in a better way by using super efficiency scores.

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