Investigating effective factors on the Efficiency of Iranian Banking Industry (Simar and Wilson's two-stage method)

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Abstract:
While bank functions can be complex and various, a bank is operationally defined as an institute whose current actions are mainly limited to giving loans to and taking deposits from people. It also plays an important role in the allocation of economic capital. A financial system with a developed level of efficiency can considerably facilitate allocation of appropriate sources to household consumptions as well as appropriate physical capital to productive sections in society. Thus, it is highly expected that efficient and profitable banks pave the way for the construction of an influencing financial system. In other words, the efficiency of the banks can lead to economic growth and development in their home country. The potential of banks to hold a highly efficient function determines their sustainability.

In Iran, the banking industry plays a pivotal role in providing financial resources due to the lack of a capital market. That is why any shortage in the structure and function of banks might have an adverse effect on other sections. Thus, gaining deep insights into the policies of the banks in Iran seems essential. Also, with the removal of imposed sanctions after the adoption of JCPOA, the Iranian banks are supposed to have the required level of efficiency compatible with a global level. Since providing financial resources in Iran significantly depends on banks and any malfunctions in banks lead to negative impacts on the economic conditions of the country, bank managers and policy makers should pay adequate

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attention to the efficiency of the banking industry. The high efficiency in the banking system in Iran can also bring them international benefits. To reach this aim, the determining factors influencing the efficiency of the banking system in Iran need to be explored.

Many studies have already investigated the decisive factors in the efficiency of banks in Iran. However, the interpretation of the findings of these studies is sensitive to their sample. To control this sample-dependence interpretation, in this study we have taken advantage of two-stage efficiency analysis of Simar and Wilson (2007). To do so, in the first stage, we examined the efficiency of banks via bootstrap method in the period between 1384 and 1394. In the second stage, via bootstrapping regression, we examined the weight of the influencing factors in the efficiency of the banks. The findings of the first-stage analysis helped us to distinguish between efficient and inefficient banks. They also showed that the efficiency of the banks significantly increased in the given period of time. Furthermore, the second-stage analysis indicated that some factors such as investment, size of banks, credit risk, interest rate, operating costs, and the virtual variable influence the efficiency of banks in Iran.

JEL classification**:** G21, H21

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