Banking Sector Consolidation and Efficiency
-Lessons for the West from Japan–

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Abstract:
This study examines the effect of banking sector consolidation against the background of a banking crisis on bank efficiency. Taking up the case of Japan during its banking crisis in the late 1990s, this study empirically examines the effects of bank mergers on bank efficiency. Our analysis showed that cost efficiency increased but profit efficiency decreased after merger. Thus, the Japanese banking sector consolidation has resulted in some cost savings but a reduction in the bottom line of profit efficiency. Supplementary analysis on profitability using return on equity showed no evidence that the Japanese banking sector consolidation has improved profitability neither