

The Evolution of Competition in Banking in a Transition Economy: An Empirical analysis of the Tunisian banking Sector

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Abstract

This paper analyzes the evolution of competition in the Tunisian banking sector in the period 2000 - 2008, which is a period of deregulation, liberalization and consolidation of the sector. For this purpose, we use two indicators of the competition from the theory of the industrial organization (the Lerner index and the Panzar and Rosse's H-statistic). The empirical evidence does not permit us to reject the existence of monopolistic competition. The evolution of Lerner index over the period of study shows a low tendency to concentration. The movements of the mergers of the banking institutions seem to be slow, as a big effort of cleaning their balance sheets remains to be achieved before banks can merge.

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I. Introduction

The importance of the credit as a means of financing companies in most of the developing countries has led to wonder about the effects of the financial liberalization on the increase of the banking competition. In Tunisia, like in many other countries, the liberalization of financial services in general and the activities of banks haven't stopped evolving. The implementation of the Structural Adjustment Plan in Tunisia (1987) was expressed, in its financial and monetary component, by reforms aiming at the liberalization of the Tunisian banking system. The latter had to adapt itself to the imperatives of a financial liberalization assimilating the competition as the main explanatory element of the efficiency in the financial institutions.

An important factor to take into consideration when we evaluate efficiency is competition. A more competitive market is generally tightly associated with higher efficiency. An increased competition on the market of credit implies a decrease of the monopoly rents in banks, and a reduction in the costs of financing companies. The productive investment is favored and the growth is stimulated. However, the progressive liberalization of the banking services has led banks to adopt strategies of merger and concentration. These strategies would possibly be the most adapted solutions to exploit the opportunities of synergy ruined by fragmentation and subdivision of the sector. They would also allow the Tunisian economy to be equipped with solid and powerful banks capable of facing competition from foreign banks which would probably establish themselves on the Tunisian territory.

The analysis of banks' expansion strategies and the development of the range of their activities oblige us to take into account the banking market structures. Precisely, we can examine the concentration in relation to the market power. This issue is one of the most acute problems which is raised by the presence of large-sized banks. Linking mergers and acquisitions to the strategies of market power, implies having opposite price policies in the interests of the consumers of the banking services. This would lead to envisage their unfavorable impact on the financing process of productive investment, which in itself is the source of economic growth. The empirical researches dedicated to this question have given contrasted results. In fact, a study by Bikker and Haaf (2002) on 23 European countries tends to confirm the classical opinion: "concentration harms competition".