Bank Productivity Changes in two Asian Giants
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Abstract
China and India have experienced rapid economic growth over the last two decades, and finance is central to growth. Banking is the dominant form of finance in both countries, so an interesting question is what are productivity advances, and the forces driving them, among Chinese and Indian banks? This study looks at the banking sectors’ trends in total factor productivity (TFP) changes between 2000 and 2007, and its components. We also consider the relationship between TFP growth and individual banks’ financial performance. We find TFP growth is largely driven by technical progress/innovation. It is somewhat faster in China than India and strongest among large banks. Foreign banks display slower growth than locally owned banks but the association between ownership or listings and TFP change is ambiguous. In China TFP growth continues to outpace India’s but there may be some deceleration with a shift in the underlying components. TFP advances are found to exert important influences on bank-specific equity prices.

\textit{JEL classification:} G21, G28, D24

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