Determinants of Efficiency of Indian Banks: An Empirical Study

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Abstract
In ever increasing competitive business environment of these days, banks represent the primary conduit in the hands of Central Banks’ of the country to shape monetary policy at macro-economic level. At micro-economic level, they represent the primary source of credit to most of the small and tiny business houses and are pivotal in promoting financial inclusion by offering financial services to those who otherwise are financially excluded. Banks are therefore important partners of economic growth of any nation. However, the survival and growth of banks is in turn based on their efficiency. In this context, present study makes and attempt to assess the efficiency of Indian banks and to identify the various factors affecting it. Multiple linear regression analysis and pair-wise correlation matrix are used to explain the effect of bank specific variables on dependent variable bank efficiency. The various explanatory variables used in this study are capital adequacy, asset quality, burden, spread, deposit mix, return on assets and earnings per share while as net profit to working funds is taken as dependent variable and representative of bank efficiency. The results of present reveal that spread, asset quality, burden and ROA are statistically significant variables and explain the 76.10 per cent variation in bank efficiency. Further, study has shown that capital base, deposit mix and earnings per share have statistically significant and positive correlation with bank efficiency.

Key Words: Banks, Efficiency, Spread, Burden, Deposit Mix, Asset Quality, EPS