

The background features a collage of various postage stamps and currency notes. Visible stamps include 'PAR AVION' (air mail), '100.00', 'MADRID', 'COSTA RICA', and 'CHITRAWA'. There are also some handwritten numbers and other markings on the stamps.

# Government Ownership of Banks

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# Outline

- ✧ Definition of “Government Ownership of Banks”
  - ✧ 2 broad views; Development view, and Political view
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- ✧ 4 Findings of the Research
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  - ✧ Which Countries Have High Government Ownership of Banks?
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  - ✧ Does Government Ownership of Banks Speed Up Economic Growth?
- ✧ Conclusion

# Government Ownership of Banks



How much or less government be a part of or involve in  
**BANK'S OWNERSHIP!** (in term of  
asset)

## 2 Broad Views



### For Financial **Development**

Development, further  
lead to economic growth  
(Gerschenkron 1962)

- Case of Russian Government in 1890s. People did not trust the private bank because of corruption, government step in and give confidence to people



### **Political**

- For Political and benefits reason
- To give benefits back to supporters, voters, or interest groups
- Government could control choice of project, leaving implementation to private
- Corruption

# Why government ownership of banks matter?



**Development**



**More efficient  
financial system**



**Encourage saving  
and borrowing**



**Leads to more  
investment  
and long-term growth**

**Political**



**Less Efficient  
financial system**



**Discourage  
saving  
and borrowing**



**Unable to  
stimulate  
a faster growth**

# 4 Key Findings

- ✦ **How Common is Government Ownership of Banks?**
  - ✦ Still 42 percent owned by state in 1995.
- ✦ **Which Countries have Government Ownership of Banks?**
  - ✦ Highly common in countries with poorly protected property rights, heavy government intervention, underdeveloped financial sector
- ✦ **Does Government Ownership of Banks Slow Down Financial Development?**
  - ✦ Higher government ownership of banks was associated with slower development in financial system
- ✦ **Does Government Ownership of Banks Speed Up Economic Growth?**
  - ✦ Higher government ownership of banks also resulted in lower economic growth

**Support Political view!**

# How Common Is Government Ownership of Banks?



✦ Sample of 10 Biggest banks from 92 countries

✦  $GB95_{ik} = \sum_{j=1}^J S_{ji} S_{gi}$ , government's share in bank I of country K

✦ K = index for the country

✦ I = index for 10 largest banks in country

✦ J = index for shareholder of given bank

✦  $S_{ji}$  = the share of bank I owned by shareholder j

✦  $S_{gi}$  = the share of equity the government owns in j

✦  $GB95_k = \sum_{i=1}^{10} GB95_{ik} a_{ik} / \sum a_{ik}$

✦  $a_{ik}$  = total assets of bank I

# How Common Is Government Ownership of Banks?

✦ Result; **Still quite common in 1995 (41.57%)** even after many privatization in many countries during

| The Average   | GB95         | GB70         |
|---|--------------|--------------|
| Common Law (25 Countries including Thailand, US, UK, Singapore)       | 28.16        | 34.53        |
| French Origin (44 Countries including France, Indonesia, Philippines) | 45.45        | 65.37        |
| German origin (6 Countries including Germany, Japan, South Korea)     | 33.67        | 43.59        |
| Scandinavian Origin (5 Countries including Denmark, Sweden)           | 35.54        | 43.44        |
| Socialist (12 Countries including China, Russia, Vietnam)             | 61.76        | 100.00       |
| <b>Overall Average</b>  | <b>41.57</b> | <b>58.89</b> |
| Thailand  | 17.09        | 24.07        |

# Which Countries Have High Government Ownership of Banks?

Basic model:  $GB95 = \alpha + \beta X + \phi GDP$

X= Independent variable

Result: Countries which **poorer**, **more government intervention**, **less efficient government**, **poor property right**, more SOE, **underdeveloped financial sector** tend to have more **GB!**

| Variables                                 | Independent | Correlation | Coefficient         |
|---|-------------|-------------|---------------------|
| Log of GDP per capita in 1960             |             | -0.3560*    | -0.1133* (0.0302)   |
| Business Regulation Index                 |             | -0.4511*    | -0.1301* (0.0375)   |
| Gov. intervention in banking sector       |             | -0.5151*    | -0.1557* (0.0274)   |
| Political right index                     |             | -0.3398***  | -0.0335*** (0.0171) |
| Democracy score                           |             | -0.3569**   | -0.0182** (0.0087)  |
| Bureaucratic quality index                |             | -0.4495*    | -0.0450* (0.0139)   |
| Property right index                      |             | -0.5343*    | -0.1416* (0.0300)   |
| SOE. Output/GDP                           |             | 0.3511      | 0.8289* (0.2740)    |
| SOE. Investment/Gross domestic investment |             | 0.5489*     | 1.1696* (0.2220)    |

# Does Government Ownership of Banks Speed Up *Financial Development*?



Result: **Countries with high GB70 tend to have lower financial development;**

- Lower access to credit
- Lower efficiency of the banking system
- Lower growth in capital market

| Dependent Variables                       | GB70                |
|---|---------------------|
| Growth in private credit/GDP              | -0.0394* (0.0107)   |
| Private claims/GDP (exclude top 20 firms) | -0.3153*** (0.1749) |
| Loan availability                         | -0.5787** (0.2629)  |
| Bank overhead costs/total bank assets     | 0.0232* (0.0067)    |
| Interest rate spread                      | 22.2802* (7.2241)   |

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# Support Political View

# Does Government Ownership of Banks Speed Up Economic Growth?

Result: **More GB70 leads to lower economic growth**

Note: **Initial private credits also show a significance relation to output growth. Better financial systems, higher growth in GDP.**

| Dependent Variables           | Independent Variables            |                                  |                                 |                                 |  |   |                                 |                                 |                |
|-------------------------------|----------------------------------|----------------------------------|---------------------------------|---------------------------------|--|---|---------------------------------|---------------------------------|----------------|
|                               | GB70                             | Initial Log of GDP per Capita    | Initial Private Credit/GDP      | Initial Liquid-Liabilities/GDP  | Initial Commercial Bank Assets/Total Bank Assets | Initial Stock Market Capitalization/GDP | Average Years of Schooling      | Intercept                       | Adj. $R^2$ [N] |
| GDP per capita growth 1960–95 | -0.0235 <sup>a</sup><br>(0.0077) | -0.0065 <sup>b</sup><br>(0.0032) |                                 |                                 |  |   |                                 | 0.0681 <sup>a</sup><br>(0.0205) | 0.1240<br>[85] |
| GDP per capita growth 1960–95 | -0.0199 <sup>a</sup><br>(0.0071) | -0.0160 <sup>a</sup><br>(0.0033) |                                 |                                 |  |   | 0.0061 <sup>a</sup><br>(0.0013) | 0.0911 <sup>a</sup><br>(0.0171) | 0.3403<br>[85] |
| GDP per capita growth 1960–95 | -0.0171 <sup>b</sup><br>(0.0072) | -0.0175 <sup>a</sup><br>(0.0030) | 0.0302 <sup>a</sup><br>(0.0103) |                                 |  |   | 0.0055 <sup>a</sup><br>(0.0012) | 0.0942 <sup>a</sup><br>(0.0163) | 0.4168<br>[82] |
| GDP per capita growth 1960–95 | -0.0152 <sup>c</sup><br>(0.0079) | -0.0166 <sup>a</sup><br>(0.0032) |                                 | 0.0198 <sup>b</sup><br>(0.0086) |  |   | 0.0057 <sup>a</sup><br>(0.0013) | 0.0881 <sup>a</sup><br>(0.0176) | 0.3835<br>[82] |
| GDP per capita growth 1960–95 | -0.0180 <sup>b</sup><br>(0.0084) | -0.0160 <sup>a</sup><br>(0.0037) |                                 |                                 | 0.0026<br>(0.0136)                               |   | 0.0062 <sup>a</sup><br>(0.0014) | 0.0876 <sup>a</sup><br>(0.0190) | 0.3216<br>[83] |
| GDP per capita growth 1960–95 | -0.0160 <sup>c</sup><br>(0.0082) | -0.0134 <sup>a</sup><br>(0.0034) |                                 |                                 |  | 0.0146 <sup>b</sup><br>(0.0014)         | 0.0050 <sup>a</sup><br>(0.0014) | 0.0784 <sup>a</sup><br>(0.0187) | 0.3028<br>[75] |
| GDP per capita growth 1960–95 | -0.0140 <sup>c</sup><br>(0.0083) | -0.0151 <sup>a</sup><br>(0.0032) | 0.0263 <sup>b</sup><br>(0.0105) |                                 |  | 0.0107<br>(0.0084)                      | 0.0047 <sup>a</sup><br>(0.0013) | 0.0826 <sup>a</sup><br>(0.0180) | 0.3671<br>[73] |

<sup>a</sup>Significant at 1 percent level; <sup>b</sup>significant at 5 percent level; <sup>c</sup>significant at 10 percent level.

# Does Government Ownership of Banks Speed Up *Economic Growth?*

Productivity growth 1 is total growth in factor productivity (exclude growth in physical capital per worker)

Productivity growth 2,3 is a growth concerning more about human capital accumulation

| Dependent Variables   | Independent Variables            |                                  |                                 |                                 |                                 | Adj. $R^2$<br>[N] |
|-----------------------|----------------------------------|----------------------------------|---------------------------------|---------------------------------|---------------------------------|-------------------|
|                       | GB70                             | Log of GDP<br>per Capita in 1960 | Private Credit/<br>GDP in 1960  | Average Years<br>of Schooling   | Intercept                       |                   |
| Productivity growth 1 | -0.0134 <sup>b</sup><br>(0.0054) | -0.0024<br>(0.0022)              |                                 |                                 | 0.0317 <sup>b</sup><br>(0.0146) | 0.0857<br>[77]    |
| Productivity growth 2 | -0.0162 <sup>b</sup><br>(0.0066) | -0.0007<br>(0.0033)              |                                 |                                 | 0.0132<br>(0.0211)              | 0.0870<br>[77]    |
| Productivity growth 3 | -0.0178 <sup>b</sup><br>(0.0079) | -0.0025<br>(0.0023)              |                                 |                                 | 0.0343 <sup>b</sup><br>(0.0166) | 0.0890<br>[61]    |
| Productivity growth 1 | -0.0084 <sup>c</sup><br>(0.0044) | -0.0099 <sup>a</sup><br>(0.0021) | 0.0199 <sup>a</sup><br>(0.0069) | 0.0033 <sup>a</sup><br>(0.0008) | 0.0514 <sup>a</sup><br>(0.0108) | 0.3339<br>[77]    |
| Productivity growth 2 | -0.0093 <sup>c</sup><br>(0.0048) | -0.0123 <sup>a</sup><br>(0.0030) | 0.0186 <sup>b</sup><br>(0.0074) | 0.0057 <sup>a</sup><br>(0.0010) | 0.0439 <sup>a</sup><br>(0.0142) | 0.4526<br>[77]    |
| Productivity growth 3 | -0.0104<br>(0.0066)              | -0.0129 <sup>a</sup><br>(0.0032) | 0.0247 <sup>a</sup><br>(0.0091) | 0.0039 <sup>b</sup><br>(0.0015) | 0.0639 <sup>a</sup><br>(0.0150) | 0.2743<br>[61]    |

# Conclusion

- ✦ The overall result from the research supports the political view of the government ownership of banks
- ✦ The Government Ownership of Banks was still common in 1995, 41.57% of sample bank's assets still owned by government
- ✦ Countries which are poorer, more government intervention, less efficient government, poor property right, more state-owned enterprise, underdeveloped financial sector tend to have high government ownership of banks
- ✦ Countries with high government ownership of banks tend to have lower financial development
- ✦ Countries with high government ownership of banks tend to have lower economic growth