

Scale economies and efficient in Bolivian banking: the effect of credit specialization

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Abstract

The present paper determines the existence of economies of scale, scope as well as efficiency degree of banks, by estimating cost functions which take into account banks' specialization in credit. Cost functions are estimated through panel data using Stochastic Frontier Approach (SFA) methodology for the period 1999-2014. The results indicate that economies of scale would exist in microfinance banks throughout the period of analysis, which would explain the growth capacity of this sector. In the case of commercial banks, economies of scale do not follow a stable pattern over time, and from 2011 onwards they start to display increasing or constant returns to scale. X-efficiency estimates exhibit higher efficiency levels than those reported in previous studies. Finally, we analyze potential variables that could have affected this efficiency.

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