

Financial Liberalization and Banking Efficiency: Empirical Evidence From Pakistan Banking Industry



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***In The name of Allah Almighty, The Most Beneficent
The Most Merciful***

“To Allah belongs whatever is in the heavens and whatever is in the earth. Whether you show what is within yourselves or conceal it, Allah will bring you to account for it. Then He will forgive whom He wills and punish whom He wills, and Allah is over all things competent.”

(Al- Al-Baqarah, 2:284)

Golden Saying of The Holy Prophet

(Peace and Blessings of Allah be Upon Him)

Reported by Hazrat Abu Huraira (R.A)

“Verily, Allah would say on the Day of Resurrection: Where are those who have mutual love for My Glory’s sake? Today I shall shelter them in My shadow when there is no other shadow but the shadow of Mine.”

(Al-Hadith)

Sahih Muslim

Book No.032

Hadith No. 6225

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Dedication

This thesis is dedicated to my parents for their love, endless support and encouragement who have been involved in successful completion of my thesis.

Table of Contents

ABSTRACT	XI
LIST OF TABLES	X
LIST OF ABBREVIATIONS	X
1. INTRODUCTION	1
1.1. Background and Motivation.....	1
1.2. In efficiency problem in Banking Sector of Pakistan.....	3
1.3. Policy responses to in efficiency crisis of Banking sector.	4
1.4. Need of banking sector in Pakistan.....	5
1.5. Financial Liberalization.....	7
1.6. Rationale of Study.....	8
1.7. Problem Statement.....	9
1.8. Research Objectives.....	9
1.9. Research Gap.....	9
1.10. Research Questions.....	10.
1.11. Hypothesis Testing.....	10
1.12. Significance of Study.....	10

1.13 Organization of Study.....	11
2. BANKING HISTORY OF PAKISTAN	12
2.1. Introduction	12
3. LITERATURE REVIEW	16
3.1. Introduction	16
3.2. Summary	28
4. METHODOLOGICAL FRAMEWORK AND DATA DERSCRIPTION.....	ERROR!
BOOKMARK NOT DEFINED.0	
4.1. Introduction	30
4.2. Data Description.....	300
4.3. Theoretical Framework	32
4.3.1. McKinnon-Shaw Theory of Financial Liberalization.....	333
4.4. The Methodological Framework.....	333
4.5. Dependent Variables	35
4.6. Independent variables	36
4.7. Summary	37
5. FINANCIAL LIBERALIZATION AND BANKING SECTOR EFFICIENCY	39
5.1. The Determinants of Banking Sector Performance.....	39
5.2 Other Determinants.....	40
5.3 Empirical Studies.....	41

6.RESULTS.....	45
6.1. Model for Large Size Banks.....	45
6.1.1. Correlation Matrix	49
6.2. Model for Medium Size Banks	511
6.2.1. Correlation Matrix	54
6.3. Model for Small Size Banks.....	55
5.3.1. Correlation Matrix	57
6.4. Summary	58
7. CONCLUSION	60
7.1. Summary of the Findings	60
7.2. Policy Recommendations.....	62
REFERENCES	644
Appendixes.....	74

LIST OF TABLES

Table 1: Deposits and Loans, Shares by Bank's Types	12
Table 2. Correlated Random Effects - Hausman Test	Error! Bookmark not defined.
Table 3: Determents of Large Size Bank's Performance – Fixed Effect Model	Error!
Bookmark not defined.	
Table 4: Correlation Matrix ROA.....	50
Table 5: Correlation Matrix ROE	50
Table 6: Correlated Random Effects - Hausman Test	511
Table 7: Determents of Medium Size Bank's Performance – Fixed Effect Model	51
Table 8: Correlation Matrix ROA.....	54
Table 9: Correlation Matrix ROE	55
Table 10: Determents of Small Size Bank's Performance – Fixed Effect Model	56
Table 11: Correlation Matrix ROA.....	57
Table 12: Correlation Matrix ROE	58

LIST OF ABBREVIATIONS

FL	Financial Liberalization
SBP	State Bank of Pakistan
GOP	Government of Pakistan
FD	Financial Development
GDP	Gross Development Product
OCED	Organization of Economic Cooperation and Development
SFA	Stochastic Frontier Analysis
HBL	Habib Banks Limited
UBL	United Bank Limited
MCB	Muslim Commercial Bank
SSB	Small Size Bank
MSB	Medium Size Bank
LSB	Large Size Bank
ROA	Return on Assets
ROE	Return on Equity
LP	Liberalization Policies
TOE	Turnover Efficiency
DTOVER	Dividend to Turnover
LNEF	Loan Efficiency
CETO	Capital Expenditure to turnover

ABSTRACT

This study attempts to evaluate the impact of the financial liberalization and deregulation policy regimes of the banking sector efficiency in the Pakistan. The dependent variables are Return on asset (ROA) and return on equity (ROE); while independent variables are turn over efficiency, dividend to turn over, loans efficiency and capital expenditure to turnover. Time frame of this study ranges from FY2008 to FY2016. Secondary Data set is used; extracted from financial statements of commercial banks. For this purpose, sixteen banks were chosen and classified as small medium and large banks under asset classification. During analysis, Hausman Test and Fixed Effect model is used. The study concludes that dividend to turnover is the only factor which has positive role in the improvement of banks performance in case of large banks, but remain insignificant in case of medium and small size banks. Further, this study concludes, that financial liberalization has failed to improve the performance of banking sector in Pakistan.

Key Words:

Financial Liberalization, deregulation, banking efficiency, ROA, ROE