

Year: 2012
Volume: 57
Issue: 3

S T U D I A
Universitatis Babes-Bolyai
OECONOMICA

THE TOTAL FACTOR PRODUCTIVITY OF THE FOUR LARGEST BANKS IN SOUTH AFRICA: PRELIMINARY EVIDENCE FROM INDEX NUMBERS METHODOLOGY

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Abstract. The purpose of this paper is to estimate and compare the efficiency of the four largest banks in South Africa. The total factor productivity of the four largest banks was estimated and the multilateral total factor productivity indexes of the four banks compared. Nedbank had the highest productivity level, followed by Standard, ABSA and FRB. All four banks experienced various strategic changes during the sample period (1994 to 2010), as well as considerable changes in the banking arena in South Africa. The changes in the banking arena included the first substantial rewrite of the Banks Act and Regulations since 1990, following the adoption of the international guidelines known as Basel II which took effect on 1 January, 2008, the introduction of the National Credit Act in 2007, as well as the financial sector charter. These changes as well as the strategic changes combined with changes in input volumes resulted in changes in output volumes, which impacted on total factor productivity levels. The result of the Global Financial Crisis is evident in the decline in total factor productivity during the period, 2008-2010.

JEL Classification: C50, C61, D24, G21, L21

Keywords: banks performance, bank inputs/outputs, total factor productivity, multilateral total factor productivity, index numbers

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