Emerging Markets Review 15 (2013) 233–254

Contents lists available at SciVerse ScienceDirect

Emerging Markets Review

journal homepage: www.elsevier.com/locate/emr

Banking competition in Africa: Subregional comparative studies

Samuel Fosu *

University of Leicester, Department of Economics, University Road, Leicester, LE1 7RH, United Kingdom

A R T I C L E I N F O

Article history:
Received 30 March 2012
Received in revised form 10 December 2012
Accepted 12 February 2013
Available online 18 February 2013

JEL classification:
G21
L10
L13
D40

Keywords:
Market structure
African banking
Competition
Panzar–Rosse model

A B S T R A C T

This paper examines the extent of banking competition in African subregional markets. A dynamic version of the Panzar–Rosse model is adopted beside the static model to assess the overall extent of banking competition in each subregional banking market over the period 2002 to 2009. Consistent with other emerging economies, the results suggest that African banks generally demonstrate monopolistic competitive behaviour. Although the evidence suggests that the static Panzar–Rosse H-statistic is downwards biased compared to the dynamic version, the competitive nature identified remains robust to alternative estimators.

© 2013 Elsevier B.V. All rights reserved.

1. Introduction

African banking sectors have witnessed significant reforms over the last three decades following a long period of underperformance. Recent reforms have led to the liberalisation of interest rates and credit markets. For instance, interest rate controls, particularly in Kenya, Ghana and Tanzania, and directed lending in Uganda, have been replaced with open market operations. Another area of development within each subregion is the significant privatisation of state-owned banks, predominantly in Kenya, Uganda, Rwanda, Tanzania and Zambia, as a step to minimising inefficiencies.[1] Also, by opening up the banking

* Tel.: +44 7930600874.
E-mail address: sf147@leicester.ac.uk.

[1] See Allen et al. (2011) for detailed review of the African financial system.

1566-0141/$ – see front matter © 2013 Elsevier B.V. All rights reserved.
http://dx.doi.org/10.1016/j.ememar.2013.02.001

markets, the growth of foreign banks in each subregion has been significantly high, especially in East and West African subregions in recent times.[2] Moreover, in response to increased regional integration and advances in information technology, there has been a significant upward trend in cross-border banking particularly within the East African subregion, allowing customers to operate their accounts outside their home country. These developments have implications for banking sector competition.

Whilst the number of banks has undoubtedly increased across Africa, attempts to gain financial stability have also fostered recapitalisation programmes in a number of countries. Hence, African banking sectors remain highly concentrated even though the trend is generally downward. The downward trend in banking sector concentration may suggest an improvement in competition as, theoretically, banks' market power may have been diminishing in line with the structural–conduct–performance paradigm. However, this may not be the case if market concentration does not necessarily imply undesirable exercise of market power.

In view of the above, this study seeks to address the following questions: first, how competitive are African banks after years of banking sector reforms? Second, to what extent do competitive outcomes differ across subregional banking sectors in Africa? Finally, how does competition differ across interest-generating activities and overall banking activities? The answers to these questions are particularly significant as they help us compare banking sector competitiveness across Africa with other emerging markets. This should help ascertain the effectiveness and possible impact of continued reforms on African banking. The outcome may also shed light on the possible link between competition and concentration inferred from the structural–conduct–performance paradigm.

The study employs the Panzar–Rosse model to assess the degree of competition in African banking sectors at the subregional level, assuming common banking markets.[3] The Panzar–Rosse model has been extensively applied to the study of banking competition, particularly in respect of banking sectors in advanced countries (e.g., Bikker and Haaf, 2002; Coccorese, 2004; De Bandt and Davis, 2000; Molyneux et al., 1994, 1996; Nathan and Neave, 1989; Shaffer, 1982; Vesala, 1995), with recent interest in emerging markets' banking sectors (e.g., Al-Muharrami et al., 2006; Gunalp and Celik, 2006; Mamatzakis et al., 2005; Perera et al., 2006). However, less attention has been paid to banking competition in Africa. Selected African countries have often been considered as part of major studies where their competitive conditions are not highlighted (e.g., Bikker et al., 2009; Claessens and Laeven, 2004; Schaeck et al., 2009). Single country studies have been conducted by Biekpe (2011) and Simpasa (2011) in respect of Ghanaian and Tanzanian banking sectors, respectively. A critical assumption of the Panzar–Rosse model, which is often verified, is that banks are observed under long-run equilibrium. However, Goddard and Wilson (2009) convincingly highlight the fact that adjustment towards market equilibrium may be gradual rather than instantaneous, thus requiring a dynamic approach to the Panzar–Rosse model.

Employing both the static and dynamic versions of the Panzar–Rosse model, the findings of this paper show that banks in African subregional markets can be characterised as monopolistically competitive. The paper finds H-statistics ranging between 0.312 and 0.810, depending on the choice of estimator and model specification. In particular, the findings suggest that, with the exception of North Africa, African banks exhibit higher competition at interest-generating activities compared to total banking activities. Further, it is found that the degree of competition in African banking markets is comparable to that existing in other emerging markets. Finally, the paper finds consistent results for both the static and dynamic versions as it does for the scaled and unscaled versions of the Panzar–Rosse model, even though the static version is biased downwards, as documented in Goddard and Wilson (2009).

The paper contributes to the extant literature in banking competition in several ways. First, the paper attempts a broader empirical investigation of African banking competition. To the author's knowledge, this has not been previously addressed. Whilst banking competition has attracted much research interest in several countries and regions, little has been done to assess the competitive conditions in African banking markets. Second, the regional or common banking market approach adopted in this paper provides a useful way to assess the overall effectiveness of the recent wave of financial sector reforms in Africa. Third, by combining both static and dynamic estimation methods, the paper is less likely to misidentify the

[2] For the purpose of this study Africa is divided into four subregions, namely, Southern Africa, West Africa, North Africa and East Africa. For a list of countries in each subregion see Table 1.

[3] This assumption is consistent with the similarities of characteristics and increased regional integration among the relevant countries.

Download English Version:

https://daneshyari.com/en/article/5063226

Download Persian Version:

https://daneshyari.com/article/5063226

Daneshyari.com