

Competition and Efficiency in the Mexican Banking Sector[♣]

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Abstract

The Mexican banking sector experienced a process of liberalization which aimed towards increasing the level of competition and efficiency. This paper studies the evolution of the efficiency of the Mexican banking sector from 2002 to 2012 and also analyses its relationship with the degree of banking competition. To do so, efficiency scores are estimated by applying the non-parametric methodology, Data Envelopment Analysis. Furthermore, the Boone Indicator is used to assess the degree of competition and included among other possible determinants of bank efficiency. The main results indicate increasing trends of efficiency in the banking sector during the period of study. Moreover, a direct relationship between banking competition and efficiency is observed. Besides, the capitalization index, market share and loan intensity increase efficiency whereas noninterest expenses and non performing loans decrease the level of efficiency. Lastly, in regards to the relative efficiency of local or foreign ownership of banks, it is found that the system's average efficiency trend is observed among both local and foreign banks, but local banks are somewhat more efficient.

Key words: Panel Data, Bank Competition, Mexican Banking Sector, Boone Indicator.

JEL: D4, G15, G21, L11, N2

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