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Abstract

We empirically investigate the role of country governance in the privatization of 113 government-owned banks from 1996 to 2007 across 39 countries. First, privatized banks tend to outperform non-privatized banks after the privatization, which is called the privatization effect. Second, we find that the privatization effect is much larger in developing countries compared to those in developed countries, suggesting that the privatization effect is systematically related to a country's level of economic development. Third, we discover that country governance enhances the privatization effect in developing countries, which is consistent with the hypothesis that countries with good-governance can minimize the likelihood of political intervention via residual ownership. Conversely, we also find that country governance reduces the privatization effect in developed countries due to smaller spaces for improvement.

Keywords: Government-owned banks; Privatization; Country governance

JEL Classification: G21; G28

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