FINANCIAL REGULATIONS AND BANKING EFFICIENCY: A PANEL DATA ANALYSIS ON PAKISTAN'S BANKING SECTOR

ABSTRACT

Financial regulations are most important to progress the liquidity and solvency of financial institutions for every country in the globe. Strict financial regulations may be making safe for bank stability, but not appropriate to enhance the banking efficiency. The study empirically investigates how the previously executed financial regulations enforce by state bank of Pakistan (SBP), have an effect on individual bank's banking efficiency. This study employs sample of 09 commercial banks of Pakistan over a period of time2010 to 2014 on a quarterly basis in Pakistan.

Unlike other studies, this study employs the total assets structure of commercial banks for categorization of commercial banks and categorized banks like large banks, medium banks and small banks. This study employs Data Envelop Analysis (DEA) to compute the banking efficiency of commercial banks in Pakistan. Panel data analysis is used to describe the relationship between financial regulations and banking efficiency of commercial banks for sample selected commercial banks in Pakistan.

The empirical results expose that high reserve ratio guide to reduce the banking efficiency of small and large commercial banks. Furthermore, the results also disclose that the capital adequacy ratio is originated to be unimportant with banking efficiency for all sample selected commercial banks in Pakistan. Similarly, liquidity ratio and nonperforming loans to total loans, loan to deposit ratio and reserve ratio have been found to be significant for large commercial banks while the capital adequacy ratio is found to be significant for medium and small banks in Pakistan.

The result of this study specifies that dissimilar financial regulations influence dissimilar to the diverse groups of commercial banks. The regulatory bodies must recognize systematic and non-systematic financial institutes inside the state. The financial and regulatory rations for systematically and non-systematically significant commercial banks must be dissimilar.

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