Financial services in the euro-mediterranean partnership : banking

Estelle Brack and Robert Elsen and Jean-François Pons

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Survey of regulation, supervisory practices and market structure in banking in the MEDA region

Jean-François PONS, Director of European and International Affairs,
French Banking Federation, Paris (FR)
Estelle BRACK, French Banking Federation, Paris (FR)
and
Robert ELSEN, Senior Legal Adviser, Deputy Head of the Section for Technical Cooperation,
Federal Financial Supervisory Authority (BaFin), Frankfurt (DE)

1. Introduction

Methodology

Towards the goal to gather a better understanding of the banking structure and the regulatory practices in place, the Working Group on Financial Services in the Euro-Mediterranean Partnership developed a survey. This survey is based on a questionnaire which was addressed to the States of the MEDA region. The questionnaire tackled various topics related to the banking regulation, supervisory institutions in charge and the prevalent market conditions such as current market data. Furthermore the jurisdictions were asked to assess the compliance with the Core Principles for Effective Banking Supervision (BIS 25) in their countries.

The MEDA representatives made a significant effort to provide useful and meaningful answers to the questionnaire. Their answers were compiled during the meeting of the Working Group from October 28 to 30 in Luxembourg.

Answers were provided by the following nine jurisdictions:

- Algeria
- Egypt
- Israel
- Jordan
- Lebanon
- Morocco
- the Palestinian Authority
- Tunisia and
- Turkey

The turnout of responses was very high so the report is in a position to reflect the situation in all the above mentioned jurisdictions appropriately. However, in some exceptional cases the questions have not been answered by all the jurisdictions. If such data was not available in particular countries, the report based its outcome on the answers received indicating the number of responses.

Context

The European Neighbourhood Policy (ENP) is aiming at substantially deepening the EU's relations with its neighbours. The EU offers the neighbouring countries a privileged relationship, building upon a mutual commitment to common values, such as market economy principles, better governance and sustainable development. The European co-operation and assistance with the southern Mediterranean neighbours is embedded in the MEDA. The mutual interest of the EU and the MEDA is to promote reforms towards prosperity, stability and the rule of law.

The importance of the financial sector to economic growth and development is now well established.
Numerous studies, using various methodologies, have found evidence that greater financial sector development has a positive causal impact on key macroeconomic variables such as growth, productivity, and even poverty reduction.
The past decade has seen a rapid increase in the empirical literature investigating the links between financial development and macroeconomic outcomes. In a comprehensive survey of the literature, three broad conclusions may be drawn from these studies (Levine, 2005)[1]. First, countries with more developed financial sectors grow faster. Through careful use of instrumental variables and sophisticated econometric methods, the evidence suggests that simultaneity bias is not driving this conclusion; finance does seem to have a positive causal effect on growth. Second, the degree to which a country's financial system is bank-based or market-based does not matter much. This does not necessarily imply that institutional structure does not matter for growth; rather, different institutional structures may be optimal for different countries at different times. Third, industry and firm-level evidence suggests that one mechanism through which finance influences growth is by easing external financing constraints on firms thereby improving the allocation of capital.

Until the 1980s the financial sector was probably one of the sectors where state intervention was most visible both in developing and developed countries. In many countries, banks were owned or controlled by the government, the interest rates they charged were subject to ceilings or other forms of regulation, and the allocation of credit was similarly constrained. Explicit or implicit taxation also weighted on the volume of financial intermediation. Entry restrictions and barriers to foreign capital flows limited competition. Since then, many countries have liberalized and deregulated their financial sector, although the process is by no means complete.

A healthy and dynamic financial sector is essential to achieving high and sustainable economic growth in the Mediterranean region.

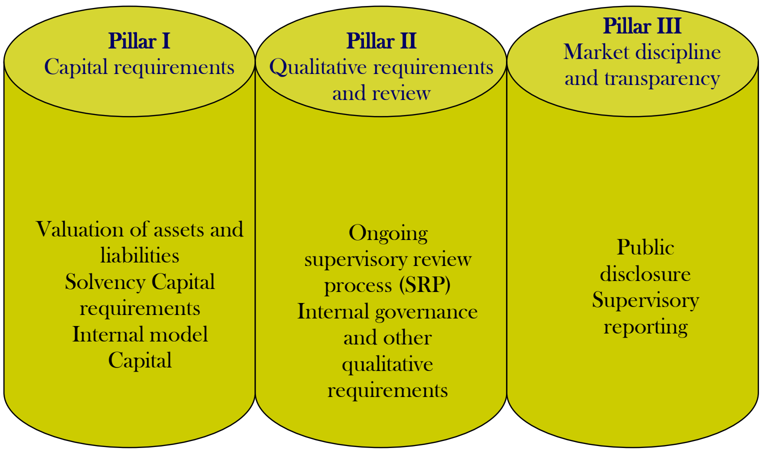
Preliminary Remarks on Banking Supervision and Integration

The regulatory framework of banking supervision is based on various international and cross-border rules. The core elements of banking supervision on an international scale are set out by the **Basel Committee on Banking Supervision**. The most prominent rules are the Basel Accords (Basel I dated 1988 and Basel II dated 2004). Basel II aims to provide an up-to-date regulatory

[1] Levine, Ross, 2005, "Finance and Growth: Theory and Evidence," in Philippe Aghion and Steven Durlauf, eds., Handbook of Economic Growth, Vol. 1 (Amsterdam, Netherlands: Elsevier Science).

standard for banking supervisors. Basel II stipulates three pillars as stated below. The rework of the European Directive relating to the taking up and pursuit of the business of credit institutions and the Council Directive on capital adequacy of investment firms and credit institutions are merged under the title „Capital Requirements Directive“, under which the Basel II regulations have been implemented in European legislation and eventually national acts in all Member States

One of the main ideas of Basel II are qualitative aspects in the field of banking supervision. According to Pillar I credit institutions in the European Union are obliged to reasonably value all material business risks. The pillar II of Basel II describes the ongoing supervisory review process (SRP) as a requirement for banking supervision. In Germany for instance, the regulator (BaFin) co-operates closely with the central bank (Bundesbank) to achieve a flexible, risk-oriented and high-quality supervisory process, which allows sufficient latitude for the credit institutions to design their risk management process and supervise the necessary changes to their workflows and methods. Another pillar includes requirements to disclose the banks' qualitative and quantitative information regarding equity capital and all relevant risk indicators. This aims to improve market transparency and thus also to reinforce market discipline and a successful good corporate governance.



Another tool for enhanced and effective banking supervision are the **BIS 25** Core Principles for Effective Banking Supervision originally published by the Basel Committee on Banking Supervision in 1997 and revised in 2006. In an appendix to the questionnaire the MEDA jurisdictions were asked to indicate whether and to which extent their jurisdiction complies with each of the 25 Core Principles. The very large majority of answers to the 248 items (94 %) is positive or "compliant". This point will not be developed further more in this report in this regard.

Within more than five decades the European Community has managed to create an integrated cross-border European market entailing the 27 EU Member States as well as the 3 EEA Member States thus encompassing thirty European States. The Area is based on the so-called "four freedoms", the freedom of goods, persons, services, and capital. The realization of these freedoms was the foundation stone for an integrated market also referred to as Single European Market.

European integration

The Single European Market on banking has been achieved steadily by the implementation of several European directives. National obstacles and barriers have been diminished continuously to allow a free float of banking services. This concept has been institutionalized by the so called "European Passport" basically requiring only one license issued by the competent administrative authority of the Home Member State. Thus the credit institution is in a position to also e.g. open branches or offer banking services in other Member States without going through another authorization or approval procedure by the Host Member State in which the bank envisages to operate. The authority of the Host Member State trusts the licensing procedure undergone in the Home Member State due to a level playing field in place. The implementation of the European banking directives ensures that basically the same requirements and rules are in place across all Member States. Thus one can easily presume that the same set of rules are adhered to no matter which of the European supervisory authority has actually been in charge so there is no need for any other authority to reopen the question of authorization. These circumstances speed up the pan-European process significantly and ensure a higher level of flexibility for the banks.

Recent economic developments in MEDA region

The main characteristics of the financial systems in the Maghreb region are common to the whole region and include the following: (a) bank dominance and heavy public sector presence in most countries; (b) limited financial sector openness in some countries; (c) bank soundness exhibiting significant cross-country variations; (d) public banks burdened with inefficiencies and a high level of nonperforming loans (NPLs) in certain countries; (e) still embryonic fixed-income and equity markets, […] [in some countries]; (f) nascent institutional investor industry and generally underdeveloped microfinance; (g) shortcomings in the legal, regulatory, and supervisory frameworks despite tangible progress; and (h) a largely cash-based payment systems that is being modernized (Tahari & al., 2007[2]).

The MEDA countries are at various stages of economic development and have different endowments of natural resources. The economic reforms that have been already undertaken over the past two decades have generally achieved macroeconomic stability and contributed to raising growth in some countries. The growth dividend has been dispersed: Growth in GDP per capita in purchasing power parity (PPP) terms in the region has accelerated somewhat during the past decade though the pace of growth varies dramatically (Table 1).

Financial systems have developed substantially in the last decade. Countries to different degrees, have improved their legal and regulatory frameworks, privatized state banks, and enhanced competition in the financial sector.
In quantitative terms, the average domestic credit provided by the banking sector to GDP ratio (except two countries) combined rose from 65 percent in 1995 to 89 percent in 2006, when the

[2] Tahari & al., *„Financial Sector Reforms and Prospects for Financial Integration in Maghreb Countries",* IMF Working Paper WP/07/125

domestic credit to private sector to GDP ratio rose in average from 42 to 55 percent for the same period (Table 2).
The volume of credit is not an indicator to be taken as sufficient alone; in some countries of the area, the level of non-performing loans (NPLs) remains important, in spite of some recent important improvements. For example, the NPLs to gross loans ratio is 32.4 in Algeria (as of end 2005), 20.9 in Tunisia and 10.9 in Morocco as of end 2006 (Tahari & al., 2007[2]).

2. Outcome of the Questionnaire

Institutions in Charge of Banking Supervision

Each jurisdiction may assign one authority or co-operating institutions to carry out banking supervision. These duties may lie with the central bank or a specific financial supervisory authority in charge of banking or following the concept of integrated supervision an integrated regulator.

The vast majority, six jurisdictions indicated that banking supervision is carried out directly by the central bank. In most of the cases the central bank plays a key role as independent institution which is not accountable to a government body such as a ministry. This is also corroborated by the fact that where the central bank is the supervisor, the central bank is typically also in charge of regulation (see below). Two jurisdictions on the other hand designed a special body as a banking regulator whereas another one stipulates interdependence between the central bank and a supervisory entity. In that case the supervision responsibilities are split between the Central Bank and another authority in a joint approach.

Accountability of Supervisory Institutions

To define the status of an authority it is worthwhile to see to whom this entity is responsible or accountable, e.g. in terms of reporting about its operations. Accountability to a prominent rank may serve as an indicator for an institution’s standing.

In three jurisdictions the status of the authority is expressed by the fact that reference is made to the Head of State in that concern. In two other jurisdictions accountability is addressed to the Governor of the central bank. In another jurisdiction reference is made to the State Council, another one foresees reporting to the Council of Ministers and Parliament.

Legal Liability of Supervisors

This item addresses the question whether the supervisor in charge can be held liable for administrative action or an omission of necessary activity. The extent of liability both in terms of threshold and addressees may vary in each jurisdiction. Some may also hold liable the employee in charge whereas others may restrict the liability to the institution itself, the legal person.

All the respondents but one indicated that their supervisors are legally liable for their actions. One of the jurisdictions giving an affirmative answer clarifies that legal liability cannot occur as long as the supervisor acts within the scope of its mission. Further specifications are not provided. The answers do not aim to encapsulate the whole liability system in each jurisdiction as this would mean a very detailed description and reduplication of legal provisions which would not serve the purpose of this questionnaire.

Deposit Insurance System

An effective deposit insurance or deposit protection scheme may be of high relevance both for boosting market confidence and integrity as well as investor protection. The EU has covered the statutory deposit insurance system in the Deposit Guarantee and Investor Compensation Directives from 1994 and 1997. In the aftermath of the recent financial turmoil the European institutions are committed to further enhance the deposit protection, the EU threshold per depositor appears to increase ways above the current 20.000 €. Furthermore as the European Directive only stipulates minimum standards a number of Member States have gone beyond for investor's sake. Also on an international scale deposit protection has become a prominent issue.

However, to which extent such system is needed depends significantly on the market conditions. While the majority of respondents gave an affirmative answer, three jurisdictions clearly stated that they do not have an explicit insurance system in place. In one of these jurisdictions the market circumstances did not call for such system as there has been a surplus of liquidities so far. The other two jurisdictions indicated that governmental or central bank steps may be taken for the sake of investors. Four out of the six respondents confirming the existence of a deposit guarantee scheme have certain thresholds in place up to which a reimbursement is safeguarded. This underlines that the deposit protection mainly aims to protect retail clients.

Legal Framework for Banking Supervision

This chapter focuses on the question which authority is in charge of licensing and compliance. This item is related to the first question above but puts a stronger emphasis on the particular field of supervision.

The first question aims to point out which authority gives authorisation of banking establishments, i.e. licensing. In five jurisdictions the central bank is in charge of authorizing banking establishments. In two jurisdictions the same other authority which is generally in charge of supervision is also responsible for licensing. In the other two jurisdictions authorization is embedded with a different institution, i.e. a special council or the Ministry of Finance.

The second question raises the issue which institution has powers to address compliance with (banking) laws as well as safety and soundness concerns. Except one jurisdiction, the same institution is both in charge of licencing and compliance.

Basel Accords Compliance

Since the Basel Accords are of utmost relevance, one key part of the questionnaire was to verify to which extend the jurisdictions have settled for the respective banking requirements. In the European Union the Basel II requirements are in place since 2007. It is in the discretion of the credit institution whether the follow the Standard Approach which to a great extent is similar to Basel I or the Advanced Approach. So far a significant majority of banks decided to apply the

Standard Approach while only a smaller number of banks opted for the Advanced Approach which may be more challenging for institutions especially in the beginning.

All MEDA jurisdictions comply with the Basel I requirements.
All respondents expressed their commitment towards the implementation of Basel II. The transposition is currently in place or should at least be envisaged in the near future. One jurisdiction declared to review the Basel II requirements in the awake of the financial turmoil and to adapt the rules if necessary. The respondents indicated that banks usually follow the Standard Approach. In two jurisdictions the Advanced Approach is explicitly only foreseen as of 2010.

Number of Banks

Globally, banking markets in the area have a relative big size, and are diversified.
The amount of banks may serve as a good indicator for the degree of competition and to which extent the citizens are in a position to rely on banking service even though disparities in the level of servicing may vary between urban and rural areas.

The number of banks is two digits in all jurisdictions varying from 16 to 50. It varies from one country to another, with an average of 32 per country and a standard deviation by 16.22 (Table 3). The smallest market in terms of number of banks is Morocco with 16 banks whereas the biggest number of banks is 64 in Lebanon.

Access to financial services is often low, transaction costs tend to be high and the legal basis for collateral enforcement remains limited. These are the main reasons why financial intermediation relies heavily on retained earnings, thus limiting growth. This is particularly true for SMEs, which very often have no other choice than relying on internal and/or family finance.

In order to analyse the market and its exposure it is also worth knowing whether the market is dominated by domestic banks or foreign banks also play an active role. All jurisdictions do have foreign bank exposure though the extent of foreign bank business varies a lot. One jurisdiction is dominated by domestic banks in a way that the only foreign banking subsidiary and the four foreign banking branches only amass a total of less than 2% of the market share. As concerns the other jurisdictions foreign banks have a stronger standing. The figures of the market share or assets of foreign banks provided by some other respondents lead to the conclusion that the vast majority of market share is in the hand of domestic banks. A final conclusion cannot be drawn since three jurisdictions could not specify the market share.

Size of the Banking System

To determine the position and power of a country’s banking system it is helpful to see the relation of the banking assets to the GDP as well as the correlation between the banking assets and the total financial system assets.

In the majority of jurisdictions the banking sector assets represent more than the annual GDP. In one country the banking assets amount to 362% of the national GDP indicating a strong standing of the banking sector in the economy, One jurisdiction ranges slightly below the annual GDP and in two jurisdictions the banking assets represent about two third of the GDP (Table 4).

Six out of the nine respondents also provided figures with regard to the correlation of banking system assets as a percentage of total financial system assets. In one jurisdiction the assets make about 40% of the total assets (including government bonds) whereas the other jurisdictions indicated higher degrees. In the country with the highest participation of banking system assets these represent more than 86% of the total assets (Table 4).

Accessibility of Banking

A well-developed banking sector ensures that the population has sufficient access to banking services. The accessibility is typically expressed by the ratio of bank branches and the number of inhabitants. The figure reflects the overarching situation across each jurisdiction. Certainly the accessibility may vary in different regions of each country, e.g. one may assume that the capital and other major towns allow for higher accessibility. However, a further differentiation was not chosen as these figures just should provide a general nationwide overview.

A fine indicator of the market and in particular the potential access of the population to banking services is given by the number of branches serving every 100 000 people : this figure varies from 4 to 21,5 among MEDA countries (Table 5). These figures are comparatively low taking indications e.g. in European countries into account: in Germany for instance it is 47.6, 63.1 in France and 57.6 in the Euro area. Nonetheless the banking industry is in an emerging process in most of the MEDA countries which may go in hand with higher accessibility in the future unless other channels such as online services substitute the need of agencies to a greater extent.
This indicator shows then a broader banking structure than the single number of banks as an indicator could have illustrated.

Government Ownership

To assess the banking sector in a country it is worth verifying to which extent the State or the government respectively runs or owns a bank. The extent of government activities may have an impact on the competitiveness as well as the services of the banking industry.
This issue is to which extent the banks are commercial banks, also referred to as private banks or whether they are public banks.
This question led to a very diverse picture of MEDA countries. While three jurisdictions indicated that they are no public banks whatsoever, other jurisdictions reported about public banks (Table 6). But even in those jurisdictions with a public banking sector a wide disparity exists to which extent these banks penetrated the whole banking market. In the other six countries the figures vary from 4% to 38% meaning that in none of the countries the state-owned credit institutions stay for the majority in number.

To really determine the government ownership and its market role it is also relevant to indicate whether public banks are larger than the commercial banks in the respective jurisdiction. The lowest percentage is about 27% of all the banking assets. In further two jurisdictions the banking assets accumulate about 30% whereas another two contribute more than 40%, and in one jurisdiction the public banking sector dominates to an extent that it encompasses a maximum of 92% of the deposits and credits (Table 6).

The Competitive Environment

This chapter reflects the competitive environment by indicating the concentration of the banking industry. A high level of concentration may stay for restricted competition, on the other hand these credit institutions may be in a better position to offer a wide range of products and services.

The study comprises the percentage of assets and deposits accounted for by the largest, the three largest and the five largest banks.

Out of the seven jurisdictions which provided figures for the largest bank as regards assets two jurisdictions indicate about 15% another three jurisdictions provide figures or roughly speaking one quarter. Another one quotes 30% and in one country the biggest bank accumulates more than 37% of the assets. This country also provided a figure for the two largest banks which is 56.3%.
Seven jurisdictions, too, indicated the assets for the second threshold, assets of the three largest banks. While four indicated between 36 and 44%, the figures are 60% or above in three jurisdictions going up to three quarter. As concerns the "top five" data is available from eight jurisdictions. In three jurisdictions the figures range between 50 and 60%, one jurisdiction indicated a concentration of the "top five" with an asset percentage of 94%.

As concerns the percentage of deposits the question referred to the "top three" and "top five" only. The seven answers received give a quite diverse picture again. In one jurisdiction the three largest banks only make up 37 ½ % whereas five jurisdictions indicate a majority of assets amounting up to more than 75%. Similar disparities appear when it comes to the top five banks in this field. While all the answers indicate a majority of deposits accounting for the "top five" the figures range all the way from 52 to almost 95%. In the latter case the top five banks are the predominant credit institutions with barely any room left for market share of others. Two jurisdictions did not quote figures for the "top five" but for the eight largest and ten largest banks respectively (Table 7).

Measured by the Herfindhal-Hirschman Index (sum of squared market shares of individual banks' assets) the banking industry shows a relatively low concentration (Table 7).

Foreign Involvement in Banking

Both market concentration and share of state-run banks are good indicators for the banking sector. As mentioned before it may be worth knowing to which extent the banks are domiciled in the respective jurisdiction or are from abroad to complete the picture. However, the domicile alone does not express the actual ownership so the question aiming to measure foreign involvement focuses on the percentage of banks which are foreign-owned as well as the share of foreign ownership in terms of bank assets.

In all jurisdictions foreign-owned banks are the minority so that the market is predominantly domestic. However the participation varies a lot. In one jurisdiction the number of foreign banks is almost half of the total amount while the lowest number is 7.7% only (Table 8).

Apart from the absolute number, it is also worth reflecting the actual bank assets that are foreign-owned as a sheer number of foreign banks do not indicate their market share in a country. In that concern it is remarkable that six respondents indicated a lower threshold in terms of banking assets compared to the sole number of banks. In most of these countries the actual banking assets are roughly speaking only one third of the percentage of banks. That may indicate that foreign banks have a lower market share than domestic-owned ones. Only in one country the amount of banking assets (compared to the total) exceeds the percentage of foreign-owned banks giving those banks a comparatively high market share. However, since this jurisdiction is the one with the lowest level of foreign-owned banks (7.7%), the percentage of bank assets is below one fifth of the total amount.

Permissible Powers of Banks

Depending on the supervisory context and framework credit institutions are allowed a different range of activities. A jurisdiction may opt for universal banking allowing a wide range of financial services while it may also restrict the banks to particular fields of duty. The framework would regulate whether the banks shall carry out classical banking services only or also go across this segment and also offer insurance activities or real estate services. If that was the case the regulator must take the wider field of operation into account since the bank would then for instance also act like an insurance undertaking. Nonetheless even in case of separation between banking and insurance companies the bank may also engage in an insurance undertaking e.g. by acquiring voting rights unless there is a further restriction not to engage likewise.

The answers reflect a wide range of different regulatory approaches.

As concerns the first question whether banks are allowed to carry out securities activities such as underwriting, dealing and brokerage services for securities and mutual funds the respondents gave all sorts of possible answers. Two jurisdictions stated unrestricted activities whereas two others declared that those activities are prohibited. The other five jurisdictions indicated that those activities were more or less permitted. The answers just aim to get a general overview so that it cannot be specified to which extent permitted activities differ from unrestricted ones. The notion permitted may however imply that a bank must take other factors into consideration while executing services in this field while this compliance test seems more remote in a fully unrestricted environment.

The second question deals with insurance activities such as underwriting and selling of all kinds of insurance polices and acting as a principal or agent. Three respondents gave an affirmative answer that this business is permitted. Three jurisdictions allow for these services in a restricted manner only. In one jurisdiction a bank is prohibited from carrying out this business. Another jurisdiction differentiates: while carrying out insurance activities as an agent is restricted, it is prohibited to carry these services out as a principal.

The third question on real estate services led to all sorts of answers again. One jurisdiction offers the option of unrestricted operating in real estate services, another two jurisdictions permit this business. Three jurisdictions take a restricted approach towards carrying out this business. In two states this business is prohibited for banks (Table 9).

Ownership Opportunities

How do credit institutions interact with companies of non-financial background? This question touches both the extent to which banks may participate in non-financial firms and on the other hand also whether such firms may hold a share in banks.

Two jurisdictions explicitly stated that banks are not allowed to own any non-financial firms. Another jurisdiction makes a distinction between conventional and Islamic banks. While conventional banks are not allowed to do so, Islamic banks may own such firms as this is required in order to operate in line with Islamic banking principles. The other jurisdictions take per se a more open approach towards ownership opportunities. However, the applicable rules and regulations set certain limits for this kind of ownership. Four of these jurisdictions apply limits according to certain thresholds such as a percentage in relation to the bank's funds.

The other way round four jurisdictions allow non-financial firms to engage and own banks without any further restrictions. One jurisdiction requires non-financial firms to totally refrain from ownership in banks. The remaining four jurisdictions give a basically affirmative but conditional answer. In these jurisdictions the ownership is restricted, e.g. two of these jurisdictions foresee an approval by the supervisory institution.

Rating of Banks

Significant banks which play a vital market role and are active in the international arena are often rated by international credit rating agencies. A rating may be of high relevance to assess an institution and its solvency. For an international exposure it therefore matters whether the major banks have got a rating.

In one jurisdiction all the ten biggest banks are rated by at least one international rating agency. Seven other respondents indicated that two to six banks have been rated in their jurisdiction.

3. Conclusion

All countries are well aware of the importance of modernizing their financial sectors and have been implementing reforms for some time, with encouraging results.

Essential Banking laws and regulations are now in place in most countries of the region and Central Banks are upgrading their oversight capacity. Management systems are becoming more and more sophisticated and often include enhanced risk-based supervision functions procedures, with related manuals for supervision and training of staff. Bank Corporate governance as well as regulatory compliance with capital adequacy ratios have significantly improved as a result of staff better prepared to carry out their newly introduced or strengthened obligations.

Despite progress and a number of successful reforms, several challenges remain and need to be addressed to prepare the banking industry. Some of the necessary reforms would also facilitate financial integration in the region accommodating the envisaged free trade:

- Strengthen the soundness of the banking systems in all countries. In particular it is important to reduce the high level of non performing loans, to restructure state-owned banks, and to secure compliance with prudential rules ;
- Increase competition in the banking system. Notably, extensive state ownership and restrictions on foreign bank entry stifle competition and financial deepening in the region; opening up the banking sector for commercial banks both for domestic credit institutions and those abroad is a solution ;
- Deepen the financial markets where they are bank-dominated. Financial markets (money, interbank, foreign exchange, equity, and securities markets) are nascent or shallow in most countries, and nonbank financial institutions are generally underdeveloped ;
- Upgrade financial sector infrastructure. In particular, accounting and auditing practices, transparency and corporate governance, the legal and judicial framework, and the payment systems need to be strengthened.

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Tables

Table 1. Gross national income (GNI) per capita, PPP (current international USD)

	2000	2005	2006	2007	2007/2000 (%)
Algeria	5 130	6 820	7 140	7 640	49
Egypt	6 886	8 638	9 262	9 852	43
Israel	18 890	22 610	24 310	25 930	37
Jordan	3 270	4 480	4 850	5 160	58
Lebanon	7 530	9 480	9 610	10 050	33
Morocco	2 560	3 520	3 860	3 990	56
Syria	3 150	3 880	4 110	4 370	39
Tunisia	4 600	6 080	6 640	7 130	55
Turkey	8 600	10 250	11 390	12 350	44
Euro area	25 007	29 442	31 029	32 508	30
France	26 390	30 830	32 230	33 600	27
Germany	25 670	30 540	32 120	33 530	31

Source : World Bank

Table 2. Indicators of financial development

	Domestic credit provided by banking sector (% of GDP)		Domestic credit to private sector (% of GDP)	
	1995	**2006**	**1995**	**2006**
Algeria	45	na	5	12
Egypt	81	99	37	55
Israel	78	76	65	89
Jordan	89	116	75	98
Lebanon	52	196	55	78
Morocco	79	78	48	58
Syria	48	33	11	15
Tunisia	71	71	68	64
Turkey	20	46	14	26

Source : WDI (World Bank)

Table 3. Banks

end 2008	Banks owned by the state (partly or totally) : number	National private banks : number	Partially or totally foreign banks : number	Total
Algeria	6	2	11	19
Egypt	6	27	7	40
Israel	1	4	5	10
Jordan	0	15	8	23
Lebanon	0	54	10	64
Morocco	5	6	5	16
Palestinian Authority	0	10	11	21
Tunisia	10	4	11	25
Turkey	8	19	23	50
France	1	129	161	291

Source : MEDA countries and CECEI report 2008 for France

Table 4. Banking assets

	Banking assets as a percent of GDP	Banking system assets as a percent of total financial system assets*
	2007	**2007**
Algeria	69.3	na
Egypt	121.0**	55.0**
Israel	145.0	40,7
Jordan	239.9	na
Lebanon	362.0	75.7
Morocco	106.0	55.0
Palestinian Authority	180.0	na
Tunisia	92.0	86.4
Turkey	67.9	75.7

** : as measured by the sum of banking system assets, stock market capitalization, and bonds outstanding*

*** : as of June 2008*

Source : MEDA countries

Table 5. Measure of the accessibility of banking to the population: average number of branches serving every 100,000 people (2008)

Algeria	4.0
Egypt	4.3
Israel	15.0
Jordan	9.7
Lebanon	21.5
Morocco	14.9
Palestinian Authority	5.2
Tunisia	10.6
Turkey	11.5
Euro Area	57,6
France	63.1
Germany	47.6

Source : MEDA countries and ECB

Table 6. State presence in the banking market (%)

end 2008	Part of banks owned by government	Part of banking assets owned by government
Algeria	38	90*
Egypt	15	47
Israel	4	30
Jordan	0	0
Lebanon	0	0
Morocco	24	27
Palestinian Authority	0	0
Tunisia	25	41
Turkey	14	30

Source : MEDA countries

** : deposits and credits*

Table 7. The competitive environment

	Percent of assets accounted for by the largest bank	Percent of assets accounted for by the 3 largest banks	Percent of assets accounted for by the 5 largest banks	Percent of deposits accounted for by the top 3 banks	Percent of deposits accounted for by the top 5 banks	Measure of market concentration by the Herfindahl-Hirschman Index
Algeria	37.7	na	na	na	na	na
Egypt	22.9	43.4	52.6	43.4	52.8	na
Israel	30.0	75.7	94.0	75.7	94.8	0.22
Jordan	23.6	46.3	58.9	50.5	62.3	na
Lebanon	14.7	37.6	53.8	37.4	51.8	na
Morocco	25.7	63.4	81.1	67.0	83.3	0.17
Palestinian Authority	na	60.0	80.0	65.0	79.0	na
Tunisia	14.9	43.2	61.4	44.8	63.3	0.1
Turkey	na	na	59.8	na	62.2	0.088*
Euro area			54.7			0.1006
France			51.8			0.0679
Germany			22.0			0.0183

Source : MEDA countries and ECB "EU banking structures" October 2008

Table 8. Measure of foreign involvement in banking

2008	Percent of banks that are foreign-owned	Percent of bank assets that are foreign-owned
Algeria	57.8	8*
Egypt	17.5	6.5
Israel	7.7	17.8
Jordan	34.8	11.2
Lebanon	15.6	4.3
Morocco	31.3	21.7
Palestinian Authority	52.4	52.0
Tunisia	35.0	27.6
Turkey	46.0	14.0
France	55.3	10.9

Source : MEDA countries and CECEI for France

** : estimate*

Table 9. Permissible powers of banks

	Algeria	Egypt	Israel	Jordan	Libanon	Morocco	Palestinian Authority	Tunisia	Turkey
Securities activities (underwriting, dealing, and brokerage services for securities and mutual funds)									
Unrestricted	x				x				
Permitted		x	x	x		x			x
Restricted			x*						
Prohibited							x	x	
Insurance activities (underwriting and selling all kinds of insurance, and acting as a principal or agent)									
Unrestricted									
Permitted				x	x				x
Restricted	x**		x***			x		x	
Prohibited		x					x		
Real estate services (investment, development, and management)									
Unrestricted	x								
Permitted		x		x					
Restricted					x			x	x
Prohibited			x			x	x		

** : mutual funds*

*** : maisons mères des filiales (agrément)*

**** : agent : restricted, principal : prohibited*

Source : MEDA countries