Abstract of Doctoral Dissertation

Title：Government Borrowing, Government Banks, and Financial Intermediation

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This study examines whether government actions such as government borrowing from the banking sector and government ownership of banks generally stimulate financial intermediation or depress it. At first, a cross-country regression equation is estimated with bank credit to the private sector relative to GDP as a dependent variable and government borrowing from the banking system relative to GDP as an independent variable, using a cross-country dataset for 73 countries. The results show that government debt held by banks crowds out bank credit to the private sector dollar-for-dollar, and this is true of developing countries and high-income countries alike. It is consistent with domestic sovereign debt placed with banks at market prices and banks managing their private credit to maintain constant capital ratios.

Next, the study uses a cross-country dataset for 112 countries to identify the effect of government-owned banks on the overall extent of financial intermediation. To conduct the analysis, a new measure of financial development is proposed and estimated. Its basic premise is that societal saving on a large scale requires financial intermediation. We calculate this measure—which we dubbed 'saving efficiency,' which is the gap between actual domestic saving rates of lower-income countries and the savings rates they would have if their financial systems were developed. The results show that saving efficiency tends to be smaller in lower-income countries whose banking industries are more dominated by government banks. That supports a view in which government banks in developing countries manifest crony capitalism, not vehicles for overcoming market failure.

Lastly, the study uses time-series data of Bangladesh to see whether government ownership of banks has facilitated financial development in Bangladesh. Results suggest that higher government ownership of banks is associated with a lower level of financial development in Bangladesh. The study also analyzes placement of government debt with banks, another way besides outright government ownership of banks that government borrowing from the banking sector might constrain financial intermediation in Bangladesh. The preponderance of the evidence is that placing government debt with banks has had a little measurable effect on bank credit to the private sector using time-series data of Bangladesh.

Keywords: Government borrowing, Government banks, saving efficiency, financial intermediation
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