UTAFITI, Vol. 7 No. 2, 2006–2009:1-17

The Effects of Foreign Banks Entry on Domestic Banks Performance in Tanzania

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Abstract

By use of commercial bank balance sheets data for the period 2000-2006 the article examines the extent of foreign ownership in the domestic banking market. The net interest margins, overhead, taxes paid and profitability of foreign and domestic banks are compared. There is a difference in the functioning of foreign and domestic banks with the former achieving higher profitability. Estimation results further support the contention that an increase in the share of foreign banks leads to a higher profitability of domestic banks. Foreign bank entry improves the functioning of the banking sector through increased market competition and improved efficiency of domestic banks.

1.0 Introduction

During the past four decades international banking activity has grown quickly due to increased international trade flows and foreign direct investment activities, the globalization of capital markets, and the liberalization of domestic financial markets. International banking activities have involved cross-border activities and activities of banks outside their home country (i.e. foreign banks). Aspects of international banking, especially the activities of foreign banks have received increased interest recently. In many emerging market economies in particular, the presence of foreign banks has increased dramatically, especially during the late 1990s.[1] Among other things, these increases in foreign bank control have been brought about by the fact that since the early 1990s many countries have implemented financial liberalization policies, allowing foreign banks to set up branches and domestic banks to be foreign-owned.

The increased presence of foreign banks has raised questions about their effects on the domestic banking sector of domestic banks, and therefore there is need to investigate how foreign banks entry may influence the activities of domestic banks. In particular, we are interested in investigating the short-term effects of foreign banks entry on the performance of the domestic banking system.

The banking sector in Tanzania has expanded substantially over the past decade in response to the internationalization of the commercial banking sector which has been facilitated by the liberalization of financial markets worldwide.[2] The

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In an effort to liberalize the banking sector, the Banking and Financial Institution Act, 1991 was introduced to provide the legal framework for banking operations in Tanzania that would grant authorization to financial institutions to receive money on current account subject to withdraw by cheque. As a result of the Act, the entry of new banks has enhanced financial competition resulting into some improvement of the quality and quantity of the financial services offered.[4]

Table 1: Selected Financial Sector Indicators

Indicator	1970-80	1981-90	1991-2000	2001-2006
Private Sector Credit/GDP	3.8	4.5	7.1	8.3
Bank Foreign Assets/GDP	2.6	2.1	5.5	6.9
Interest Rate Spread	5.8	10.0	16.8	11.5
Foreign Assets/Total Assets	3.2	4.7	5.1	19.4
Private Sector Credit/Total Credit	6.5	12.4	45.8	70.6

Source: Bank of Tanzania: Economic and Operations Reports Various years

Table 1 benchmarks the state of the financial system by normalizing private sector credit and bank foreign assets on GDP. Private sector credit to GDP ratio more than doubled between 1970 and 2006. Credit to the private sector averaged 70.6% during the period 2001-2006, marking a substantial increase from an average of 6.5% during the period 1970-1980.[5] Bank foreign assets to GDP trebled between 1970 and 2006. A marked increase in the average proportion of foreign assets of the banks is evident, with a fifteen fold increase during the period 1970-1980 and 2001-2006, from 3.2% to 19.4%. Interest rate spread almost doubled between 1970 and 1990, before reaching a peak of 16.8 during the period 1991 to 2000. A decline is observed during the period 2001 to 2006 indicating improved efficiency in the banking sector.

Table 2: Financial Sector Performance

	2001	2002	2003	2004	2005	2006	2001-2006
Operating Costs/Total Assets	0.058	0.052	0.048	0.055	0.056	-	0.054
Bond Market/GDP	3.6	3.9	3.0	2.7	5.0	6.0	4.0
Insurance Company Assets/GDP	1.2	1.1	1.0	1.0	1.0		1.2
Development Banks Assets/GDP	-	-	0.5	0.5	0.6		0.5
Other Banks Assets/GDP	-	-	0.7	0.6	0.7		0.7
Net Interest Margin/GDP	0.05	0.04	0.05	0.05	0.07		0.05
Market Capitalization/GDP	4.0	7.0	6.0	6.0	5.0		5.6
Equity Market Turnover/GDP	2.4	1.9	-	2.5	2.2		2.24

In Table 2 we show the actual view of financial structure by focusing on the share of various sub-sectors (banks, non-banks, financial markets etc.) in GDP. This enables us to evaluate the overall growth of the system and sub-sectors. It is seen that financial liberalization has slightly stimulated the size of assets of bank and non-bank financial institutions.[6]

3.0 Literature Review

3.1 *Theory*

Developed and developing countries now increasingly allow banks to be foreign-owned. The benefits and costs of foreign banks entry have been investigated extensively in literature. The potential benefits of foreign banks entry to the domestic economy have been addressed by several authors (Levine, 1996; Walter and Gray, 1983; Gels and Sageni, 1990). Levine (1996) specifically points out that foreign banks may: (i) improve the quality and availability of financial services in the domestic financial market by increasing bank competition, enabling the application of modern banking skills and technology; (ii) serve to stimulate the development of the underlying bank supervisory and legal framework; and (iii) enhance a country's access to international capital.[7]

The effects of foreign banks presence on the domestic banking sector are transmitted through a number of channels. The presence of foreign banks may stimulate domestic banks to reduce costs, increase efficiency, and increase diversity of financial services through competition. In the presence of foreign banks, domestic banks are pressured to improve the quality of their services in order to retain their market share by, for example, putting old-style banking practices under pressure. Increased competition leads to lower interest rate margins and profits (Lensik and Hernes, 2003).

Foreign bank entry may lead to positive spill-over effects, for example, introduction of new financial services whereby domestic banks will also develop such new services, and improvement of efficiency of financial intermediation of the domestic financial system. Modern banking technology may be introduced, which may be copied by domestic banks. In the case of joint ventures or take-over, managers of foreign banks may help improve the management of banks and in effect increase the quality of human capital as local employees learn from foreigners (Claessen *et al.*, 2001).

3.2 *Empirical Evidence*

Cross-country systematic evidence showing these presumed benefits of foreign banks entry in the domestic banking sector include that by Dermiguc-Kunt and Huizinga (1998) and McFedden (1994). Specific case studies for Pakistan, Turkey and Korea were reported in Battacharaya (1993), where foreign banks helped to make foreign capital accessible to fund domestic production.

Cho (1990) found out that foreign banks presence in Indonesia contributed in increased competition in the banking industry. In a comprehensive study, Claessen *et al.* (2001) using bank data from 80 countries for the period 1988-1995 showed that competitive presence of foreign banks led to efficiency positive effects to domestic banks. Similar findings were obtained by Baraja, Salazar and Steiner (2000) from a study employing a similar analysis in Columbia.

As shown in Bayraktar and Wang (2004), if the franchise value of domestic banks decreases with foreign bank entry, they may have an incentive to take on greater risks; with more advanced services and products, foreign banks attract most profitable portion of domestic markets, thus riskier sectors will be served by domestic banks. Further, with increased foreign bank presence, access to credit may be impaired for some sectors of the economy, for example, the agricultural sector. Foreign banks may increase financial instability by pulling out of host countries or by contagion from problems in the home country and since foreign banks have different priorities and business focus, their lending pattern tends to ignore domestic priorities.

The effects of foreign banks entry on the domestic banking sector are examined by Claessens, Demicurg-Kunt, and Huizinga (1998) and they show that in developing countries foreign banks tend to have higher profits, higher interest margins, and higher tax payments compared to domestic banks. They also assert that both profitability and overhead expenses of domestic banks fall with foreign bank entry. During the study leading to this article, we applied their empirical technique to Tanzania.

Studies focusing on country level experience include Denizer (2000) for the case of Turkey; Hasan and Marton (2000) investigated Hungary; while Goldberg, Dages and Kineey (2000) investigated Argentina and Mexico. In these studies, it is shown that net interest margin, overhead expenses, and returns on assets are related to foreign ownership, and foreign banks entry has a strong competitive influence on the banking sector. It was found in Hungary that banks with higher foreign ownership were associated with higher efficiency.

Other studies addressing financial liberalization in Asian countries include Cho and Khatkhate (1989) and Frankel and Montgomery (1991), although with no particular emphasis on foreign banks entry and internationalization. In the studies, liberalization is shown to lead to faster growth of the financial system and increased competitiveness of the banking system, even if there is no conclusive evidence that liberalization leads to cover intermediation margins.

4.0 Framework of Analysis

4.1 Descriptive Analysis

The framework of analysis is based on the method used by Hanson and Rocha (1986) whereby accounting decomposition of interest margins is used. Dermiguc-Kunt and Huizinga (1997, 1998) also employ the methodology to look at foreign and domestic commercial banks separately. Following Caessen, *et al.* (2001) variables for measuring income, profits and costs of banks are mainly as follows:

The domestic banks performance indicators constitute the dependent variable, as explained above. The first indicator is the net interest margin defined as the ratio of net interest income to total assets. The difference between earnings from interest and expenses on interest is an indicator of competitiveness. The second indicator used is the ratio of non-interest income to total assets. Domestic banks non-interest income is expected to fall as a result of increased competition from foreign banks because foreign banks possibly provide better services to their customers. Another indicator used in the study is the share of before tax profit in total assets. A higher profit rate is expected in a closed and imperfectly competitive banking sector as banks pay low interest rates for funds and also charge higher interest rates on loans. Service charges are also higher. Due to this, profits are likely to decrease with the increasing share of foreign banks. The ratio of overhead costs to total assets is another performance indicator used to capture the cost aspects of increased competition.

Lastly, we use the ratio of loan loss provision to total assets as another performance indicator. As problematic loans increase, the higher this ratio becomes. This ratio is linked to foreign banks' entry in that the presence of foreign banks may reduce this ratio as domestic banks start issuing loans more carefully to avoid losses with increased competition. In addition, as domestic banks start taking higher risks to compete with foreign banks, loan loss reserves may increase with rising foreign bank share.

To analyze the effect of foreign banks entry on domestic banks performance indicators, we use the asset share of foreign banks as the independent variable. However, apart from foreign banks' entry, there are other determinants of domestic banks performance. To control such variable, we use bank variables and macroeconomic indicators as the other set of independent variables. Bank variables used include non-interest earning assets as percent of total assets, and overhead costs as percent of total assets. Macroeconomic indicators are real GDP per capita, growth rate of real GDP, inflation rate, real interest rate and share of domestic credit, by banking sector as percent of GDP.

$$(2)\quad DFS_{ijt} = a_o + b^* DI_{jt} + b_i{}^* DB_{it} + b^*{}_j DX_{jt} + errorterm$$

Equation (2) explains the foreign bank share as a function of domestic bank variables (DI), bank control variables (DB), and country macroeconomic variable in the specific period.

5.0 Findings

5.1 Descriptive Analysis

In Table 3, we provide information on aggregate income statement items for domestic and foreign banks for the period 2000-2006.

Table 3: Banks' Income and Profit Profiles (TShs. Billion)

Net Income	2000	2001	2002	2003	2004	2005	2006
All banks	20.3	21.6	28.1	41.0	41.4	67.6	99.2
Foreign	13.9	14.8	20.8	26.5	29.1	42.2	54.5
Domestic	6.4	6.8	7.3	14.5	11.9	25.4	44.7
Overheads							
All banks	85.9	105.0	116.5	137.3	170.8	213.5	264.9
Foreign	42.9	56.3	60.8	73.3	89.6	111.9	129.1
Domestic	43.0	48.7	55.7	64.0	81.2	101.6	135.8
Before tax profit							
All banks	27.4	33.0	40.3	56.9	93.9	144.7	186.3
Foreign	19.1	23.9	30.1	36.4	40.6	64.6	78.3
Domestic	8.3	9.1	10.2	20.5	53.3	80.1	108.0

Source: Bank of Tanzania

What emerges from Table 3 is an increase in net income for the overall banking sector by almost five fold (500%) for the period of 2000 to 2006. Income earned by domestic banks increased faster than that of foreign banks. While foreign banks' net income in 2006 was four times (400%) that of 2000, the domestic banks net income in 2006 was seven times (700%) that earned in 2000. In terms of magnitude though, foreign banks net income was higher in all years during the period.

Considering overheads, the banking sector had its overheads trebling during the period under study, rising from TShs. 85.9 billion in 2000 to TShs. 264.9 billion in 2006. Foreign banks' overheads also trebled during the period while that of domestic banks rose by 320%. Overall, the banking sector before tax profit in 2006 was seven times that of year 2000. Domestic banks profit rose tremendously (13 times) during the period 2000 to 2006. Profit realized by foreign banks during the same period grew at a slower pace, as that of year 2006 was only three times that of year 2000. It is further evident from Table 3 that foreign banks before tax profit was higher than that of domestic banks for most of the period except in 2005 and 2006.

We then present accounting averages for domestic and foreign banks. From the bank's income statements, we derive several accounting identities. For foreign and domestic banks, we have the first two ratios - net margin/total assets, and net non-interest income over total assets (Table 4).

Table 4: Banks' Accounting Averages

	2000	2001	2002	2003	2004	2005	2006
Net margin /TA							
Foreign	1.3	1.3	1.5	1.6	1.7	1.9	1.8
Domestic	1.1	1.0	0.8	1.3	2.6	2.8	3.3
Non-interest income/TA							
Foreign	1.9	3.5	3.5	3.5	3.9	3.5	3.3
Domestic	4.1	4.9	4.3	3.7	3.8	3.5	3.2

It is seen in Table 4 that both domestic and foreign banks have their net margin to total assets ratio rising during the period and the ratio has increased two-fold for foreign banks and three -fold for domestic banks. Before liberalization, domestic banking markets were dominated by state banks with institutions frequently using non-commercial criteria to allocate their credit. Foreign banks may be able to realize higher interest margins because they are frequently exempt from credit allocation regulations and other such restrictions.

Between 2000 and 2006, the ratio of non-interest income to total assets has been increasing for foreign banks while declining for domestic banks, from 1.9 to 3.3 and from 4.1 to 3.2 respectively. To record bank profitability, we consider the bank's before-tax profits over total assets (before tax profit/TA). The banks' entire overhead is presented by overhead as a ratio of total assets, while actual provisioning for bad debts is presented by loan loss provisioning as a ratio of total assets. The ratio of tax to total assets variable reflects primarily the corporate income tax. The difference in this variable between domestic and foreign banks may reflect differences in activity mix, and bank efforts to shift profits worldwide so as to minimize their global tax bill. *Apriori*, foreign banks can be expected to have more opportunities to shift taxable income abroad than domestic banks.

The net profit/TA as an accounting residual is affected by each of the foregoing accounting variables in Table 3. In addition, the tax regime of the bank parent country may influence the required net profit of foreign banks. A foreign bank that will benefit from a foreign tax credit for example, will accept a relatively low net-of-host country-tax profitability. At the same time, domestic and foreign banks may accept different net profits to the extent that their cost of capital differs. Foreign banks specifically, may be able to raise equity capital internationally therefore accept a lower net profitability.

The ratio of loan loss provisioning to total assets variable, measures provisioning during the accounting year for any previously contracted credits. Foreign banks usually concentrate on large corporations rather than mortgage, or customer loans

will make customer mix bring the difference between foreign and domestic banks. Ability to screen bad credit risks may differ between foreign and domestic banks and hence provisioning ratios. Domestic banks have higher provision ratios than foreign banks but the difference has been narrowing over years, reflecting the influence of foreign technology. It is seen that entry of foreign banks increases the profitability of domestic banks and there is evidence that non-interest income and overall expenses of domestic banks are also negatively affected by foreign bank entry. Again we find that a large foreign banks presence leads to high domestic bank profitability and interestingly a high provision for bad loans by foreign banks. Further, it is seen that low banking costs and low non-interest income on domestic banks are factors that do not explain a high foreign bank presence.

The ratio of overheads to total assets variable reflects the banks' overheads associated with its debts and loan operations as well as other activities. Foreign banks can be expected to have high overhead costs if they have to overcome large informational disadvantages but many have low overhead expenses if they engage mostly in wholesale transactions. It is seen in Table 5 that domestic banks have managed to reduce this variable from 7.7% in 2000 to 5.6% in 2006.[8] Foreign banks' overhead costs to total assets ratio has been lower compared to that of domestic banks. This suggests that foreign banks have not been facing information disadvantages.

Table 5: Bank Profitability (%)

	2000	2001	2002	2003	2004	2005	2006
Before tax profits/TA							
Foreign	1.8	2.1	2.2	2.2	2.3	2.9	2.6
Domestic	1.5	1.4	1.1	1.8	3.6	3.9	4.5
Overheads/TA							
Foreign	4.1	5.0	4.4	4.5	5.1	4.9	4.3
Domestic	7.7	7.5	6.3	5.5	5.5	5.0	5.6
Loan loss provision/TA							
Foreign	0.0	0.3	0.6	0.2	0.3	0.5	1.3
Domestic	0.0	0.8	0.4	0.6	0.3	0.5	0.4

Considering the extent of foreign banks penetration in domestic markets, two measures are used: the number of banks that are foreign-owned and the share of foreign banks assets in total bank assets (Table 6). The number of banks as a penetration measure is a good indicator only if the number of domestic and foreign banks determines competitive conditions. This is the case if domestic banks and firms adjust the pricing of their lending and other activities as soon as foreign entrants do to prevent the foreign entrants from over capturing significant market

share. Alternatively, the share penetration measure is appropriate if foreign banks start to have an impact on pricing and profitability of domestic banks only after gaining substantial size. Foreign banks may indeed have to be sizable for there to be any significant transfer of banking technology to the domestic banking sector.

Table 6: Foreign Bank Penetration

Year	Number of Foreign Banks	Total number of banks	Foreign Banks /total banks	Domestic banks assets (Tsh. m)	Foreign banks' assets (Tsh. m)	Total bank assets (Tsh m.)	Foreign banks' assets/total bank assets
2000	13	29	0.45	1050	559	1,609	0.65
2001	12	28	0.43	1124	657	1,781	0.63
2002	13	31	0.42	1378	891	2,269	0.61
2003	13	31	0.42	1617	1,157	2,774	0.58
2004	14	31	0.45	1749	1,489	3,238	0.54
2005	14	32	0.44	2253	2,026	4,279	0.53
2006	14	32	0.44	2979	2,417	5,396	0.55

Source: Bank of Tanzania (2008)

5.2 *Econometric Estimation results*

Estimation results from the econometric model are presented in Tables 7 and 8.

Table 7: Determinants of Domestic Bank Profitability and Efficiency[9]

Dependent Variable	Independent Variables							
	Change in Foreign Bank share	*Change in Non-earning assets/TA*	*Change in Overhead/TA*	*Change in GDP per capita*	*GDP Growth*	*Inflation*	*Real interest rate*	*AdjR²*
Net	0.02	0.03	0.01	0.11	0.01	0.05	0.34	0.65
margin/TA	(2.82) *	(2.11) **	(1.99) **	(3.12) *	(0.91)	(3.45) *	(2.90) *	
Non-interest	0.03	0.83	0.04	0.02	0.12	-0.09	0.03	0.83
income/TA	(1.85) **	(3.11)	(1.80) **	(2.31) **	(1.91) **	(2.39) **	(2.11) **	
Before tax	0.01	0.09	-0.02	0.19	0.07	0.04	0.37	0.72
profit/TA	(3.82) *	(2.11) **	(1.99) **	(3.12) *	(0.91)	(3.45) *	(3.90) *	
Overhead/TA	0.03	0.06		-0.17	0.05	0.01	0.37	0.66
	(1.82) **	(2.11) **		(3.12) *	(0.91)	(3.45) *	(4.90) *	
Loans Loss	0.02	0.04	0.00	-0.14	0.02	0.08	0.21	0.45
Provision/TA	(1.32)	(2.01)	(2.93) **	(3.07) *	(0.45)	(1.45)	(2.90) *	

Notes: * and ** indicate significance levels of 5 and 10 percent respectively.

Estimation results in Table 7 indicate that foreign banks entry significantly increases domestic banks profitability and also non-interest income and overhead expenses, although these results are less significant. We do also see a significant impact on net interest margins or loan loss reserves. These results mean that foreign bank entry leads to greater efficiency in the domestic banking system. Assuming all factors remain equal, high margins and profits reflect an absence of competition, while high overhead costs may reflect less efficient management and organizational structures. Foreign banks entry may enable domestic banks to cut costs as they assimilate any superior banking techniques and practices of foreign entrants. Alternatively, foreign banks entry may force domestic bank managers to give up the sheltered 'quiet life' and to extent greater effort to reach cost efficiency (Dermicurg-Kunt and Huizinga, 1998), Berger, 1998).

Further, foreign banks entry may have domestic banks to cater for relatively more creditworthy customers or alternatively foreign banks entry triggers a strengthening of provisioning regulations affecting all banks thus leading to larger reported provisioning for bad dept, by domestic banks.

Looking at control variables, it is seen that inflation and real interest rate are positively related to the net interest margin, before tax profits and overheads. This is in line with the belief that high interest rates and high inflation lead to high bank margins and profits although cost of operating in those environments is also high. Increase in overhead/TA is also associated with relatively higher interest and non-interest income and lower profits. The first difference of per capita income or GDP per capita interestingly is negatively related to reduced costs as well as loan loss provisioning. This may be explained by ability of those banks to easily reduce costly employment when incomes are growing.

Taking the alternative definition of foreign banks as the share of foreign bank assets to total bank assets, we find that in all five regressions it is negative but insignificant. It could be inferred that the number of foreign players rather than their size determines competitive conditions in national banking markets. Four other equations explaining performance indicators of foreign banks are also reported in Table 8.

The results presented in Table 8 indicate that low overhead cost is an important determinant of foreign banks presence. When there are low cost environments, they attract foreign banks but indirectly low banking costs may also be an indicator of a competitive banking environment including entry possibilities for foreign banks. Lower interest margins are also associated with greater foreign banks presence although the econometric estimation results show that they are not very significant.

Table 8: Determinants of Foreign Bank Profitability

	Net margin/TA	Overhead /TA	Before Tax Profits/TA	GDP/Cap	Inflation	Real interest rate	$AdjR^2$
Foreign bank share	0.011 (3.24) *	0.011 (3.34) *	0.004 (2.03) **	0.021 (2.09) **	0.022 (3.45) *	0.212 (2.34) **	0.54
Non-interest income/TA	0.010 (1.04)	0.010 (3.14) *	0.002 (2.10) **	0.011 (4.09) *	0.032 (1.45)	0.012 (2.14) **	0.62
Before Tax Profit/TA	0.016 (4.91) *	0.016 (3.91) *		0.216 (0.91)	0.002 (2.78) **	0.001 (5.11) *	0.77
Net Margin/TA	0.110 (2.40) **	0.110 (4.04) *	0.000 (2.40) **	0.011 (3.09) *	0.022 (1.75)	0.012 (2.64) **	0.62
Loans Loss Provision/TA	0.180 (1.04)	0.180 (3.44) *	0.012 (3.90) *	0.104 (3.50) *	0.013 (2.77) **	0.016 (2.99) **	0.45

Notes: *, and ** indicate significance levels of 5, and 10 percent level.

In Table 8, we do not see a significant relationship between pre-tax profits and current foreign banks presence. Looking at the control variables, we see that foreign banks are attracted by banking markets which have low inflation and high level of people's income.

6.0 Conclusion

On account of financial liberalization and overall economic integration, the Tanzanian banking market is becoming increasingly international. This study presents evidence on the effect of foreign participation in the domestic banking market. It has also shown how foreign banks operate differently from domestic banks. These differences can reflect a different customer base, different bank procedures as well as different regulatory and tax regimes at the time of entry. The main finding is that foreign banks tend to have higher interest margins, profitability, and overheads than domestic banks.

The relaxation of restrictions on foreign bank entry increases domestic banking profits with positive welfare implications for the domestic economy. Another interesting finding is that the number of foreign banks matters rather than their market share implying that foreign banks affect local bank competition upon entry rather than after their market share has increased.

The findings suggest that presence has stimulated domestic banks to reduce costs, increase efficiency, and increase diversity of financial services through

competition. In the presence of foreign banks, domestic banks have been pressured to improve the quality of their services in order to retain their market share by, for example, improving old-style banking practices.

Foreign bank entry has lead to positive spill-over effects, for example, introduction of new financial services whereby domestic banks will also develop such new services. Surely, modern banking technology has been introduced and managers of foreign banks have helped improve the management of banks and in effect increase the quality of human capital as local employees learn from foreigners.

The study findings suggest opening further to foreign banks. Larger foreign banks presence should be encouraged as this increases the profitability of domestic banks. Further, foreign banks entry improves the functioning of the domestic banking market that has positive welfare implications for the domestic economy.

Notes

1. In Southeast Asia foreign bank control of the domestic financial market (measured as the ratio of assets of banks where foreigners own more than 50 per cent of total equity over total assets of the entire banking sector) rose from 1.6% in 1994 to 6% in 1999. Foreign bank control rose from 7.5% to 25% during the same period in Latin America. In Eastern Europe the rise of foreign control was most dramatic, from almost 8% in 1994 to 52% in 1999 (IMF, 2000, p.153).
2. Mullineux and Murinde (2002) provide a comprehensive overview of the major issues related to international banking.
3. Beginning the mid- 1980s, restriction of foreign bank entry was reduced considerably. Before that the government used various policies to restrict entry of foreign banks in a bid to cushion the domestic financial market from foreign competition.
4. A non-bank financial institution is authorized by law or the Bank to engage in banking business not involving the receipt of money on current account subject to withdrawal by cheque
5. Efforts to improve accessibility to credit and other financial services have been constituted under the second- generation financial sector reforms in terms of addressing bottlenecks in the legal framework and land and property ownership.
6. Despite increase in bank assets, the monetary policy stance of the central bank has been to facilitate the provision of adequate credit to the private productive sector while at the same time restricting monetary expansion to levels consistent with growth and inflation objectives.
7. It is generally believed that foreign bank entry improves the functioning of national banking markets through increased competition and through increased efficiency of domestic banks.

8. Foreign banks entry may have had strong effects on domestic banks in terms of spill-over of modern bank techniques and practices, since there was a large gap between development of foreign and domestic banking. Domestic banking needed to make investments to implement the techniques and practices. This implied higher costs. However as the gap between domestic and foreign banks became smaller and banking markets more competitive, spill-over effects might have become less important and competitive pressure argument now dominate the positive effects on income and costs.
9. Quarterly Bank Data Spanning from year 2000 to 2006 used, and estimation by OLS method.

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