SPATIAL DEPENDENCE AND THE TECHNICAL EFFICIENCY OF LOCAL BANKS. EVIDENCE FROM A SPATIAL, TWO–STAGE BOOTSTRAP ANALYSIS

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A steady stream of literature has emphasized that small and local banks benefit from market power against large banks due to their ability to use soft information. Such banks serve small and micro enterprises and households; that is, niche markets from which large banks are usually barred. In light of this, I applied a spatial analysis methodology to test the hypothesis that the technical efficiency performance of local Italian banks is affected by spatial dependence. I posited that local banks mainly compete among themselves and that the market discipline creates efficiency in this scenario. Using Data Envelopment Analysis (DEA) methodology, I estimated the efficiency score at the bank level and, in a second step, carried out a truncated bootstrap regression. My results provide robust evidence that spatial dependence has a positive effect on both the input and the output technical efficiency of local banks for three specifications based on specific spatial matrices while, for greater distances, the spatial lag parameter was not more statistically significant. Furthermore, in some cases, the spatial covariates had the opposite effect on a bank's technical efficiency compared to the same variables when considered alone. This result highlights that the level of a bank's strategy can contradict the effect of general market tendencies on a bank's performance in terms of efficiency.

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