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Cost efficiency of Pakistan’s banking industry improving over time:
Prof. Kent Matthews

Prof. Kent Matthews, Sir Julian Hodge Professor of Banking and Finance, Cardiff University, UK today said that improved competitiveness of Pakistan’s banking industry has resulted in higher level of cost efficiency thereby increasing the effectiveness of financial intermediation.

Delivering a lecture on “Banking Efficiency in Emerging Market Economies” at National Institute of Banking & Finance (NIBAF) in Islamabad, Prof. Matthews said that the efficiency of the banks is an indicator of the efficiency of financial intermediation. The banking sector of the emerging economies is facing stronger competition due to the globalisation of the financial system,” he said and added that while the trend in deregulation and global competition will be muted for the next few years as a result of the financial crisis, the pace will pick up once the world economy is stabilised.

The lecture, organized by the State Bank of Pakistan, is the 17th such event held as a part of Zahid Hussain Memorial Lecture Series instituted in 1973.

Prof. Matthews in his lecture reviewed the different ways to measure bank efficiency and highlighted the results of research on bank efficiency in Asian emerging economies. In particular, the lecture outlined the extent of research thus far conducted on the efficiency of banks in Pakistan and how to build and improve upon them.

He stressed that banking efficiency is a worthy topic as it not only measures the overall efficacy of the banking system but also allows the evaluation of banks’ intermediary role. Furthermore, knowledge on the banking efficiency helps assess the smoothness with which monetary policy transmits through the banking channel. He explained that for banks to be cost effective one needs to be able to assess their levels of technical and allocative efficiencies. He said that the concept of technical efficiency is the ability of a bank to maximize its output from the given set of inputs e.g. a bank may be technically inefficient due to low levels of training, human capital and the use of inferior technology. Allocative inefficiency is the inability to reallocate inputs in their optimal proportions given their respective prices, he added.

Prof. Matthews highlighted the necessity to formulate policies promoting convergence of cost efficiency within the Pakistani banks.

Earlier, Mr. Shahid H. Kardar, Governor State Bank of Pakistan welcomed the distinguished speaker, the chief guest Mr. Nasir Aslam Zahid and introduced the guest speaker to a select group of audience that included senior bankers, policy makers and senior officials of the State Bank.

Mr. Justice (Retired) Nasir Aslam Zahid – the son of Mr. Zahid Husain, the first Governor of the State Bank of Pakistan – presided over the function. In his speech Mr. Zahid recounted the numerous achievements of his father.
