

THE SHARE OF FOREIGN BANKS IN THE ALGERIAN ECONOMY

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Abstract:

The results of this article raised essential points of the contribution of foreign banks to the improvement of the Algerian banking system, namely the financing of the economy. We had tried to analyse the annual reports of the Bank of Algeria in recent years .

These reports have clearly indicated a predominance of public banks in the financing of the economy and that the Algerian banking system remains essentially dominated by public banks but this does not prevent an improvement in the share of financing of the economy by foreign banks. So we can say that these banks contribute in some way to the improvement of the financing of the economy .

Keywords: foreign bank, Algerian economy, domestic bank .

JEL Classification Codes: F33 G28 G34

1. Introduction

With the process of financial deregulation and liberalization, many emerging and developing countries witnessed a significant restructuring of their banking sector since the 1990s, characterized by a considerably higher presence of foreign banks.

For several years, Algeria has been implementing reforms to modernize the business environment and promote foreign direct investment (FDI). However, the disappointment of Algerian leaders of the results, far from their expectations, is clearly displayed, especially vis-à-vis the European Union, Algeria's first partner. (BELLATRECHE Youcef, 2014)

While the 2003 ordinance on money and credit opens up the banking sector to foreign investment, the regime applicable to it has been in sharp decline since 2009.

According to (Rachid ZOUAÏMIA, 2021) , The new system establishes a dissuasive regime as regards both the constitution and the treatment of foreign investment and reveals a desire to control banks and financial institutions by means of inadequate measures.

(Tomislav Galac, 2000) affirm that, the proponents of allowing foreign banks to enter the domestic market generally point to a number of economic benefits: transfer of know-how, especially knowledge of bank management, risk management, and information systems; increased competition, which leads to the provision of new financial services and to decreased prices for existing financial services; and increased resources that can stimulate economic growth.

The critics of foreign investment argue that foreign banks may gain undue influence over the domestic economy, that they may have different priorities and agendas than domestic banks or the domestic public, that foreign entry will hurt domestic banks, and that foreign banks should not enjoy the protection extended by the government to local banks, especially those deemed “too big to fail.

One of the main decisions of the law 90-10 of 14/04/1990 relating to money and credit is the opening of the Algerian banking system on the national and foreign private sector.

Since the promulgation of this law, several approvals have been granted by the BA for the establishment of foreign banks in our country. The council of the currency and the credit (CMC) granted authorizations has several private establishments, the majority of them are foreign while the others are composed of banks with Algerian capital or mixed, marking of this fact the will of opening of the banking sector to the foreign competition.

The banking activity in Algeria has always been at the heart of discussions in view of its importance and its direct impact on the Algerian economy. The latter remains, despite the various reforms it has undergone, behind the banking systems of neighboring countries, and this because of the low rate of banking. Indeed, the absence of banking products such as online payment combined with the absence of online signature, the centralization of bank branches including those of private banks in the northern wilayas, the low rate of savings, the non-generalization of online banking, increase the distance between the bank and the customer, which pushes the latter to keep his savings at home or to invest them.

This research aims to shed light on the share of foreign banks , in the Algerian banking system. The main objective of this study is to examine the contribution of foreign banks to the financing of the Algerian economy.

In this article, we will try to examine the contribution of foreign banks in the Algerian economy; To do this, we will try, from the Statistical bulletin of the bank of Algeria , to understand the position of foreign-owned banks in economic activity in terms of financing.

In this regard, a recurring question that constitutes the subject of this article is that of knowing:

What is the contribution of foreign banks to the financing of the Algerian economy?

To answer this question, we have formulated the following hypothesis, which is The banking activity in Algeria has always been at the heart of discussions in view of its importance and its direct impact on the Algerian economy .And despite the integration of several foreign banks their contribution to financing the country's economy is remarkable compared to their public counterparts .

The articulation of this paper is presented as follows: firstly we will discuss about the Algerian experience in the establishment of foreign banks. Secondly we will examine the contribution of foreign banks to the Algerian economy ; and finally, we will present our results found after analyzing the latest annual reports of the bank of algeria.

2. The Algerian experience in the establishment of foreign banks

In the era of globalization, for the economic growth and development of a country, a solid and healthy financial system is essential. The banking sector of a country is considered an important component of the financial system as banks play a crucial role in mobilizing deposits and disbursing credits to different sectors of the economy. The banking system injects fuel into the economic system in the form of flows of funds that stimulate economic efficiency.

Banks, acting as intermediaries, play an important role in the optimal and well-organized allocation of funds in an economy by mobilizing resources for productive activities. The primary objective of private banks is to make profits. In order to achieve this crucial objective, banks pursue different strategies/plans and carry out a range of activities. (Parvesh Kumar Aspal, 2019)

According to (Gormley .T. A, 2007) The entry of foreign banks has affected financial performance of the domestic-owned banks in Ghana. The banking problems and benefits resulting from foreign bank entry on the financial performance of domestic-owned banks depends largely on the country in question. In the research of (Nsiah K. Acheampong, 2013) , he concludes that the entry of banks owned by foreigners is useful to the indigenous banking sector because it leads to improvement in the local financial system through new technology and buildings. It also leads local banks to learn from foreign-owned banks good banking practices and the transfer of expertise to the local banking system. Finally, the entry of foreign banks leads to the attraction of foreign direct investment (FDI), which leads to economic growth.

Since the 1990s, financial deregulation and globalization have enabled greater foreign bank entry around the world. As explained by (Muhammad Natsir, 2019) ; Foreign banks can affect financial stability in host countries through at least three channels; First, foreign banks influence domestic financial stability through the contagion effect of foreign subsidiaries when financial crises occur in home countries, which might in turn decline bank performance in host countries. Second, the effect

of foreign banks on credit risk in host countries depends on whether or not foreign banks pursue “cherry-picking” strategies or take advantage of the quality of screening technology .

However, the entry of foreign banks can also be beneficial for financial stability, as the provisioning of loan losses in the banking sector tends to decrease following an increase in the presence of foreign banks, which also shows that banks tend to take less risk than domestic banks. Third, greater foreign penetration is likely to increase competition in the banking sector, which in turn may affect financial stability, although the effect of competition on stability in the banking sector remains ambiguous.

As reported in the guide invest in Algeria, the establishment of banks, financial institutions, and branches of foreign banks in Algeria is governed by the CML and by regulations issued by the board of money and credit, in application of the law. (Guide Investir en Algérie, 2022)

This installation is subject to two major conditions universally accepted and which are:

first The minimum capital to which these institutions should subscribe; Under the terms of Ordinance No. 10-04 of August 26, 2010 amending and supplementing Ordinance No. 03-11 of August 26, 2003 on money and credit, foreign holdings in banks may be authorized only in the context of a partnership whose resident national shareholding represents at least 51% of capital. By national shareholding, it can be understood the addition of several partners.

(Guide Investir en Algérie, 2022). Secondly, the honorability, morality and professionalism of the founding members and management staff of these institutions.

Also, we find that the creation of banks and financial institutions must be of Algerian law and must be constituted in the form of joint stock company (SPA). There is no ceiling to the participation of non-residents in the capital of financial institutions. The latter can be constituted at 100% by non-residents or in association between residents and non-residents, on the basis of a freely agreed agreement between partners.

At the beginning, the presence of foreign banks in Algeria and their position on the market is an exploratory position in their activities, because they do not have enough knowledge about the Algerian customer, in addition, foreign banks cannot develop new product lines. Over time, these institutions expand their network with the establishment of subsidiaries on the national territory, we notice a willingness to accompany the development of companies, as well as increasing their impact on the local market.

However, the interest of foreign banks is also explained by the importance of the domestic market, and the economic situation of Algeria offers many opportunities, such as the privatization of public enterprises initiated by the government, starting with the opening of the CPA and other companies in different sectors.

The purpose of the installation of foreign banks in the first place is to accompany their domestic customers (the large foreign companies), so their main missions is to integrate and contribute to the economic and financial activity of Algeria, by providing products to companies, professionals, and individuals, as they participate in the financing operations of international trade. There are various factors and elements that make the Algerian banking sector attractive to foreign financial investors.

After the adaptation of a policy of market liberalization, Algeria set up a new device to support the national and foreign private investors, several legislative texts were promulgated or improved for this purpose: The law on the currency and the credit as well as the geographical situation of Algeria between Europe and Africa and the Arab countries

The geographical situation of Algeria between Europe and Africa and the Arab countries gives it a geostrategic position for the development of its investment potential, in addition to the fact that it encourages foreign investments oriented towards export, and the creation of a free trade area between Europe and the Arab countries, this results in the presence of several French and Arab banks.

In most developing countries, the banking system plays a predominant role in financing the economy and is therefore the essential element in the financial system of the countries.

Multinational banks appear in this situation as vectors for the transfer of wealth and knowledge from one country to another and as a stimulant for growth in the host countries.

In the past, the presence of foreign banks in developing countries was frowned upon because it was seen as a form of foreign domination of their economies. Today, many of these developing countries are aware of the value of multinational banks and are competing to attract as many foreign banks as possible and benefit from their advantages.

Indeed, international banking groups can provide several benefits. First, they increase the capital available in host countries and encourage competition in the domestic market. Also, they serve as a channel for the transfer of technology, skills, innovation capabilities and organizational and management practices. Given the role that foreign banks can play in accelerating economic growth and transformation, Algeria has decided (after a long process of reforms) to be among the developing countries that have opened their banking sectors to foreign competition. Faced with the choice of setting up abroad, banks that have taken the initiative to set up in Algeria sometimes have to overcome numerous constraints. These are not typically Algerian, but apply to all banks that want to acquire new markets.

In Algeria, the conditions of exercise of the banking activity were not too tight in a not too distant period. In terms of financial standing, shareholders must pay up a quarter of the capital at the time of the bank's final incorporation, and the remainder after five years. The banking sector is one of the most regulated sectors of activity. As reported by (TAHRAOUI M, 2008) , After the two financial scandals of EL KHALIFA Bank and the BCIA which have shaken the place of banking system, and the return of security in our country, the Bank of Algeria has granted the privilege of approval to large foreign banks and some banks of the golf countries. The tacit elimination of the national private capital from the banking activity and the privatization of the public banks will give the opportunity to the foreign banks to control the market and to come back to the monopoly situation. In Algeria, one of the barriers that all banks and financial institutions have had to overcome is the political instability and an unsettling domestic situation that is accompanied by the opening of economic fields since the 90s. In addition, banks as well as all establishments have been hampered by the dysfunction of the Algerian banking system, a system challenged more than ever by all economic agents who claim a need for new reforms.

Based on the research of (Al Samman. H, 2016) , He mentioned that, While the entry of foreign banks is generally believed to have positive effects on financial development in host countries, particularly through increased credit extension, some studies find more ambiguous results. Some show that foreign banks “select” borrowers.

This can weaken overall access to the financial sector. The cultural and geographical distance between the head office of the foreign bank and its local branches, and the advantage of access to the "external liquidity" of their parent banks (which reduces their cost of deposit), lead them to avoid to lend to soft information borrowers and to focus only on lending to hard information borrowers. (chadi azmeh, 2018)

It was noted that the business plan of foreign banks in Algeria is to finance large foreign companies, especially those operating in the oil fields. However, a small portion of their funds is used to meet the financial needs of medium-sized private companies. The method used by foreign banks to increase their market share is to offer a wide range of innovative financial products. Senior managers agree that the advisory services provided by foreign banks are better than those of local banks. The survey also shows that foreign investors' response to these products is high. Foreign banks offer basic financial products during their first years in Algeria. But, due to the steady increase in demand for their services, foreign banks have expanded the scale of their activities in the domestic market. It was noted that the establishment of clear rules for the management of financial transactions would encourage existing foreign banks to increase their presence in the domestic financial market. Domestic investors also need to be educated on how to use newly created financial products, such as those related to commercial finance and electronic banking. Foreign banks conduct political and economic assessments before entering the domestic market. Foreign banks also review financial regulations and the behavior of domestic investors as part of their assessment plan.

At the micro level, foreign banks offer competitive lending and borrowing rates. They have also increased the number of their branches in the main cities and near the oil fields. Local investors are required to provide full guarantees on loans and to provide full reports on the use of funds. Loans are granted only to reputable local companies, those with a strong financial position. The Foreign exchange and liquidity risks are taken care of by foreign banks until the loan is fully repaid by the investor. Domestic banks are advised to take this example of foreign banks in their future business plans to improve the quality of their portfolios.

According to (BENKHATTOU Bahia Cherifa, 2011) , The Algerian market has captured the interest of foreign Arab and Western banks and particularly French banks that see in this area an almost natural expansion of their field of intervention, it is from 2001 that banks are interested in Algeria after the opening of the banking landscape to private capital.

The law on money and credit (LMC) of 1990 has totally transformed the functioning of the banking system, (autonomy of decision, rules of commercialized), but has further enriched this legal and institutional edifice in favor of foreign investment. This law opens the way to all forms of contribution of foreign capital and encourages all forms of partnership without exception. The CMC has granted authorizations to several foreign banks, thus marking the willingness to open the banking system to foreign competition.

As reported in guide invest in algeria , When the law on money and credit came into force in 1990, the banking sector was mainly made up of five public commercial banks (BEA, BNA, BADR, BDL, CPA), the National Savings and Provident Fund (CNEP) and the Algerian Development Bank (BAD), with a network of branches throughout the national territory.

To this public banking sector came to be added, from 1991, the mixed bank Al baraka, constituted between the Saudi group Dellah Al baraka and the Algerian bank of the agriculture and the rural development (BADR).

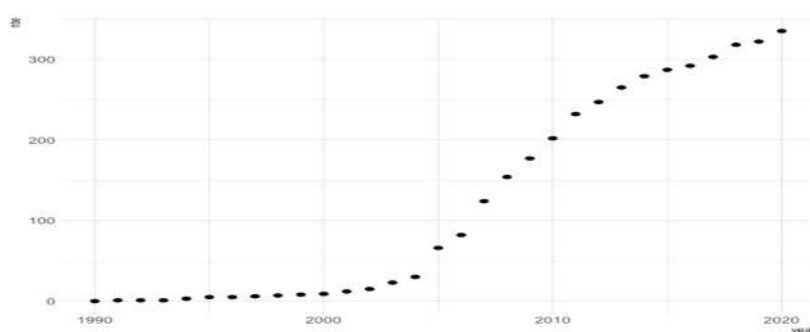
From 1995, the banking sector will record the creation of many financial institutions in line with the logic of support to the banking activity and responding to concerns sometimes sectoral.

Alongside these public financial institutions, a large number of private banks and financial establishments have been developed since 1995, some with the support of non-resident (foreign) capital providers. (Guide Investir en Algérie, 2022)

Fig.1. The presentation of all foreign banks in Algeria.



Fig.2. Evolution of the foreign banking establishment in Algeria

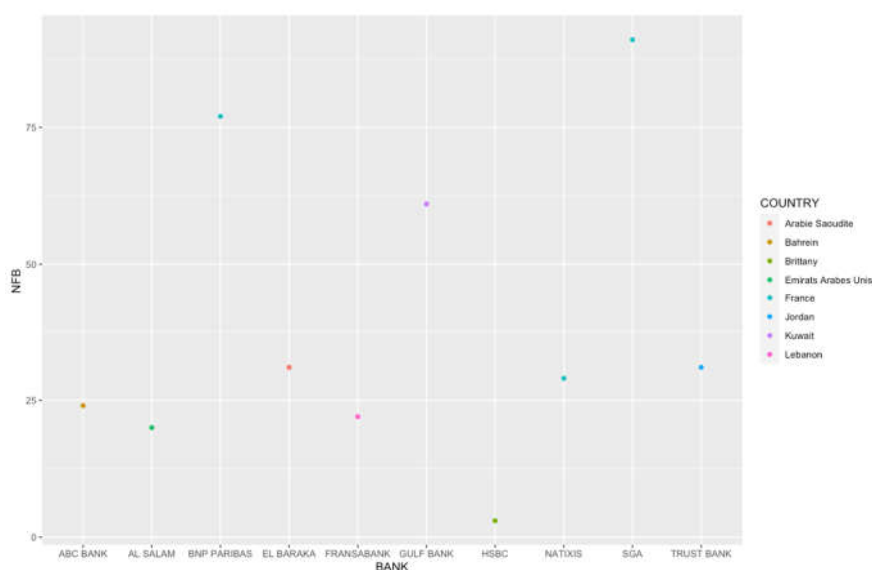


Source: From the annual reports of each foreign bank in Algeria

In Figure 1 , we taken all foreign banks that are present in Algeria ,With in the figure 2 represents the evolution of the establishment of foreign banks in Algeria¹ during the period from 1991, the year of the first establishment, to the year of the last establishment .

According to this figure, we notice that the greatest number of foreign bank establishments is recorded from the year 2000 with 11 establishments, that is to say 78.57% of the totality of foreign banks established in Algeria. However, the period from 1991 to 1999 has recorded only 3 establishments or 21.43%, which can be explained by the social and economic tensions that marked the period. We also note that the year 2000 was marked by the largest number of foreign banking establishments which is three, Natixis, Al Rayan Bank and APG.

¹ We are take an sample of 10 banks which are : (ABC Bank , El Baraka , Natixis, Trust Bank ,SGA,BNP ,AGB ,Al Salam, HSBC, Fransa bank)

Fig.3. Number of branches of foreign banks in Algeria and their origin

Source: From the annual reports of each foreign bank in Algeria .

From figure 3, which represents the number of a foreign bank in Algeria in 2022 by their home country, we can see that the bank with the most branches is SGA, with a network of 91 branches located in 31 wilayas, followed by BNP with 77 branches and AGB with 61 branches. On the other hand, the banks that have the least important branch networks are

Fransabank, Al Salam, HSBC, Fransabank, and others. So we can say that some foreign banks have played a significant role in the densification of the network of bank branches.

The foreign banks established in Algeria come from different countries. Indeed, the dominance of some countries, in terms of establishment of branches, compared to others can be explained by the geographical and / or cultural distance that links Algeria with its countries. Let's take the example of France, it is geographically close to Algeria and its former colonizer of Algeria, which leads us to conclude that these two countries have a certain cultural rapprochement.

3. The contribution of foreign banks to the Algerian economy

Fourteen foreign banks and financial institutions operating in Algeria have been identified, accounting for almost 14% of the market. Five French banks are established: Natixis, the first to obtain the approval of the Bank of Algeria in 2000, followed by Société Générale before BNP Paribas in 2002. In 2007, Calyon Algeria is in turn approved by the monetary authorities to develop the investment banking segment, while the other three brands have chosen to develop the services of a universal bank. Nearly one hundred French branches were operational at the end of 2007, all brands included. (REKIBA Salima, 2014)

Apart from the four French banks and the American City-Bank, the other banks are mostly Arab-owned and focus on corporate-finance, Islamic banking and international trade activities in order to support their home countries' business flows. Three foreign financial institutions have been approved in the leasing and consumer credit sector: Arab Leasing Corporation, Maghreb Leasing and Cetelem Algeria. Much progress has been made since 2002 in terms of modernization of means of payment, including the establishment of a real-time clearing system, standardization and remote clearing of checks.

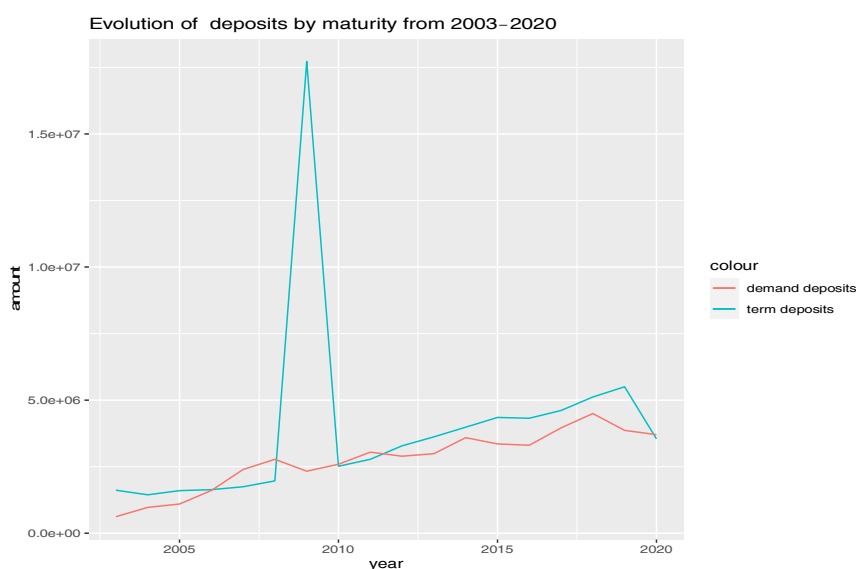
In this part, we will try to examine the contribution of foreign banks in the Algerian economy from the Statistical bulletin of the bank of Algeria (bank of Algeria, 2022). The institutions that finance the economy, or play the role of financial intermediation, are generally banks and credit institutions.

Although the development of operations with the rest of the world still represents the central element of their activity, foreign banks' activity has also progressed in the mobilization of resources.

3.1. In terms of deposit collection

The main activity of a bank is the collection of resources from the public, distribution of credit and management of payment media. The function of collecting resources has attracted the interest of monetary authorities since the promulgation of the law on money and credit in 1990. The share of foreign banks in the collection of resources from the public remains minimal when compared with that of public banks, the following graphs illustrate the deposits, sight and term, collected during the period from 2003 to 2020, and the evolution of credits to the economy distributed, by all public and foreign banks, operating in Algeria.

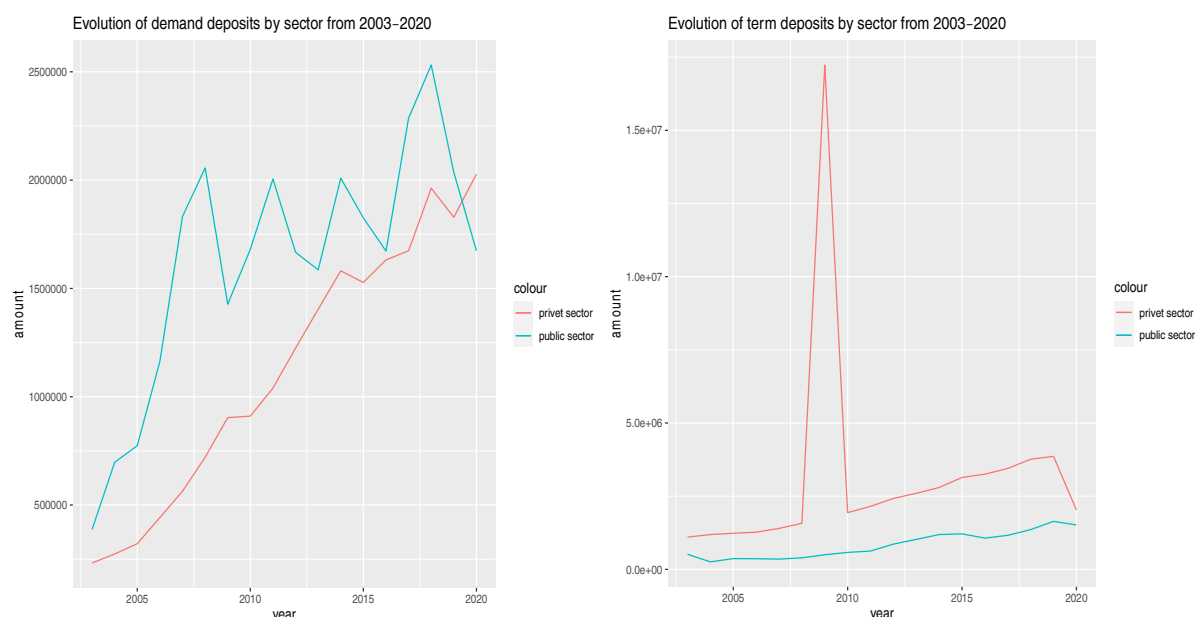
Fig.4. Evolution of deposits by maturity from 2003-2020



Source: (bank of Algeria, 2022)

○ From the data of the statistical bulletin of the bank of Algeria 2022; The analysis of the deposits during the period 2003 to 2020 according to the nature, shows that, Since the years 2003 and 2008, the amounts of the deposits has seen by the banks passed from 387 331.00 billion dinars to 2 056 423.00 billion dinars. These deposits have experienced a decline of 446 765.00 billion dinars in 2009 compared to 2008.

These deposits have recorded an increase of 1,903,060.00 billion dinars from the year 2010 until 2018 . can a slight decline reaching 792,262.00 billion dinars in 2020 compared to the last two years . The evolution of demand and term deposits is shown in the graphs below.

Fig.5.Evolution of demand and term deposits by sector from 2003-2020

Source: (bank of Algeria, 2022)

Through the two figures above, we have seen that the proportion of foreign banks in demand and time deposits is very low compared to that of public banks. We note that In 2018, the sight deposits are up by 1 669 092.00 billion DA in public banks, and 488 419.00 billion DA in foreign banks compared to 2003.

Concerning these banks in 2009, they are known a considerable evolution from 910 679.00 billion DA to 2 028 220.00 billion DA in 2020. So there is an increase of 1 124 624.00 billion DA, compared to public banks which have seen an increase of (247 141.00) billion DA.

However, these amounts remain marginal compared to those recorded by the public banks, what shows us besides the figure, the shares that cover these are very important.

Since the years 2003 and 2009, the amounts of time deposits by banks have increased from 1 616 189.00 billion dinars to 17 724 944.00 billion dinars

These deposits reaching their peak in 2009, with an increase of 16 108 755.00 billion dinars in 2009 compared to 2003. Then a free fall of 15 209 881.00 billion dinars in 2010. And a regular increase of 2 984 851.00 billion dinars in 2019 compared to 2010. The term deposits in 2010, had an upward trend of 16 123 560.00 billion dinars, in private banks compared to 2003. Followed by a fall of 15 290 250.00 billion DA in 2010. And concerning the public banks, they are recorded an increase in 2015 of 957 847.00 billion DA compared to 2004. And in 2016 the deposits have termed increased from 1 068 827.00 billion DA to 1 639 192.00 billion DA in 2019.

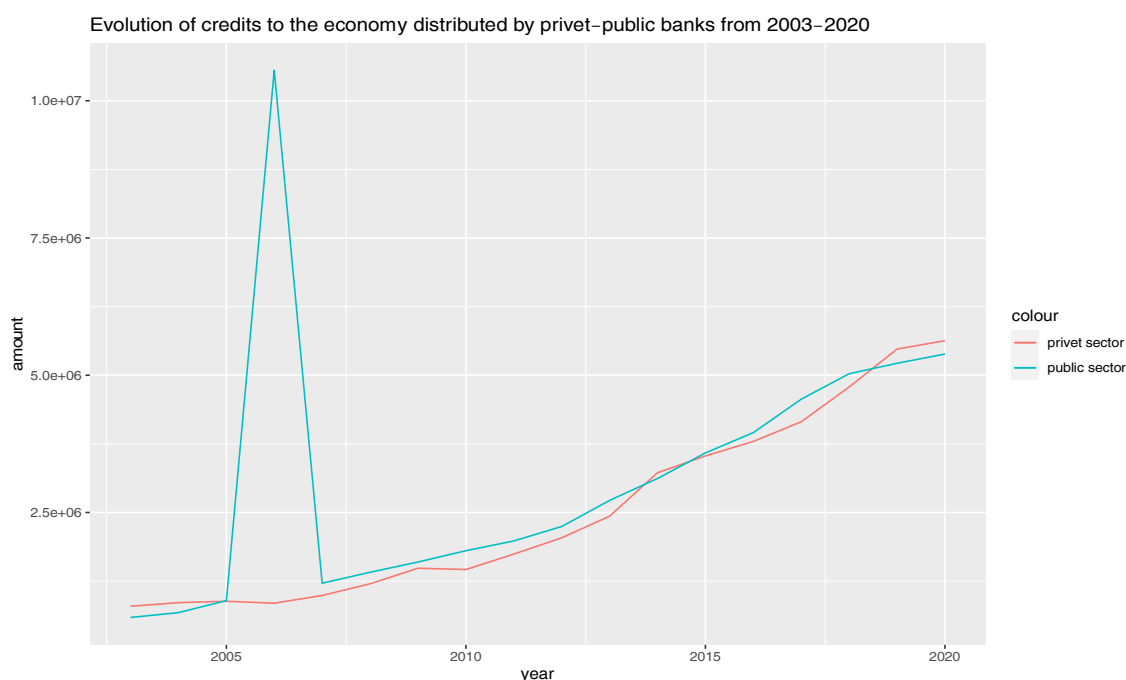
- As reported in the annual report of Algerian bank, Once the resources have been collected, the public or foreign bank must fulfill its role as an intermediary between agents with financing capacity and agents with financing needs, i.e., it must distribute the savings collected to cover the operating and investment needs of economic agents. . (Annual reports

of bank of algeria, 2017) . he following figure shows the evolution of credits to the economy distributed by public and foreign banks during the period from 2003 to 2020.

3.2. In terms of credit distribution

In terms of the allocation of resources by banks, the distribution of credit to the economy is increasing.

Fig.6. Evolution of credits to the economy distributed by privet-public banks from 2003-2020



Source: (bank of Algeria, 2022)

The results show us that the credits distributed to the public and private sectors increase from one year to another during the period 2003 - 2020. In terms of resource allocation by banks, the distribution of credit to the economy is increasing. And that the public banks ensure almost the totality of the financing of the economy, These last ones recorded, in terms of amount, a remarkable increase with 9 969 161,00 billion DA in 2006.

The amount distributed by these banks in 2007 is estimated at 1 212 953.00 billion DA and in 2018 is estimated at 5 029 262.00 billion DA. Their share in the financing of the economy remains important. On the other hand the financing of the economy by the foreign banks is negligible compared to the financing carried out by the public banks, the amount of the credits granted to the economy passes from 791 365,00 in 2003 to 1 741 651.00 billion DA in 2011.

The foreign banks knew a remarkable evolution in the financing of the economy of the host country, the amount of the is estimated at 5 478 292,00 billion DA in 2019 against 5 630 415.00 billion DA in 2020. These last ones know a rhythm of growth substantially weak compared to the credits granted by the public banks.

The opening of the Algerian banking landscape to foreign competition has had a major impact on the way Algerian public banks operate. The latter have been forced to align their quality standards

with international standards in this field in order to keep their market share, ensure their sustainability and improve the quality of products and services by expanding their catalogs .

This new climate encourages public banks to be more competitive with their multinational

competitors .Foreign investors have certainly contributed a lot and will continue to contribute in terms of transparency, several examples prove it. Firstly, the development of the mortgage market in the financing of companies is a factor of transparency because it obliges all the actors to put order. Secondly, the presence in Algeria of companies belonging to global groups whose accounts are by definition monitored internationally is a plus for good corporate governance .

The presence of foreign banks in Algeria is an additional factor of transparency, because access to their credits requires good bookkeeping and external assets are required. Their activities record a continuous progression, at the level of the collection of the resources, the distribution of the credits .

Indeed, these results can be explained by the structure of the Algerian banking sector, which is characterized by the predominance of public banks following the importance of their branch networks spread throughout the national territory. This situation has created a certain confidence, especially among public banks, which no longer carry out aggressive actions to attract savings and encourage new deposits, especially with low interest rates. Therefore, the resources market remains predominantly dominated by public banks despite an appreciation of the share of foreign banks from year to year.

The phenomenon of foreign banks is increased thanks to FDI, which is the consequence of the opening up of financial systems, and this has a double effect on countries. This establishment constitutes a stimulus for the development of local banking sectors, but it also represents a threat for domestic banks and on financial stability. The penetration of foreign banks in Algeria can have a positive impact.

A significant entry of foreign banks means an additional injection of capital and helps to remedy the lack of domestic savings, which is stimulating for investment and beneficial for the Algerian economy. One of the main reasons why Algeria wishes to attract FDI in the banking sector is to create jobs, as long as the individuals are employed by subsidiaries or branches of foreign banks. The latter participate in a continuous way in the creation of jobs in Algeria.

The opening of the Algerian banking landscape to foreign competition has had a major impact on the way Algerian public banks operate. The latter have been forced to align their quality standards with international standards in this field in order to keep their market share, ensure their sustainability and improve the quality of products and services by expanding their catalogs. This new climate encourages public banks to be more competitive in front of their multinational competitors.

4. Conclusion

The activity of foreign banks established in Algeria records a continuous progression, at the level of the collection of resources, and the distribution of credits.

Indeed, despite the acceleration of the pace of establishment of branches of foreign banks and the participation of the latter in the financing of the economy, which is mainly focused on the financing of the private sector, their shares remain largely predominated by those of the national banks which play the main role in the financing of the economy, this is mainly due to the importance of their networks of branches spread throughout the national territory .

At the end of our study, we conclude that these banks will have a prosperous future despite the efforts made by the Algerian state to protect the public banking sector. The entry of these banks can make the national banking markets more competitive, and thus force the public banks to operate more efficiently, if the Algerian banking sector needs to be modernized more and more to encourage people to go towards binarization and improve the quality of services for customers.

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