MENA Banking Sector; Regulation and Performance

A Data Envelopment Analysis on Total Factor Productivity Changes

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The reoccurrence of financial crisis has drawn attention towards the feasibility of the repeated regulations and reforms in the banking industry. This study examines the impact of regulation on banks' productivity and performance in the Middle East and North Africa (MENA) region. The MENA banks' performance assessment shows high correlations between banks’ performance and economic conditions of Gross Domestic Product (GDP), Consumer Price Index (CPI-inflation), political stability and economic freedom. However, the extent of correlation becomes limited when examining the impact of bank regulatory changes of capital requirements, supervisory powers, and market discipline and activity restrictions on bank performance. Hence, implementing regulation in MENA should significantly consider operational risk and practices of private monitoring in addition to the Counter Party Credit-Risk management through credit valuation adjustment (CVA). CVA increases banks’ charges on risk-weighted assets, which leads to a decreasing MENA banks' profitability especially the single industry reliant banks that still operate in an increasingly non-stable area.

JEL classification; C33, G21, G28

Keywords; Bank regulation, Supervision, Productivity and performance, MENA

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