



The Tunisian Banking Market: More competition for more inclusiveness

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ASECTU assumes no responsibility, and the views expressed are solely those of the author.

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Key Messages

Dominant but underperforming: Banks finance ~90% of private investment yet deliver weak growth, jobs, and inclusion.

Profit-growth disconnect: Tripling bank profits since 2010 alongside ~1% growth signals failed financial intermediation.

Exclusionary model: Collateral- and connection-based lending sidelines SMEs, start-ups, and youth entrepreneurs.

Window of opportunity: High bank profitability makes reform timely, costless, and compatible with financial stability (safety).

Illusion of competition: Despite moderate concentration, common ownership, uniform pricing, and stable market shares reflect weak competition.

Policy implication: Stronger competition—not new state programs—is the key to inclusive finance, higher efficiency, and sustainable growth.

Clear reform levers: Tighten supervision, reduce NPLs, empower competition authorities, ease entry, enhance transparency, and enforce anti-collusion rules.

CONTEXT

The Tunisian economy, as many emerging market economies, is an indirect finance-based economy where banks fund, on average, almost 90 percent of private sector’s investments.ⁱ By 2020, domestic credits to the private sector represent more than 115 percent of the real GDP against 66 percent in 2010.ⁱⁱ (147.4 percent is the World’s average). The Tunisian Banking system is composed of off-shore banks and in-shore banks. By 2020 the latter group of 35 financial institutions is composed of several categories of banks; i.e., commercial banks (23), leasing companies (08), business banks (02) and factoring companies (02).

Between 2010 and 2022 the number of commercial banksⁱⁱⁱ has increased from 21 to 23 banks. During the same period the number of bank branches in Tunisia has substantially increased from 1348 in 2010 to 1964 in 2020 (+45 percent). More than 86 percent of these branches are established in the coastal area. According to the World Bank (WB) data, by 2020, the number of bank branches per 100,000 adults in Tunisia is 22.3, while it is 10.8 in the World and 13.4 in MENA region. Recall that in 2010 the number of branchers per 100,000 adults in Tunisia was 16.4.

Throughout the period between 2000 and 2020, the banking sector has been able to continuously increase its total profits despite the entry of nine news banking firms during the same period.

Since the outbreak of the Arab Spring uprising in late 2010, there has been a peculiar development featuring the Tunisian economy as a whole and the financial system in particular. This development is illustrated by an increase, between 2010 and 2022, of the total profits of banks by more than threefold in a context of an economy growing, on average, at the very low rate of 1.2 percent during the same period.^{iv} This situation of a highly performing financial system that is not visibly contributing in expanding the wealth pie of the society can be described as perverse and illustrates a symptom of malfunctioning and significant distortions in the financial industry. I can assert that Tunisian banks performance has neither been driven by, or contributed to, the economy and, particularly, the private sector.

Clearly, the incentive system and the regulatory framework of the Tunisian financial system are distorted to the level to become “tyrannical” and it is time to debate these questions in order to remove the clogs.

Banks Total Profits (in thousands of Tunisian dinars)

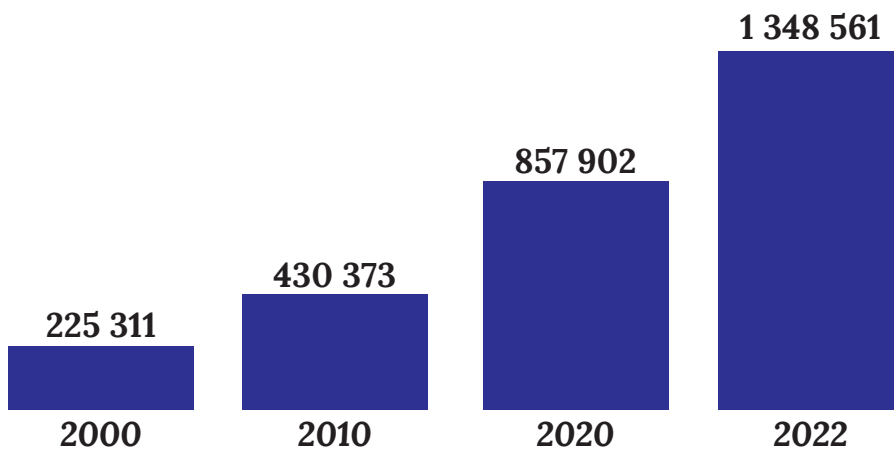


Figure 1. Tunisian Banks Total Profits

Source: APBT annual reports.

CAN COMPETITION BE A SOLUTION?

Obviously, the banking sector is benefiting from the economy without the economy, as a whole, being visibly benefiting from it. In a 2015 country report, based on several economic and demographic factors, IMF economists report that since 1993 bank credits to the Tunisian private sector have always been below their potentials. The difference between the actual and potential levels has been widening ever since.

It appears very clear that the banking reforms that accompanied the Structural Adjustment Program (SAP) adopted by the government in 1986 and led towards further liberalization of the Tunisian economy have failed to provide sufficient incentives to the banking system to achieve its potentials in funding the economy.

The question is then: Why the Tunisian banking sector is still unable/unwilling to finance sufficiently the private sector and the economy, notably its largest components; i.e., the SMEs and young entrepreneurs, despite the multiple government measures that have been implemented since the late 1990s?

This policy brief will focus on the supply-side of the banking market and suggest some solutions to boost the contribution of the financial intermediaries in the Tunisian economy. Needless to say, that the demand-side of the financial market has also its share in the problem too (ex: adequate bankruptcy laws).

Since many years Tunisian policymakers have implemented several policies and measures with the aim to enhance the access of the SMEs and young entrepreneurs to financial services. These businesses represent the largest component of the economy (99 percent of total number of firms^v) are traditionally lacking sufficient capital or registered real estate-based collaterals to back up their loan solicitations and, consequently, find themselves marginalized by the financial system.

In order to remedy the lack of finance for small and medium businesses, the government has established since the late 1990s the government has established two banks; named the Banque Tunisienne de Solidarité (BTS) and the Banque de Financement des Petites et Moyennes Entreprises (BFPME). These banks have the purpose to provide credits to young entrepreneurs and SMEs, respectively. Nevertheless, these government initiatives have not been sufficient to change the status-quo and improve the accessibility and the quality of the financial services to the largest portion of the economy. Moreover, the establishment of these new state-owned-banks have not succeeded in intensifying the competitiveness in the banking market by encouraging other banks to change their connection-based business model and advance to a modern and more economically efficient model. The high youth unemployment is a clear and strong evidence that the BTS and the BFPME did not reach the goals they were devised for; in fact, these banks not only could not provide financial services significantly different than the other traditional banks, but also, they suffered the bureaucracy burden that any other state-owned institution could endure.

The business model of a banking firm in Tunisia is old^{vi} and based quasi-exclusively on collaterals-backed-lending. This model is no longer able to respond positively to the most dynamic and creative groups of the society; namely: young entrepreneurs, Start-ups and SMEs. These businesses can greatly meet the needs of the economy in job creations and growth. The current Tunisian banking model's time has, clearly, expired and no longer fit to the contemporary needs of the economy. A new banking model embracing more creativity, innovation and inclusiveness should replace it.

After the failure of most policymakers' actions, it is then unquestionable that the banking model would not change by the simple good intentions of the government and/or bank management and ownership but by a new set of incentives. These incentives have to be market- based and not only state-based this time. It can be asserted that it is only the invisible hand of the market that would carry out the desired change that government-based incentives have failed to achieve, so far. Allowing further competition in the banking sector is the only way to initiate a process of more inclusiveness and economic effectiveness in a market that's been so far excessively rewarding for banks and their connected-firms. As long as the actual situation of the market is beneficial to the existing financial institutions, any government measure beside competition aiming to expand credits to other segments of the society is doomed to fail.

It is worth mentioning that, outwardly, the Tunisian banking market appears sufficiently diffuse. In fact, in the last twenty years the concentration of the three largest banks (CR3) has decreased from 46.2 percent in 2000 to 38.9 percent in 2010 and it did not change significantly since then. The Herfindahl-Hirschman index (HHI) has been also decreasing from 0.11 in 2000 to 0.09 in 2010 and to 0.08 in 2020. With respect to international data, CR3 and the HHI averages are around 67 percent and 0.17 respectively.^{vii} These figures show that the Tunisian banking market is, apparently, not very concentrated around few dominant banks. Nevertheless, these figures should be interpreted more cautiously since the HHI and CR3 , as market structure indicators, assume that firms are independent from one another; in fact, many Tunisian banks have common shareholders which make them connected in one way or another (OECD 2023). Despite the absence of few dominating banks in the market, most researchers and professionals do agree that the competitiveness among Tunisian financial institutions is very weak. The following evidence support this argument:

- ★ **The weak financial deepening of the financial system:** the incapacity of the banking sector to achieve its potentials in terms of credits to the private sector points out the weak competitiveness among banks. Moreover, the access to other financial services from the average citizen is still hurdled; according the World Bank (WB) data by 2021 only 40 percent of the population aged 25+ owns a bank account at a financial institution (since 2017 this share did not progress), while it is 80 percent in the World, 57.5 percent in MENA and 68 percent in Uganda.
- ★ **The extreme resemblances of credit costs between banks:** according to the central bank of Tunisia's annual report on banking supervision^{viii} the dispersion of the cost of loans to borrowers (as exhibited by the *taux effectif global* or TEG) is very low for several categories of credits – in fact, the costs of the consumption-, short-, medium- and long- term credits are very similar among a majority of banks in the system, while the difference between the maximum and minimum costs of housing mortgages is barely 1.4 points of percentages.
- ★ **The quasi-lack of credits at fixed interest rates:** The review of the latest disclosed banks' maximum interest rates to be applied for each category of loans (Conditions de Banques) show that for most of these credits the nominal interest rates are variable and based on the monetary market average rate, TMM.
- ★ **The absence of market dynamism through merger and acquisition operations:** Since the merger of three public banks; namely the STB, BNDT and BDET, conducted by the government in the early 2000s, there has never been any other merger operation in the banking sector. Because an intensive competition in the banking market is usually accompanied by mergers among some banks looking to foster their position in the market, the lack of such operations is regarded as a sign of a weak competition. According to the Committee on the Global Financial System (2018) concentration in the banking

industry has increased worldwide after the Global Financial Crisis of 2007-2008.^{ix} This trend that featured financial industries worldwide did not happen in Tunisia. Even the shock of the Arab Spring could not trigger any significant change in the Tunisian banking market.

Despite being not highly concentrated around few large banks, as it is the case in many countries in the world, the above-mentioned facts divulge that the competitiveness of the Tunisian banking market is very weak revealing, hence, a market of segmented monopolies. Clearly, Tunisian banks concentrate their lending activity on a group of traditional clients (connected- lending^x) and, seemingly, are not sufficiently motivated to expand their customers' clusters. The observation of the evolvement of the market shares of deposit banks that were active between 2000 and 2022 uncovers a quasi-stability of the market structure (see table 1 in annex 1). This finding is questionable, to say the least.^{xi}

Though, this study lacks the microdata to confirm it statistically, but since most Tunisian banks belong to large private conglomerates I can assert that the resources they are collecting are channeled principally (and discriminately) to companies related to the conglomerate's main- shareholder(s); in fact, according to some press reports, by 2021, thirteen of the richest twenty Tunisian businessmen/families have significant equity participations in many local banks.^{xii} Moreover, between 2012 and 2020 , the amount of credits granted to the 10 largest private sector's conglomerates has represented, on average, more than 117 percent of total banks' tier-1 capital;^{xiii} such a substantial share leaves a little room for any banker openness to other businesses and, hence, to more competition.

Needless to say, that with regard to other industries the banking industry is very unique because of its inherent sensitive and risky business model. It is natural, therefore, that countries regulate this market and put some requirements before allowing firms to enter, or continue to exist in, it. Since "competition" is usually put in contrast to "financial stability", some policymakers would, at the expense of efficiency, tolerate low competitiveness in the banking market in order to avoid financial distress.

From the analysis above it can be argued that Tunisian policymakers, principally the central bank of Tunisia (BCT); the main government watchdog of the financial system, are, purposely, tolerating the weak competitiveness of the banking market, and that at the detriment of efficiency. This dosage between competition and financial stability is not effective anymore and has to be rebalanced in order to be more productive for the economy. The low accessibility and quality of the financial services indicate that there is still room for more exposure of the Tunisian financial industry to further competitiveness in order to drive bankers to more efficient contribution in the economy. It is worth mentioning that the empirical literature is rich of studies showing that competition can reinforce financial stability. They point out that policies and regulations that ease competition can lower banking system fragility.^{xiv xv}

The transition to a more competitive banking market can, indeed, be straightforward and realizable if Tunisian policymakers (principally the BCT) can have the necessary audacity and organization to accomplish it till the end, and that for numerous reasons: First, the timing; there is almost a consensus among the involved parties that the economic model, featuring the Tunisian economy since the 1970s and based on state-patronizing-industries, is no longer viable and productive and there is a pressing obligation to progress to a more efficient one. As in developed economies, this aspired model can be produced only by competitive markets. Second, costlessness; the intensification of the banking competition is almost costless for the government since it does not require the investment of taxpayers' money on new projects a la BTS and BFPME that have already proved their inefficacy. Thirdly, safety; policymakers have enough leeway to allow further

competitiveness in the banking market without worrying about financial stability concerns, especially in these times of large banking profits. Moreover, this transition to more competition, as it will be explained below, should be gradual and intertwined with a strengthening of the regulatory framework. These financial safeguards are essential to, avoid any undesired setbacks and, strengthen the policymakers' confidence in the process – in this regard, the Japanese experience in the late 1990s is inspirational.

IMPLEMENTATION

In order to stimulate the competitiveness in the banking market and incite, consequently, the financial institutions to contribute more efficiently in the economy several actions should be taken by policymakers; namely the executive government and the central bank. I, hence, suggest the following scheme:

Firstly, and most importantly, Tunisian policymakers should accept the idea that competition, in general, is a driver of growth and efficiency in the economy. An entire state of mind should change, accordingly. The model of State-patronizing-industries (corporations) has shown its inefficacy and should be progressively abolished by easing access to the banking market and ending with the systemic toleration of anti-competitive practices. In this regard, the Competition Council should be empowered by the reinforcement of its prerogatives and its technical capacities in order to be able to, investigate the anti-competitive practices in the naturally complicated financial industry and, indict wrongdoers.

Secondly, some regulatory reforms are needed to enhance competition among banks and financial institutions. The following regulatory reforms can be suggested: firstly, the current legislative setting should be reinforced by involving the Competition Council (Conseil de la Concurrence) in chartering banks and approving mergers alongside the BCT and be consulted by the central bank before introducing new regulations. The current limited cooperation between these two institutions obstructs the ability of the competition authority to prevent anti-competitive practices (OECD 2013).^{xvi} Secondly, reforming the regulations and rules of the bankers' professional association (Conseil Bancaire et Financier, CBF) to avoid any potential misconduct in its various missions. As suggested by OECD (2023) report this regulatory adjustment can start by removing Article 34 of Circular No. 1991-22 that requires that new fees should be subject to consultation within the association's members. Thirdly, requiring that an agent representing the central bank and the competition council be present at all meetings by the CBF members and report the minutes of these meetings to their respective authorities. Such a measure could weaken any attempt of coordination and/or information sharing between banks. According to OECD (2023) there are well-founded evidence that the association was, for a long time, a platform for anti- competitive practices and opaque agreements between its members.

In general, the role of professional corporations in Tunisia, not only in the banking sectors but also in all other sectors should be debated and thought of, carefully so the necessary reforms can be introduced to eliminate all loopholes that allow to these associations to be platforms of commercial coordination and collusive practices among their members.

Thirdly, the banking supervision framework should be reinforced and the regulatory leniency that is characterizing it for so many years should stop.^{xvii} In fact, before introducing more competition in the market it is necessary to clean up the balance sheet of banks from the burden of non-performing loans (NPLs). Throughout the period (2010 – 2020) the share of NPLs in total lending has been all the time above than the

critical level of 10 percent.^{xviii} ^{xix}The BCT, as the main banking supervisor, should follow a more stringent policy and request banks to reduce the percentage of their NPLs to levels below 7 percent. Such a program can be implemented throughout a period ranging between 3 and 5 years, depending on the size of each bank (example: 3 years for large banks and 5 years for small banks).

Fourthly, strengthening the regulatory environment by introducing the Prompt Corrective Action framework (PCA) in order to release the banking supervisor from any potential political or economic pressure. The PCA is an objective information-based procedures of authorities' intervention aiming to increase bankers' discipline by limiting their anticipations regarding regulatory forbearance.

Also, the BCT should enforce existing regulations on risk-concentration prudential norm of 25 percent (Article 51 of Circular No 2018-6). There is a laxity in enforcing this regulation on the part of the BCT especially when the situation involves state-owned banks and state-owned companies. The BCT should assess how effective the current regulatory weight given to any violation of this regulatory norm in total risk calculation.^{xx} Stringent application of the credit concentration norms would, not only consolidate the stability of the financial system, but also release the banks from being, principally, credit suppliers to industrial groups connected to their board members and/or related by common shareholders.

Fifthly, strengthening the contestability of the banking market by easing further the access of potential entrants. It is time to start debating the idea of introducing other types of banks and financial firms such as cooperative banks in the financial system. This type of non-profit institutions should be owned by individuals and businesses of their respective communities, and can still collect deposits like any other bank. Their entrance to the business of finance can intensify the competition and produce more financial services accessibility to those entities that have been so far marginalized by the traditional banking system like small businesses and SMEs. Banking market contestability can, additionally, be fostered by deregulating further financial services market in order to mitigate the financial repression that characterizes Tunisian financial markets since a longtime and that has no rational reason to continue in a time of an increasingly liberalized economy. Financial repression can only cripple banking competition and perpetuate the socially ineffective rentier capitalism. This deregulation can start by a liberalization of the interest rate on savings accounts; the regulation of this interest rate while the credit market's interest rate is liberalized is an important distortion in the banking market that can only produce more inequality and less inclusiveness in the society. Such a relatively significant reform would certainly stir competition and financial innovations, energize private savings and improve the allocation of financial resources in the economy.

Sixthly, introducing more transparency to the market by publishing continuously and in a regular basis the loan costs and commission fees of each bank in the market. Recall, that the cost of loans is published by the BCT in its banking supervision annual report but in a yearly frequency and anonymously (sic) without disclosing the names of the banks. Such transparency would reduce the information asymmetry between bankers and customers and boost the competitiveness in the banking market.

Market transparency can, also, be boosted by the establishment of an independent organization that aims to defend the interests of financial services' consumers. This organization should have the necessary independence and technical capacity to analyze a complicated sector like the banking industry and inform the public. Such a consumer watchdog would enhance transparency and intensify the competition. Funding such an organization directly by the Parliament would certainly shield it from any governmental influence that might weaken its role in serving financial services' customers.

Seventhly, provide more resources to the public prosecutor to investigate more effectively the anti-competition practices that might happen following coordination attempts between banks. Despite the very advanced banking governance regulations, there are some credible studies that report informal coordination and the sharing of sensitive commercial information between Tunisian banks (OECD 2023). Only serious investigation and indictments can stop these collusive practices.

Eighthly, the intensification of the competition in the market would certainly produce mergers among banks, hence, boosting their equity and stable resources. The resulting financial consolidation would reduce the reliance of the banking sector on BCT’s refinancing and produce more diverse and competing products in the market such as more fixed-interest rate lending.

In conclusion, I should recall that such a drastic intention to introduce more competitiveness in the banking sector would necessarily have its opponents especially among those who are benefiting from the current status-quo. This initiative needs strong courage from the policymakers who should be conscious about abnormality of the current situation and its gravity. These policymakers are supposed to seek to maximize the society’s welfare and not only the welfare of a small number of individuals who are profiting from favoring rent-seeking regulations.

Annex 1.

Table 1. Banks market shares based in total assets (%)

Banks	2022	2020	2010	2000
BIAT	15,4	15,3	13	11,7
BNA	14,1	12,3	12,5	14,9
STB	10,7	10,5	13,4	19,6
BH	10	10,5	10,5	11,1
Attij. BK	8	8,3	7,7	7,4
Amen BK	7,6	7.9	9.6	8.1
ATB	5,7	6.3	8.0	5.0
UIB	5,3	5.5	5.6	7.9
BT	5,3	5,4	6.3	6.4
UBCI	3,1	3	4.4	5.3
BTS	1,3	1.4	1.2	0.5
CITIBANK	0,7	0.6	1.0	2.1

Source: author’s calculations

REFERENCES

ⁱ Conseil du Marché Financier Annual Report 2020.

ⁱⁱ Institut National de la Statistique:

ⁱⁱⁱ By commercial banks it is meant in-shore banks.

^{iv} At the time of the writing of this policy brief, by the first semester of 2022 most banks reports large increases of the of their yearly profits. Some could even double them.

^v Institut National de la Statistique, 2020.

^{vi} The word “old” was a description of the IMF economists in their Country Report No. 15/285

^{vii} Calice, P., Leonida, L., & Muzzupappa, E. (2021). Concentration-stability vs concentration- fragility. New cross-country evidence. *Journal of International Financial Markets, Institutions and Money*, 74, 101411.

^{viii} Rapport Annuel sur la Supervision Bancaire 2020 (Banking Supervisory Annual Report 2020), by the Central Bank of Tunisia.

^{ix} Committee on the Global Financial System, 2018. “Structural Trends in Banking after the Crisis”. CGFS Paper 60.

^x IMF Country Report No. 15/285

^{xi} Suspicions about the existence of anti-competition practices in the banking industry are even raised by many observers of the market. The striking similarities of the loan costs (TEGs) (notably the maximum interest rates posted by banks) and the quasi-stability of market shares in the last twenty years can reinforce the reliability of these claims.

^{xii} <https://billionaires.africa/the-richest-people-on-the-tunis-stock-exchange/>

^{xiii} Rapport Annuel sur la Supervision Bancaire 2020 (Banking Supervisory Annual Report 2020), by the central bank of Tunisia.

^{xiv} Allen, Franklin, Gale, Douglas, 2000. Comparing Financial Systems. MIT Press, Cambridge, MA.

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^{xvii} Guizani, B. (2015). Capital requirements, banking supervision and lending behavior: evidence from Tunisia. Middle East Development Journal, 7(2), 175-194.

^{xviii} The percentage of NPLs in total lending was on average 14.5 percent during (2010 – 2020).

^{xix} Demirgüç-Kunt, A., & Detragiache, E. (2002) say “*a country is in a systemic banking crisis if NPLs top 10 percent*”

^{xx} Any violation of the concentration norms is reflected by a weight of 300 percent to the excess of credits in the calculation of the total bank risk.

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