5th South Asia Economic Policy Network Conference on

State intervention in the financial sector

February 26-27, 2020 in Mumbai, India

Background:

In many countries across South Asia, financial sector fragility and structural issues of financial sectors are at the forefront of the economic policy debate. One issue debated is heavy state intervention in the financial sector. In South Asia, it takes many forms, such as directed lending, lines of credit by Central Banks, credit subsidies, partial credit guarantees, interest rate ceilings, prudential regulation incentives, wholesale/refinancing by Development Finance Institutions, and public borrowing from the domestic financial system. A key intervention is public-ownership of commercial banks. One the one hand, state-owned banks can promote socially desirable goals by helping overcome domestic market failures, taking advantage of positive externalities, and providing counter-cyclical support in times of crisis. On the other hand, state ownership of banks is often associated with resource misallocation, inefficient governments, and weak institutions. The literature presents mixed evidence on the performance of state-owned versus privately owned banks in South Asia and elsewhere.

Figure 1

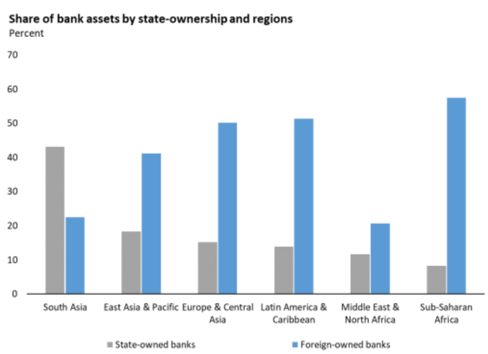


Figure 2

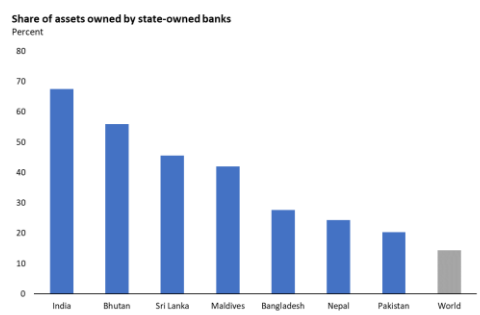
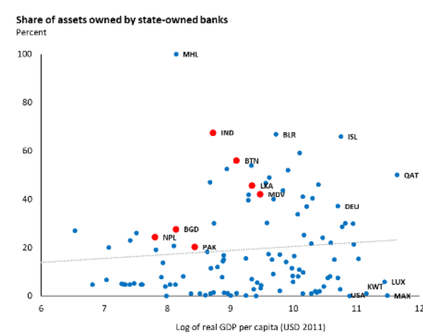


Figure 3



Source: Bank Regulation and Supervision Survey and WDI.
Notes: For all countries the data is for 2016. For Nepal the last observation is 2010.

The rise in financial globalization since the 1990s prompted significant changes in bank ownership structures around the world, and the share of state-owned banks declined in many countries. Among all regions in the world, South Asia has the highest share of state-owned banks, which on average account for 43 percent of all bank assets (Figure 1). In East Asia, the share is only 18 percent and it is even lower in other regions. There is, however, a lot of heterogeneity across countries in South Asia: government owned banks account for 67 percent of bank assets in India, 56 percent in Bhutan, 47 percent in Sri Lanka, 42 percent in Maldives, 28 percent in Bangladesh, 24 percent in Nepal, and 20 percent in Pakistan (Figure 2). While one may argue that different development stages require different financial systems, there is no clear link between state-ownership and the level of development (Figure 3). Instead, different levels of state-intervention seem related to different development models.

Flaws in the financial sector are less of an issue during an economic boom, but structural issues tend to surface during economic downturns. The recent economic slowdown in South Asia may induce policy-makers to reconsider the role of the state in the financial sector in general, and of state-ownership of banks in particular. Against this backdrop, CAFRAL and the World Bank invite papers addressing the topic of state intervention in the financial sector. Some of the suggested topics that we are interested in are as follows:

- What is the rationale and impact of state intervention in the financial sector in South Asia? Are state ownership of banks and other direct approaches appropriate and successful? Do state-owned banks deploy the best instruments and governance structures?
- The financial systems in Pakistan and India differ in terms of state ownership of banks, but both channel substantial shares of lending to finance the government. Is there any effect of less state-ownership on lending to private borrowers and financial stability?
- How do publicly- and privately-owned commercial banks differ in terms of assets, liabilities, and efficiency? How do state-owned banks differ from other state-owned enterprises?
- How are financial sector reforms and macroeconomic developments related in South Asia?
- What is the role for state owned firms in insurance and asset management markets?
- Is market efficiency impacted by state involvement in financial firms via insurance and asset management firms?
- Does the presence of a large state-owned banking and insurance sector impact the development of local corporate bond markets? Does it impact entrepreneurship?

While we will consider extended abstracts, we strongly encourage the submission of full papers.

Round-trip airfare and accommodation for up to three nights will be fully covered for presenters from South Asia. Limited funding will be available for speakers from other regions. For participants unable to attend in person, video conferencing will be made available.

The conference will feature different academic sessions as well as special lectures and a policy panel.

Paper submissions:

Please submit your paper (or extended abstract) at the following web site: https://www.cafral.org.in/call_for_papers. The deadline for submission is December 15, 2019.

If you have any technical problems during the submission process, please email Mr. Anup Sonawane, IT Manager, CAFRAL at anup.sonawane@cafral.org.in. For any other queries, please email Rucheta Singh at rsingh33@worldbank.org and Dr. Urvi Neelakantan at urvi.neelakantan@cafral.org.in. Invited speakers will be notified by end of December.

Program committee: Hans Timmer, Marius Vismantas, Robert Beyer (all World Bank), Anand Srinivasan, Urvi Neelakantan, and Kaushalendra Kishore (all CAFRAL).

Conference venue: Reserve Bank of India, Mumbai