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What is the impact of privatization on bank risk? The Case of Tunisian banks

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The issue of privatization in the banking sector is not limited to a withdrawal of the State, but rather to the new structure of its capital. This paper examines the impact of privatization on the choices of risk of 17 Tunisian banks during the period 1990-2010. It proposed to test the organizational model of this phenomenon resulting from the application of the theoretical framework on bank privatization in developing countries. Following the empirical methodology using panel model, evidence was found that State withdrawal from bank capital increased liquidity risk, but it sometimes reduced it, furthermore, it is to open the capital of banks to foreign investors than to domestic investors.

Keywords: Privatization-Credit, Risk-Liquidity, Risk-Ownership Structure

INTRODUCTION

State ownership of large parts of the banking system is relatively rare in developed countries but wide spread in developing countries. State ownership has pernicious effects on the banking system. Barth, et al., (2001) found that state ownership is negatively associated with bank performance and overall financial sector development, and does not reduce the likelihood of financial crises. LaPorta et al., (2002) found that greater state ownership was associated with the 1995 less financial development, slower growth, and lower productivity in Tunisia. The Tunisian banking system was created in 1958 when, after independence, the immediate priority was to liberate the economy of French control. The government then took over the leadership of the banking sector. The Central Bank was created and the 1967 act was established to regulate the banking industry. However, in 1996, the banking system went through a period of major restructuring by the Structural Adjustment Plan¹. This process was characterized by the adoption of stricter

regulatory standards, the privatization of several provincial banks, the facilitation of foreign entry into the domestic banking system, and the introduction of market-based approaches for bank discipline. In addition, law no 2001-65 of 10 July 2001ⁱⁱ as modified by law no 2006-19 of 2 May 2006 entrusted the Central Bank with the power to control loan establishments, present the principle of universality and implementation of mechanisms to secure banking activities. In Tunisia, bank privatization is recent, its success is linked to its ability to remediate the banking system anomalies (Narjess et al., 2005).

The current paper is organized as follows: the first section presents literature regarding bank privatization and risk. The second focuses on the post privatization bank capital. The last section presents the results of applying the panel model. Finally, a conclusion is made in line with the main findings.

RELATED LITERATURE

A large volume theoretical and empirical literature examines government ownership and privatization of state-owned banks, because the performance of the

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financial sector is crucial to economic growth (Robert and Connor, 2011). The main function of the banking sector is to ensure that resources and credits are directed to the most productive and efficient projects that will contribute to economic growth.

A Recent theoretical study points out to the negative aspects of government ownership of banks: Barth et al., (2000) showed that increased State ownership of banks tends to be associated with more risk-taking and less developed financial systems. Privatization has been an instrument in reducing State ownership in many countries and sectors. The literature about the impact of privatization on the risk of firms is extensive and thoroughly reviewed by Megginson and Netter, (2001); Djankov and Murrell; (2002).

Most empirical studies documents which are enhanced by newly privatized bank risk, particularly in the developing countries, are often concomitant to a broad and complex process of "Financial Liberalization" that fundamentally changes the way the entire financial managed sector is operated. Specifically, liberalization can affect the value of the banking charter, the growth opportunities and risk exposure of banks. Demirguc and Detragiache, (1998) found that financial liberalization increases the likelihood of banking crises. This is consistent with the argument that financial liberalization allows banks to expand risk-taking activities that may eventually contribute to a crisis.

In State-owned banks, the first problem is that politicians and bureaucrats can use them to achieve their political or personal goals. Although politicians can also encourage private banks to subsidize their constituents, private owners might be better motivated and able to oppose such interventions than public bureaucrats (Galal,1991; Shirley and Nellis, 1991; Shleifer and Vishny, 1994; World Bank, 1995). For example, the profit-oriented owner of a private bank, especially when foreigner might be more motivated to protect the bank's prudential lending policies or cost minimization rules from government intervention than a public manager would be.

Moreover, government control of bank capital increases the bank's exposure risk. First, if governments keep a share of control over the bank, it is a signal that it seeks to influence its policies including the allocation of credit to specific sectors of the economy. Government owned banks neglect the risk associated with this strategy. Loans given under this condition are generally non-performing that's why the credit risk increases. Privatization is likely to dampen changes in both performance (Clarke et al., 2005) and risk measures.

The authorities use public banks to achieve political purposes. State-ownership also signifies an obligation of the state to save the bank in case of a collapse –unlike a private bank. Civil community interest satisfaction of any bank is the main priority of the State-owned bank's strategy and management: credit policy, which can lead to bad portfolio management and non-sophisticated

services when the Bank politicizes its resources (Clarke and Cull 2002).

Second, though in the public bank, government allocates its resources for local and sectorial development with the priority to help firms in bad economic situation. It injects big amounts of credit to finance vital to economic sectors; however, these credits tend to be nonperforming. Furthermore, it is, directly or indirectly, bound with monetary and budgetary policy control adequately to its interests, particularly in a crisis situation such as war. (Sapienza, 2004). According to Nakane and Weintraub, (2005), public banks increase their credit risk because of their political orientation, which is characteristic of public banks in developing countries.

But, the government, sharing part of the capital, guarantee's a financial and legal protection, especially from the market, and protects banks from the risk of failure (Megginson and Netter, 2001). A bank, as a credit institution, provides liquidity insurance by offering demandable deposits and underwriting credit lines to firms (Diamond and Dybvig, 1983; Kashyap et al., 2002). In doing so, they become exposed to liquidity risk. The concern is that a bank with a positive capital may fail due to a liquidity shortage. To prevent this, banks maintain precautionary "liquidity buffers of tradable short-term assets, which can be converted into cash without loss at a short notice (Pawel et al., 2012). A credit institution aiming to avoid this situation must retain enough liquidity in its balance sheet. Bank deposits, interbank loans, stock market and the lender of last resort are the most important resources for the bank to avoid a liquidity shortage. The Influence of privatization on the role of these capital resources and the liquidity risk are contrasted in literature.

Liquidity risk may come from a destabilizing behavior of depositors. However, this makes the bank susceptible to run until all agents panic and attempt to withdraw their deposits simultaneously. Bank ruins can be prevented if the government insures deposits by suspending the convertibility of deposits to cash. For the bank customers, the public organizations are immortal because the financial and monetary policy of the State is sufficiently expansive to limit the probability of bankruptcy (Leibenstein,1966).

The 2007–2009 sub prime crises showed that liquidity risk results from the collective reactions of the market participants. The liquidity shortages are added to the liquidity tense situation in the financial markets. This proves the strong link between banks' funding risk (the ability to raise cash to fund asset holdings, see Matz and Neu, 2007; Drehmann and Nikolaou 2010) and market liquidity (the ability to convert assets into cash at a given price at short notice). Through this channel liquidity risk led to solvency problems and banks had to write off illiquid assets. This development has induced policy makers to focus on the interactions between funding and

market liquidity risk and related systemic risk, as part of the macro-prudential approach (De Larosière Report, 2009). Getting a better grip on such dynamics, privatization has an influence on the relationship between the bank and the stock market. A securities market may play a role of fund raising mechanism by being of assistanceⁱⁱⁱ to a bank, facing a possible liquidity shortage. Privatization is a key determinant of the stock market development. For instance, Boutchkova and Megginson, (2000) analyzed the evolution of privatization through public share issues in several markets, and showed that they contributed significantly to the growth of the local market capitalization by improving investor diversification opportunities (Pagano, 1993; Subrahmanyam and Titman, 1999). Moreover, share issue privatization, involving the floating of shares in both domestic and international exchange, reduces informational barriers to foreign investment and enlarge firms' shareholder base (Chiesa and Nicodano, 2003) thereby boosting liquidity in the domestic market and bank liquidity.

In summary, privatization induces a dramatic change in the ownership structure and the set of incentives that affect management behavior will also evolve. Under State ownership, the choice of ownership structure after privatization, particularly foreign versus local investors, is important. A local or a foreign investor may be subject to hence potentially yielding divergent privatization outcomes. By far, most privatized banks in the developing countries are bought either by a foreign bank or by a local investor such as a group of firms that operate simultaneously in the industry.

Post privatization bank capital

In developing countries, private bank structures are marked by foreign investors and industrial group shareholders. Their impacts on bank risk are important.

Industrial Groups: Influential industrial groups can interfere in banking management by their important financial means, could become active investors and affect the manager's choices. In addition, the participation of these groups offer certain advantages to the bank: the bank has a share of the economy of scale in the research and treatment of information allowing them to exercise control at a lower cost than isolated individual shareholders. Moreover, the participation of these groups actually increases the bank risk due to the dependence on the group's financial situation.

In the case of bankruptcy or crisis, these groups remove suddenly their contributions from the capital of the bank, which destabilizes the firm. So, the participation of industrial groups, despite their advantages, represents a source of risk to the bank. The

bank becomes a financing instrument of these groups. The group management may have the incentives to expropriate banks and all other corporate assets in order to maximize their own wealth. Another potential risk of banks falling into the industrial group' hands is reducing the effective equity invested in the bank (Jeff, 2012). That is why the industrial group participation in banks must be legally controlled. Banks must respect prudential and legal implementations (Bonginiand et al., 2001).

Foreign investors: A recent study of Bonin et al., (2005a) and Christopher, (2012) demonstrated that privatization is not necessarily the only available solution, but there is foreign investor's participation in the bank capital especially in the developing countries coming from the developed ones. In fact, these investors also have an easy access to high data and telecommunications technologies, human resources skills, currency and new means of risk management. Besides, it gives an easier access to the international financial market (Haber, 2005). Foreign-owned banks generally belong to the banking holdings, profit from their economies of scale and give local banks a foreign customer portfolio. Haber, (2005) also investigated the impact of privatization on bank risk, and founds that the entry of foreign investors and the enactment of the accounting reforms in the second round of privatization in Mexico led to a more stable and efficient banking sector (e. g., a decline in the level of non-performing loans). Boubakri et al., (2005) documented the post privatization corporate governance of formerly government-owned firms in a large sample of developing countries. Contrary to what is documented in Bonin et al., (2005b) for transition countries, foreign penetration is less important in those countries.

In any event, the banking environment has changed completely in the recent years. The emergence of new prudential standards, the progressive disappearance of specific regulations, the strong evolution of new information technologies and communication and competition increasingly supported, show that banks are moving towards new strategies to meet the multiple constraints facing them, among these constraints we can isolate technological, regulatory constraints, counterparty risk, interest rate risk, liquidity risk and market risk. Recent studies show that the presence of the State is a determinant of the liquidity risk, creditrisk and solvency risk. In this paper, we will try to analyze, through an empirical study, the ability of the Tunisian banks to withstand these risks in this new and turbulent environment. We will focus particularly on bringing some answers to the following question: What is the impact of privatization on the bank risks in Tunisia?

Since the early 1980s, the banking systems of many countries have experienced a crisis of considerable magnitude, caused by the "suddenness of deregulation, the inefficiency of the internal control system, the lack of

market discipline, and the presence of a majority shareholder's status marking disabilities in government banks. This made the role of internal audit committee insufficient and non-existent. Dysfunctions in significant developments in the banking market mainly come from the sudden change in its environment and the characteristics of the system. Indeed, the banking system was more effective in its regulatory environment; more adaptation to new rules is long and expensive.

Several studies (Standard & Poor's 2011; Fitch ratings 2011) have been proposed to assess the risk of the banking system (the interest rate risk, credit risk, liquidity risk). The results showed that the Tunisian banking system suffers from the credit risk and bankruptcy, particularly in the presence of the State banks (IMF 2006). However, the result of this new banking policy is conspicuous. Indeed, the GDP growth in Tunisia rose from an average of 3.5% to 6%. However, despite mergers and privatization, the banking landscape remains publically dominated. The State controls 47% of the sector. Indeed, three public banks: The Tunisian banking company, National Agriculture Bank and The bank of housing has taken 47% market share in terms of loans.

In 2006, 20 banks in the market recorded a growth rate of 7.5% of their outstanding loans. This growth is mainly due to the dynamism recorded by consumer credits and special credits. The increase in special appropriations, including appropriations for housing, cars and consumer goods, has contributed to the expansion of bank assets thereby helping to reduce the substantial loss recorded in terms of loans for private investment. The decline in loans for private investment is explained by the financial fragility of the Tunisian banks and the under-capitalization of some industrial groups. However, the Tunisian businesses that suffered financial problems lament the reluctance of the Tunisian banks to finance investment projects. However, the financial fragility of firms cannot be an excuse for restricting the affected assets to the private investment to boost the pace of new businesses and jobs.

Banks avoid the risk of bad loans or bad debt, which bear heavily on the Tunisian banks. Especially, when the insolvency or the risk of default affects both groups known as "small investors. Hence, banks are obliged to improve their risk management in order to comply with the recommendations of Basel 1. The cost of risk by banking sector was estimated at 27% in 2008^{iv}. The adoption of an internal rating system of the internal audit and risk is essential for banks to enable them to fully play their role in financing the economy while preserving their basic capital.

However, the rate of claims was reduced to 19% in 2006. This rate was considered insufficient to ensure the expansion of banks and enable them to face foreign competition.

Hence the priority was given to the strengthening of the

banking provisions. The Central Bank of Tunisia has set a target to reduce the NPL ratio to 15% and achieve a minimum coverage rate of 70% of credits. In addition, banks have to ensure a minimum provision rate of 40% required by the BCT.

Banks are also requested to improve their coverage of credits. The average coverage rate of the sector stood at 54% in 2006 while the goal was to reach 70% in 2009.

Indeed, the most difficult problem faced by the Tunisian banks is that of bad loan rate which remained very high: 17.9% for the private banks, 24.1% for the public banks, while the international standard is 6%^v. The international rating agency "Fitch Ratings report, (2011) on the evaluation of growth of the Tunisian banking sector, shows that this sector remains a major weakness of the Tunisian economy. Additional measures are needed to prepare the financial system to the liberalization of the Tunisian dinar scheduled in the coming years.

The Tunisian banks suffer low profitability of their assets and equity. In 2006, the return on assets and return on equity were respectively set at 0.7% and 7.17%. Apart from the Bank of Tunisia, which recorded a rate of return on assets of 2.26%, the rates achieved by other local banks remain below the international standards. Regarding the rate of return on equity, the Tunisian banks are still struggling to reach the required level of profitability.

In any event, the Tunisian banks have succeeded in supporting the capacity provisioning to the detriment of their profitability and risk management. The process of restructuring and modernizing the banks is not completed. The consolidation of the financial basis and building equity into finding the claims attached are the main challenges faced by the banks. This makes us to try to answer the question: what the impact of privatization on bank risk?

METHODOLOGY

As indicated in the introduction, the major objective of the paper is to examine the impact of privatization on banking risk and the new shareholder structure considered adequate for our banks' post privatization.

Data and model

For the purpose of the empirical analysis, we have assembled a panel data set of 17 Tunisian banks. The selection in which the government is the majority shareholder is set in one group then finally private banks that have changed their status during the period 1990-2010. All the banks established since 1990, are included in our sample except the Tunisian Bank of Solidarity, the Bank of funding Small and Medium enterprises, and the Zitouna Bank, our sample is

heterogeneous (comprising public and/ or private bank). In our study, the analysis period is of ten years: 2000 to 2010.

The public or private classification is made depending on the share held by the government in the capital of each bank relating to the threshold value of 50%. Thus a bank is considered public if the government has (directly or indirectly) a holding share greater than or equal to 50%. Otherwise, it is considered private. Finally, the sample for our work in assessing the risk of privatized banks consists of 17 banks, which are: Amen bank (ab); Arab tunisian bank (atb); Attijari bank of tunisia (attijari bank); Bank of housing (bh); Bank of tunisia (bt); Tunisia and emirates bank (bte); Franco-tunisian bank (bft); Arab international bank of tunisia (biat); National agricultural bank (bna); Tuniso-kuwaiti bank (btk); Tuniso-libyan bank (btl); Citibank; Tunisian banking company (stb); Stusid bank; Tunisian qatari bank (tqb); Banking union for trade and industry (ubci); International banking union (uib). The model of regression is taken from the NarjessBoubakri (2005).

Variables explained

To examine the impact of privatization on banking risk, we followed related literature and relied on three aspects of bank risks (Cornett and Tehranian,1992): To examine the impact of privatization and ownership structure on the performance of NPBs, we proceeded with traditional descriptive analyses and panel data estimation techniques. In our multivariate analysis, we estimated the following general model using panel estimation techniques:

$$\text{Risk}_{it} = \beta_1 + \beta_2 \text{STAT}_{it} + \beta_2 \text{FOR}_{it} + \beta_3 \text{IG}_{it} + \epsilon_{it}$$

This contains the categories of dependent variables that will be retained in our analysis:

We used a measure of: Credit Risk (CR), that is equal to the past due loans to total loans ratio; Liquidity risk (LR) measured by Total Deposits / Total Credit; Capital adequacy (CA), measure solvency risk, which is measured by the ratio of risk assets (loans) to equity (LoanTEq). While PassDLoan and DoLGAP measure exposure, LoanTEq measures the "cushion" available to absorb shocks due to exposure. An increase in CA indicates a decrease in bank solvency (Cornett and Tehranian, 1992).

The explanatory variables

To better understand the effectiveness of bank privatization, it is interesting to consider a set of variables assessing the reconfiguration of the shareholders, the organizational characteristics and bank governance.

In this line of ideas, there are several categories of shareholdings according to the advanced theories. However, since our analysis is about developing countries, we will adopt the classification developed by Boubakri et al., (2005).

Stat ownership (State): This variable measures the share of government capital in the bank.

In this study, a panel data regression analysis was performed. Panel data, also called mixed or longitudinal data, consist of a combination of cross section and time series data. By combining time series of cross-sectional observations, panel data gives more information to obtain more consistent estimates in the analysis.

Privatization of the banking sector has specific characteristics, thus, we have to take into consideration the bank specification as a financial institution, not as an ordinary firm. The importance of the bank role in economic growth and financial stability poses the question of the new shareholder of bank post-privatization.

Our goal is to test the effects of the government retreat from the bank capital on the different types of risks, and emphasize the new ownership structure of the Tunisian banks. We used the following variable structures:

Foreign investors (FOR): Is the part of the foreign investors. This variable is used to display the importance of foreign presence in the creation of additional value of performance.

Industrial groups (IG): Is the percentage of industrial groups.

The risk is generated by the following regressions:

$$\text{CR}_{it} = \beta_1 + \beta_2 \text{STATE}_{it} + \beta_2 \text{FOR}_{it} + \beta_3 \text{IG}_{it} + \epsilon_{it}$$

$$\text{LR}_{it} = \beta_1 + \beta_2 \text{STATE}_{it} + \beta_2 \text{FOR}_{it} + \beta_3 \text{IG}_{it} + \epsilon_{it}$$

$$\text{CA}_{it} = \beta_1 + \beta_2 \text{STATE}_{it} + \beta_2 \text{FOR}_{it} + \beta_3 \text{IG}_{it} + \epsilon_{it}$$

Empirical results

Impact of privatization on credit risk: $\text{CR}_{it} = \beta_1 + \beta_2 \text{STAT}_{it} + \beta_2 \text{FOR}_{it} + \beta_3 \text{IG}_{it} + \epsilon_{it}$ (See table 1).

According to regression one, the coefficient of the variable "State" and IG are positive and significant at the threshold of 5% (67.08) and (1574.88), but "FOR" one is negative (-969.88). This means that it's better for the monetary authorities to quit the capital by ceding than shares to foreign expertise. In case of ceding to industrial groups, banks are more exposed to credit risk, that's why their entry must be severally conditioned.

Impact of privatization on liquidity risk: $\text{LR}_{it} = \beta_1 + \beta_2 \text{STATE}_{it} + \beta_2 \text{FOR}_{it} + \beta_3 \text{IG}_{it} + \epsilon_{it}$ (See table 2)

The results of the second regression show that the coefficient of the variable "State" is negative and

Table 1: Impact of privatization on credit risk

	Credit risk
State	67.08***
IG	1574.87**
FOR	-969.88***
C	-333.08
R ²	0.83
Estimator MCO	

***significance of the variables at 1% thresholds, **significance of the variables at 5% thresholds, *significance of the variables at 10% thresholds.

Table 2: Impact of privatization on liquidity risk

	Liquidity risk
State	-0.012***
IG	0.20*
FOR	0.0012*
C	0.691775***
R ²	0.109743
Estimator within	

***significance of the variables at 1% thresholds, **significance of the variables at 5% thresholds, *significance of the variables at 10% thresholds.

Table 3: Impact of privatization on solvency risk

	Capital adequacy
State	-58947.90***
IG	839089.7***
FOR	283321.4
C	-163016.2**
R ²	0.152688
Estimator MCO	

***significance of the variables at 1% thresholds, **significance of the variables at 5% thresholds, *significance of the variables at 10% thresholds.

significant (-0.012), but the "FOR" and "IG" are positive (0.0012), (0.20). This means that privatization increases the liquidity risk, so the presence of the State is recommended.

Impact of privatization on the solvency: $CA_{it} = \beta_1 + \beta_2 STATE_{it} + \beta_3 FOR_{it} + \beta_4 IG_{it} + \beta_5 C_{it} + \beta_6 \epsilon_{it}$ (See table 3)

The results of the third regression show that the structure ownership variable appears as a robust determinant of bank solvency. Its coefficient is relatively high and different from 0 (-58947.90), (839089.70), (283321.40). The coefficient related to

the State is negative and significant. This proves that privatization increases the adequacy of the capital and reduces the solvency. On industrial groups, the coefficient on the variable "IG" is positive and significant. So, the larger their share, the higher the adequacy of capital, and the more bank's solvability decreases.

DISCUSSION:

In this section, we discuss the main results in the Tunisian banks. First, State ownership increases the

credit risk. This result agrees with William, (2005) theory, which states that there is a positive correlation between the volume of credit provided by the state-owned bank for refinancing public enterprises in crisis and deteriorating of the bank financial situation. For Sapienza, (2004); Weimin et al., (2012) these credits are non-performing.

First, the situation of the Tunisian banks is mainly due to: The deteriorating quality of the bank asset portfolios and the results of the increased volume of non-performing loans. Government consists of normal, fallible and self-interested individuals. These empirical findings fit with reality in the banking system in Tunisia. The state-owned banks have been used to finance politically motivated projects or provide subsidized finance to favored groups.

Corruption and politicization of the resources of the public banks:

No commercial bank, including the public ones, could refuse to give credit to the political system. The public banks, with few deposits, had been, for the 23 years a source of funding for the former political regime. This exposes banks to liquidity shortage and the central bank must intervene. Among 175 companies dominated by the president's family, almost a third (56 companies) is financed by the Tunisian Banking Company, National Agricultural Bank and the National Agricultural Bank. Even the Franco Bank of Tunisia, with critical financial situation, financed 5 projects, followed by Amen Bank with 4, regardless of other casting pools where it is also present.

In the 2007 report, the Audit Office noted that the manager of the Tunisian banking company gave companies belonging to these family members, unethical and bad credits for trade totaling 270 million dinars. The same report also noted that these loans were an overdraft, so without the authorization of the credit committees. Similarly, the BS, before its privatization gave credits exceeding 15 million dinars to relatives of the president. Of the 2.5 billion dinars of credits allocated to the president's family, the BT granted 258.838 million dinars in 23 companies representing eight groups, an amount representing 8.5% of the total bank liabilities. Of the 258 MTD, the BT will be provisioned with 27.510 MTD.

Given the expected results under the previous financial year, the level of provisions to be decided under the 2010 fiscal year will take into account all these new needs^{vi}.

The purpose of the public bank is in the general interest of the country, directly and/or through banks, such as The Tunisian banking company, National Agricultural Bank, The bank of housing, and The Tunisian solidarity bank. The increase of the credit risk is manifested by an important volume of nonperforming loans and provisions.

Secondly, according to the capital adequacy results, we remark a negative relationship between the shares held by the State and the capital adequacy ratio. It is the ratio loans/equity. This contrasts literature. In reality, private

banks are more solvent than the public ones. This is due to the behavior of the private banks regarding the capital volume. These banks usually increase their capital by incorporation of reserves, and by issuing new securities. It would appear that private banks are seeking to improve their capital base as a guarantee (Guislain, 1995). In Tunisia, this situation may be also due to the asymmetry of information between the bank and the authority. Public banks do not declare in their published documents, such as annual report ..., the actual statistics in order to hide the reality of their situations, or because they are not directly exposed to financial market control, like the private banks. Finally, the increase of liquidity risk in private banks may be due to the aversion risk failure of the Tunisian households. They have more confidence in public banks where they deposit their moneys.

Conclusion

The issue of privatization in the banking sector is not limited to a simple withdrawal of the State, but rather to the new structure of post privatization of bank capital. The new shareholders must be selected.

Thus, our study is based on the impact of the ownership structure of banks on each type of risk (liquidity risk, credit risk and capital adequacy), and on the variable "State". The econometric study of the ownership structure helped us answer the following questions: What is the impact of privatization on bank risk? Why the new shareholder structure is considered adequate for our bank post-privatization?

We conclude that privatization is the best choice for a good credit risk management, rather than for the liquidity risk and solvency risk. For the new shareholders, it is suitable to open the bank capitals to foreign shareholders. Given its negative effects, the monetary authority must be vigilant in the IG participation. Banks must respect the prudential rules about the volume of credit for industrial groups in order to finance their private projects.

However, our work is limited by two facts, a small size of the sample and the impact of privatization on the other risks such as the market risk and the interest rate risk, which were not possible to study because of the notable lack of data.

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Endnotes

- I. www.bct.gov.tn
- II. LAW No. 2001A65 10 JULY 2001
- III. Banks provide liquidity insurance by offering demandable deposits and underwriting credit lines to firms. In doing so, they become exposed to liquidity risk. A bank unable to cover a liquidity shortage fails unless it is bailed out. Its central bank may be averse to providing a bailout in the form of Lender of Last Resort (LOLR) support due to monetary and incentive costs. Yet the intervention is unavoidable in a systemic crisis, when the survival of at least some banks is essential for real economic activity.
- IV. www.businessnews.com.tn
- V. IMF (2002, 2005), World bank (2004, chapitre 4), Fitch Rating (2003).
- VI. <http://www.businessnews.com.tn>