

The Cost Effects of Government-Subsidized Credits: Evidence from Farmers'
Credit Unions in Taiwan

王泓仁, 張靜貞, 陳柏琪

International Business

Management

pochi@chu.edu.tw

Abstract

We investigate government-subsidised credit effects on participating financial institutions' performance in terms of cost efficiency. Using farmers' credit unions in Taiwan as an example, we find that credit unions' cost inefficiency is positively correlated with the extent of involvement in subsidy programmes. The results are robust to the control of local competition and labour quality. In addition to the stochastic frontier models from which we obtain the main results, we also propose a new distribution-free estimation method based on quantile regressions. Results of this study point out that, when evaluating the social costs of the credit programmes, it is important to take into account the efficiency loss generated among financial intermediaries by credit subsidy programmes.

Keyword : Cost efficiency; financial intermediaries; government subsidy; stochastic frontier models.