

Cost Efficiency and Risk of Vietnamese Banking System

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The issues related to the efficiency and risk management of the financial system in all economies have long been a conventional focus. Vietnamese commercial banks find it difficult to manage their outputs, input prices and control their performance in terms of cost efficiency, especially after financial crisis in 2008. They are also facing high risk in their operations in the high inflation rate situations. In addition, Vietnamese Government is trying to rank and force the banks following the requirements of Basle 3 but they are lacking in quantitative tools to do that. This research was conducted to measure the efficiency of Vietnamese banks by applying Stochastic Frontier Approach (SFA) – an approach has some advantages over Data Envelopment Approach (DEA) in terms of assuming statistic noise (Berger and Humphrey, 1997, Sun and Chang, 2011). Another issue that most of previous studies conducted in Vietnam (Dang-Thanh, 2010, Ngo, 2012, Vu and Turnell, 2010) have not fully mentioned is the effects of risks (credit risk, operational risk, and liquidity risk) on banks' cost efficiency, which are tested in this research. By analyzing an unbalanced panel data (mostly taken from Bankscope database) of Vietnamese commercial banks covering 2004 – 2011, the empirical results show that the overall efficiency of the state-owned banks is much lower than other banks and there's a big difference between the efficiency scores of banks. The results also indicate that three mentioned kinds of risk have significant effects on cost efficiency, which vary across groups of banks in term of ownership and size. The findings have implications for bankers in managing their cost efficiency and Government in building quantitative tools to control banking system.

Key words: cost efficiency, SFA, risk, banking

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