

An Economic Analysis of the Impact of Privatization of Banks on the Economic Growth of Pakistan

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In this study an attempt has been made to evaluate the impact of privatization of banks on the economic growth of Pakistan that is whether the phenomenon has had any valuable outcomes in the country. To measure this, we consider a sample of seven Pakistani banks that went to privatization during 1990 to 2005; three of them were then selected purposively. A number of sources were consulted to obtain the data including the bank records, government and semi- government publications along with the monograph issued by the state bank of Pakistan. Our results show that privatization changes the magnitude of profit and paid capital of banks. The results indicate that privatized banks can exercise most up to date technology and specialize in the most profitable segment of the economy. Moreover, the costs and revenue efficiencies of privatized banks are better than public sector banks. Our findings reveal that performance and profitability of banks can be further improved with the strategic use of the phenomenon to benefit taxpayers and to balance risks and rewards. It is concluded that the involvement of the allied stakeholders and competition in the process would ensure successful privatization ventures.

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Privatization—the sale of state-owned enterprise to the private sector is common throughout the developing countries. Banking, electricity, oil and gas production, health, education and transportation services are all frequently privatized by governments. This trend began in 1980s in developed countries but now days it is accepted in underdeveloped countries where natural resources are the main targets. (Mehdi1991):

Privatization is a significant instrument for the economic development of any country. It is argued that privatization leads to greater efficiency in production and less wastage of public resources and hence leads to greater production. Has the privatization of public assets lead to greater efficiency? Is there any change in the revenue collection to the government due to Privatization? Privatization of public assets led to greater responsibility and greater work attitude. Has privatization some impact on the growth of the county? Was privatization beneficial in the past and will it be in the future? Will it stop wastage of resources in the country? These and some other questions are the main concern of this study. This study will help both the policy makers and the research scholars working in this field.

Some economists are of the view that privatization record looks good if judged from economic point of view. They urge that it leads to greater efficiency (Megginson and Netter 2001). For example electricity privatization in United

Kingdom had resulted in a permanent reduction of 5percent per year in the cost of electricity (Newbery and Pollitt 1997). Its need arises from the concerns over efficiency with which the state can manage public enterprises or large and growing claims of these enterprises on national budgets. In Pakistan, it's need coming from both efficiency and managing the public enterprises. The policy of development through private enterprise remained the mainstay of government of Pakistan since the last four decades. It remained clear in 1950s and 1960s and was adopted again in late 1970s, however the program got real pace in 1980s

There have been two main phases of privatization in Pakistan. The first tide is from 1992 to 1994 and the second from July 2001 to October 2002. In the first tied assets worth Rs120 billion were divested while in the second phase Rs 65 billion were divested. According to the consultant engaged by the Asian Development Bank, that only 22percent of the privatized units were performing well than before, 44percent were at the same rank and 34percent worse than before.

Changing the ownership of industry from public to private sector shows enormous increase in efficiency (Kemal, 1991), therefore, it could be said that the Private Sector enterprises are not only playing a prominent role in our daily life in terms of fulfilling our necessary requirements of food, clothes, shelter and various other services, such as petrol and power, but also by helping us to maintain the balance of payment position in the country through export of goods and from services so it is clear that the private sector is expected to play an important role in economic growth of a country (Abindra, 1993). However, Jomo et al (1994)