

## **Executive Summary**

The increasing challenges and competitive pressure came out from the handover and the reformation of economy in Macau, how do the financial institutions react to those changing? This study aims to analyze the efficiency of Macau's banking sector before and after 1999. The conventional translog cost function is employed to measure the overall and product-specific economies of scale and scope for 26 registered banks in Macau during the period from 1995 to 2006. The results show that all the sample banks enjoy both scale and scope efficiency in Macau in general. Particularly, the total loans appear the most economies of scale and scope in different categories. There are evidences showing that the banking sector has been increasing its scale and scope economies due to the government's new policies, laws and agreements after authority shift. In addition, the global trend, the banking integration or consolidation, is the most important sustainable development in Macau's banking sector. There are many small local banks exist in Macau, so it is the only way to improve the scale and operative efficient for them.