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## Analysis on Efficiency in the Banking Sector

The Association of Southeast Asian Nations (ASEAN) has made considerable progress in the area of trade integration, however, it is stuck in the area of financial integration specified in the ASEAN Banking Integration Framework, aiming to liberalize the banking sector by 2020 (Almekinders, Fukuda, Mourmouras, & Zhou, 2015; Menon & Melendez, 2015). Greater banking integration in ASEAN will benefit its member countries by allowing banks to operate across borders which enable them to take advantage of economies of scale to increase efficiency and reduce costs. However, to support this development, reflecting a timely effort from a less developed ASEAN member to more effectively engage ASEAN's financial system. It will contribute to this goal by conducting a study clarifying how a country with an under-developed financial system can cope with increasing more competition they will face in the coming year. For the banking sector, efficiency analysis is helpful for the design of better management strategies and public policies and is one of the ways to drive banks toward the frontier of best practices (Berger et al., 2009). Furthermore, the existing literature from ASEAN member countries suggests that an in-depth analysis of commercial banks' efficiency and productivity is essential for developing and restructuring the banking system. For example, Ngo & Nguyen (2012) show that the banking system in Thailand is currently running at decreasing returns to scale situation, indicating that Thai banks are wasting resources in over-expansion; Omar, Rahman, Yusof, Majid, & Rasid (2006) show that the main source of productivity growth to Malaysia's banking system is efficiency change, reflecting the importance of training programs to familiarize and improve technical expertise.

The financial sector in Laos faces various challenges, such as a lack of financial depth, poorly-performing loans, an undiversified financial system, and weak institutions (Kyophilavong, 2010). However, according to the ASEAN cooperation scheme, Laos plans to deregulate and liberalize her financial sector by 2020. However, in order to prepare and crop with increasing the competition will occur in the near future in term of ASEAN financial integration by 2020. These goals are reflected in the Bank of the Lao PDR's strategic plan for developing financial sector in Laos over the period 2015-2030. It is recognized that one of the main impediments for developing strategies and action plan on financial integration in Laos. In this regard, we have still lacked data about commercial banks' efficiency, which underlies their competitiveness. Therefore, this study will focus on the examination of the efficiency of the banking sector (37 commercial banks) in Laos during the period 2011-2015 by employing the Data Envelopment Analysis (DEA), including the constant return to scale (CRS) and variable return to scale (VRS) assumptions.

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