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THE ENTRY OF FOREIGN BANKS IN ETHIOPIAN BANKING INDUSTRIES: THE GOVERNMENT'S EXPECTATION AND ITS EFFECT ON DOMESTIC BANKS

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Abstract
The Ethiopian government has opened up the domestic banking industry to foreign banks, which is expected to bring innovation and competition in the sector. This study considers 15(60%) commercial banks operating in Ethiopia, including the government-owned Commercial Bank of Ethiopia. This study aims to explore the government's expectations for the entry of foreign banks and their potential effects on domestic banks. It also considers the challenges faced by domestic banks, the advantages of technology, the high managerial skills and credit monitoring practices of foreign banks over domestic banks. The study employed both qualitative and quantitative approaches. Primary data were collected using a structured questionnaire, and secondary data were examined from published and unpublished documents and magazines. Descriptive statistics were used to analyze the data. The findings suggest that foreign bank entry will bring both opportunities and challenges to the domestic banking sector, including increased competition, a potential loss of market share, and possible advantages in technology and financial expertise. To promote the long-term growth and stability of the banking sector, the government may need to implement targeted policies and regulations that support fair competition and protect the interests of domestic banks. Overall, this research provides valuable insights into the Ethiopian banking industry and may help policymakers, stakeholders, and local banks about how best to navigate the changing landscape.

Keywords: Ethiopia, Competition, Foreign Bank.

1 Introduction
Financial liberalization gained momentum in the 1980s and triggered a major change in the financial systems of developing countries (Abdullahi Dahir Ahmed and Sardar M.N. Islam, 2013). The liberalization process was characterized by two categories: external liberalization, which aimed to eliminate controls on inflows and outflows of foreign capital and promote the presence of foreign banks; and domestic liberalization, which aimed to liberalize the interest rate, increase capital markets, and grant credit under more flexible conditions (Fathi, Bouzidi, 2010). The entry of foreign banks into developing countries is part of external financial liberalization and is expected to encourage the establishment of foreign banks by removing entry barriers. This solution is beneficial for countries with insufficient domestic financial savings that struggle to attract foreign capital for economic growth (Fathi, Bouzidi, 2010). The globalization of the banking industry is a contentious issue in both theoretical and empirical studies. While foreign banks may create competitive pressures that catalyze efficiency, stability, and innovation and regulate other institutional frameworks in developing nations, they also pose potential risks (Claessens, 2006; Goldberg, 2007; Lensink/Hermes, 2004).

1.2 Statement of the problem
While some East African countries like Djibouti, Somalia, and Eritrea have closed their doors to foreign banks, Ethiopia has recently allowed foreign banks to enter its market. For many years, the Ethiopian financial sector was not restructured, which prevented the domestic banking sector from competing in the global marketplace. As a result, the performance of the domestic banking sector

remained constrained in the local market. For more than fifty years, the Ethiopian government closed its doors to foreign banks due to concerns about tough competition. However, over the past few years, many overseas banks have set up representative offices and have already started exploring opportunities in the Ethiopian banking industry. Following the Council of Ministers' approval of the banking open-up policy and strategy in early September 2022, some foreign banks are now considering making investments in Ethiopia. The long-awaited policy is expected to attract foreign investment and enhance competition within the Ethiopian banking industry.

This paper explores the impact of the entry of foreign banks in the Ethiopian banking industry, the government's expectations and its effect on the domestic banks running in Ethiopia. Specifically, the paper aims to examine the government's intentions in allowing foreign banks to operate in the domestic market, the effects of foreign banks on the domestic banking sector and the overall economy in Ethiopia. The paper will also provide recommendations for policymakers and stakeholders to ensure a successful integration of foreign banks in the Ethiopian banking system.

1.3 Objectives

This study has two objectives: the general objective and the specific objectives as follows:

1.3.1 General Objective

The general objective of the study is examining government expectation and its impact on domestic banks upon introducing the foreign banks into Ethiopian local market.

1.3.2 Specific Objectives

1. Examine government expectation up on the entry of foreign banks in Ethiopia.
2. Exploring the effect of foreign banks on the performance of domestic bank in Ethiopia
3. Assess the potential efficiency reforms of domestic banks in Ethiopia.

Ethiopia has introduced a Homegrown Economic Reform Agenda called "A Pathway to Prosperity" in 2021. The agenda aims to achieve macroeconomic stability, balance the roles of the public and private sectors, and tap into new growth opportunities.

Enhancing financial sector development and developing capital markets in Ethiopia.

Improving financial intermediation and releasing the potential of the financial sector to support economic growth requires easing repressive financial sector policies and facilitating market-based determination of interest rates and allocation of funds.

To rebalance the roles of the public and private sectors, a modern financial system is crucial. Developing bond and stock markets creates investment opportunities for pension funds and other investors, while also offering a funding source for long-term projects. Interbank money market enables banks to lend each other during short-term liquidity challenges. Interest rates in these markets can serve as anchors for monetary policy, aiding the shift to an interest-rate-based framework. Reforms include repealing the requirement for banks to invest in NBE bills with low returns, allowing them to provide more credit. Private Banks can also invest in competitive government securities (T-bills) as an alternative source of budget financing.

A competitive T-bills market will be initiated starting from the current fiscal year. The number of issuances in the first three years will be determined based 20 on three considerations: (i) the financing

need; (ii) the fiscal cost of higher interest rates; and (iii) availability of liquidity in the financial system. Facilitate the development of inter-bank money markets. The interbank money market plays a key role in the execution of monetary policy. In addition to balancing daily liquidity fluctuations and mitigation of liquidity risk, it facilitates a transparent price setting mechanism.

Developing an efficient interbank market, alongside the T-bills market and improved liquidity management, strengthens the NBE's monetary policy. Collaboration with the private sector will establish a stock exchange, followed by a secondary T-bills and T-bond market. Enhancing the NBE's Credit Reference Bureau will expand access to finance, particularly for underserved segments like individuals and SMEs. Measures will be taken to improve the bureau's capacity and expand the credit registry. The government will also consider involving private credit analysts and rating companies to support capital market growth. Additionally, efforts will be made to promote financial inclusion.

Ethiopian government aims to enhance financial inclusion.
In this regard, earlier measures for financial inclusion will be deepened and measures to promote mobile technology will be accelerated. The current restriction against mobile payment technology service providers and the requirement for financial institutions to own the technological platform will be re-evaluated to allow closer partnership between financial institutions and technological companies, thereby accelerating market penetration of digital payment systems. Other targeted measures will be undertaken to develop other segments of the financial sector such as leasing and insurance. Requisite regulations to use moveable assets and expand the range of eligible collateral will be developed. A financial education strategy will be launched to bring the under-served part of the population to the banking system.

In East Africa, Ethiopia recently approved a banking open-up policy and strategy in September 2022, allowing foreign banks to enter its market while neighboring countries such as Djibouti, Somalia, and Eritrea have not. The decision follows decades of the Ethiopian financial sector being largely unreformed, resulting in limited domestic competition on a global level. This article examines the impact of foreign banks' entry into Ethiopia's banking sector on domestic banks and the economy. The study investigates the government's intentions behind allowing foreign banks, their impact on domestic banks' performance, and recommends potential efficiency reforms. The research aims to assess the impact of foreign banks on domestic banks'.

2 Theoretical Backgrounds

2.1 The Initiation of the governments to allow foreign bank entry to the local market

Effective September 3, 2022, foreign banks are now legally permitted to operate in Ethiopia, a decision that has been long-awaited. While some have eagerly anticipated this, others have expressed concern. As of June 2023, there are 25 domestic banks operating in the country, and more are expected to enter the sector. The National Bank of Ethiopia (NBE) governor has advised domestic banks to prioritize strengthening their capital fulfillment and capacity rather than just increasing their numbers. According to the Council of Ministers (as cited on www.pmo.gov.et), there are four main reasons for allowing foreign banks to operate in local markets: (i) to bring in new technology, knowledge, and skills to the sector; (ii) to provide better financial services and increase foreign exchange inflows; (iii) to create job opportunities for unemployed and underemployed youth; and (iv) to improve the overall monetary sector of the country.

2.2 Encourage Foreign Direct Investment
FDI is when an investor from one country has lasting influence over a business in another country. It's important for global economic integration and can help transfer technology, promote trade, and boost development (OECD, 2017). FDI gives investors the chance to expand markets and access new resources. The benefits of FDI highlight the importance of fostering a favorable environment for foreign investment.

According to Sabir and Khan (2019), foreign direct investment (FDI) serves as a means to bridge the gap between savings and the required level of investment. The significance of FDI in globalization has increased, and endogenous growth theories highlight its importance in economic growth due to its potential to facilitate technological transfer from developed countries to developing ones (Chenaf-Nicet and Rougier, 2016). As Lipsey (2001) suggests, foreign direct investment (FDI) may indirectly contribute to a reduction in unemployment while simultaneously increasing productivity by enhancing the skills and knowledge of individuals in the host country.

2.3 Impact of Foreign Bank on Domestic Banking Sector
Foreign banks expanded credit accessibility in developing countries, making it more affordable. They introduced advanced lending technologies and marketing expertise, which had positive spillovers for domestic banks. However, they may have favored "high-quality" clients and left small and medium-sized businesses to domestic banks, which could result in decreased lending to them. "Transition Report 2012: Integration across Borders," published by the European Bank for Reconstruction and Development (EBRD 2012 report).

3 Empirical Backgrounds
Indonesian Perspective
Cho (1990) conducted research on the impact of foreign bank presence and banking market concentration in Indonesia, discovering that the former played a role in increasing competition among banks in the country. Claessens et al. (2001) conducted an extensive analysis of the impact of foreign bank presence on efficiency and competition. Using a vast dataset featuring individual bank accounting information of domestic banks in 80 countries during the 1988–1995 periods, they discovered that increased foreign bank presence is linked to decreased profitability, non-interest income, and overall expense..

Colombian Perspectives
Barajas, Salazar, and Steiner (2000) found out about the same study focusing on the Colombian banking system and using individual bank accounting data for thirteen years for the 1985–1998 periods. Their studies explain that foreign banks' presence totally increases competition in the domestic banking system, as evidenced by reduced intermediation spreads. Foreign bank presence is also associated with deterioration in reported loan quality among domestic banks. Molina (2010) argues that the administrative costs of domestic banks rise, probably due to the fact that these banks should upgrade their performance because of increased competitive pressure. Thus, on the whole, foreign bank presence seems to be associated with an increase in costs for the domestic banking system in Colombia.

Turkey Perspectives.
Denizer (2000) analyzed the effects of foreign bank presence on domestic banks in Turkey. His empirical results explain that net interest rate margins, returns on assets, and overhead expenses of

domestic banks decrease after foreign banks enter the market. These findings support the idea that foreign banks put spirited pressure on the domestic banks in Turkey, despite the fact that these foreign banks had a market share of only between 3.5 and 5 percent during the period 1970–1997.

Kenyan Perspectives

Benukaegbu and Isaiah Onino (2014) analyzed the impact of foreign bank entry on domestic banking in a developing country. They had collected data from 19 commercial banks operating in Kenya since 2001 up to 2009. Their empirical result showed that the penetration of foreign banks into the Kenyan banking sector affects the operation of domestic banks, improves the efficiency of domestic banking, including minimizing interest rates, and also improves credit access for all firms. In addition to this, they proved that the entry of foreign banks into developing countries has a direct relationship with capital reserves, which enhances the financial stability of the host country. They had found that foreign banks have "cream-skimming behavior," which means they tend to lend mostly to big and international corporations.

Ethiopian Perspective

Fetene Bogale's 2017 research explored the influence of foreign bank entry on efficiency, stability, and economic growth in sub-Saharan countries, with a focus on Ethiopia. The study accessed data from 30 sub-Saharan African nations with globalized banking systems and 13 sub-Saharan countries with non-globalized banking systems. The findings showed that countries with globalized banking structures had more access to banking providers and greater intensity, stability, and competition compared to those without. The research also indicated that having more foreign banks could positively impact economic growth and enhance the general performance of the banking system in the long run. However, an increase in foreign bank access could lead to reduced economic growth by making the banking system more vulnerable and delicate. Therefore, policymakers may need to modify their liberalization policies for foreign banks and enforce more disciplined regulations.

4 Research Methodologies

The study's research methodology involved purposive sampling and a mixed approach to data collection. Primary data was gathered via structured and unstructured questionnaires, while secondary data sources included government reports, academic journals, and other published and unpublished materials. The study utilized a survey method to gather information on the research topic.

CHERNS, A. B. (1966). Sample size determination is the process of estimating the number of population units that should be included in a study. There are various methods for determining the sample size of a study. In this particular study, we have used a formula to calculate the required sample size. The formula is as follows: Sample size = (Z^2 * p * (1 - p)) / E^2 Where: Z is the Z-score for the level of confidence (for a 95% level of confidence, Z = 1.96) P is the proportion of the population that has the characteristic the researcher is interested in (since the population is homogenous, P is 0.5) E is the margin of error the researcher wants (for a 7% level of precision, E = 0.07) Using the above formula, the author plugged in the appropriate values: Z = 1.96 P = 0.5 E = 0.07 Sample Size = (1.96^2 * 0.5 * (1 - 0.5)) / 0.07^2 = 273.68 Therefore, the sample size needed for this study is approximately 274 participants to achieve a margin of error of 7% with 95% confidence, assuming a homogeneous population.

The researchers have decided to use a widely accepted formula for determining sample size in statistical research with a population size of 2099 and a sample size of 274, which is more than 10% of the population. However, it is crucial to note that the formula has certain assumptions and limitations that may impact its accuracy. It assumes that the population is homogenous that the proportion of the population with the characteristic of interest is the same throughout, and that the sample is chosen randomly from the population. The formula only provides a rough estimate of the required sample size and may be affected by biases in the sampling process or if the sample is not truly representative of the population.

5 Results and Discussion

This study analyzed the impact of foreign bank entry on the domestic banking industry in Ethiopia, particularly the government's expectations and the effects on local banks. The research found that foreign bank entry can have positive impacts on the local economy, such as increased competition, improved access to finance, and job creation. The findings suggest that policymakers and regulators could benefit from the insights provided by this research when making banking industry decisions.

5.1 The government intention to allow the entry of foreign banks

Table5.1Government expectation to allow the entry of foreign banks

Items	SA	Agree	N	DisA	SDA
Access to Credit Supply	108	117	32	5	2
	0.409	0.443	0.121	0.019	0.008
Accelerate the investment	120	114	23	7	0
	0.451	0.432	0.087	0.027	0
To Demand Foreign Currency	163	76	22	3	0
	0.617	0.288	0.083	0.011	0
To Reduce Unemployment Rate	49	104	74	28	9
	0.186	0.394	0.28	0.106	0.034
Invite Foreign Direct Investment	177	68	17	2	0
	0.67	0.258	0.064	0.008	0
Better Economic Stability	39	115	80	21	9
	0.148	0.436	0.303	0.08	0.034
To Reduce Economic Imbalance b/n urban and rural area of the country	29	104	77	34	20
	0.11	0.394	0.292	0.129	0.076

Source: Survey from questionnaire 2023.

Based on table 5.1, it appears that allowing the entry of foreign banks into the local market is expected to have a positive impact on economic stability and attract foreign direct investment, as indicated by the high percentage of participants who agree or strongly agree. It also suggests that foreign banks could potentially contribute to increasing access to credit and accelerating investment.

However, the results also indicate that the impact on unemployment and the economic imbalance between urban and rural areas is less clear, with a significant proportion of participants expressing neutral or negative opinions on these issues.

However, increasing access to credit could potentially lead to more investment in these areas, which could contribute to their development.

Overall, the data suggests that allowing the entry of foreign banks into the local market could have some positive effects on the economy, but it may not necessarily address some of the existing challenges, such as unemployment and economic inequality.

5.2 Do the entry of foreign bank boost the country's economic growth?

Table 5.2 Do the entry of foreign bank boost the country's economic growth?

Item		Frequency	Percent	Valid Percer	Cumulativ
Valid	Yes	233	88.3	88.3	88.3
	No	31	11.7	11.7	100
	Total	264	100	100	

Source: Survey from Questionnaire 2023

As illustrated in the above table, the majority of the respondents 233 out of 264, or 88.3% believe that the entry of foreign bank to the local market boosts the economic growth of the country, while 31 out of 264, or 11.7% of the respondents do not believe that the entry of foreign bank to the local market boosts the economic growth of the country.

5.3 **Do Government Expectation achieved by allowing Foreign Banks Entry**

Table 5.3 Does Government Expectation achieved by allowing Foreign Banks Entry

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	163	61.7	61.7	61.7
	No	101	38.3	38.3	100
	Total	264	100	100	

Source: Survey from questionnaire 2023

In this survey, participants were asked to respond with either a resounding "yes" or an unyielding "no" to the question of whether the government's expectations have been met by facilitating foreign bank entry. The outcome was striking, with a staggering 61.7% of respondents favoring the government's actions while 38.3% remained skeptical. However, it's noteworthy that the government has opted to not only permit foreign bank entry but also adopt a liberalized exchange rate policy and combat inflation. Such a move implies that individuals who responded with a "no" might believe that these additional policies have had an adverse impact on the government's objectives.

5.4 **Do the entry of foreign banks enhance the performance of domestic banks?**

Table 5.4 Do the entry of foreign banks enhances the performance of domestic banks?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	226	85.6	85.6	85.6
	No	38	14.4	14.4	100
	Total	264	100	100	

Source: Survey from questionnaire 2023

Looking at the table 5.4, there are two possible values for the question: “Yes” and “No”. The table shows that “Yes” appears 226 times, which is 85.6% of the total data set. On the other hand, “No” appears 38 times, which is 14.4% of the data set. Generally, the frequency table illustrates that the entry of foreign banks to the Ethiopian local market enhances the performance of the domestic banks.

5.5 How do you rate the effect of foreign banks on the domestic bank?

Table 5.5 Effect of foreign bank on domestic bank

Item	SAgree	Agree	Neutral	DisA	SDisA
Tough Competition	148	82	25	6	3
	56.1	31.1	9.5	2.3	1.1
Advance Technology	192	49	17	3	3
	72.7	18.6	6.4	1.1	1.1
Better Monitoring Practice	146	74	28	14	2
	55.3	28	10.6	5.3	0.8
High Managerial Skill	147	75	26	12	4
	55.7	28.4	9.8	4.5	1.5

Source: Survey from questionnaire 2023

As illustrated in the table, the following points are analyzed:
It's possible that those who see the benefit of foreign banks may view them as a way to improve the overall banking industry and bring in new ideas and resources. Those who disagree may see foreign banks as a potential threat to domestic banks and the local economy.

Competition and Technology: The statement "foreign banks bring tough competition and advanced technology" can be viewed in two ways. Some may see this as an opportunity for domestic banks to improve their offerings and services through the challenges posed by foreign banks, while others may view foreign banks as a threat to the domestic banking industry that should be protected by limiting foreign competition. Similarly, some may believe that foreign banks bring advanced technology that can benefit the domestic banking industry as a whole, while others may disagree and think that domestic banks should develop their own technology and infrastructure without relying on foreign banks.

Monitoring and managerial skills: The statement "foreign banks bring better monitoring practices and high managerial skills" can also be viewed from two different perspectives. Those who agree may see foreign banks as a way to increase transparency and accountability in the banking industry and believe that their high managerial skills can benefit the domestic banking industry and improve overall performance. On the other hand, those who disagree may already believe that domestic banks are sufficiently monitored and see foreign banks as a potential threat to domestic banking regulations. They may also think that domestic banks should be managed by local professionals instead of relying on foreign banks.

5.6 The efficiency strategies of domestic banks can be implemented to stay in competition with foreign banks.

Table 5.6 Efficiency strategies of foreign bank

Items	Strongly Agree	Agree	Neutral	Disagree	Sdisagree
Improve Customer Services	200	49	10	5	0
	75.8	18.6	3.8	1.9	0
Reduce Process cost	88	118	48	10	0
	33.3	44.7	18.2	3.8	0
Diversify Products and Services	138	91	26	9	0
	52.3	34.5	9.8	3.4	0
Staff Productivity	138	101	18	7	0
	52.3	38.3	6.8	2.7	0
Technology and Automation	224	31	8	1	0
	84.8	11.7	1	0.4	0

Sources: Survey from questionnaire 2023.

To stay competitive with upcoming foreign banks, domestic banks need to focus on improving their customer service, reducing process costs, diversifying their products and services, improving staff productivity, and investing in technology and automation.

Domestic banks should invest in staff training programs to ensure their employees stay up-to-date with the latest industry developments, technologies, and best practices. By providing regular training and development opportunities, employees can work effectively in their roles and provide top-notch service to customers.

In addition to staff training, domestic banks should invest in technology and automation tools to streamline internal processes, reduce costs, and improve the customer experience. With advances in technology revolutionizing the banking industry, banks must adopt new technologies such as mobile banking apps and artificial intelligence to remain competitive.

By improving customer service and reducing processing costs, domestic banks can improve customer satisfaction and loyalty. Diversifying their products and services can help them attract and retain new customers. Improving staff productivity can help reduce errors and increase efficiency. Investing in technology and automation can help speed up routine tasks, freeing up employees to focus on more complex and strategic work.

In general, by focusing on these strategies, domestic banks can stay competitive with upcoming foreign banks and position themselves for long-term success in a rapidly changing market.

6 Discussions

According to a report by the World Bank (22012) globalizing the banking industry can create competitive pressures, efficiency, stability, innovation, and better regulation and supervision in developing countries.

The Ethiopian government's decision to allow foreign banks in to the domestic banking industry has been driven by several expectations. One of the main expectations is to increase access to credit supply for individuals and businesses alike. The government also expects that the entry of foreign banks will accelerate investment and promote economic growth.

In addition, the government hopes that foreign banks will help to meet the demand for foreign currency, reduce the unemployment rate, as more jobs will be created in the banking sector and also attract more foreign direct investment (FDI) into the country.

Furthermore, the government expects that the entry of foreign banks will improve economic stability and reduce economic imbalance. However, the entry of foreign banks may also have some negative effects on the domestic banking industry. For example, domestic banks may face increased competition, which could lead to reduced profits and market share.

With the entry of foreign banks into the Ethiopian banking industry, domestic banks will indeed face intensified competition. This can result in a decline in market share and profitability for domestic banks (Demirguc-Kunt et al., 1998; Claessens et al., 2000, 2001; Claessens and Lee, 2003; Bayraktar and Wang, 2004). However, this competition can also serve as a catalyst for domestic banks to enhance their services through innovation (Demirguc-Kunt et al., 1998; Claessens et al., 2000, 2001; Claessens and Lee, 2003; Bayraktar and Wang, 2004). Foreign banks often bring advanced technology and digital banking expertise, which can be adopted by domestic banks to improve their operational efficiency (Green et al., 2004, 2003). Furthermore, foreign banks' superior credit management practices may lead to a reduction in non-performing loans and enhanced risk management throughout the entire banking industry (Demirguc-Kunt et al., 1998; Claessens et al., 2000, 2001; Claessens and Lee, 2003; Bayraktar and Wang, 2004).

Finally, the entry of foreign banks may lead to a transfer of high managerial skills to domestic banks. This could help to improve the overall quality of management in the domestic banking industry, which could have positive effects for both banks and customers alike.

With the entry of foreign banks in the Ethiopian banking industry, competition is stimulated, motivating domestic banks to enhance their efficiency (Baraja, Salazar, & Steiner, 2000). This competition can lead to improved service, lower fees, and increased credit accessibility for customers. Additionally, foreign banks bring valuable managerial skills and credit management practices, benefiting domestic banks. They also serve as benchmarks for best practices, encouraging domestic banks to adopt innovative approaches. Ultimately, the presence of foreign banks has the potential to drive efficiency and foster a more competitive and innovative banking industry in Ethiopia.

To remain competitive with foreign banks, domestic banks should prioritize enhancing customer service through staff training and faster response times (Liu, 2021). Improving operational efficiency through process streamlining and technology adoption can also contribute to their competitiveness. Diversifying products with offerings such as mobile banking and online investment platforms can cater to the evolving needs of customers. Lastly, investing in staff training and development will lead to improved productivity and customer service quality for domestic banks (Liu, 2021).

Finally, technology and automation can play a critical role in improving the efficiency of domestic banks. This can include investing in new software and hardware solutions, such as data analytics tools, mobile apps, or chatbots, to improve the overall customer experience and streamline internal operations. By implementing these efficiency strategies, domestic banks can stay competitive with foreign banks and improve their overall operations and customer service.

7 .Conclusions

The entry of foreign banks into Ethiopia has immense potential to boost the country's banking industry and economy in several ways. Firstly, it can provide better access to credit supply, promote financial inclusion, and support the growth of small and medium-sized enterprises. Secondly, foreign bank entry can stimulate investment and invite foreign direct investment, leading to increased capital inflows and job creation. In addition, foreign banks can introduce competition, efficiency, and innovation in the banking sector and transfer knowledge and technology that would enhance the competitiveness of the entire industry. Furthermore, foreign bank entry can ensure financial system stability, diversify risk, and contribute to foreign exchange inflows that would strengthen the nation's balance of payments. It could also reduce the inequality in banking services between urban and rural areas.

On the other hand, foreign bank entry can also have both positive and negative effects on domestic banks. It can increase competition and efficiency, encourage innovation, and enhance customer service. However, competition may also put pressure on domestic banks to reduce costs and streamline operations, making it necessary to focus on improving customer service, diversifying products and services, and leveraging technology and automation. Thus, foreign bank entry has the potential to create a more competitive and diversified banking industry that can contribute to the overall growth and development of the country.

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