Summary

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"Linking Managerial Behaviour to Cost and
Profit Efficiency in the Banking Sectors of
Central and Eastern European Countries"

This paper analyzes cost and profit efficiency as well as the managerial behaviour of banks in nine Central and Eastern European countries, providing cross-country and time-series evidence on the run up period to EU accession from 1995 to 2002. A stochastic frontier analysis based on a Fourier flexible form indicates a generally low level of cost and profit efficiency. We also observe an increasing tendency over time in cost and profit efficiency, with significant differences among countries. Apart from looking at the determinants of cost and profit efficiency (e.g. asset quality, problem loans, risk, and environmental factors), we test several hypotheses on banks' managerial behaviour using a Granger causality approach. Even though a static analysis shows a negative correlation between problem loans and efficiency, we find no evidence supporting the bad management hypothesis according to which inefficiency triggers a decrease in asset quality. On the contrary results provide evidence for the bad luck hypothesis suggesting that the exogeneity of bad loans causes inefficiency. (JEL G21, G28, C14, D21)