

Concentration and Competition in the Banking Sector of Bangladesh: An Empirical Investigation

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Performance and stability have been considered as the two vital ingredients by the policy makers for the banking sector of a country and maintaining an optimal industrial structure is essential for enhancing both the two elements. However, the banking literature has been put forward some form of conflicting findings with regard to the structure of the banking industry by suggesting two different paradigms: structure conduct performance and efficient structure, although there is no consensus in relation to the optimal structure of the banking sector to ensure both performance and stability. Nevertheless, the measurement of concentration and competition is really crucial for adopting welfare-related public policy in the banking sector. Furthermore, various changes generated by the financial reform policy accelerate the necessity of computing concentration and competition. The banking sector of Bangladesh has also observed many changes in its structural and functional composition due to the shift to financial deregulation in the 1980s. But the analysis of concentration and competition has been remained insignificant and therefore, this study is undertaken to investigate the market structure of the banking sector of Bangladesh and its change over time by adopting simultaneous use of concentration and competition ratios namely the K concentration ratios, Herfindahl-Hirschman index, Hall-Tideman Index, Comprehensive Industrial Concentration, and entropy measure for concentration and Panzar-Rosse algorithm for competition. The sample period for measuring concentration and competition are 1983-2010 and 2001-2010 respectively. For concentration measurement, all banks operating within a particular year are considered while for competition the data of 38 commercial banks are considered. The interim findings report a reduction in bank concentration, which reflects an increase in bank competition.