



Figure 1  
Time dynamics in bank market structure  
Source: Calculations by the author

As a general phenomenon, it is not difficult to observe that, there is a decreasing trend in foreign bank concentration over the sample time period. This pattern of behavior is gradual over the years 1998 to 2008. However, a slight increasing trend can be observed after 2008. The tougher competition faced by state banks in the presence of dynamic private banks in the market was perhaps the reason behind this particular trend. The assets share of foreign banks shows a slight drop in the year 2000 and had been less deviate after that. Once again, a slight decreasing trend is evident in the years after 2008. The sudden deviation in market structure after 2008, may be an indication of the financial crisis that started with the collapse of one private bank in 2009.

Then the econometric analysis was carried out to get a general understanding of the magnitude of competition in the Sri Lankan banking sector as a whole and domestic and foreign banking sectors separately. As the results of the estimated reduced form revenue equation (Equation 1), the estimated  $H$ -statistic is 0.55 for the Sri Lankan banking sector during the sample period (Table 1). This value does not lend support for a perfectly competitive banking market in Sri Lanka, as the estimated  $H$  statistic significantly differs from 1. This value is also significantly non-negative (closer to zero), thus offers no