

Abstract:

This study examines changes in the productivity of commercial banks in Kenya in the context of liberalization using Data Envelopment Analysis (DEA). We measure the productivity growth and its components from a time series dataset obtained from Central Bank of Kenya publications and National Banking Surveys. DEA method is used to measure Malmquist index of total factor productivity for a sample of 34 banks for the period 1999-2008. A decomposition of Total Factor Productivity (TFP) measure is done to establish the source of changes in factor productivity. The results suggest that TFP deteriorated over the period while Efficiency change (EFFCH) increased as Technical Change (TECH) declined implying that deterioration of TFP was due to either technological innovations or shocks. Given that technology is the main driver of productivity, we recommend that the monetary authorities design practicable protocol as a technological standards requirement.