

IMPACT OF PRIVATIZATION ON NON- PERFORMING LOANS OF BANKS IN PAKISTAN

By

**SABAH SHAH
35019**

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Abstract

Purpose: Banking Sector plays pivotal role in the Economic progress of any country. Pakistan Banking sector, since its inception, has been undergone several changes which strengthen or weakened the banks. One of the major changes that Pakistani banks have faced is the process of nationalization and then way back to privatization. This journey of banking sector had implication on the banks. On the other hand, non-performing loans has always been a problem front for the banks of Pakistan. Banking sector faced both the rise and fall in NPLs. Apart from the reasons causing NPLs, the policy shift from nationalization to privatization also have impact on NPLs of Banks. There are several reasons of these NPLs.

Methodology/Sample: In view of the above, the present study aims at examining impact of privatization on NPLs of Banks. For the said purpose, three major banks of Pakistani sector were selected for the study i.e. HBL, ABL, MCB that have seen both the era of nationalization and privatization. NPLs are taken as the performance indicator. To analyze the data Comparative mean independent T-test is used which compares the means between two unrelated groups on the same continuous, dependent variable for analysis.

Findings: Both the pre-privatization and post-privatization data of all three banks is collected. Statistical analysis (Independent t-test) along with the subjective analysis, carried out of all three banks which are as follows. MCB after privatization showed a positive sign of improvement and this can be shown by looking at the percentage of non-performing loans which went down from after privatization. In case of ABL, bank has not faced early improvement in the NPLs, One reason behind was the continuous change in management and polices even after privatization but the banks has started showing progress in the current decade has shown improvement in NPLs. HBL found to be good example of our research, as HBL have shown considerable growth after privatization.

Implications: In view of the above findings, we have strong reason to assert that privatization has its positive impact on the non-performing loans of banks in Pakistan. The above findings are also statistically proved. Therefore, we can state that privatization has brought in several good features in the banking sector along with some negative points which every system has. It helped banks to work on international standards free from any direct government intervention. It has increase competition which also benefits economy as whole.

Keywords: Non-Performing Loans (NPLs), Privatization, Pre-Privatization, Post-Privatization, State Bank of Pakistan (SBP).

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