



# Impact Of Foreign Banks During Banking Sector Liberalisation

# OUTLINE



Impact of liberalisation - international theory and evidence



East Africa Benchmarks and Comparisons



Implications for Ethiopia



Impact of liberalisation - international theory and evidence



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# Foreign Banks - Their advantages in the market, and for the economy



ACCESS TO CAPITAL



STABLE FUNDING SOURCES  
AND LENDING PATTERN



GEOGRAPHICALLY  
DIFFERENTIATED CREDIT  
PORTFOLIO

## Benefits of foreign banks to

### The Economy



1. Decrease financial intermediary cost and increases quality
2. Enhance access to financial services
3. Increase economy and financial performance of borrowers
4. State of the art technology
5. Sophisticated financial instruments and techniques



### The welfare of people

1. Human resource development through training
2. Higher remunerations
3. Stronger corporate governance practice

# Impact of entry of foreign banks on the local banks

Claessens and Van Horen (2011) found foreign banks' entry leads to lower profitability and higher overhead costs in domestic banks.

Gormley (2010) found market-wide increase in the volume of bank loans of the host banks after the entry of foreign banks

Local banks might be undesirably affected by the shift of clients after the entry (especially international corporates)

Foreign banks concentrate their credit and services on well-informed customers, neglecting rural customers and SMEs.

New entrants focus on alternative delivery channels leaving domestic banks with costly branch networks.



Stiffer competition for corporate clients



Local banks costs rise as they compete for corporate clients



Some local banks will struggle due to their limited reach & flexibility



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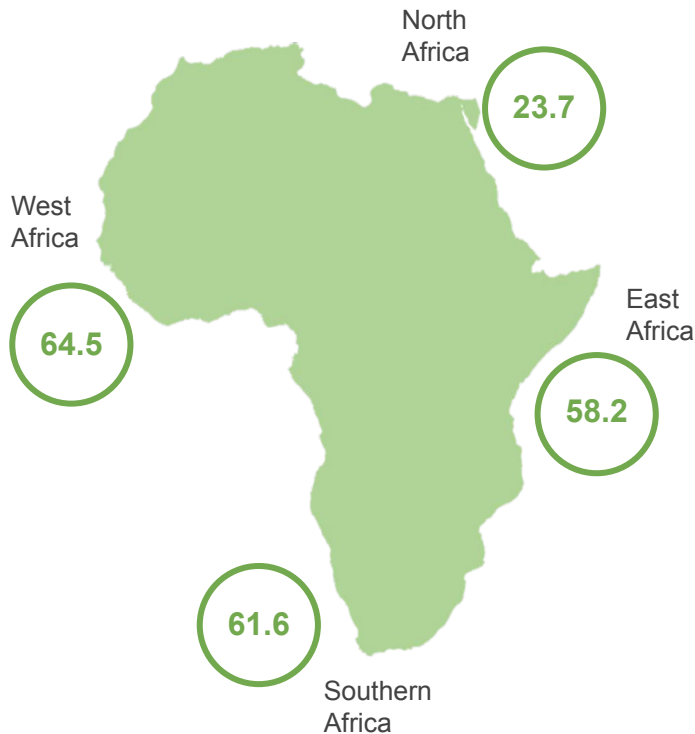
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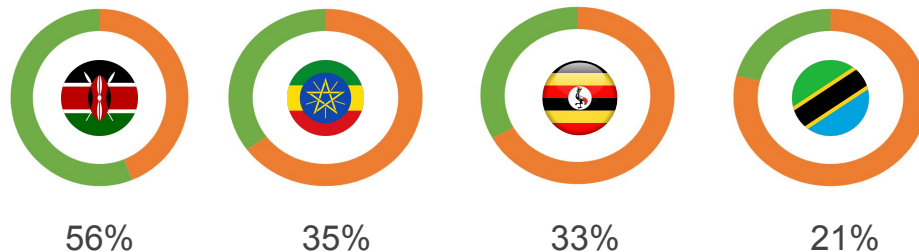
# Variation in inclusion & market sophistication across East Africa

Foreign bank assets as % of total bank assets 2014

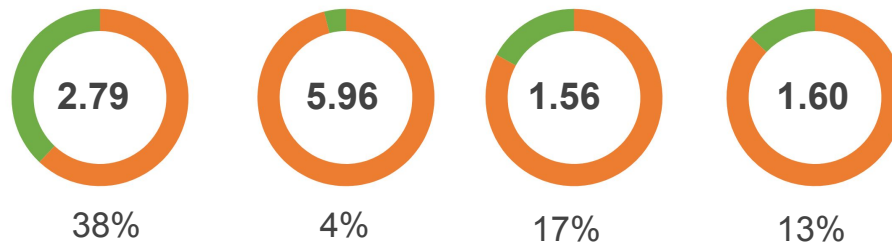


Source: AFDB The Banking System in Africa 2014

Levels of financial inclusion



Access to debit cards & branches per 100k people



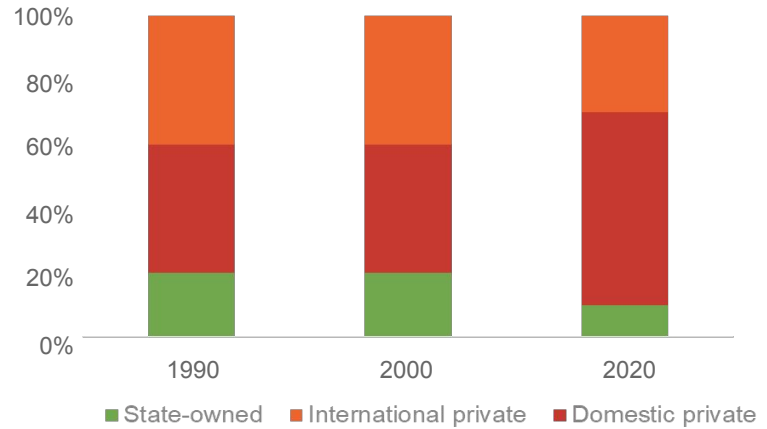
Source: Global Findex 2017

# Share of Asset of banks in Selected East African countries

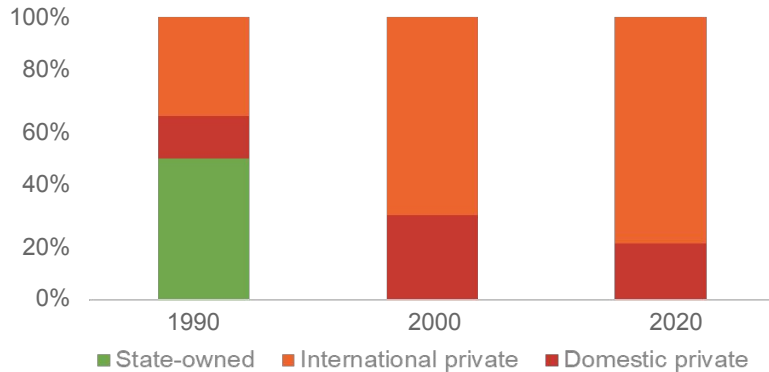
**ETHIOPIA**



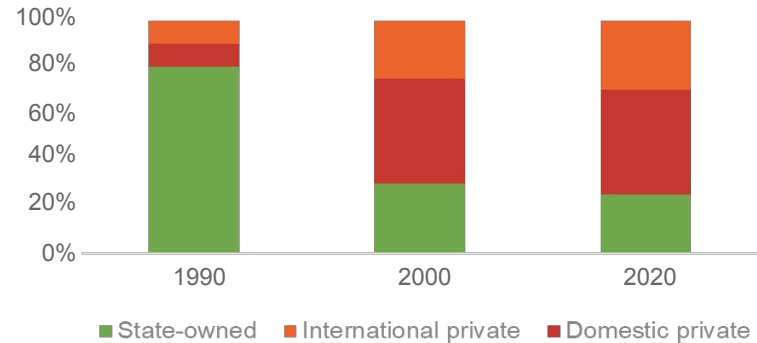
**KENYA**



**UGANDA**



**TANZANIA**

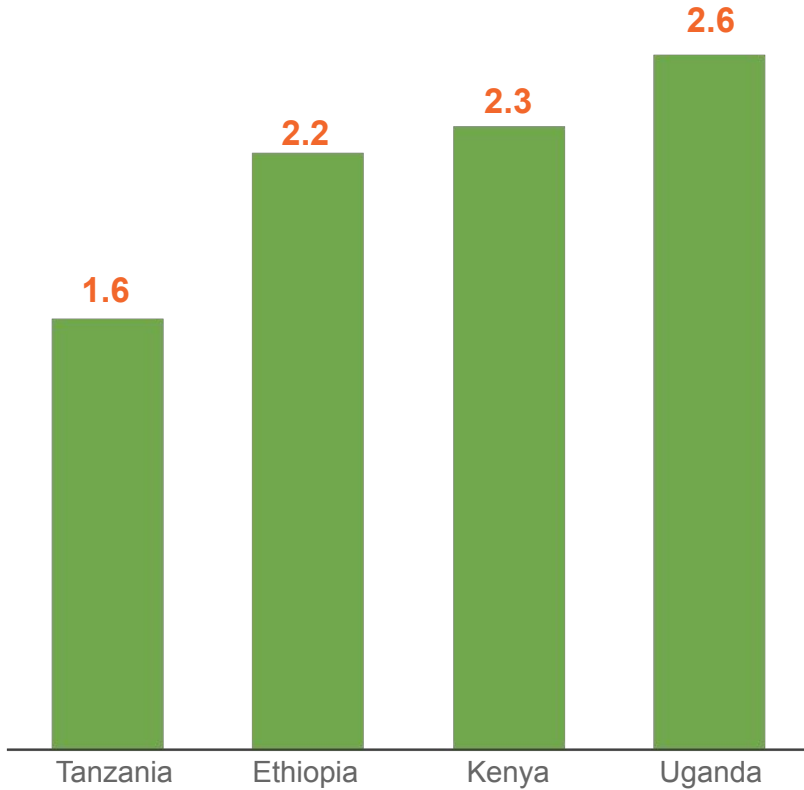




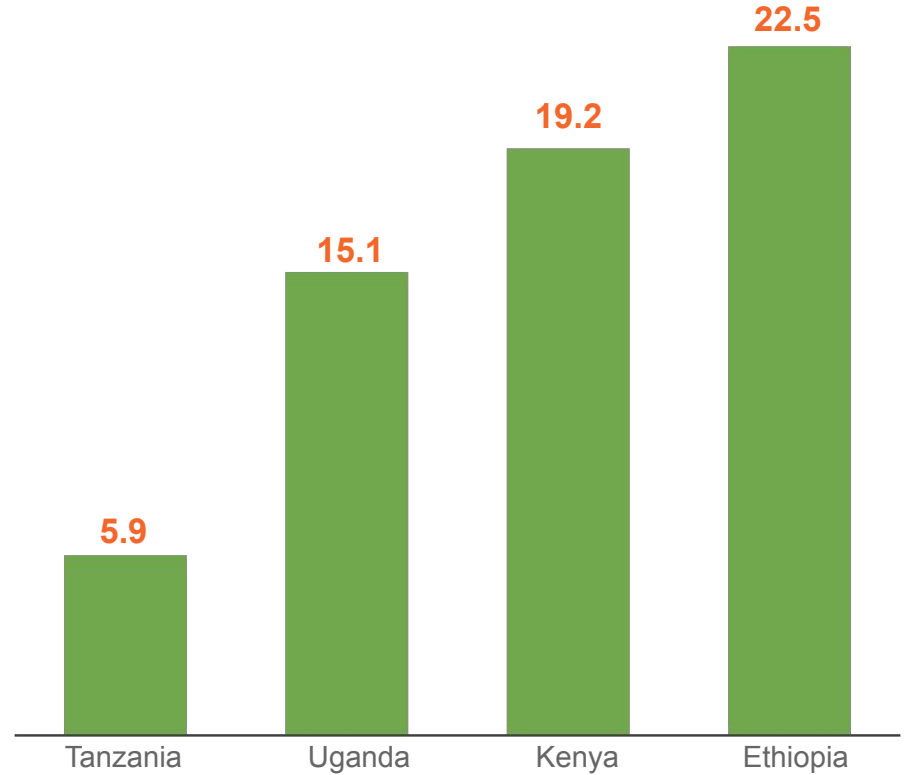
# Bank Performance Comparisons



Country average ROA 2018-2022



Country average ROE 2018-2022



Source: Central banks' reports



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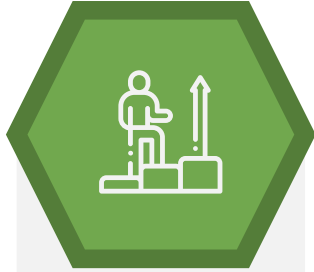


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# The undercurrents of a changing market...



## Increased Competition

Particularly for high value corporate clients. This is a highly profitable & mobile segment that supports significant operations in the sector



## Opportunities for collaboration

Potential exists in the distribution and financial infrastructure space for collaboration, especially for established institutions with large networks



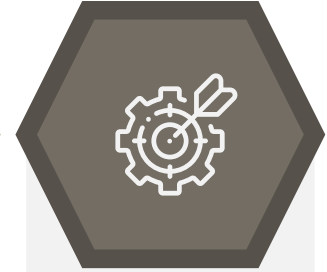
## Rapidly changing technology

As new players enter the market, they bring with them a host of new technologies and ways-of-banking.



## A surge in Mergers & Acquisitions

As new capital enters the market - some FSPs may merge in order to remain competitive. Others may be acquired, particularly by foreign entrants



## An adapting regulatory environment

A changing market will introduce new risks and opportunities - which must be regulated to protect both consumers and the stability of the sector

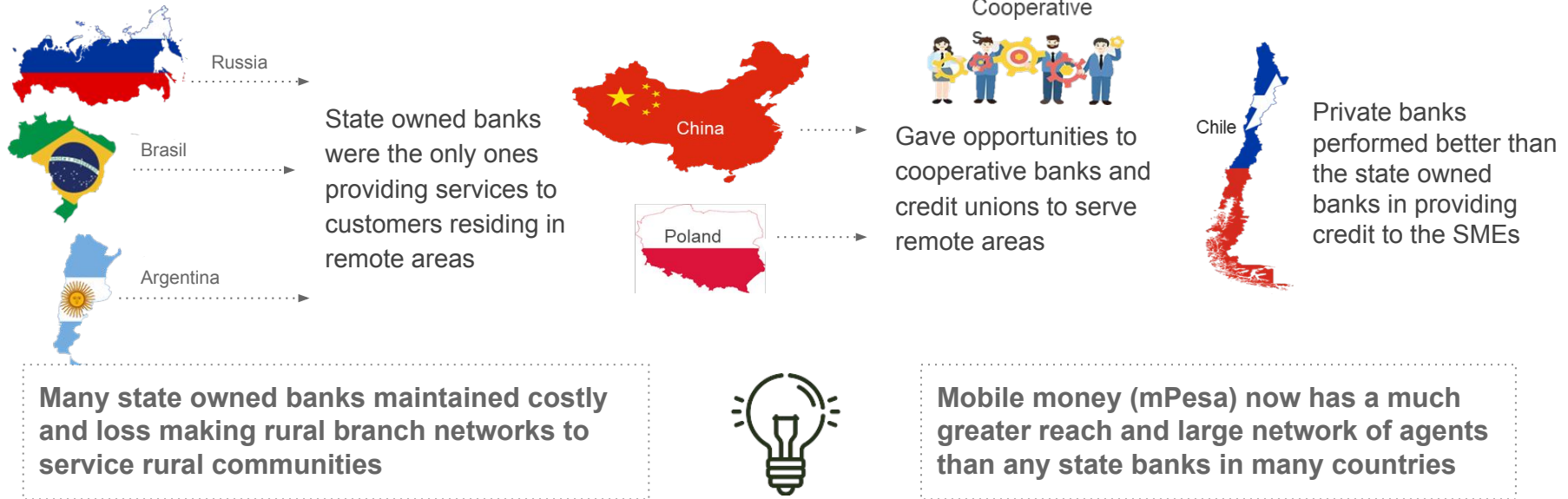
Genesis supports clients in navigating changing markets across the continent



**Thank you**

# Post liberalisation what is the role of public banks

*Is there a residual role for state-owned commercial banks and/or development banks?*



State banks can now focus on designing lending products that can be distributed via mobile money and do not need the same footprint