# Operating Performance of Banks among Asian Economies: An International and Time Series Comparison

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## Summary

After controlling for loan quality, liquidity, capitalization, and output mix, per unit bank operating costs are found to vary significantly across Asian countries and over time. Further analysis reveals that the country rankings of per unit labor and physical capital costs are highly correlated, suggesting that there exist systematic differences in bank operating efficiency across Asian countries. However, this measure of operating efficiency is found to be unrelated to the degree of openness of the banking sector.

Asian bank operating costs were found to decline from 1992 to 1997, indicating that banks were improving their operating performance over time. The run-up in operating costs since 1997 coincided with the Asian financial crisis, suggesting that banks were incurring additional costs in dealing with their problem loans while output was declining simultaneously.

Moreover, the labor cost share is found to decline significantly between 1997 and 1999, indicating that banks were able to cut their labor force after the financial crisis but were less flexible to reduce physical capital input. Furthermore, significant differences in labor cost share are detected across countries, suggesting that different countries have different bank production functions. The variations in labor cost share are significantly positively related to the country's financial services wage rate, suggesting that banks use relatively more labor in a particular country due to higher labor force productivity, rather than labor being cheap.