The Impact of Foreign Direct Investment in the Banking Sector on The operational and Financial Performance of the Commercial Banks

Abstract:-

This study aims to measure the impact of foreign direct investment in the banking sector on operational and financial performance of local commercial banks of Jordan, and if this investment has an impact on the operational performance of the local commercial banks of Jordan, represented by the following: net interest margin, and non-interest income, operating expenses, and provision for loan losses?

Is there an effect on financial performance of local commercial banks of Jordan represented by: Return on equity, Return on assets, and Earnings per share of the profits achieved?

The study sample consisted of all local commercial banks operating in Jordan, the 22 Bank (13 local bank and 9 foreign banks) until the end of the year 2010, were selected for these banks on the basis of availability of financial statements of income and budget sheet for the period (1996 - 2010).

In order to test the hypotheses, the study used different statistical methods, including descriptive statistics to describe the variables of the study and the statement of its impact, and statistical models to test hypotheses, the most important results of the study included the following:
1. There was an impact on the operational performance of local commercial banks of Jordan, as a result of foreign direct investment and the opening of foreign banks within the banking market of Jordan:

   a- There was a negative impact of foreign direct investment embodied in its variables: the deposits of foreign banks, and the number of foreign banks on the net interest margin of local commercial banks, but with respect to variable facilities of foreign banks there was positive impact on the net interest margin of local commercial banks.

   b- There is no impact of foreign direct investment and of variables on non-interest income of local commercial banks.

   c- There was a positive impact of foreign direct investment embodied in its variables: the number of foreign banks, and the facilities of foreign banks on the operating expenses of local commercial banks.

   d- There was a negative impact of foreign direct investment and of variables: the assets of foreign banks, and the number of foreign banks on the provision of loan losses of local commercial banks, but with respect to the variable of deposits of foreign banks, and the facilities of foreign banks, there was a positive impact on the provision of loan losses of local commercial banks.

2. There is an impact on the financial performance of local commercial banks of Jordan, as a result of foreign direct investment and the opening of foreign banks within the banking market of Jordan:

   a- There was a positive impact of foreign direct investment and of variables: the number of foreign banks on the return on equity of local commercial banks, but with respect to the variable of facilities of foreign banks there is an a negative impact on the return on equity of local commercial banks.
b- There was a positive impact of foreign direct investment and of variables: the number of foreign banks on the return on assets of local commercial banks, but with respect to the variable of facilities of foreign banks, and the assets of foreign banks has there was a negative impact on the return on assets of local commercial banks.

c- There was a positive impact of foreign direct investment and of variables: the number of foreign banks on earnings per share achieved of local commercial banks, but with respect to variable The facilities of foreign banks, has impacted negatively on earnings per share achieved of local commercial banks.