

# HOW TO INCREASE FINANCIAL SECTOR EFFICIENCY ?

## Sources of inefficiency<sup>1/</sup>

Informational asymmetries	Incompleteness of markets	Lack of opportunities of engaging in fin. transactions	Transaction costs	Lack of competition
The different amount of information available to agents (banks and clients) leads to inefficient transactions (both in prices and quantities)	The lack of suitable products and services prevents banks and potential clients from engaging in financial transactions	Legal system inefficiencies, the lack of banking skills, or of financial education of both consumers and firms prevents banks and potential clients from engaging in financial transactions	Stamp duties, registry taxes and other administrative costs may alter the prices of financial services and products, thus leading to inefficient transactions (both in prices and quantities)	Market power may lead to high prices and low traded quantities

## Illustrative sources of efficiency gains

<ul style="list-style-type: none"> <li>• Increase of firms' financial statement transparency</li> <li>• Increase of credit history disclosure</li> <li>• Provision of collaterals</li> </ul>	<ul style="list-style-type: none"> <li>• Increase of the number of financial markets</li> </ul>	<ul style="list-style-type: none"> <li>• Modernization of legal systems / procedures</li> <li>• Improvement of financial market responsiveness to real economy needs</li> <li>• Increase of market participants' information</li> </ul>	<ul style="list-style-type: none"> <li>• Increase of payment / settlement systems' efficiency</li> <li>• Reduction of administrative costs</li> <li>• Increase of on-line banking services</li> </ul>	<ul style="list-style-type: none"> <li>• Modernization of antitrust regulation</li> <li>• Antitrust supervision</li> </ul>
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**Financial efficiency is the condition under which resources available in a financial system are allocated towards the most valuable investment opportunities at the lowest possible costs.**