

## Estimating Market Power in the South African Banking Sector

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**ABSTRACT:** *Indicators of market power can be ambiguous because cost economies associated with scale and not market imperfections may influence results. This article illustrates that without direct measures of concentration, estimates of costs, scale economies and profitability can be used to identify market power in banking. Secondly, via this method, econometric estimates provide meaningful evidence of market power in the South African banking sector over the study sample period (1979-1998). A reasonable conclusion is that while industrial structure is important, careful consideration needs to be given to cost economies and profitability when assessing market power. In addition, there is a need to consider appropriate policy to reduce market power in banking in South Africa.*

**Keywords:** Costs; scale; banks; South Africa

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