Why Do Government Banks Perform Worse?
—A Political Interference View

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Abstract

This study proposes a *political interference hypothesis* to explain how political considerations depress government banks performance. In here, we define the political interference as the situation in which the executives of government banks are replaced within 12 months after the presidential elections. We classify government banks into political and non-political banks when the government banks undertake and do not undertake political interferences, respectively. The hypothesis firstly suggests that once government banks undertake political interference, their financial performance deteriorates. That is, political banks display the worst performance, followed by non-political banks and private banks have the best performance. Next, these influences of political interferences are much larger in developing countries than in developed countries. Last, the underperformance of government banks will disappear if we remove these political interferences. By employing bank data from 100 countries during 1993~2007, our hypothesis effectively explain why government banks in developed countries escape relatively unscathed while those in developing countries suffer significantly.

JEL: C23, G21, G28, G34.

Keywords: political consideration, political interference hypothesis, government bank, executive turnover, presidential election.

1. Introduction

This study examines whether government-owned banks (GOBs) under-perform private-owned banks (POBs).[1] Empirical studies typically support this assertion regardless of profitability measures, regions and sample periods. For example, Mian (2003) found that government banks uniformly underperform private banks using 250 GOBs from 71 emerging economies. Iannotta et al. (2007), using an enlarged increased sample, found that government banks have lower profitability and loan quality, and higher insolvency risk, compared to private banks. Furthermore, Cornett et al. (2008) found that government banks are significantly less profitable than private banks. Micco et al. (2007) also identified government bank under-performance in less developed countries (LDCs)[2] but not developed countries (DCs). For simplicity, this study terms this under-performance of government banks the "GOB effect".

Numerous studies provide explanations to account for the GOB effect. Sapienza (2004) proposed the social, agency and political views to explain government bank under-performance. Both the social and agency views indicate that government banks are designed to maximize social welfare rather than profit, whereas the political view suggests that GOBs provide a mechanism for pursuing the goals of individual politicians. Beim and Calomiris (2001, p.101) account for GOB inefficiency by identifying four similar factors, namely multiplicity of goals, monopoly position, weak managerial incentives and soft budgetary constraints. The multiple objectives of government banks also imply that such banks do not necessarily pursue profit maximization. See Megginson (2005) and others for similar explanations of the GOB

[1] Throughout the paper, government-owned banks and government banks are used interchangeably. Also, private-owned banks and private banks are used interchangeably.

[2] The term of developing countries and less developed countries are used interchangeably in this paper.

effect.[3] Therefore, these theoretical explanations clarify the reasons for the poor performance of government banks.

This study focuses empirically on one of the theoretical explanations: the influence of political interference on the poor performance of government banks. The difficulty of examining the influence of political interferences on government banks lies in the lack of any operational definition. In the literature, election years are often used to measure the political interferences on GOBs, for example, see Brown and Dinç (2005), Dinç (2005) and Micco et al. (2007). Sapienza (2004) also consider the election years and the ruling party to measure the political interferences. Our proxy of political interference, which has not previously been attempted, describes the situation in which the executives of government banks are replaced within 12 months after the presidential elections (hereafter executive turnover). In here, the executive includes the CEO or the chairman of the board in a bank. Thus, we consider not only the election years but also the executive turnovers after the elections. Also note that the presidential elections are slightly different in countries with one absolutely dominant party and countries with several competing parities. For the former countries, the president may change but the ruling party will not, whereas in the latter countries, both the president and the ruling party will change. Therefore, for the consistence of our proxy in different political structures, we adopt both situations of executive turnover as our political interference proxy.

To increase the sample size of the executive turnover during the presidential elections, our sample contains 100 countries during the period 2003~2007. Regarding

[3] Megginson (2005) offer four reasons why GOBs are inherently inefficient. The four reasons are as follows. First, GOBs are created specifically so that politicians can use them to benefit their own supporters at the expense of other social groups. Next, politicians who oversee GOBs cannot credibly commit to bankrupting poorly performing banks. Third, managers of GOBs have weaker incentives than managers of POBs to manage their organizations effectively. Last, government enterprises will be subject to less intense monitoring by owners.

the country-level information, we collect the dates of each country's presidential elections. With respect to the bank-level information, we first identify banks in each country as government banks if the government ownership exceeds 20% shares, which gives us 329 government banks in total. Then, we search over the names of all directors and CEOs of these government banks from Bankscope database, the company websites, local newspapers, Wall Street Journal, and Factiva database.[4] The searching process is laborious and difficult because many banks provide only the partial board name lists, change their names or are acquired by other banks, ending up with about 80% of the names of government banks during 2003~2007.[5] Last, with the name lists on hand, we examine whether the executives of each GOBs are replaced within 12 months after the presidential elections.

After identifying government banks heavily involved in political interference, we propose the *political interference hypothesis* to explain the GOB effect. This hypothesis firstly suggests that once government banks are undertaking political interference, their financial performance deteriorates. That is, government banks undertaking political interference (hereafter termed political banks) should display the worst performance, followed by government banks undertaking no political interference (hereafter, non-political banks). Private banks are expected to exhibit the best performance and their performances are served as our benchmark. Next, these influences of political interferences are much larger in developing countries than in developed countries. Last, if the interference is indeed the reason that causes the performance deterioration of government banks, then the deterioration should be disappear if we remove these political interferences.

We also examine the robustness of our results by using different parameters or

[4] Factiva is a global new database that includes Dow Jones News, Reuters News, and Wall Street Journal, etc.
[5] See data section for details.

proxies. For example, we consider the different percentages of government-ownership to identify the government banks.[6] Moreover, we use country governance dummy variable[7] to replace development dummy variable as the new classification of countries and examine whether the GOB effect originate from our political interference proxy. Finally, we use bank fixed effect with clustering standard error for the robust testing.

The hypothesis presented in this study has interesting implications. They imply that the performance of two similar government banks may differ significantly because they bear different degrees of political interferences. In contrast, government banks may have the opportunity to perform similarly to private banks if they bear no political interferences. Additionally, our study can explain the finding of Micco et al. (2007) that government banks underperform private banks in developing countries but not developed countries. That is, in developing countries, government banks undertake more political interferences while in developed countries they do not.

This study makes several contributions to the literature. First, recently, numerous works have examined the influence of political interference on bank activities. However, such investigations typically use election years as the proxy for political interference and focus the impacts of political interference on bank activities than performance comparisons.[8] This study refers the election year to the macro-level proxy for political interference since election year affects all banks, though only certain banks are asked to increase lending at this time. In contrast, our proxy for political interference is a bank-level based. Our study combines the both macro and

[6] La Porta et al. (2002) and Dinç (2005) used 20% as the threshold for determining government-ownership, meanwhile Micco et al. (2007) used 50% government ownership as the threshold for identifying government-owned banks.

[7] The country governance data is obtained from Kaufmann et al. (2007).

[8] See Sapienza (2004), Brown and Dinç (2005), Khwaja and Mian (2005), Dinç (2005), Leuz and Oberholzer-Gee (2006) and Micco et al. (2007).

micro political interference,[9] which checks the executive turnover of each government bank within 12 months after the presidential elections on a case-by-case basis.

Next, following the studies of Dinç (2005) and Micco et al. (2007), we investigate whether the worse performances are coming from macro (elections) or macro-micro (executive turnovers during the election years) factor. Moreover, usually, in countries with high corruption levels, the performance of GOBs is typically worse than that of POBs (Sapienza, 2004; Dinç, 2005; Micco et al., 2007). Consequently, we test whether our results are not just due to the level of corruption. The results support our political interference hypothesis again.

Finally, our study is more comprehensive than other studies. We use 100 countries over the longest sample period 1993 to 2007. Conversely, Micco et al. (2007) used a sample of 272 government banks from 46 countries over the period 1995-2002. To the best of our knowledge, our study contains the most comprehensive collection of government banks.[10]

The remainder of this paper is organized as follows. Section 2 presents the literature on the performance of government banks and political connections. Section 3 discusses the construction of political interferences. Section 4 then presents the basic statistics and descriptive results. Subsequently, Section 5 presents empirical results using regression analysis. Next, Section 6 presents a robustness check related to the *political interference hypothesis*. Finally, Section 7 presents conclusions, including a brief summary of the main findings, and an assessment of their.

[9] Regarding this question, we appreciate the suggestion of referee.

[10] For example, previous studies using only a sub-sample of developing countries include Bonin et al. (2005), who examined eight countries and 29 privatized GOBs, Boubakri et al. (2005), which studied the post-privatization performance of 81 privatized GOBs in 22 developing countries, and others.

2. Literature Review

This investigation combines the literature on the performance of GOBs and political connections. This study reviews both these strands of literature in turn.

2.1 Government Bank Performance

Two streams of the literature are often applied to examine whether there indeed exist the GOB effect. The first stream directly compares performance between GOBs and POBs, while the second examines government bank performance after privatization. The present survey demonstrates that the GOB effect typically exists in developing countries, but reveals mixed results for developed countries.

Regarding the direct comparison, Mian (2003) confirmed the GOB effect in developing countries using commercial banks from 100 emerging economies, and found that GOBs under-perform POBs in emerging economies. Cornett et al. (2008) found that GOBs are significantly less profitable than POBs. Moreover, they found that the performance of GOB deteriorated more than that of POBs during the Asian economic crisis in 1997 and 1998, and that these differences were most acute in countries whose governments frequently intervened in the banking system. Unlike the above studies, Micco et al. (2007) demonstrated that GOBs located in developing countries tend to exhibit lower profitability and higher costs than their private counterparts, but this phenomenon does not exist in developed countries.

Next, numerous studies compare the performance between GOBs and POBs from the perspective of privatization. The GOB effect is supported if the performances of government banks improve after privatization. Verbrugge et al. (1999) identified increased profitability and capital adequacy among privatized banks even in OECD countries. Moreover, Beck et al. (2005) examining a sample of Nigerian banks, found that performance improved in nine privatized banks but failed

to surpass that of existing private banks in a survey of Nigerian banks. Boubakri et al. (2005) found that several, but not all, performance measures improved after privatization in developing countries. Furthermore, Weintraub and Nakane (2005) examined the privatization experience of Brazilian banks, and found that GOBs are significantly less productive than private banks. Moreover, Megginson (2005) surveyed the effects of bank privatizations around the world. The empirical evidence supports the privatization effect, indicating that GOBs are less efficient than POBs.

2.2 Political Connections

The influence of political interference on government bank activities has recently attracted considerable interest, with the main proxies for political interference being elections and party affiliations. Banks activities are primarily related to lending amounts, interest rate charges and the timing of the closure of failed banks. The general conclusion is that political interference increases lending amounts, reduces interest rates and delays the closure or restructuring of failed banks before elections. For example, using a sample of 192 private banks and 199 government banks in Italy between 1991 to 1995, Sapienza (2004) found that GOBs charge lower interest rates for firms affiliated with the ruling party than for firms without such an affiliation. Moreover, Dinç (2005) demonstrated that GOBs increase their lending during election years relative to private banks. Furthermore, Brown and Dinç (2005) supported that failing banks are much less likely to lose their licenses or be taken over by the government before elections than afterwards. They thus argued that much of the within-country clustering in emerging market bank failures results directly from political concerns. However, Micco et al. (2007) also discussed the poor performance of government banks and reduced lending during election years. Their study identified a relationship between government bank performance and ROA and NIM, and did not discuss non-performing loans.

Although political connections are found to influence government bank activities, few previous studies have examined the systematic influence of policy interference on the GOB effect. This work fills this gap in the literature.

3 Definition and Data of Political Interferences

3.1 Definitions of Government-owned Banks

Our ownership data is collected as follows. First, we define the GOBs in situations where the government has a shareholding exceeding 20% of total shares. At this early stage, we obtain government ownership data for each bank from Bankscope starting in 2001. Since Bankscope only carries the current government ownership and does not provide the time series data, we collect the government ownership for other years from other sources.

Next, we track ownership changes using the privatization databases of the World Bank as reported in Verbrugge et al. (1999), Megginson (2005), Bonin et al. (2005), Beck et al. (2005), and Clarke et al. (2005). These databases contain information on shareholding changes for some government banks. If the GOBs have been privatized between the periods of 1993-2007, the sample before their privatization was used.

Third, we search each bank's website and publications, such as Bankers Almanac, American Banker, Bank Director, and ABA Banking Journal for verification purposes. Accordingly, we obtain information on the full bank ownership history. If the GOBs are merged by other banks, we only use the periods before their merger. Otherwise, the GOBs are used in this study.

Notably, this study only considers countries with GOBs, and excludes countries without GOBs. Then, we compare the financial performance between all GOBs and POBs in the same country. The present sample contains 329 GOBs and 5,501 POBs

from 100 countries during the period of 1993~2007. In contrast, Micco et al. (2007) did not require that GOBs and POBs be from the same countries,[11] opening performance up to influence from country factors.

3.2 Identifying Banks and Examining their Political Interference

This section describes how to construct the political banks, which is a GOB that executives have been replaced within 12 months after the presidential elections. To identify whether government banks undertake a political interference, we first collect the dates of all presidential elections in 100 countries from 1993 to 2007. The starting year of 1993 is determined because Bankscope starts to provide the accounting data since then. Before 2003, Bankscope provides only a limited number of name lists of GOB executives. Thus, we have to collect the name lists from company websites, local newspapers, Wall Street Journal, and Factiva database. After 2003, Bankscope provides more complete names of the most of the government banks.

We lost some bank data during the searching and identifying processes. First, company websites do not report the names of the past directors and the information is incomplete by searching other resources. Next, not all companies provide the names, especially in non-IPO government banks, which account 60% of our GOBs. Last, many government banks changed their names after M&As or privatization, causing the name matching with those in Bankscope and Factiva databases difficult. For, instance, in China, the Shanghai City United Bank changed their names to Bank of Shanghai. To ensure that we do not commit the double counting or miss-matching errors, we trace bank names repeatedly from various sources at various stages of checking to confirm the data validity. Finally, we check case-by-case whether the executives of each GOBs are replaced within 12 months after the presidential

[11] They use 272 GOBs from 46 countries but 4,597 POBs from 151 countries.

elections.

After the above procedures, we obtain about only 15% of the name lists for 329 GOBs from 1993 to 2002 and 80% of the names lists during 2003~2007 from Bankscope and other sources. Our identifying results give us 80 and 249 political and non-political GOBs, respectively.[12] Because the names of executive turnovers are limited before 2003, thus, our sample periods are different in estimating GOB effect and political interference. The whole sample period 1993~2007 is used when investigating GOB effect. The latter sample period 2003~3007 is used when investigating the political interference.

[Insert Table 1]

4. Basic Statistics and Descriptive Results

4.1 Data Descriptive

Table 2 lists the basic statistics of government banks, private banks and country variables across 100 countries. Column 2 shows that most countries exhibit just one or two GOBs during the sample period. India, Argentina and China are the countries with the largest number of GOBs, namely 20, 12 and 12, respectively. Columns 3 to 4 list the political and non-political banks. Most government banks are not involved in political interference. However, thirteen political banks are identified in India, followed by Argentina with eight political banks. Also, five political banks are identified in Indonesia and Taiwan. Column 5 lists the number of POBs, with Germany exhibiting the largest number (917), followed by Switzerland and France (with 582 and 569). Additionally, the sample contains 21 and 82 developed and developing countries (hereafter, DCs and LDCs), respectively.

[12] The names of these banks as well as the detailed turnover records are not reported here but are available on request.

[Insert Table 2]

Table 3 summarizes the basic statistics from Table 2. First, in DCs, the number of POBs significantly exceeds that of GOBs, with the former being 3,206 and the latter being 67 and 27, using the 20% minimum threshold percentage shares, respectively. To examine the robustness of our results, we also consider minimum threshold of 50% shares.

However, in LDCs, numbers of POBs also exceed those of GOBs but the differences are less pronounced than in DCs. Furthermore, the numbers of political banks is 18 and 62 in DCs and LDCs, respectively, making the total number of political banks be 80. Also, it indicates that government banks in LDCs are more politically driven than those in DCs, which is consistent with poorer performance of government banks in LDCs than in DCs.

[Insert Table 3]

Table 4 lists the correlation coefficient matrix of the variables. The correlations between performance and control variables are all below 0.85, making multicollinearity less of a concern.

[Insert Table 4]

4.2 Validating the GOB Effect

Panel A of Table 5 lists the four performance measures, ROA, ROE, NIM and NPL of GOBs and POBs. For simplicity, we present the evenly averaged sub-sample periods, 1993~1997, 1998~2002 and 2003~2007. We also term the total year from 2003 to 2007 as the total period.[13]

[13] Though we also do the performance differences for every year, to save space, our discussion focuses on the performance in three evenly averaged sub-sample periods, but are available on request.

Throughout this paper, the (performance) difference represents the performance measures of GOB (political and non-political banks) minus those of POB. The negative difference is a justification of the GOB effect. The results are summarized as follows. First, during the first sub-sample period, the performance difference between GOBs and POBs was significantly negative for three profit measures, while being insignificantly positive for asset quality. Namely, private banks display higher ROA, ROE and NIM than government banks, but lower NPL, indicating that private banks are more profitable and have superior asset quality. Thus, POBs outperform GOBs, confirming the GOB effect using the whole sample. During the second sub-sample period, the GOB effect significantly persists for the four performance measures. In the final sub-sample, the two types of banks are roughly tie in three profit measures owing to statistically insignificant differences in ROA, ROE and NIM. However, POBs still has lower NPL and thus outperforms GOBs in terms of asset quality.

To summarize, the GOB effect exists during the first two sub-sample periods in terms of three profit measures and asset quality. However, during the third sub-sample period, the GOB effect exists only for asset quality.

4.3 Validating the GOB Effect in DC and LDC

Panels B and C of Table 5 present the performance measures for individual countries where the countries are classified as developed and developing. For brevity, we also only discuss the three sub-sample periods. First, unsurprisingly, in DCs, government banks perform equally well as private banks. Adopting ROA as an example, the differences are statistically positive in the second and third sub-periods. However, the difference for ROA and ROE is significantly negative during the first and third sub-period. Last, the results of NIM and NPL are similar in three sub-periods. Thus, in DCs, GOBs perform equally well as POBs for four performance

measures and this results are consistent with earlier studies (Micco et al. 2007 - though this study did not examine ROE and asset quality).

Next, in LDCs, the GOB effect persists. POBs have been demonstrated to have higher ROA, ROE and NIM and lower NPL than GOBs in the first two periods. However, GOB effect only exists for NPL in the third period. Accordingly, LDCs display the GOB effect for all performance measures on average.

[Insert Table 5]

Especially, based on the periods of our political interference proxy, we also examine the results of GOB effect each year three sub-periods from 2003 to 2007.

Panels A, B and C of Table 6 list the four performance measures between the GOBs and POBs each year and total period in all countries, DCs and LDCs. We can find that the evidences of GOB effect become weaker. For instance, the performance differences almost are insignificant, except for NPLs in all countries and LDCs. Therefore, we can find that the GOB effect are minimized in the recently five years (2003~2007).

[Insert Table 6]

4.4 Political Interference Hypothesis and the GOB Effect

In this section, we investigate the *political interference hypothesis*. First, we test whether the political interference indeed causes GOB effect. Next, we reverse the abovementioned question by asking: Can the GOB effect be minimized if the above political interference is removed? That is, if it is the interference that causes the GOB effect, the underperformance could be disappeared if the political factor is removed.

Table 7 summarizes information on the influence of political interferences on bank performance. Panels A, B and C of Table 7 compare political banks with private

banks each year in DCs and LDCs, respectively.

For brevity, we only discuss the results for DCs and LDCs. In DCs (Panel B), all the performance differences are insignificant, except for NIM in total period. Thus, in DCs, the performances of government banks are not deteriorated when these banks undertake political interferences. Thus, in DCs, even if GOBs undertake political interferences, they perform equally well as POBs for all measures and these results support the arguments of Micco et al. (2007) again.

Nevertheless, in LDCs, because the GOB effect has already existed, we expect the effect is further aggravated when government banks undertake the political interferences. Employing ROA as the measure, the performance differences of political banks are mostly significantly negative. Using NIM and ROE show the similar results as those of ROA but the effect is weaker for ROE. The performance differences in asset quality (NPL) are all positive, and are significant in periods 2005 and total period.

[Insert Table 7]

Overall, the basic statistics show that using the political banks, the GOB effect exists in LDCs but not in DCs. Meanwhile, the GOB effect is more pronounced for political banks when comparing with the whole government banks in LDCs, indicating that political considerations reduce government bank performance.[14]

Next, we test whether the GOB effect still exist if we remove the political interference? Panels A, B and C of Table 8 present the results of non-political banks versus the private banks each year by using all countries, DCs and LDCs, respectively. In DCs, using ROA as the measure, the performance difference of non-political banks

[14] See Sapienza (2004), Dinç (2005), Khwaja and Mian (2005), Micco et al. (2007).

is significantly positive in total period. Besides, regarding NIM and NPL, the performance differences are all insignificant, supporting that GOB effect do not exist in DCs.

In LDCs, using ROA, ROE and NIM, the performances between the two groups of banks are almost the same and differences are all insignificant. Regarding NPL, the performance differences are partly significantly positive in LDCs. Therefore, the basic statistics demonstrate that using the non-political banks, the GOB effect disappears in LDCs except for NPLs. So the evidences show that the GOB effect does not exist if we remove the political interference.

[Insert Table 8]

The above results closely correspond to the *political interference hypothesis*, namely that the financial ratios of government banks deteriorate once these banks undertake political interferences in developing countries. These explain why government banks perform worse than the private banks from a political interference perspective. Government banks in developed countries do not display the GOB effect because many of them are not interfered by politicians and those banks are also highly supervised by their legal or market. Government banks in LDCs, after being interfered by politicians, suffer adverse performance, supporting the *political interference hypothesis* in this study.

5. Regression Analysis

5.1 GOB Effect

To examine the GOB effect, we conduct the following regression by considering controlling variables.

$$\text{PERFORM} = \alpha_1 + \alpha_2 \ D_{GOB} + \beta \ Z \ + \text{year and country dummies} + \varepsilon \qquad (1)$$

where PERFORM is proxied by three profitability measures (ROA, ROE and NIM) and one asset quality measure (NPL[15]); Z denotes the vector of the control variables, containing four bank characteristic and five macroeconomic control variables. Four bank characteristic control variables are log of assets (Asset), debt to equity ratio (Debt), loan to deposit ratio (DEPLOAN), ratio of current to total assets (LIQUID); five different macroeconomic variables are GDP per capita, GDP growth rate, budget surplus, inflation rate, and exchange rate. Also, the year and country dummies are added to eliminate the year and country effects. The selection of the control variables follows the studies of Dinç (2005), Choi and Hasan (2007), Iannotta et al. (2007), and Micco et al. (2007).[16] Besides, many GOBs are among the largest banks in their countries, comparing those GOBs to the set of all private banks, which includes too many small banks, may let the comprehensiveness be misleading.[17] Therefore, in this study, we only use the largest 20 private banks as the benchmark in each country.[18]

The dummy variable D_{GOB} equals 1 in the case of a government owned bank and 0 otherwise. The GOB effect is supported if α_2 is negative when PERFORM is proxied by profit measures and positive when PERFORM is proxied by asset quality measure.

Panel A of Table 9 illustrates the estimated results using data from 1993 to 2007. To save space, this study does not report the coefficients of all control variables in Z,

[15] Because there are many miss values and definition problem of NPL in developing countries, we seem this measure is just for reference. Also, we keep this measure for each comparison purposes because many extant literatures have reported the results using NPL.

[16] We skip the explanation of control variables but they can be found in the reference cited therein.

[17] Including a size measure in the regression will not be enough to control for the multitude of differences between large and small banks as the slope of explanatory variables, not just the intercept, is likely to be different. Regarding this question, we appreciate the suggestion of referee.

[18] If the total private banks of country are less than twenty banks. We use all private banks in such country.

or the year and country dummies.[19] The concerned coefficients of $D_{GOB}(:\alpha_2)$ are significantly negative when ROA and ROE are used as the dependent variables and significantly positive when NPL is used. Though the coefficient of NIM is negative, it is insignificant. Accordingly, our results confirm the GOB effect using ROA, ROE and NPL, but not NIM.

[Insert Table 9]

5.2 GOB Effect in DC and LDC

We next investigate whether the GOB effect exists in LDCs but not in DCs. Thus, we create two more dummy variables, D_{DC} and D_{LDC}, referring to developed and developing countries, respectively.[20]

$$\begin{aligned} \text{PERFORM} = (\alpha_3 + \alpha_4 D_{GOB}) \times D_{DC} + (\alpha_5 + \alpha_6 D_{GOB}) \times D_{LDC} \\ + \beta\, Z + \text{year and country dummies} + \varepsilon \end{aligned} \quad (2)$$

The GOB effect is supported in both DCs and LDCs provided α_4 and α_6 are negative in profit regression, and positive in asset quality regression.

Panel B of Table 9 reports the estimated results. First, the coefficients of interaction term between $D_{GOB} \times D_{DC}$ $(:\alpha_4)$ are mixed in three profit regressions; that is, they are insignificantly positive, insignificantly negative and significantly negative for ROA, ROE and NIM, respectively. Furthermore, the coefficient is insignificantly positive for NPL. Consequently, in DCs, we tend to weakly reject the GOB effect for ROA and ROE, but accept it for NIM. These results resemble those using basic statistics. While Micco et al. (2007) also identified similar evidence, they only considered ROA and NIM, and did not consider other performance measures.

[19] The estimated results are available upon request.
[20] Our definition of developed and developing countries is based on United Nations Development Programme (UNDP).

However, in LDCs this study accepts the GOB effect because the coefficients of the interaction term $D_{GOB} \times D_{LDC}$ $(:\alpha_6)$ are mostly significantly negative in terms of profit performance regression and significantly positive in asset quality.

Moreover, based on the periods of our political interference proxy, we also use the data during 2003~2007 to test whether the GOB effect exist. Panel A and B of Table 10 lists the new regression results. All the new estimated results are similar to those of Table 9. However, the GOB effects in Table 10 become weaker than those in Table 9. For instance, in Panel A, the coefficient of $D_{GOB}(:\alpha_2)$ for ROE change into insignificant. Also, the coefficients of the interaction term $D_{GOB} \times D_{LDC}(:\alpha_6)$ for ROE in Panel B turn into insignificant. Therefore, we can find that the GOB effect are minimized in the recently five years (2003~2007).

[Insert Table 10]

5.3 GOB effect and Political Interferences

In this section, we examine the influence of political interferences on the GOB effect using data from 2003 to 2007. We create one variable, $D_{Political}$, referring to political banks, respectively. The dummy is unity in the case of political banks, respectively and zero otherwise.

$$\begin{aligned} \text{PERFORM} = &(\alpha_3 + \alpha_4 D_{GOB}) \times D_{DC} + (\alpha_5 + \alpha_6 D_{GOB}) \times D_{LDC} \\ &+ \beta\, Z + \text{year and country dummies} + \varepsilon \\ &\alpha_4 = \alpha_7 + \alpha_8 D_{Political} \text{ and } \alpha_6 = \alpha_9 + \alpha_{10} D_{Political}, \end{aligned} \tag{3}$$

The GOB effect is supported for political banks in both DCs and LDCs provided α_8 and α_{10} are negative in profit regression, and positive in asset quality regression. Similarly, whether the GOB effect is upheld for non-political banks in DCs and LDCs considering the coefficients of α_7 and α_9.

We first investigate the *political interference hypothesis* without considering the influence of national income. This investigation can be achieved by letting D_{DC} and D_{LDC} equal unity. Consequently, if government banks involvement in politics (political banks) do aggravate their financial performance regardless of national income levels, $\alpha_8 + \alpha_{10}$ should be negative for profit regression and positive for asset quality regression.

Notably, results presented earlier demonstrated that the GOB effect disappears in DCs. However, this study argues this disappearance results from that fewer banks undertake political interferences in DCs compared to LDCs. Thus, in DCs, GOB effects persist if α_8 is negative and positive in profit and asset quality regressions, respectively. Alternatively, the GOB effect that may already exist in LDCs is further aggravated if banks involvement in political activity and this study expects α_{10} to be negative and positive in profit and asset quality regression, respectively.

Table 11 presents the estimated results regarding the influence of political interferences for political and non-political banks. We first investigate whether government banks heavily involved in politically motivated activity without considering national income level by checking $\alpha_8 + \alpha_{10} = 0$. In Table 11, the summations of the two coefficients are overwhelmingly significantly negative for ROA and NIM, insignificantly negative for ROE and insignificantly positive for NPL, supporting the *political interference hypothesis*.

The coefficients of the interaction term, $D_{DC} \times D_{GOB} \times D_{Political} (: \alpha_8)$ are all insignificantly for four measures. Thus, in DCs, the performances of government banks do not exhibit deterioration when they are interfered by politicians. Therefore, the politicians are hard to obtain political rents form GOBs in DCs due to the better investor protect, the better legal efficiency, the larger monitor of market……etc in

DCs.

However, this study observes an overwhelmingly stronger GOB effect for political banks in LDCs than in DCs. Coefficients of the interaction term, $D_{LDC} \times D_{GOB} \times D_{Political} (:\alpha_{10})$ are significantly negative for all profit measures, and insignificantly positive for asset quality. Consequently, government banks in LDCs heavily involved in politically interference exhibit even worse performance. To summarize, banks in DCs display clear performance deterioration in terms of profitability and asset quality and this evidence is much stronger in LDCs, confirming the *political interference hypothesis*.

[Insert Table 11]

Next, we test whether the GOB effect disappear if we remove the political interference? If the GOB effect is coming from political interference, we expect that non-political banks should perform as well as private banks. That is the coefficients of α_7 and α_9 should be insignificant for four performance measures.

In DCs, the coefficients of the interaction term, $D_{DC} \times D_{GOB} (:\alpha_7)$ are insignificantly for ROA and NPL, while being significantly positive for ROE and significantly negative for NIM. Hence the results are mixed, but are consistent with our expectation that non-political banks perform as well as private banks in DCs. Besides, in LDCs, the coefficients of the interaction term, $D_{LDC} \times D_{GOB} (:\alpha_9)$ are insignificantly for ROA, ROE and NIM, while is significantly positive for NPL. Therefore, except for NPL, the performances of non-political banks are similar to those of private banks in LDCs.

Accordingly, the results are consistent with the *political interference hypothesis* that the GOB effect of government banks will disappear if we remove the political interference.

5.4 The Election year

It is interesting to investigate whether there is a special timing in terms of government banks being asked to give political rents to politicians. Sapienza (2004), Dinç (2005), Khwaja and Mian (QJE 2005) and Micco et al. (2007) have shown that politicians can get more benefits during the presidential elections and those facts are leading to the underperformances of GOBs. Therefore, in this section, we examine whether the worse performances of political banks are coming from election factor or our political interference proxy.

Following the studies of Dinç (2005) and Micco et al. (2007), we create a dummy variable, $D_{Election}$, which took the value of one if the years have presidential elections and zero if otherwise. Then we add $D_{Election}$ as the new control variable into our regression estimation.

Table 12 presents the estimated results regarding the influence of political interferences for political and non-political banks after controlling the election factor. First, the four coefficients of $D_{Election}$ are negative for all profit measures, and positive for asset quality. Thus the results are consistent with the literature that the underperformances of GOBs are enlarging during the presidential elections. However, the evidences are very weak because only the coefficient of ROA is significant.

Next, we test whether the underperformances of political banks still uphold. In LDCs, the coefficients of the interaction term $D_{LDC} \times D_{GOB} \times D_{Political}$ ($: \alpha_{10}$) are highly significantly negative for all profit measures and insignificantly positive for asset quality. In DCs, the GOB effect is weaker, the coefficients of $D_{DC} \times D_{GOB} \times D_{Political}$ ($: \alpha_8$) are all insignificantly for four measures. Thus, the *political interference hypothesis* is more pronounced in LDCs than in DCs by using political banks. These results also imply that our hypothesis still exists after

controlling the election variable.

Third, the coefficients of non-political banks remain similar as those reported in our earlier estimation, supporting the *political interference hypothesis* that the GOB effect of government banks will disappear if we remove the political interference.

[Insert Table 12]

5.5 The Level of Corruption

Usually, in countries with high corruption levels, the performance of GOBs is typically worse than that of POBs (Sapienza, 2004; Dinç, 2005; Micco et al., 2007).

. Therefore, the different levels of underperformance of GOBs across developing and developed countries may originate from varied levels of corruption levels. Thus, in this section, we endeavor to show that the underperformance of political banks is not just due to the level of corruption but it is due to our political interference proxy.

Accordingly, we create two dummy variables, $D_{L\text{-}corrupt}$ and $D_{H\text{-}corrupt}$, which took the value of one if the countries have low and high level of corruption and zero if otherwise (Kaufmann et al., 2007). Then, these two corruption levels ($D_{L\text{-}corrupt}$ and $D_{H\text{-}corrupt}$) are substituted for the earlier development dummy variables (D_{DC} and D_{LDC}).

Last, we test whether the coefficients of the interaction term $D_{H\text{-}corrupt} \times D_{GOB}$ $(:\alpha_9)$ and $D_{H\text{-}corrupt} \times D_{GOB} \times D_{Political}$ $(:\alpha_{10})$ are negative for all profit measures and positive for asset quality. If GOB effect exists in α_{10} but not in α_9. That is, the GOB effect is not just due to the level of corruption but it is due to our political interference proxy.

Table 13 presents the regression results considering the impact of political interferences for political and non-political banks after controlling the level of

corruption. First, we test whether political banks still underperform private banks. Unsurprisingly, the new results are all similar to those results of Table 11. For example, in high corruption countries, the coefficients of the interaction term $D_{H\text{-}corrupt} \times D_{GOB} \times D_{Political}$ $(:\alpha_{10})$ are highly significantly negative for all profit measures and insignificantly positive for asset quality. Moreover, the values of coefficients in Table 13 are larger than those in Table 11, implying that the influences of political interference are enlarging in high corruption countries.

Third, the coefficients of non-political banks in low corruption countries remain similar as those reported in Table 11. The results are mixed, such as the coefficients of $D_{H\text{-}corrupt} \times D_{GOB}$ $(:\alpha_9)$ are insignificantly positive for ROA and ROE, significantly positive for NIM and significantly positive for NPL, suggesting the GOB effect does not exist in non-political banks. Therefore, the results prove that the GOB effect is not just due to the level of corruption.

Consequently, all the results show that the worse performances of GOBs derive from our political interference proxy, supporting our hypothesis that government banks undertaking political interference display the worst performance even if we control the level of corruption.

[Insert Table 13]

6. Robustness Testing

6.1 Using Non-Political Banks

Our above investigation of the GOB effect is aimed to compare the performance between political banks and private banks, which is also the focus in the literature. To further investigate the influence of political interference, it is interesting to compare the political banks with non-political banks. To save space, we only report the

regression results hereafter. Other results are available upon request.

We exclude private banks from our samples and use non-political banks (government banks without the political interferences) as the extra benchmark. When considering this new benchmark, definitions of our dummy variables, $D_{Political}$, change slightly. They are equal to one when the GOBs play the political interferences, but zero when they are non-political banks.

Panel A of Table 14 presents the new estimated results based on using non-political banks as the benchmark in the regression. These new results are similar to our earlier results which employ private banks as the benchmark (see Table 12). In panel A, the coefficients of $D_{LDC} \times D_{Political}$ ($: \alpha_{10}$) for ROA and NIM are overwhelmingly and significantly negative, suggesting that the political banks negatively affect profit in LDCs. Furthermore, the sum of the two coefficients ($: \alpha_8 + \alpha_{10}$) are significantly negative for all profit measures, confirming the *political interference hypothesis*. Hence, our conclusions are robust compared with different benchmarks used.

[Insert Table 14]

6.2 Percentage ownership of 50%

La Porta et al. (2002) and Dinç (2005) used 20% as the threshold for determining government ownership, whereas Micco et al. (2007) used 50% government ownership as the threshold for identifying government banks. Hence how to construct government banks may also affect the existence of GOB effect. To further confirm our *political interference hypothesis* is not just due to the GOB samples we chose. We adopt 50% government ownership as the threshold for identifying government banks to test our hypothesis.

Panel B of Table 14 repeats the works of Tables 11 by employing the 50%

minimum government shareholding to examine the robustness of our results. In LDCs, the coefficients of $D_{LDC} \times D_{GOB} \times D_{Political}$ ($:\alpha_{10}$) for three profit measure are all significantly negative, while the coefficient is insignificantly for NPL. Thus, the results using 50% minimum government ownership remain the same as those using 20%, confirming the *political interference hypothesis* again.

6.3 Country Governance

Recently, Kaufmann et al. (2007) updated their Worldwide Governance Indicators (WGI), which involves six dimensions of governances, to cover 212 countries from 1996 and 2006. Adopting this governance index, in this section, we attempt to show that our hypothesis is not just due to the level of country governance. So we classify the sample countries into strong and weak governance countries based on the criteria set out. Then we investigate whether the *political interference hypothesis* still hold or not.

In consequence, we create two governance dummy variables, D_{SGC} and D_{WGC}, which took the value of one if the countries have strong and weak level of country governance and otherwise is zero. Then we use governance dummies to replace development dummies as the new classification of countries.

Panel A of Table 15 repeats the works of Tables 11 by employing the governance dummies as the new classification of countries to test the robustness of our results. Notably, the coefficients of interaction terms $D_{WGC} \times D_{GOB} \times D_{Political}$ ($:\alpha_{10}$) are significantly negative for ROA, ROE and NIM, and insignificantly positive for NPL. Even if we change the country classification, the results are still the same as those in Tables 11. Thus, our results presented in this study remain unchanged when classifying countries into strong and weak governance countries, respectively.

[Insert Table 15]

6.4 Bank Fixed Effect with Clustering Standard Error

It is possible that unobservable bank characteristics could affect the GOB effect. Furthermore, all banks may not be independent, so the correlation between banks should be considered. To deal with these two questions, we perform bank fixed effect regression with clustering in bank level as the robustness check.[21]

Panel B of Table 15 repeats the works of Tables 11 by considering the bank fixed effect with clustering in bank level to investigate the robustness of our results. Similarly, the coefficients of interaction terms $D_{LDC} \times D_{GOB} \times D_{Political}$ ($: \alpha_{10}$) are significantly negative for ROA and NIM, insignificantly negative for ROE and insignificantly positive for NPL. Thus, the new results do not change based on the bank fixed effect with clustering in bank level. Consequently, the results support the *political interference hypothesis* again.

7. Conclusion

This study investigates why government-owned banks underperform private-owned banks, the phenomenon which is referred to as the GOB effect. Also, we examine why the GOB effect is commonly observed in developing countries but not in developed ones. We define the political interference as the situation in which the executives of government banks are replaced within 12 months after the presidential elections. Also, government banks undertaking and are not undertaking political interference are termed political and non-political banks, respectively. We propose a *political interference hypothesis* to explain the GOB effect. First, this study suggests that once government banks are undertaking political interference, their financial performance deteriorates. Next, these influences of political interference are

[21] We also adopt country fixed effect regression with clustering in country level as the robustness check. The results are similar to those in Table 12. Therefore, for brevity, we do not report the results. However, the estimated results are available upon request.

much larger in developing countries than in developed countries. For example, in developed countries, government banks do not fulfill much political interference, meaning the performance of government banks generally is relatively unaffected. However, in developing countries, government banks undertake much political interference, severely damaging their performance. Finally, we show that the GOB effect of government banks will disappear if we remove the political interference. Results of this study are summarized as follows.

First, our broad sample produces similar results as those found in earlier empirical works, especially using ROA, ROE and NPL. Therefore, with the exception for NIM, our finding is consistent with the literature, which frequently suggests that government banks underperform private banks.

Next, we divide the sample into developing and developed countries. Developing countries show the similar results as using the whole sample by exhibiting the GOB effect for ROA, ROE and NPL. However, in developed countries, government banks do not necessarily outperform private owned banks in terms of ROA and ROE. Thus, we confirm that the GOB effect exists in developing countries but not in developed countries, consistent with the literature. In addition, we also use the data during 2003~2007 to test whether the GOB effect exist. We find that the GOB effect still exists but also minimize in the recently years.

Third, in developing countries, political banks exhibit clear underperformance in terms of ROA, ROE and NIM. The underperformance, however, does not occur in developed countries. Accordingly, using the data from developing countries, the results support the *political interference hypothesis* that once government banks are undertaking political interference, their financial performance deteriorates. Consequently, we suggest that political considerations depress government bank

performance and these influences are much larger in developing countries than in developed countries.

Fourth, if the GOB effect is coming from political interference, we expect that non-political banks should perform as well as private banks. The results display that non-political banks perform equally well as private banks in both developed and developing countries, except for NPL in developing countries. Accordingly, the results are consistent with the *political interference hypothesis* that the GOB effect of government banks will disappear if we remove the political interference.

Fifth, we additionally consider the political interference proxy based on presidential elections. We find that GOB effect is slightly enlarging during the presidential elections and this result is consistent with the literature. Furthermore, the underperformances of political banks still exist in developing countries, supporting our hypothesis again.

Sixth, we further consider the impact of political interferences for political and non-political banks after controlling the level of corruption. The results show that political banks exhibit clear underperformance in terms of ROA, ROE and NIM, implying that the underperformance of political banks is not just due to the level of corruption but it is due to our political interference proxy.

Finally, we also conduct many robust testing to ensure the robustness of our results. These tests include the new benchmark of non-political banks, the different percentages of government-ownership to identify the government banks, the new classification of countries based on country governance and the fixed effect with clustering standard error. All the results of robustness testing do not change our conclusion. Hence, our proposed *political interference hypothesis* evidently exists.

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Table 1 Definition of Dummy, Control, and Performance Variables

Variable	Definition	Source of Data
Dummy Variables		
D_{GOB}	A dummy variable which is equal to one if the bank with government's shares over 20% and zero otherwise.	Bankscope and by us[c]
D_{DC}	A dummy variable which is equal to one if it is a developed country and zero otherwise.	UNDP[a]
D_{LDC}	A dummy variable which is equal to one if it is a developing country and zero otherwise.	UNDP
$D_{Political}$	A dummy variable which is equal to one if the executive turnover in these government banks when the party in power changes or the president changes within 12 months and zero otherwise. In here, the executive is meaning the CEO or the chairman of the board.	Bankscope, Factiva[b] and by us
$D_{Election}$	A dummy variable which is equal to one if there is a president election in that country and zero otherwise.	by us
$D_{L-corrupt}$	A dummy variable which is equal to one if the country is a low corruption country and zero otherwise.	Kaufmann et al. (2007)
$D_{H-corrupt}$	A dummy variable which is equal to one if the country is a high corruption country and zero otherwise.	Kaufmann et al. (2007)
D_{SGC}	A dummy variable which is equal to one if it is a strong governance country and zero otherwise.	Kaufmann et al. (2007)
D_{WGC}	A dummy variable which is equal to one if it is a weak governance country and zero otherwise.	Kaufmann et al. (2007)
Bank Characteristic Control Variables		
Asset	Log of total assets	Bankscope
D/E	Total debts to total equities	Bankscope
DEPLOAN	Average balance of loan to average balance of deposit	Bankscope
LIQUID	Current asset to total assets	Bankscope

Note: a: UNDP= United Nations Development Programme.
b: Factiva: a databases including Dow Jones News , Reuters News and Wall Street Journal…etc.
c: by us: the variables are contrasted by authors.
d. The developed and developing countries are based on UNDP.

(Continued) Table 1 Definition of Dummy, Control, and Performance Variables

Macroeconomic Control Variables		
GDPper	Country 's GDP to population	World Bank
GDP growth	Country 's GDP growth rate	World Bank
Budget surplus	Country 's government budget surplus as a percentage of GDP	World Bank
Inflation rate	Country 's inflation rate	World Bank
Exchange rate change	The change in the exchange rate of the domestic currency against the U.S. dollar from the previous year	Datastream
Performance Variables		
ROA	Net income to total assets	Bankscope
ROE	Net income to total equities	Bankscope
NIM	Net interest income to total assets	Bankscope
NPL	Impaired loans to gross loans	Bankscope

Table 2 Number of GOB, Political Bank and Country Development: 100 Countries

Country ID	Country Name	Number of GOB		Political Bank	Non-Political Bank	Number of POB	DC	LDC
		Minimum Shares owned by Government						
		20%	50%					
1	Algeria	2	2	0	2	10	0	1
2	Argentina	12	9	8	4	109	0	1
3	Australia	5	1	1	4	27	1	0
4	Azerbaijan	2	2	0	2	8	0	1
5	Bahamas	1	1	1	0	21	0	1
6	Bahrain	3	1	1	2	7	1	0
7	Bangladesh	8	4	4	4	2	0	1
8	Belarus	5	5	1	4	9	0	1
9	Belgium	2	1	1	1	77	1	0
10	Benin	1	0	0	1	6	0	1
11	Bosnia-Herz.	1	1	0	1	5	0	1
12	Brazil	10	7	1	9	189	0	1
13	Bulgaria	4	1	0	4	8	0	1
14	Burkina F.	2	0	1	1	5	0	1
15	Cambodia	1	1	0	1	5	0	1
16	Cameroon	2	0	0	2	6	0	1
17	China	12	2	0	12	25	0	1
18	Colombia	2	0	0	2	38	0	1
19	Congo, D.R.	1	0	0	1	5	0	1
20	Costa Rica	1	1	0	1	55	0	1
21	Croatia	5	1	3	2	7	0	1
22	Cuba	1	1	0	1	5	0	1
23	Czech R.	6	2	3	3	9	0	1
24	Domin. R.	1	1	0	1	37	0	1
25	Egypt	9	5	3	6	24	0	1
26	Ethiopia	2	2	1	1	5	0	1
27	France	6	1	0	6	569	1	0
28	Gabon	2	0	0	2	3	0	1
29	Germany	9	3	0	9	917	1	0
30	Ghana	1	0	0	1	19	0	1
31	Greece	2	1	1	1	31	1	0
32	Guatemala	1	0	0	1	38	0	1
33	Hungary	2	0	1	1	38	0	1
34	Iceland	1	0	0	1	27	1	0
35	India	20	17	13	7	65	0	1
36	Indonesia	10	6	5	5	109	0	1
37	Iran	2	2	0	2	6	0	1
38	Iraq	1	1	0	1	3	0	1
39	Israel	4	0	2	2	16	1	0
40	Ivory Coast	1	0	0	1	13	0	1
41	Jordan	1	0	1	0	10	0	1
42	Kenya	3	1	0	3	47	0	1
43	Korea	3	2	2	1	43	1	0
44	Kuwait	3	0	1	2	5	1	0
45	Laos	1	1	0	1	1	0	1
46	Latvia	2	1	1	1	31	0	1
47	Lebanon	1	1	0	1	69	0	1
48	Luxembourg	1	1	0	1	211	1	0

Notes:1. GOB: government-owned banks, which denotes the banks that are owned, directly or indirectly, by the government at least at 20% (or 50% level).

2. POB: private-owned banks, which denotes banks with government ownership of less than 20% (or 50%). Strong and Weak Policy Banks: see Table 1.

3. Sample period: 1993~2007.

(Continued) Table 2

Country ID	Country Name	Number of GOB Minimum Shares owned by Government		Political Bank	Non-Political Bank	Number of POB	DC	LDC
		20%	50%					
49	Macedonia	1	0	0	1	15	0	1
50	Madagascar	2	0	0	2	4	0	1
51	Malaysia	3	2	1	2	64	0	1
52	Malta	1	0	0	1	14	0	1
53	Maurittius	1	0	0	1	16	0	1
54	Mexico	4	2	1	3	66	0	1
55	Moldova R.	2	1	0	2	15	0	1
56	Morocco	3	1	0	3	16	0	1
57	Netherlands	1	1	0	1	119	1	0
58	Norway	4	0	0	4	133	1	0
59	Pakistan	7	3	0	7	24	0	1
60	Peru	1	0	0	1	31	0	1
61	Philippines	3	1	0	3	60	0	1
62	Poland	9	1	2	7	64	0	1
63	Portugal	3	1	1	2	45	1	0
64	Qatar	2	2	1	1	5	0	1
65	Romania	3	1	2	1	31	0	1
66	Russian F.	7	6	0	7	295	0	1
67	Rwanda	3	2	1	2	4	0	1
68	Saint Lucia	1	0	0	1	3	0	1
69	Saudi Arabia	1	0	0	1	10	0	1
70	Senegal	2	0	0	2	9	0	1
71	Serbia	5	2	0	5	40	0	1
72	Seychelles	2	2	0	2	3	0	1
73	Sierra Leone	2	2	0	2	3	0	1
74	Singapore	1	0	0	1	42	1	0
75	Slovakia	2	0	0	2	25	0	1
76	Slovenia	3	2	1	2	31	1	0
77	South Africa	5	4	0	5	76	0	1
78	Sri Lanka	4	3	2	2	11	0	1
79	St. Kitts A.	1	1	0	1	1	0	1
80	Suriname	1	1	0	1	1	0	1
81	Swaziland	4	1	0	4	2	0	1
82	Sweden	2	0	1	1	119	1	0
83	Switzerland	4	4	0	4	582	1	0
84	Syria	1	1	0	1	6	0	1
85	Taiwan	9	2	5	4	51	1	0
86	Tanzania	1	1	0	1	22	0	1
87	Thailand	6	1	3	3	19	0	1
88	Togo	2	1	0	2	4	0	1
89	Tunisia	1	1	0	1	13	0	1
90	Turkey	5	4	1	4	59	0	1
91	Uganda	1	0	0	1	16	0	1
92	Ukraine	2	1	0	2	67	0	1
93	United Arab E.	8	5	1	7	10	1	0
94	United King	1	0	0	1	144	1	0
95	Uruguay	1	1	1	0	54	0	1
96	Uzbekistan	3	2	0	3	14	0	1
97	Vietnam	4	4	0	4	27	0	1
98	Yemen	1	1	0	1	6	0	1
99	Zambia	1	0	0	1	11	0	1
100	Zimbabwe	4	2	0	4	24	0	1
	Total	329	162	80	249	5501	21	79

Table 3 Summary Statistics of Table 2

	Number of GOB		No of POB	Political Bank	Non-Political Bank
	Minimum Shares owned by Government				
	20%	50%			
Developed Country	67	27	3206	18	49
Developing Country	262	135	2295	62	200

Notes: Sample period: 1993~2007

Table 4 Correlation Coefficient Matrix of the Variables

	ASSET	D/E	DEPLOAN	LIQUID	ROA	ROE	NIM	NPL
ASSET	1.0000							
D/E	-0.0232*	1.0000						
DEPLOAN	-0.0161	0.0516***	1.0000					
LIQUID	-0.1086***	0.0256**	-0.0616***	1.0000				
ROA	0.0301**	0.0273**	0.0028	0.0759***	1.0000			
ROE	0.0468***	-0.0134	-0.0088	0.1327***	0.5244***	1.0000		
NIM	0.0159	0.0270**	0.0124	0.0944***	0.2839***	0.1776***	1.0000	
NPL	-0.0598***	0.0535***	-0.0005	0.1473***	-0.2428***	-0.1125***	0.0272*	1.0000

Notes:

1. Total number of bank-year observations is 19,593.
2. Sample period: 1993~2007.
3. Superscripts ***, ** and * denote the significance at the 1%, 5%, and 10% levels, respectively.

Table 5 Performance Comparison during 1993 to 2007: GOB versus POB

		1993~1997	1998~2002	2003~2007		1993~1997	1998~2002	2003~2007
Panel A. All Country								
GOB	ROA	0.75	0.55	1.59	NIM	4.60	4.53	5.02
POB		1.31	1.03	1.63		4.85	5.05	5.07
Differ		-0.56***	-0.48***	-0.04		-0.25*	-0.52***	-0.05
P-value		(0.00)	(0.00)	(0.62)		(0.09)	(0.00)	(0.84)
GOB	ROE	5.50	6.73	14.84	NPL	10.39	13.80	7.98
POB		15.02	12.04	15.82		9.98	10.50	6.43
Differ		-9.52***	-5.31***	-0.98		0.41	3.30***	1.55***
P-value		(0.00)	(0.00)	(0.22)		(0.64)	(0.00)	(0.00)
Panel B. Developed Country								
GOB	ROA	0.79	0.98	1.34	NIM	2.47	2.41	2.20
POB		0.95	0.75	1.13		2.60	2.39	2.08
Differ		-0.15*	0.23*	0.21*		-0.12	0.03	0.11
P-value		(0.08)	(0.08)	(0.09)		(0.14)	(0.81)	(0.18)
GOB	ROE	7.53	6.37	11.00	NPL	8.32	6.82	3.79
POB		10.87	9.00	12.74		10.41	6.27	3.83
Differ		-3.34	-2.64	-1.74**		-2.10	0.54	-0.04
P-value		(0.12)	(0.21)	(0.01)		(0.19)	(0.33)	(0.89)
Panel C. Developing Country								
GOB	ROA	0.74	0.42	1.65	NIM	5.43	5.18	5.75
POB		1.48	1.12	1.76		5.94	5.94	5.86
Differ		-0.74***	-0.70***	-0.11		-0.51**	-0.77***	-0.11
P-value		(0.00)	(0.00)	(0.25)		(0.01)	(0.00)	(0.74)
GOB	ROE	4.74	6.84	15.83	NPL	12.20	16.56	9.15
POB		16.94	13.05	16.63		9.69	12.19	7.18
Differ		-12.20***	-6.20***	-0.80		2.52**	4.37***	1.98***
P-value		(0.00)	(0.00)	(0.42)		(0.02)	(0.00)	(0.00)

Notes:

1. Performance measures: proxied by ROA, ROE, NIM and NPL.
2. The numbers here aver average of the performance variable in that year.
3. Three evenly averaged sub-sample periods are 1993~1997, 1998~2002 and 2003~2007.
4. Differ= performance of GOB – performance of POB, where GOB is government banks and POB is private banks.
5. Superscripts ***, ** and * denote the significance at the 1%, 5%, and 10% levels, respectively.

Table 6 Performance Comparison during 2003 to 2007: GOB versus POB

		2003	2004	2005	2006	2007	2003~2007		2003	2004	2005	2006	2007	2003~2007
Panel A. All Country														
GOB	ROA	1.30	1.61	1.61	1.67	1.82	1.59	NIM	4.72	5.14	5.07	5.46	4.69	5.02
POB		1.41	1.62	1.67	1.70	1.73	1.63		5.05	5.22	5.09	5.18	4.78	5.07
Differ		-0.11	-0.01	-0.06	-0.03	0.09	-0.04		-0.33	-0.08	-0.01	0.27	-0.09	-0.05
P-value		(0.46)	(0.94)	(0.71)	(0.83)	(0.72)	(0.62)		(0.25)	(0.88)	(0.97)	(0.78)	(0.86)	(0.84)
GOB	ROE	12.06	15.64	14.29	16.77	15.90	14.84	NPL	10.79	8.47	7.55	6.65	6.00	7.98
POB		13.56	15.54	16.18	16.78	17.04	15.82		8.68	7.27	6.13	5.54	4.63	6.44
Differ		-1.50	0.10	-1.89	0.00	-1.14	-0.98		2.12**	1.20	1.42*	1.11	1.38**	1.54***
P-value		(0.26)	(0.97)	(0.27)	(1.00)	(0.48)	(0.22)		(0.02)	(0.14)	(0.06)	(0.12)	(0.04)	(0.00)
Panel B. Developed Country														
GOB	ROA	1.20	1.42	1.31	1.56	1.23	1.34	NIM	2.28	2.15	2.17	2.28	2.08	2.20
POB		0.84	1.21	1.44	1.05	1.13	1.13		2.23	2.19	2.04	1.97	1.96	2.08
Differ		0.35	0.21	-0.12	0.51*	0.11	0.21*		0.04	-0.04	0.12	0.31	0.13	0.11
P-value		(0.19)	(0.48)	(0.70)	(0.09)	(0.64)	(0.09)		(0.83)	(0.81)	(0.50)	(0.14)	(0.48)	(0.18)
GOB	ROE	8.69	11.49	10.65	13.24	11.33	11.00	NPL	5.41	4.49	3.56	2.77	2.29	3.79
POB		9.40	12.65	14.50	13.70	13.63	12.74		5.44	4.20	3.65	3.33	2.47	3.83
Differ		-0.70	-1.16	-3.85*	-0.46	-2.30	-1.74**		-0.03	0.30	-0.09	-0.56	-0.18	-0.04
P-value		(0.59)	(0.38)	(0.06)	(0.73)	(0.23)	(0.01)		(0.97)	(0.65)	(0.90)	(0.39)	(0.70)	(0.89)
Panel C. Developing Country														
GOB	ROA	1.33	1.66	1.69	1.70	1.98	1.65	NIM	5.37	5.89	5.79	6.27	5.42	5.75
POB		1.57	1.72	1.73	1.88	1.89	1.76		5.87	5.98	5.82	6.03	5.57	5.86
Differ		-0.24	-0.07	-0.04	-0.18	0.08	-0.11		-0.50	-0.09	-0.03	0.24	-0.15	-0.11
P-value		(0.15)	(0.74)	(0.82)	(0.34)	(0.79)	(0.25)		(0.15)	(0.89)	(0.95)	(0.84)	(0.82)	(0.74)
GOB	ROE	12.97	16.69	15.17	17.67	17.17	15.83	NPL	12.38	9.62	8.58	7.65	7.12	9.15
POB		14.76	16.27	16.57	17.58	17.99	16.63		9.72	8.08	6.75	6.15	5.30	7.18
Differ		-1.80	0.42	-1.40	0.08	-0.82	-0.80		2.66**	1.54	1.84**	1.50*	1.82**	1.98***
P-value		(0.27)	(0.89)	(0.50)	(0.96)	(0.68)	(0.42)		(0.02)	(0.13)	(0.04)	(0.08)	(0.03)	(0.00)

Note:

1. Performance measures, ROA, ROE, NIM and NPL.
2. Numbers here are average of the variables during the sample periods.
4. Differ= performance of GOB – performance of POB, where GOB is government banks and POB is private banks.
5. Superscripts ***, ** and * denote the significance at the 1%, 5%, and 10% levels, respectively.

Table 7 Performance Comparison: Political GOB versus POB

		2003	2004	2005	2006	2007	2003~2007		2003	2004	2005	2006	2007	2003~2007
Panel A. All Country														
PB	ROA	0.77	1.01	1.34	1.49	1.34	1.18	NIM	3.65	3.66	3.70	3.76	3.66	3.69
POB		1.41	1.62	1.67	1.70	1.73	1.63		5.05	5.22	5.09	5.18	4.78	5.07
Differ		-0.64**	-0.61**	-0.33*	-0.22	-0.39***	-0.45***		-1.40***	-1.55***	-1.39***	-1.43***	-1.13***	-1.39***
P-value		(0.02)	(0.03)	(0.07)	(0.15)	(0.00)	(0.00)		(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
PB	ROE	7.34	8.77	15.76	17.30	14.48	12.64	NPL	10.52	7.61	8.03	6.71	5.43	7.69
POB		13.56	15.54	16.18	16.78	17.04	15.82		8.68	7.27	6.13	5.54	4.63	6.44
Differ		-6.22**	-6.77	-0.41	0.52	-2.56	-3.18**		1.85	0.34	1.90	1.18	0.81	1.25**
P-value		(0.04)	(0.16)	(0.86)	(0.70)	(0.13)	(0.02)		(0.17)	(0.74)	(0.13)	(0.28)	(0.36)	(0.01)
Panel B. Developed Country														
PB	ROA	0.95	0.89	0.85	1.39	1.14	1.04	NIM	2.75	2.27	2.13	2.40	2.14	2.34
POB		0.84	1.21	1.44	1.05	1.13	1.13		2.23	2.19	2.04	1.97	1.96	2.08
Differ		0.11	-0.32	-0.59	0.34	0.02	-0.09		0.52	0.08	0.08	0.42	0.18	0.26*
P-value		(0.83)	(0.17)	(0.13)	(0.35)	(0.94)	(0.57)		(0.31)	(0.78)	(0.73)	(0.26)	(0.39)	(0.08)
PB	ROE	6.38	10.71	10.77	16.49	14.66	11.77	NPL	6.53	4.48	3.94	3.26	2.33	4.08
POB		9.40	12.65	14.50	13.70	13.63	12.74		5.44	4.20	3.65	3.33	2.47	3.83
Differ		-3.01	-1.94	-3.73	2.79	1.03	-0.97		1.09	0.28	0.29	-0.07	-0.14	0.24
P-value		(0.24)	(0.16)	(0.41)	(0.29)	(0.46)	(0.44)		(0.48)	(0.76)	(0.79)	(0.95)	(0.84)	(0.62)
Panel C. Developing Country														
PB	ROA	0.71	1.05	1.50	1.52	1.40	1.23	NIM	3.95	4.11	4.22	4.23	4.19	4.14
POB		1.57	1.72	1.73	1.88	1.89	1.76		5.87	5.98	5.82	6.03	5.57	5.86
Differ		-0.86**	-0.68*	-0.22	-0.35**	-0.49***	-0.53***		-1.93***	-1.87***	-1.60***	-1.80***	-1.38***	-1.73***
P-value		(0.01)	(0.07)	(0.28)	(0.03)	(0.00)	(0.00)		(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
PB	ROE	7.65	8.14	17.43	17.58	14.42	12.93	NPL	12.05	8.95	9.95	8.18	6.88	9.26
POB		14.76	16.27	16.57	17.58	17.99	16.63		9.72	8.08	6.75	6.15	5.30	7.18
Differ		-7.11*	-8.13	0.85	0.00	-3.57	-3.70**		2.32	0.87	3.20*	2.03	1.59	2.08***
P-value		(0.07)	(0.20)	(0.75)	(1.00)	(0.11)	(0.03)		(0.17)	(0.50)	(0.06)	(0.16)	(0.18)	(0.00)

Note:

1. Performance measures, ROA, ROE, NIM and NPL.
2. Numbers here are average of the variables during the sample periods.
3. PB: Political banks, POB: Private banks.
4. Differ= Performance of PB – Performance of POB.
5. Superscripts ***, ** and * denote the significance at the 1%, 5%, and 10% levels, respectively.

Table 8 Performance Comparison: Non-Political GOB versus POB

		2003	2004	2005	2006	2007	2003~2007		2003	2004	2005	2006	2007	2003~2007
Panel A. All Country														
NPB	ROA	1.45	1.78	1.69	1.73	1.98	1.71	NIM	5.02	5.57	5.48	5.99	5.05	5.43
POB		1.41	1.62	1.67	1.70	1.73	1.63		5.05	5.22	5.09	5.18	4.78	5.07
Differ		0.04	0.16	0.02	0.02	0.25	0.08		-0.03	0.35	0.39	0.81	0.27	0.36
P-value		(0.81)	(0.45)	(0.90)	(0.91)	(0.43)	(0.38)		(0.92)	(0.59)	(0.47)	(0.52)	(0.68)	(0.28)
NPB	ROE	13.38	17.56	13.86	16.61	16.39	15.50	NPL	10.89	8.79	7.37	6.62	6.25	8.09
POB		13.56	15.54	16.18	16.78	17.04	15.82		8.68	7.27	6.13	5.54	4.63	6.44
Differ		-0.18	2.02	-2.32	-0.17	-0.65	-0.33		2.21*	1.52	1.24	1.09	1.62	1.65***
P-value		(0.90)	(0.47)	(0.26)	(0.93)	(0.75)	(0.73)		(0.05)	(0.14)	(0.15)	(0.21)	(0.06)	(0.00)
Panel B. Developed Country														
NPB	ROA	1.28	1.62	1.51	1.64	1.27	1.46	NIM	2.11	2.10	2.18	2.24	2.06	2.14
POB		0.84	1.21	1.44	1.05	1.13	1.13		2.23	2.19	2.04	1.97	1.96	2.08
Differ		0.44	0.40	0.07	0.59	0.15	0.33**		-0.12	-0.09	0.14	0.26	0.10	0.06
P-value		(0.17)	(0.29)	(0.85)	(0.14)	(0.64)	(0.04)		(0.55)	(0.68)	(0.55)	(0.30)	(0.66)	(0.57)
NPB	ROE	9.48	11.77	10.60	11.84	9.86	10.70	NPL	4.89	4.50	3.30	2.45	2.27	3.62
POB		9.40	12.65	14.50	13.70	13.63	12.74		5.44	4.20	3.65	3.33	2.47	3.83
Differ		0.08	-0.88	-3.90*	-1.86	-3.77	-2.04**		-0.55	0.31	-0.35	-0.88	-0.20	-0.22
P-value		(0.95)	(0.60)	(0.07)	(0.20)	(0.15)	(0.01)		(0.53)	(0.70)	(0.66)	(0.21)	(0.71)	(0.54)
Panel C. Developing Country														
NPB	ROA	1.49	1.82	1.74	1.75	2.16	1.77	NIM	5.75	6.38	6.21	6.85	5.83	6.21
POB		1.57	1.72	1.73	1.88	1.89	1.76		5.87	5.98	5.82	6.03	5.57	5.86
Differ		-0.08	0.09	0.01	-0.13	0.27	0.01		-0.12	0.39	0.39	0.82	0.26	0.35
P-value		(0.66)	(0.70)	(0.97)	(0.58)	(0.50)	(0.93)		(0.76)	(0.62)	(0.55)	(0.60)	(0.75)	(0.39)
NPB	ROE	14.37	18.90	14.57	17.69	18.06	16.63	NPL	12.49	9.83	8.19	7.48	7.20	9.12
POB		14.76	16.27	16.57	17.58	17.99	16.63		9.72	8.08	6.75	6.15	5.30	7.18
Differ		-0.40	2.64	-2.01	0.11	0.07	0.00		2.76*	1.75	1.44	1.33	1.91*	1.94***
P-value		(0.82)	(0.44)	(0.42)	(0.96)	(0.98)	(1.00)		(0.05)	(0.16)	(0.16)	(0.20)	(0.07)	(0.00)

Note:

1. Performance measures, ROA, ROE, NIM and NPL.
2. Numbers here are average of the variables during the sample periods.
3. NPB: Non-political banks, POB: Private banks.
4. Differ= Performance of NPB – Performance of POB.
5. Superscripts ***, ** and * denote the significance at the 1%, 5%, and 10% levels, respectively.

Table 9 Regression Results: Testing GOB effect from 1993 to 2007

Variable		ROA	ROE	NIM	NPL
Panel A. GOB effect					
D_{GOB}	α_2	-0.2924***	-2.0249**	-0.1059	1.7756***
		(-4.69)	(-2.40)	(-0.86)	(5.80)
Adjusted R^2		0.1153	0.0468	0.3456	0.1538
Panel B. Country development versus GOB effect					
D_{DC}	α_3	1.3596***	8.2262***	3.7496***	3.8153***
		(9.10)	(5.25)	(7.99)	(5.24)
$D_{DC} \times D_{GOB}$	α_4	0.0054	0.1156	-0.3598***	-0.0964
		(0.07)	(0.10)	(-6.98)	(-0.22)
D_{LDC}	α_5	1.8358***	13.1752***	5.7127***	7.9201***
		(12.93)	(7.95)	(14.62)	(12.83)
$D_{LDC} \times D_{GOB}$	α_6	-0.3972***	-2.7960***	-0.0397	2.4868***
		(-4.97)	(-2.61)	(-0.24)	(6.44)
Adjusted R^2		0.1159	0.0473	0.3495	0.1620
Control For					
Control Variables		Y	Y	Y	Y
Year		Y	Y	Y	Y
Country		Y	Y	Y	Y

Notes:

1. Panel A: the econometric model is:

$$\text{PERFORM} = \alpha_1 + \alpha_2 \, D_{GOB} + \beta \, Z \; + \text{year and country dummies} + \varepsilon \, ,$$

where PERFORM is proxied by ROA, ROE, NIM and NPL; D_{GOB} : dummy variable of GOB

2. Panel B: the econometric model is:

$$\text{PERFORM} = (\alpha_3 + \alpha_4 D_{GOB}) \times D_{DC} + (\alpha_5 + \alpha_6 D_{GOB}) \times D_{LDC} + \beta \, Z \; + \text{year and country dummies} + \varepsilon \, ,$$

where D_{DC} :Dummy variable for developed countries; D_{LDC} : dummy variable for less developed countries.

3. Total number of observations is 19,593. The sample covers from 1993 to 2007.

4. The errors are corrected for heteroskedasticity and clustering using the White-Huber estimator. *t*-values are reported in parentheses and superscripts ***, ** and * denote the significance at the 1%, 5%, and 10% levels, respectively.

5. We do not report coefficients of constant, Z and year and country dummies for the sake of space.

Table 10 Regression Results: Testing GOB effect from 2003 to 2007

Variable		ROA	ROE	NIM	NPL
Panel A. GOB effect					
D_{GOB}	α_2	-0.1453*	1.2052	-0.011	1.6797***
		(-1.80)	(1.30)	(-0.04)	(4.55)
Adjusted R^2		0.1642	0.0861	0.4400	0.2482
Panel B. Country development versus GOB effect					
D_{DC}	α_3	1.3860***	8.4217***	5.3982***	4.6796***
		(5.90)	(4.70)	(5.42)	(5.33)
$D_{DC} \times D_{GOB}$	α_4	0.0103	1.7080***	-0.4553***	-0.4064
		(0.08)	(2.13)	(-2.60)	(-1.27)
D_{LDC}	α_5	2.0703***	12.2854***	6.7669***	6.1835***
		(8.86)	(6.85)	(6.72)	(8.81)
$D_{LDC} \times D_{GOB}$	α_6	-0.1984***	1.0084	0.0937	2.275***
		(-2.05)	(0.89)	(0.30)	(4.86)
Adjusted R^2		0.1656	0.0866	0.4410	0.2528
Control For					
Control Variables		Y	Y	Y	Y
Year		Y	Y	Y	Y
Country		Y	Y	Y	Y

Notes:

1. Panel A: the econometric model is:

$$\text{PERFORM} = \alpha_1 + \alpha_2 \, D_{GOB} + \beta \, Z \; + \text{year and country dummies} + \varepsilon \, ,$$

where PERFORM is proxied by ROA, ROE, NIM and NPL; D_{GOB} : dummy variable of GOB; Z denotes the vector of the control variables.

2. Panel B: the econometric model is:

$$\text{PERFORM} = (\alpha_3 + \alpha_4 D_{GOB}) \times D_{DC} + (\alpha_5 + \alpha_6 D_{GOB}) \times D_{LDC} + \beta \, Z \; + \text{year and country dummies} + \varepsilon \, ,$$

where D_{DC} :Dummy variable for developed countries; D_{LDC} : dummy variable for less developed countries.

3. Total number of observations is 7,885. The sample covers from 2003 to 2007.

4. The errors are corrected for heteroskedasticity and clustering using the White-Huber estimator. *t*-values are reported in parentheses and superscripts ***, ** and * denote the significance at the 1%, 5%, and 10% levels, respectively.

5. We do not report coefficients of Z and year and country dummies for the sake of space.

Table 11 Regression Results: Testing the Political Interference Hypothesis

Variable		ROA	ROE	NIM	NPL
D_{DC}	α_3	1.3851***	8.2176***	5.2943***	4.6728***
		(5.92)	(4.56)	(5.41)	(5.30)
$D_{DC} \times D_{GOB}$	α_7	0.1059	1.5178*	-0.5015***	-0.5138
		(0.63)	(1.66)	(-2.65)	(-1.44)
$D_{DC} \times D_{GOB} \times D_{Political}$	α_8	-0.3338	0.6754	0.1686	0.2865
		(-1.57)	(0.50)	(0.58)	(0.56)
D_{LDC}	α_5	2.0731***	12.2576***	6.7497***	6.1786***
		(8.88)	(6.84)	(6.73)	(8.80)
$D_{LDC} \times D_{GOB}$	α_9	-0.0811	1.7832	0.5287	2.2132***
		(-0.72)	(1.39)	(1.39)	(3.94)
$D_{LDC} \times D_{GOB} \times D_{Political}$	α_{10}	-0.5137***	-3.4106*	-1.8755***	0.2416
		(-3.39)	(-1.71)	(-4.71)	(0.30)
	$\alpha_8 + \alpha_{10}$	-0.8475***	-2.7352	-1.7069***	0.5281
	P-values	(0.0012)	(0.2631)	(0.0002)	(0.5770)
Control For					
Control Variables		Y	Y	Y	Y
Year		Y	Y	Y	Y
Country		Y	Y	Y	Y
Adjusted R^2		0.1668	0.0872	0.4424	0.2526

Notes:

1. The econometric model is:

$$\text{PERFORM} = (\alpha_3 + \alpha_4 D_{GOB}) \times D_{DC} + (\alpha_5 + \alpha_6 D_{GOB}) \times D_{LDC} + \beta Z + \text{year and country dummies} + \varepsilon,$$

$$\alpha_4 = \alpha_7 + \alpha_8 D_{Political} \text{ and } \alpha_6 = \alpha_9 + \alpha_{10} D_{Political},$$

where PERFORM is proxied by ROA, ROE, NIM and NPL; D_{GOB}: dummy variable of GOB; D_{DC} :Dummy variable for developed countries; D_{LDC}: dummy variable for less developed countries; $D_{Political}$: dummy variable of political banks; Z denotes the vector of the control variables.

2. Total number of observations is 7,885. The sample covers from 2003 to 2007.

3. The errors are corrected for heteroskedasticity and clustering using the White-Huber estimator. *t*-values are reported in parentheses and superscripts ***, ** and * denote the significance at the 1%, 5%, and 10% levels, respectively.

4. We do not report coefficients of Z and year and country dummies for the sake of space.

Table 12 The Political Interference Hypothesis versus Election

Variable		ROA	ROE	NIM	NPL
$D_{Election}$		-0.1718***	-0.8163	-0.1407	0.0977
		(-3.26)	(-1.57)	(-1.40)	(0.37)
D_{DC}	α_3	1.4170***	8.3693***	5.3205***	4.6550***
		(6.00)	(4.62)	(5.38)	(5.29)
$D_{DC} \times D_{GOB}$	α_7	0.1060	1.5184*	-0.5017***	-0.5135
		(0.64)	(1.66)	(-2.65)	(-1.44)
$D_{DC} \times D_{GOB} \times D_{Political}$	α_8	-0.3345	0.6717	0.1682	0.2861
		(-1.57)	(0.49)	(0.58)	(0.56)
D_{LDC}	α_5	2.0975***	12.3737***	6.7698***	6.1638***
		(8.94)	(6.93)	(6.71)	(8.81)
$D_{LDC} \times D_{GOB}$	α_9	-0.0823	1.7779	0.5277	2.2145***
		(-0.73)	(1.38)	(1.39)	(3.95)
$D_{LDC} \times D_{GOB} \times D_{Political}$	α_{10}	-0.5062***	-3.3743*	-1.8693***	0.2365
		(-3.36)	(-1.69)	(-4.71)	(0.29)
	$\alpha_8 + \alpha_{10}$	-0.8407***	-2.7026	-1.7011***	0.5226
	P-values	(0.0013)	(0.2686)	(0.0002)	(0.5806)
Control For					
Control Variables		Y	Y	Y	Y
Year		Y	Y	Y	Y
Country		Y	Y	Y	Y
Adjusted R^2		0.1675	0.0873	0.4424	0.2524

Notes:

1. The econometric model is:

$$\text{PERFORM} = (\alpha_3 + \alpha_4 D_{GOB}) \times D_{DC} + (\alpha_5 + \alpha_6 D_{GOB}) \times D_{LDC} + \beta\, Z + \text{year and country dummies} + \varepsilon,$$

$$\alpha_4 = \alpha_7 + \alpha_8 D_{Political} \text{ and } \alpha_6 = \alpha_9 + \alpha_{10} D_{Political},$$

where PERFORM is proxied by ROA, ROE, NIM and NPL; D_{GOB} : dummy variable of GOB; D_{DC} :Dummy variable for developed countries; D_{LDC} : dummy variable for less developed countries; $D_{Political}$: dummy variable of political banks; Z includes $D_{Election}$: dummy variable of presidential election, bank characteristic and macroeconomic control variables.

2. Total number of observations is 7,885. The sample covers from 2003 to 2007.
3. The errors are corrected for heteroskedasticity and clustering using the White-Huber estimator. *t*-values are reported in parentheses and superscripts ***, ** and * denote the significance at the 1%, 5%, and 10% levels, respectively.
4. We do not report coefficients of Z and year and country dummies for the sake of space.

Table 13 The Political Interference Hypothesis versus Corruption

Variable		ROA	ROE	NIM	NPL
$D_{L\text{-}corrupt}$	α_3	2.0438***	11.3869***	6.3375***	7.0487***
		(8.59)	(6.05)	(6.47)	(7.90)
$D_{L\text{-}corrupt} \times D_{GOB}$	α_7	-0.2792**	0.6231	-0.6257***	1.2430***
		(-2.22)	(0.66)	(-3.43)	(2.34)
$D_{L\text{-}corrupt} \times D_{GOB} \times D_{Political}$	α_8	-0.1526	0.4780	0.1280	-1.4958***
		(-1.03)	(0.45)	(0.50)	(-2.34)
$D_{H\text{-}corrupt}$	α_5	2.0333***	12.3197***	6.7467***	6.0429***
		(8.81)	(6.81)	(6.83)	(8.51)
$D_{H\text{-}corrupt} \times D_{GOB}$	α_9	0.1122	2.4346	0.8850*	2.0079***
		(0.87)	(1.62)	(1.87)	(3.13)
$D_{H\text{-}corrupt} \times D_{GOB} \times D_{Political}$	α_{10}	-0.6853***	-4.4886*	-2.4470***	1.3334
		(-3.60)	(-1.78)	(-4.55)	(1.37)
	$\alpha_8 + \alpha_{10}$	-0.8379***	-4.0106	-2.319***	-0.1624
	P-values	(0.0004)	(0.1451)	(0.0000)	(0.8893)
Control For					
Control Variables		Y	Y	Y	Y
Year		Y	Y	Y	Y
Country		Y	Y	Y	Y
Adjusted R^2		0.1660	0.0868	0.4425	0.2496

Notes:

1. The econometric model is:

$$\text{PERFORM} = (\alpha_3 + \alpha_4 D_{GOB}) \times D_{L\text{-}corrupt} + (\alpha_5 + \alpha_6 D_{GOB}) \times D_{H\text{-}corrupt} + \beta Z + \text{year and country dummies} + \varepsilon,$$

$$\alpha_4 = \alpha_7 + \alpha_8 D_{Political} \text{ and } \alpha_6 = \alpha_9 + \alpha_{10} D_{Political},$$

where PERFORM is proxied by ROA, ROE, NIM and NPL; D_{GOB} : dummy variable of GOB; $D_{L\text{-}corrupt}$:Dummy variable for developed countries; $D_{H\text{-}corrupt}$: dummy variable for less developed countries; $D_{Political}$: dummy variable of political banks; Z denotes the vector of the control variables.

2. Total number of observations is 7,885. The sample covers from 2003 to 2007.

3. The errors are corrected for heteroskedasticity and clustering using the White-Huber estimator. *t*-values are reported in parentheses and superscripts ***, ** and * denote the significance at the 1%, 5%, and 10% levels, respectively.

4. We do not report coefficients of Z and year and country dummies for the sake of space.

Table 14 Robust Testing I: Testing the Political Interference Hypothesis

Variable		ROA	ROE	NIM	NPL
Panel A. Using No-Policy Banks as Benchmark					
D_{DC}	α_3	2.5279***	15.7383***	7.1501***	5.3784***
$D_{DC} \times D_{Political}$	α_8	-0.5265***	-1.2018	-0.3465	-0.5071
D_{LDC}	α_5	2.8154***	16.9264***	8.1301***	9.1422***
$D_{LDC} \times D_{Political}$	α_{10}	-0.4914***	-3.2548	-1.6530***	0.5270
	$\alpha_8 + \alpha_{10}$	-1.0179***	-4.4566*	-1.9995***	0.0199
Panel B. GOB Owns 50% Shares of Ownership					
D_{DC}	α_3	1.0107***	6.1975***	3.1132***	3.5882***
$D_{DC} \times D_{GOB}$	α_7	-0.265	0.298	-0.4621***	-0.6853*
$D_{DC} \times D_{GOB} \times D_{Political}$	α_8	0.0731	2.6578*	0.4148	0.1972
D_{LDC}	α_5	1.8112***	10.7839***	5.2243***	5.536***
$D_{LDC} \times D_{GOB}$	α_9	-0.1857	1.3024	0.0088	3.0931***
$D_{LDC} \times D_{GOB} \times D_{Political}$	α_{10}	-0.6641***	-5.7939*	-1.4485***	-0.1269
	$\alpha_8 + \alpha_{10}$	-0.591*	-3.1361	-1.0337***	0.0703
Control For					
Control Variables		Y	Y	Y	Y
Year		Y	Y	Y	Y
Country		Y	Y	Y	Y

Notes:

1. Panel A: the econometric model is:

$$\text{PERFORM} = (\alpha_3 + \alpha_8 D_{Political}) \times D_{DC} + (\alpha_5 + \alpha_{10} D_{Political}) \times D_{LDC} + \beta Z + \text{year and country dummies} + \varepsilon,$$

where PERFORM is proxied by ROA, ROE, NIM and NPL; D_{DC} :Dummy variable for developed countries; D_{LDC} : dummy variable for less developed countries; $D_{Political}$: dummy variable of political banks; Z denotes the vector of the control variables.

2. Panel B: the econometric model is:

$$\text{PERFORM} = (\alpha_3 + \alpha_4 D_{GOB}) \times D_{DC} + (\alpha_5 + \alpha_6 D_{GOB}) \times D_{LDC} + \beta Z + \text{year and country dummies} + \varepsilon,$$

$$\alpha_4 = \alpha_7 + \alpha_8 D_{Political} \text{ and } \alpha_6 = \alpha_9 + \alpha_{10} D_{Political},$$

where D_{GOB} : dummy variable of GOB.

3. In Panel A: Total number of observations is 1,375 and the sample covers from 2003 to 2007.
4. In Panel B: Total number of observations is 7,235 and the sample covers from 2003 to 2007.
5. The errors are corrected for heteroskedasticity and clustering using the White-Huber estimator. Superscripts ***, ** and * denote the significance at the 1%, 5%, and 10% levels, respectively.
6. We do not report coefficients of Z and year and country dummies for the sake of space.

Table 15 Robust Testing II: Testing the Political Interference Hypothesis

Variable		ROA	ROE	NIM	NPL
Panel A. Country Governance					
D_{SGC}	α_3	1.9322***	9.3756***	6.6836***	6.5462***
$D_{SGC} \times D_{GOB}$	α_7	-0.2299*	0.6662	-0.4893***	1.1901***
$D_{SGC} \times D_{GOB} \times D_{Political}$	α_8	-0.0980	0.7582	0.1307	-0.7900
D_{WGC}	α_5	2.0757***	12.6904***	6.8446***	6.1340***
$D_{WGC} \times D_{GOB}$	α_9	0.0829	2.3863	0.8324*	1.9963***
$D_{WGC} \times D_{GOB} \times D_{Political}$	α_{10}	-0.7413***	-4.7075*	-2.5618***	0.8535
	$\alpha_8 + \alpha_{10}$	-0.8393***	-3.9493	-2.4311***	0.0635
Panel B. Bank Fixed Effect with Clustering Standard Error					
D_{DC}	α_3	1.8709***	12.5807***	7.0112***	6.3395***
$D_{DC} \times D_{GOB}$	α_7	0.1328	-1.4266	-0.5924	-0.6217
$D_{DC} \times D_{GOB} \times D_{Political}$	α_8	-0.3793	0.2836	-0.0397	0.1112
D_{LDC}	α_5	2.2174***	15.0291***	7.4127***	8.2891***
$D_{LDC} \times D_{GOB}$	α_9	0.0477	0.2053	0.4608	2.0057**
$D_{LDC} \times D_{GOB} \times D_{Political}$	α_{10}	-0.4814**	-3.4463	-1.7550**	0.3100
	$\alpha_8 + \alpha_{10}$	-0.8607**	-3.1627	-1.7947**	0.4212
Control For					
Control Variables		Y	Y	Y	Y
Year		Y	Y	Y	Y
Country		Y	Y	Y	Y

Notes:

1. Panel A: the econometric model is:

$$\text{PERFORM} = (\alpha_3 + \alpha_4 D_{GOB}) \times D_{SGC} + (\alpha_5 + \alpha_6 D_{GOB}) \times D_{WGC} + \beta Z + \text{year and country dummies} + \varepsilon,$$

$$\alpha_4 = \alpha_7 + \alpha_8 D_{Political} \text{ and } \alpha_6 = \alpha_9 + \alpha_{10} D_{Political}$$

where PERFORM is proxied by ROA, ROE, NIM and NPL; D_{GOB} : dummy variable of GOB; D_{SGC} :Dummy variable for strong governance countries; D_{WGC} : dummy variable for weak governance countries; $D_{Political}$: dummy variable of political banks; Z denotes the vector of the control variables.

2. Panel B: the econometric model is:

$$\text{PERFORM} = (\alpha_3 + \alpha_4 D_{GOB}) \times D_{DC} + (\alpha_5 + \alpha_6 D_{GOB}) \times D_{LDC} + \beta Z + \text{year and bank dummies} + \varepsilon,$$

$$\alpha_4 = \alpha_7 + \alpha_8 D_{Political} \text{ and } \alpha_6 = \alpha_9 + \alpha_{10} D_{Political},$$

where D_{DC} :Dummy variable for developed countries; D_{LDC} : dummy variable for less developed countries.

3. Total number of observations in Panel A and B are 7,885 and the samples cover from 2003 to 2007.

4. The errors are corrected for heteroskedasticity and clustering using the White-Huber estimator. Superscripts ***, ** and * denote the significance at the 1%, 5%, and 10% levels, respectively.

5. We do not report coefficients of Z and year and country dummies for the sake of space.