The Impact of Election on Stock Market Returns of Government-Owned Banks: The Case of Indonesia, Malaysia and Thailand

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ABSTRACT

Manuscript type: Research paper
Research aims: This paper investigates whether stock market returns of government-owned banks and private banks in Indonesia, Malaysia and Thailand differ during the elections period from year 2000-2013.
Design/Methodology/Approach: Using event study methodology, cumulative average abnormal return (CAAR) of 30 banks in Indonesia, Malaysia and Thailand were calculated. For robustness test, regression analysis using CAAR as its dependent variable was conducted.
Research findings: Results show that during elections, there is a significantly positive CAAR for both types of banks. However, CAAR for private banks is lower and less significant when compared to government-owned banks. This indicates that government-owned banks respond more to election results than private banks do.
Theoretical contribution/Originality: While past studies usually used regression analysis to measure the effect of government ownership on banks in a longer horizon, their effect in the short-horizon has not been well-researched. This research fills in this gap by using the event study methodology to capture its effect in the short-horizon.

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Wai-Yan Wong would like to extend her appreciation to Institute of Postgraduate Studies, Universiti Sains Malaysia for granting her USM Fellowship which in turn makes this study possible.

Practitioner/ Policy implications: The result of this study will benefit investors as it may help them better understand and evaluate the political impact on the banking industry during an election.
Research limitation/Implications: Firstly, survivorship bias analysis cannot be conducted due to the lack of information on inactive stocks. Secondly, this study could not run a separate analysis for each country as there was a total sample of only 30 firms which is the minimum requirement for a reliable statistical analysis.

Keywords: Election, Event Study, Firm Performance, Government-Owned Banks
JEL Classification: G11, G14, G21

1. Introduction

In the United States, banks have little or no government ownership (Shen & Lin, 2012; Andrianova, Demetriades, & Shortland, 2012). However, in emerging countries, especially Southeast Asian countries like Indonesia, Malaysia and Thailand, both private and government-owned banks co-exist but the latter is more common. In these countries, government-owned banks are one of the drivers of economic policy because they provide loans and financial support to industries which are supported by the government. These industries are usually those not considered profitable enough to be given loans by private banks. Studies show that the high growth rate of Indonesia, Malaysia and Thailand in the mid-1990s, before the financial liberalisation (Booth, 2014) was mainly supported by local banks which were largely owned or controlled by local governments (Goldstein, 1998). In the decade preceding 1997-1998, a period that marks the Asian Financial Crisis (AFC), the financial markets of Indonesia, Malaysia and Thailand had grown rapidly. Table 1 shows that in 2012, the banking industry had contributed 17 per cent, 14 per cent and 5 per cent respectively to stock market capitalisation in Malaysia, Thailand and Indonesia. Government-owned banks in Indonesia and Malaysia accounted for 72 per cent and 71 per cent of the total listed bank capitalisation in their respective countries while in Thailand, the Thai government held 34 per cent of the country's total bank capitalisation. These statistics show that government-owned banks have a large influence in steering the national economy of their countries.

According to Sapienza (2004), there are three theories namely the social theory, political theory and agency theory which could explain the role of government ownership in banks. The social theory takes the

Table 1: The Relative Size of Government-Owned Banks in Indonesia, Malaysia and Thailand

(All amount is in USD billions)	Indonesia	Malaysia	Thailand
Gross Domestic Product (GDP)	878	305	366
Listed Companies Market Capitalization	396	476	383
Listed Bank's Market Capitalization	20.3	82.7	53.2
Government Bank's Capitalization	14.6	58.7	18.1

Source: Worldbank and Bloomberg (2012)

view (Atkinson & Stiglitz, 1980) that government-owned banks help to reduce poverty, finance socially valuable (but financially unprofitable) projects, maintain the safety and soundness of the banking system, promote financial development, reduce income inequality (Beck, Demirgüç-Kunt, & Levine, 2007) and fund projects that help push for economic development (Dinc, 2005). The political theory suggests that government-owned banks act as a mechanism that is used by individual politicians to pursue their individual goals such as maximising employment or financing favoured enterprises (Shleifer & Vishny, 1994). The agency theory advocates that government-owned banks may be created to maximise social welfare and it may be exploited to generate corruption and misallocation (Banerjee, 1997; Hart, Shleifer, & Vishny, 1997).

In Indonesia, during the Suharto regime, political connections act as a determinant in a firm's access to finance (Borsuk, 1993; McBeth, 1994; Fisman, 2001). Many firms that were connected to Suharto preferred not to enter the international capital market as the benefits of international financing then were small compared to the benefits received from their local political connections (Leuz & Oberholzer-Gee, 2005). The Suharto regime was said to provide preferential financing for well-connected firms (so-called ''memo-lending''). For example, in the early 1990s, a lesser-known chemical and manufacturing group, Golden Key, had received an unsecured loan of USD430 million from the government-owned bank, Bank Pembangunan Indonesia. It was subsequently disclosed that the youngest son of President Suharto, Hutomo Mandala Putra, was an early investor in Golden Key and it was he who had introduced the firm to bank officials who then approved the loan at ''neck-breaking speed'' (McBeth, 1994).

In Malaysia, works done by Gomez and Jomo (1999) identify the existence of important relationships between politicians and firms. Using the list provided by Gomez and Jomo (1999), Johnson and Mitton (2003) find that politically-connected firms had poorer stock returns at the beginning of the Asian Financial Crisis (AFC). However, as soon as capital controls were implemented by the government, politically-connected firms did better on average, proving that the implementation of capital market greatly benefitted the connected firms.

In Thailand, ten families control about half of the corporate assets in the country (Claessens, Djankov, & Lang, 1999). These families remained dominant in the industry as a result of the advantages they had obtained from the government. They held monopoly power in the local market; they held special exporting or importing rights; they would win hefty government contracts and they were also protected from foreign competition. It appears that cronyism, unlikely to be a minor influential factor, contributed to the AFC in Thailand. Cronyism, in Claessens et al.'s (1999) term, has been a permanent feature of Thailand in the last few decades.

As mentioned by Nys, Tarazi, and Trinugroho (2015, p. 83), "while political connections of non-financial firms are well-documented in literature, the impact of political connections on banks is less studied". This gap paves the need to further explore the subject of political connections and banks. To the best of the researchers' knowledge, past literatures investigating the role of politicians in the banking industry focused on comparing profitability (Molyneux & Thornton, 1992), lending behaviour (Dinc, 2005) and risk-taking (Braun & Raddatz, 2010) patterns of government-owned banks with other banks. (For ease of reference, non government-owned banks are referred to as "private banks" in this paper.) According to Shen and Lin (2012), political influence in the banking industry is highly relevant during election years and election is often used as the proxy for political influence in firms (Brown & Dinc, 2005; Dinc, 2005; Khwaja & Mian, 2005; Leuz & Oberholzer-Gee, 2005). Elections, in particular, might tempt politicians who are in control to use government-owned banks for political purposes (Dinc, 2005). This might cause government-owned banks to behave differently around election periods unlike private banks with no such connections. While past studies usually use regression analysis to measure the effect of political connection on banks in a long horizon, their effect in the short-horizon has not been well-researched. To fill in this gap, this study uses the event study methodology to investigate the

variation between the cumulative average abnormal returns (CAAR) of government-owned banks and private banks during election periods in three countries: Indonesia, Malaysia and Thailand.

The organisation of this paper is arranged as follows. Section 2 presents the literature review. Section 3 explains the data and methodology. Section 4 provides the descriptive statistics. Section 5 reports and discusses the empirical results. Section 6 is the conclusion.

2. Literature Review

Government-owned banks and private banks have always co-existed in most countries (Iannotta, Nocera, & Sironi, 2013). They share some similarities in the sense that both practise the full-service banking model; both compete in the same market and they also operate under the same governing body (Iannotta et al., 2013). However, government-owned banks often hold a bigger market share. In the period surrounding the AFC, Cornett, Guo, Khaksari, and Tehranian (2010) find that government-owned banks particularly, those in emerging countries like Malaysia and Thailand, are less profitable and have greater risk than private banks. However, during the period preceding the AFC, the performance of government-owned banks improved tremendously to match those of private banks. This difference points to the possible intervention of political bureaucrats (Micco, Panizza, & Yanez, 2007). Political influence is pervasive in Indonesia, Malaysia and Thailand but there are numerous reasons to explain why political influence may pose bigger problems in the banking industry than other types of enterprises. First of all, political motivation is easily disguised in a supposedly harmless loan due to information asymmetry between banks and outsiders. Secondly, a politically motivated loan can be kept unknown until the loan maturity where by then it would be too late to take corrective measures. Thirdly, funds are easily channeled through banks as banks operate across countries (Dinc, 2005).

Past literatures have discussed the performance of government-owned banks, indicating that it tends to be lower when compared to private banks (e.g. Illueca, Norden, & Udell, 2013; Duchin & Sosyura, 2012; La Porta, Lopez-de-Silanes, & Shleifer, 2002; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1999). One of the reasons for this could be that government-owned banks help to carry out economic policies and provide loans and financial support to industries under the directive of the government. Such activities are deemed to be not profitable enough

to be taken up by private banks. Besides that, Iannotta et al. (2013) find that government-owned banks have lower default risk but higher operating risk. Moreover, their operating risk tends to be higher during election years which again, suggests that politicians use government-owned banks to pursue political goals (Iannotta et al., 2013). Such a behaviour is noted by Baum, Caglayan, and Talavera (2010) who find that government-owned banks, private banks and foreign owned banks displayed the same behaviour during elections in Turkey. However, they maintain that government-owned banks underperform when compared to private banks.

While all the aforementioned literatures had emphasised the weaknesses of government-owned banks, it has to be noted that government ownership is not necessarily bad. For instance, Boardman and Laurin (2000) find a positive relationship between government ownership and the stock returns of firms going through share-issued privatisations. Studies by Caves and Christensen (1980), Kay, Mayer, and Thompson (1986), Wortzel and Wortzel (1989), Martin and Parker (1995), Kole and Mulherin (1997) and Andrianova, Demetriades, and Shortland (2010) also provide empirical findings which show that government-owned enterprises do not necessarily mean that they are worse off than private ownership.

The relationship between politics and investor behaviour has been studied in China (Calomiris, Fisman, & Wang, 2010), the United States (Bomfim, 2003), the United Kingdom, France and Japan (Wang, Lee, & Lin, 2008). The impact of election on firms has also been studied by Lin, Ho, Shen, and Wang (2016), Chen, Ariff, Hassan, and Mohamad (2013) and Imai and Shelton (2011).

This paper focuses on government-owned banks in Southeast Asian countries because the exceptional economic growth in the period preceding the AFC was propelled and assisted by the role of banks in Southeast Asia (Casserley, Gibb, & Barton, 1999). Previous studies by Haggard (1988; 1998), Johnson (1982; 1987), Chang (1994), Campos and Root (1996), and Rajan and Zingales (1998) have emphasised on the high relationship-based political system in Southeast Asian countries before the AFC. Prior to that, there were also studies which examined the effect of the AFC on politically connected firms versus non-politically connected firms in Indonesia (Lemmon & Lins, 2003), Malaysia (Johnson & Mitton, 2003) and Thailand (Charumilind, Kali, & Wiwattanakantang, 2006) and these studies find politically connected firms to be more advantageous in receiving handouts from governments in the period after the crisis.

Although there are studies which investigated (1) the impact of election on the banking industry, and (2) the differences in behaviour between government-owned banks and private banks, studies have not explored Indonesia, Malaysia and Thailand in terms of stock returns[1]. This study thus attempts to fill the gap by using event study methodology as an approach to examine if the CAAR of government-owned banks and private banks' experiences are the same or different during elections.

3. Data and Methodology

3.1 Data

This paper examines the political impact on capital market in three Southeast Asian countries namely Indonesia, Thailand, and Malaysia. The Philippines is excluded because her electoral system differs vastly from the three countries. The Philippines have many types of elections such as presidential, vice-president, legislative, and local elections. These frequent elections are not conducive when conducting event study as the calculation for estimation window may be interfered with. Singapore is also excluded because it is a developed market whereas Indonesia, Malaysia and Thailand are categorised as emerging markets. Singapore is ranked as the world's fourth (4^{th}) strongest financial market whereas none of the three countries studied are ranked even in the top 35 (Liu & Reinhardt, 2009). Likewise, Brunei, Vietnam, Laos, Myanmar and Cambodia are excluded from this study as their financial markets are not as established as the three countries of Indonesia, Malaysia and Thailand.

This research employs daily closing stock prices of individual banks. These were obtained from Datastream so as to calculate the daily stock returns. Market indices of the Jakarta Stock Exchange (JSE), Kuala Lumpur Stock Index (KLCI) and Stock Exchange of Thailand (SET) were used to approximate the expected market return of each country. The sample period being examined is dated from 31 December 1999 to 31 December 2013. Overall, there were 11 elections during this period. The

[1] With the exception of Chen et al. (2013), most studies investigated the differences of government-owned banks and private banks in terms of bank lending behavior (Dinc, 2005), interest rate (Baum et al., 2010), leverage (Fraser, Zhang, & Derashid, 2006), and bank bailouts (Bongini, Laeven, & Majnoni, 2002).

sample period was taken to start from 31 December 1999 in order to avoid the impact of the AFC which had happened in 1997. The sample period was taken to end on 31 December 2013 because it is the latest data available at time of data collection. These data were collected from Datastream which is a reliable secondary source.

This study focuses on the general elections held in Indonesia, Malaysia and Thailand. The dates of elections in these three countries during the period examined are shown in Table 2. Elections are uncommon events which occur once every four or five years. As such, there are limited events that could be covered especially, when the sample duration is taken after the Asian Financial Crisis. A small sample of events should not be a concern as past literatures like Claessens, Feijen, and Laeven (2008) and Chen et al. (2013) have examined two events each.

Table 2: Election Dates for Indonesia, Malaysia and Thailand Between 31 December 1999 to 30 December 2013

Country:	Indonesia	Malaysia	Thailand
Election Date:	5 April 2004	21 March 2004	6 February 2005
	5 July 2004	8 March 2008	2 April 2006
	20 September 2004	5 May 2013	23 December 2007
	9 April 2009		3 July 2011

As observed from Table 2, there were three elections in Indonesia in the year 2004. The first election (5 April 2004) was the legislative election. It is held once every five years to choose the seats of the People's Consultative Assembly. The second election (5 July 2004) was the presidential election. Due to some confusion and miscommunication, votes were recounted and due to concerns of the re-counting and disputed results, a re-election was held on 20 September 2004. This explains why there were three election dates in a single year. In the case of Thailand, there was an election every year during the period between 2005-2007. The 2005 election was a normal election. The 2006 election took place because the then Prime Minister of Thailand, Thaksin Shinawatra, had dissolved the House of Representatives following a mounting campaign of criticism of his personal financial dealings. However, the election was a failure as it was boycotted by the major

opposition parties. Later the election was declared invalid by the Constitutional Court. A new election was then rescheduled for October 2006 but it was canceled when the military overthrew the government. Following the coup d'etat, another election was held on 23 December 2007 to elect a legislative body. In the case of Malaysia, all the elections were held according to schedule.

The initial search of bank data from 2000 to 2013 via Datastream revealed a total of 51 government-owned and private banks. The percentage of government ownership of each of the 51 banks was also provided by Datastream. To further confirm the government ownership of these banks, the percentage of government ownership as provided by Datastream was cross-checked against the banks' annual reports which were found on the websites of Jakarta Stock Exchange, Bursa Malaysia and Stock Exchange of Thailand. In the context of this paper, following La Porta et al. (1999), a bank is classified as government-owned if the government controls (directly or indirectly) at least 20 per cent of shares in the bank. For example, in Malaysia, BIMB Holdings is indirectly owned by the government as its main shareholder is Lembaga Tabung Haji, which is one of the investment arms of the Malaysian government. In Indonesia, Bank Negara Indonesia is directly owned by the Indonesian government through the Ministry of Finance. In Thailand, Siam Commercial Bank is indirectly owned by the Thailand government through Crown Property Bureau (CPB) which is chaired by Thailand's Minister of Finance.

Table 3: List of Banks Arranged According to Countries.

Indonesia	Malaysia	Thailand
Bank Danamon Indonesia	**Affin Holdings**	**Siam Commercial Bank**
Bank Intl.Indonesia	**BIMB Holdings**	**TMB Bank**
Bank Negara Indonesia	**CIMB Group Holdings**	Bangkok Bank
Bank Permata	**Malayan Banking**	Bank Of Ayudhya
Bank Artha Graha Intsl.	Alliance Financial Gp.	CIMB Thai Bank
Bank CIMB Niaga	AMMB Holdings	Kasikornbank
Bank Mayapada Intsl.	Hong Leong Bank	Kiatnakin Bank
Bank OCBC Nisp	Hong Leong Finl.Gp.	Krung Thai Bank
Bank Pan Indonesia	Public Bank	Thanachart Capital
Bank Victoria Intl.	RHB Cap.	Tisco Financial Group

Note: Banks highlighted in bold are government-owned banks.

This study observes that some of the banks do not have enough stock price data and accounting variables data. Banks that do not have sufficient data for the entire 13 years period of investigation were filtered out. After the filtering process, only 30 banks were noticed to have sufficient data to be included in the study. Ten (10) of the banks are government-owned. Table 3 tabulates the banks that are included in the study. Banks highlighted in bold are government-owned banks.

3.2 Methodology

The event study methodology introduced by Fama, Fisher, Jensen, and Roll (1969) has been extensively used in finance research to measure investor's reaction towards a range of events like elections, new issuance of equity and rights announcements. There have been several discussions made on the event-study methodology to further improvise on it. Most notably are those by Thompson (1985), Henderson (1990), Corrado and Zivney (1992), Binder (1998), and Kothari, Lewellen, and Warner (2006). The event study methodology is based on the notion of information provided by efficient markets whereby security prices should reflect all immediate accessible information. As an approach, it is still used today as a reliable method to measure the impact of a specific event on stock returns.

This study employs the market model where expected return on security i at day t is presumed to be equal to the return on the market portfolio. The reason for using this model is because it has been proven to yield valid results (Salamudin, Ariff, & Nassir, 1999). On the other hand, a simulation by Dyckman, Philbrick, and Stephan (1984) demonstrates that all the three elements of mean-adjusted, market-adjusted and market models are regularly used as models because they have equal capacity to identify abnormal performance.

In the case of Mackinlay (1997), a 41-day event window was employed. It comprised of 20 pre-event days, the event day, and 20 post-event days. In this study, the post-event days were extended until +60 days in order to observe the effect of election on stock return in a longer duration.. This is because Southeast Asian markets tend to be inefficient (Guidi & Gupta, 2011). In an inefficient market, stock prices tend to over-react or under-react (Bondt & Thaler, 1985). Under such circumstances, markets will need a longer time to react to the news (Dickinson & Muragu, 1994). The event window was thus, extended to capture the possibility of this occurrence. In the current study, the 81-

day event window was used. The event day (*d*-0) is noted as the election day. The estimation window is 250 days before the event window which is –270 to –20. The 250 earlier observations were then used to estimate the regression parameters *a* and slope *b* for each country stock prices.

An event study methodology using the market model is used to estimate the average abnormal returns (AAR) and cumulative average abnormal returns (CAAR). The abnormal returns of the share price is the indicator of the impact of the event. This means that the abnormal returns is the difference between the stock's actual return and the stock's expected return in the absence of the event. The model that is used to estimate the abnormal return is expressed mathematically as Equation (1):

$$r_t = a+br_{mt}+e_t \quad (1)$$

where, r_t is the stock return during a given period *t*; *a* is the average rate of return the stock realised in period *t* with a zero market return; *b* is the sensitivity to the market return; r_{mt} is the market's rate of return during a given period *t;* e_t is the part of a security's return resulting from firm-specific events.

The measure of the abnormal performance of a stock is represented by the residual, e_t. What one would forecast based on market activities in that period given the stock's sensitivity to the market, is called the abnormal return. If e_t is less than zero, then the actual return, r_t is less than the estimated return, $a + br_{mt}$. Rewriting Equation (1) interprets the definition more clearly, as is shown in Equation (2):

$$e_t = r_t -(a+br_{mt}) \quad (2)$$

The estimated parameters and the actual return of each security are then substituted into Equation (2) to calculate the residual, e_t, or the abnormal return (AR). The AR is then aggregated in order to draw the overall inferences for the event (MacKinlay, 1997). There are two dimensions of aggregation. First is aggregation across firms which get the average abnormal returns (AAR). Second is the aggregation of AAR across time which gets the cumulative average abnormal return (CAAR).

The statistical significance of AAR and CAAR has to be tested. The null hypothesis which states that there is no cumulative average abnormal return for both types of bank is to be tested using a simple *t*-statistic test. The null hypothesis is depicted as below:

$$H0: E(CAAR_{it}) = 0 \quad (3)$$

By computing the *t*-statistics, the test of significance is prepared. The simple *t*-statistics for AARs is the ratio of AAR_t to its estimated standard deviation, $\sigma(AAR_t)$. The standard deviation is estimated over day –270 to –20 representing 250 days estimation window. This is outside the event window of –20 to +60 so that the result would not be biased. The *t*-statistics for AARs is as follows:

$$t(AAR_t) = \frac{AAR_t}{\sigma(AAR_t)} \quad (4)$$

For CAAR, the *t*-statistics is:

$$t(CAAR) = \frac{CAAR(t_1, t_2)}{\sigma(t_1, t_2)} \quad (5)$$

where $\sigma^2(t_1, t_2) = l\sigma(AAR_t)$

The estimation of standard deviation for CAAR has been applied in many studies (Kothari et al., 2006). l is the horizon length of the event period which can be calculated from $t_2 - t_2 + l$. In this study, l is 81 trading days.

In this paper, the stock return of government-owned banks was segregated from that of the private banks. This is to test for any differences existing between the two categories of banks and whether government ownership affects stock returns. Regression analysis was also conducted to act as a robustness check. In the regression analysis, the dependent variable used is CAAR (cumulative average abnormal return). Most studies employ ROI and leverage as the dependent variable and they find that political connections affect firm performance in terms of accounting variables. However, since this study compares the responses of government-owned banks and private owned banks during elections in three Southeast Asian countries in terms of stock returns, this study follows Bialkowski, Gottschalk, and Wisniewski (2008), and Lehander and Lonnqvist (2011), thus it uses CAAR.

A fixed effect regression was conducted to test whether the hypothesis holds in a regression analysis. Factors that may affect market valuation were controlled. Two types of dependent variable were tested by using different windows. Following Bialkowski et al.

(2008) and Lehander and Lonnqvist (2011) who used CAAR as the dependent variable, this study also used CAAR (0, 5) and CAAR (0, 10) as dependent variables. Dummy variable was used to capture the effect of government-ownership on the stock return of bank. Government is set to one (1) if the bank is a government-owned bank and zero (0) if otherwise. This research controlled the effect of firm characteristics such as firm size, leverage and profitability on stock return. Firm size is quantified by the logarithm of total assets, leverage is quantified by total debt divided by total assets, and profitability is quantified by the ratio of earnings before interest and taxes (EBIT) divided by total assets. This study followed Bunkanwanicha, Fan, and Wiwattanakantang (2013) who used firm size, financial leverage and profitability as independent variables when cumulative average abnormal return is the dependent variable. All the variables were measured at the end of the respective election year in the respective countries. Regression was done by using a fixed effect model to control heterogeneity. Hausman test was performed to test the suitability of this model and the result of *p*-value of less than 10 per cent shows that fixed effect model is a suitable model for this study. Crisis is a dummy variable which takes the value of one (1) if calculation of stock returns (during estimation window or event window) falls in the period of economic crisis. This study considers the Global Financial Crisis, which officially lasted from December 2007 to June 2009, as a crisis period[2]. Three elections took place during the crisis, namely on 9 April 2009 in Indonesia, 8 March 2008 in Malaysia and 23 December 2007 in Thailand.

Model

$$CAAR = \alpha + \beta_1 DG0B + \beta_2 SIZE + \beta_3 LEVERAGE + \beta_4 ROA + \beta_5 CRISIS \quad (4)$$

4. Descriptive Statistics

Table 4 presents the descriptive statistics of the entire sample from 2000 to 2013. The descriptive statistics of government-owned banks were compared with private banks. In terms of returns on asset, government-owned banks were more profitable than private banks, a finding that is contrary to studies like Cornett et al. (2010) who conducted a study in the period preceding the AFC. In the current study, both types of banks have almost similar rate of leverage. However, private banks were almost twice the size of government banks.

[2] Source: Acharya and Schnabl (2010)

Table 4: Descriptive Statistics.

Variable	Government banks			Private banks		
	Mean	Median	Std Dev.	Mean	Median	Std Dev.
Total assets (RM million)	8500	666	19100	19900	837	41400
Debt-asset	0.12	0.10	0.08	0.13	0.10	0.12
ROA	0.05	0.02	0.09	0.03	0.02	0.05

Note: Std. dev. denotes standard deviation, ROA denotes return on assets and debt-asset denotes debt to asset ratio.

Figures 1, 2 and 3 show the movements of the average stock returns of government-owned banks and private banks in Indonesia, Malaysia and Thailand around the respective election period from the years 2000-2013. The unbroken line represents government-owned banks while the broken line represents private banks. As can be observed from the three graphs, the average stock returns for government-owned banks are always higher than that of private banks after elections had occurred in all the three countries. Besides that, stock returns of government-owned banks are more responsive to the result of the elections as compared to private banks, particularly for Thailand.

From Figure 1, it is noted that the movements of stock returns for both categories of banks in Indonesia are about the same, stock

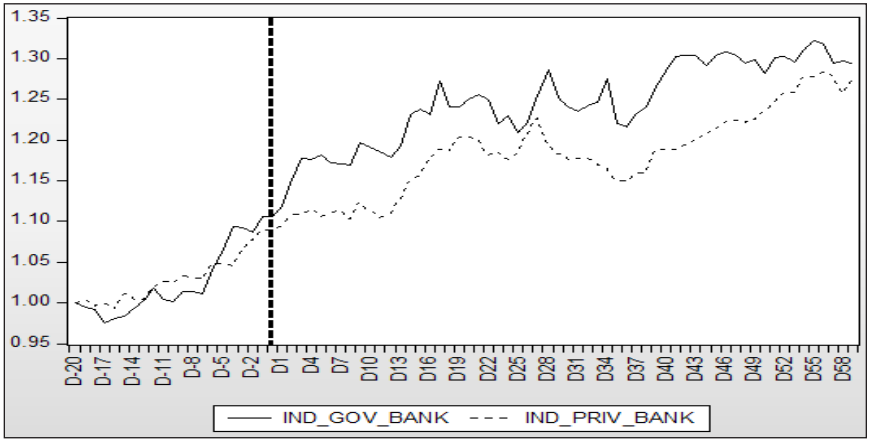

Figure 1: The average stock returns of government-owned banks and private banks in Indonesia around election over the years 2000-2013

returns were increasing slowly but steadily after election. More obvious differences seem to occur in Malaysia around election time. While election does not seem to have much impact on the stock returns of government-owned banks, the stock returns of private banks seem to have a downward trend as the date of election approaches.

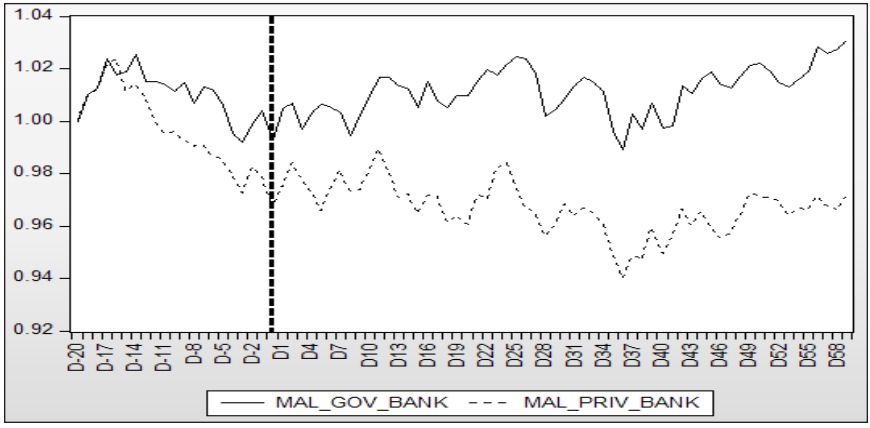

Figure 2: The average stock returns of government-owned banks and private banks in Malaysia around election over the years 2000-2013

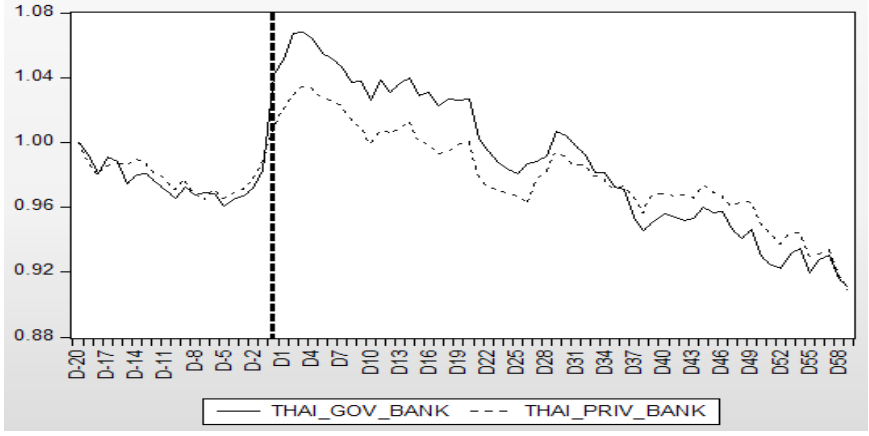

Figure 3: The average stock returns of government-owned banks and private banks in Thailand around election over the years 2000-2013

Figure 3 shows the movements of stock returns in banks in Thailand. The figures indicate that stock prices reacted immediately to election. The sudden spike on *d*-0 shows that market reacted swiftly to the news of the election. The reason could be due to the political stability of Thailand where the issue of street demonstrations held by supporters of political parties which did not win, in order to push for a fresh election, is common. Such an occurrence can affect investors who may lose their confidence in banks and this, inadvertently, can lead to a declination in stock prices.

As is a common phenomenon in most countries, the elected government makes the decision on the country's fiscal or monetary policies. In the case of Indonesia, Malaysia and Thailand, investors often experience anxieties and worries prior to elections or during elections because the government's decision is likely to affect the economy of the country, whether directly or indirectly. In this regard, stock returns may differ between government-owned banks and private banks as a result of investors' perception when looking at how political connections could affect business matters. It is possible that political connections within banks can lead to several impositions such as restricting certain bank activities, increasing government supervisory powers, and limiting banks to a particular set of behaviours and getting banks to act according to macroeconomic activities (Francis, Hasan, Song, & Yeung, 2015), all which may influence investor's preferences during the times of election.

5. Empirical Findings

Table 5 shows that the average abnormal returns (AAR) and cumulative average abnormal returns (CAAR) for the sample period from 2000 to 2013. The data show that there were a total of 11 elections for three countries. Column 4 in Table 5 presents CAAR for government-owned banks during elections and column 8 in Table 5 presents CAAR for private banks during elections. For government-owned banks, the CAAR of (0, +1), (0, +5), (0, +10), (0, +20) and (0, +30) event windows are 0.85, 2.70, 2.65, 3.89 and 3.47 respectively with all of them being significant with at least 1 per cent level. In the pre-election days (–20 20, 0), CAAR remains insignificant (except for d-1) and the consecutively positive significant CAAR for government-owned banks up to 5 weeks after election shows that investors were feeling uncertain and anxious before the election, apparently adopting the wait-and-see attitude. After

Table 5: AAR and CAAR of Government-Owned Banks and Private Banks 20 days Before Election and 60 Days After Election.

Day	AAR of GB	t-value	CAAR of GB	t-value	AAR of NGB	t-value	CAAR of NGB	t-value
d-20	0.16	0.58	0.16	0.58	-0.07	-0.39	-0.07	-0.39
d-19	-0.07	-0.25	0.09	0.24	0.16	1.07	0.09	0.38
d-18	0.03	0.05	0.12	0.27	-0.08	-0.37	0.01	0.03
d-17	-0.35	-1.02	-0.23	-0.54	-0.03	-0.06	-0.03	-0.03
d-16	0.00	0.01	-0.23	-0.56	-0.22	-0.49	-0.25	-0.38
d-15	0.12	0.47	-0.11	-0.29	0.54	1.21	0.29	0.57
d-14	0.01	0.05	-0.1	-0.31	-0.75**	-1.97	-0.46	-0.81
d-13	-0.34	-0.98	-0.44	-1.05	-0.24	-1.37	-0.7	-1.23
d-12	0.52	1.35	0.08	0.00	-0.05	-0.18	-0.75	-1.32
d-11	-0.29	-0.81	-0.21	-0.54	0.31	1.03	-0.44	-0.67
d-10	-0.04	-0.08	-0.25	-0.46	0.10	0.55	-0.34	-0.55
d-9	0.41	1.31	0.16	0.15	0.01	0.05	-0.33	-0.42
d-8	-0.12	-0.32	0.04	-0.04	-0.26	-0.39	-0.59	-0.68
d-7	0.22	0.39	0.26	0.21	0.01	0.06	-0.58	-0.69
d-6	0.55	1.02	0.81	0.65	0.34	0.98	-0.24	-0.27
d-5	0.70	1.07	1.51	1.15	0.11	0.45	-0.13	-0.11
d-4	0.63	0.67	2.14	1.40	-0.26	-1.06	-0.39	-0.43
d-3	-0.17	-0.66	1.97	1.26	0.68	1.60	0.29	0.37
d-2	-0.06	-0.19	1.91	1.24	0.44*	1.66	0.73	0.86
d-1	1.00**	2.49	2.91*	1.76	0.36	1.45	1.09	1.22
d-0	0.92	1.31	3.83**	2.44	0.33***	2.83	1.42*	1.64
d+1	-0.06	-0.21	3.77**	2.48	-0.38	-1.64	1.04	1.30
d+2	0.76	0.99	4.53**	2.29	0.41	1.26	1.45*	1.75
d+3	0.86*	1.67	5.39**	2.40	0.35	1.46	1.8**	2.00
d+4	-0.07	-0.26	5.32**	2.54	-0.19	-1.07	1.61*	1.71
d+5	0.34	1.12	5.66***	2.75	-0.28	-1.06	1.33	1.35
d+6	-0.42	-1.24	5.24***	2.87	0.31	1.50	1.64*	1.81
d+7	-0.28	-0.85	4.96***	2.72	0.19	0.86	1.83*	1.85
d+8	0.03	0.10	4.99**	2.57	-0.39	-0.99	1.44	1.36
d+9	0.89*	1.84	5.88***	2.74	0.36	1.00	1.8	1.64
d+10	-0.29	-0.79	5.59***	2.91	-0.58**	-2.18	1.22	1.18
d+11	-0.41	-0.94	5.18***	2.92	-0.46	-1.56	0.76	0.86
d+12	-0.48*	-1.65	4.7***	2.79	-0.41	-1.56	0.35	0.36
d+13	0.35	1.07	5.05***	2.77	0.27	0.93	0.62	0.59
d+14	0.65	1.01	5.7**	2.49	0.37	1.14	0.99	0.81
d+15	-0.48	-0.60	5.22**	2.41	-0.42	-1.56	0.57	0.41
d+16	0.40	1.22	5.62***	2.80	0.94***	3.34	1.51	1.06
d+17	0.78	1.53	6.4***	2.71	0.48	1.25	1.99	1.35
d+18	-0.33	-1.04	6.07***	2.81	-0.08	-0.12	1.91	1.21
d+19	0.41	1.52	6.48***	2.95	0.73**	2.16	2.64	1.52
d+20	0.49**	2.57	6.97***	3.06	0.30	1.18	2.94*	1.68
d+30	0.19	0.42	7.16**	2.36	0.20	1.05	3.14*	1.79
d+40	0.21	0.46	7.37**	2.35	-0.40	-0.99	2.74**	1.97
d+50	-0.05	-0.42	7.32**	2.09	0.58	1.45	3.32*	1.95
d+60	-0.03	-0.06	7.29**	2.10	-0.19	-0.53	3.13*	1.87

Table 5 (Continuation)

(0 to +1)	0.85**	2.48	-0.02	1.20
(0 to +5)	2.70***	2.75	0.21	1.35
(0 to +10)	2.65***	2.91	0.11	1.18
(0 to +20)	3.89***	3.06	1.70*	1.67
(0 to +30)	3.47**	2.33	1.78**	1.78

Note: AAR denotes average abnormal returns, CAAR denotes cumulative average abnormal returns, GB denotes government-owned banks, NGB denotes non-government banks (private bank), d-0 denotes election day, d-20 denotes 20 days before election and d+60 denotes 60 days after election, +1w denotes one week after election. CAAR is cumulated over each day although the numbers in the 20s, 30s, 40s and 50s are not shown in the table.
*, **, and *** indicate significance at 5%, 1% and 0.1% levels respectively.

the election, investors' confidence in government-owned banks began growing rapidly. This finding is consistent with Brown, Harlow, and Tinic's (1988) uncertain information hypothesis (UIH) which mentioned that when uncertainty is resolved, return should increase. In this case, the uncertainty of whether the incumbent government will stay in power is resolved thus, stock return rises after election.

For private banks, the CAAR of event windows (0, +1), (0, +5), (0, +10), (0, +20) and (0, +30) are -0.02, 0.21, 0.11, 1.70 and 1.78 respectively with only the CAAR of the last two periods being significant. In the entire event window from –20 to +60, the CAAR for private banks and its significance level are lower when compared to government-owned banks. The CAAR for private banks is not consistent and is not positively significant from day –0 until day +7. The lower amount of positively significant CAAR seen in private banks could indicate that investors do not perceive that the elections will have a huge impact on the value of private banks. In comparison, the AAR for private banks is positively significant on election day. This could indicate that some private banks may be enjoying political connections to a certain degree. When the incumbent government is re-elected, the political connection of private banks through politicians, can provide the assurance investors needed in that the businesses of such private banks will proceed as usual.

Based on the results shown in Table 5, the null hypothesis in Equation 3 which states that there is no positive CAAR for government-owned banks and private banks is thus rejected. Overall, the result indicates that elections produced a positively significant CAAR for both

government-owned banks and private banks. However, the result for private banks is not as strong as government-owned banks. On a side note, it appears that a significant CAAR for government-owned banks after the election date for up to at least 60 days is a good indicator in that it is inconsistent with the efficient market hypothesis (EMH). A result that is consistent with the efficient market hypothesis will have a stabilised CAAR after the event date because prices adjust immediately to reflect the new information. The result of this event study showed that private banks are more efficient than government banks when the results are explained under the EMH rule as its CAAR are smaller and less significant after the election. CAAR is a better indicator of the performance of banks as compared to AAR because CAAR captures the total stock movement of the entire period while also reflecting the impact of the election on election day as well as subsequent days after that. Figure 4 plots the AAR data provided in Table 5 into a graph, with the AAR on the y-axis against the trading day on the x-axis. Figure 5 plots the CAAR data shown in Table 5 into a graph with the CAAR on the y-axis against the trading day on the x-axis.

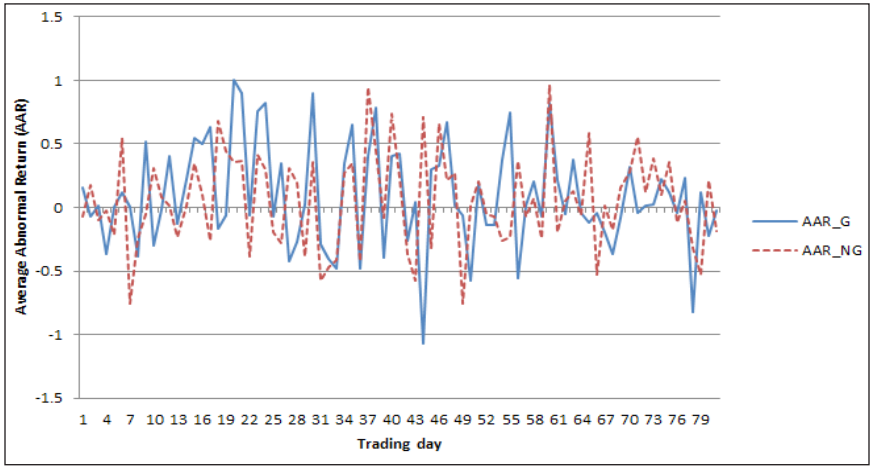

Figure 4: Graph of AAR against trading day

Note: AAR_G denotes AAR of government-owned banks and AAR_NG denotes AAR of private banks.

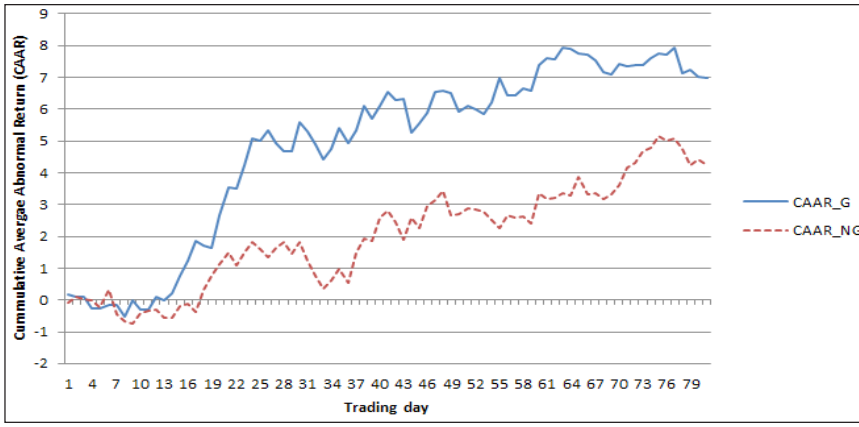

Figure 5: Graph of CAAR against trading day

Note: CAAR_G denotes CAAR of government-owned banks and CAAR_NG denotes CAAR of private banks.

5.1 Regression Analysis

In this study, results are reported separately for each country under two different windows (0, +5) and (0, +10). This is then followed by the overall results of the three countries. The results in Table 6 indicate that government ownership of banks matter for all the three countries for both window periods. The dummy variable of government is significant for both window periods in all three countries. The table also indicates that market valuation of government banks is influenced by the results of elections in the short-run. The result further confirms the findings shown in Table 5. It appears that government ownership has a positive effect on stock return. Its significance is highest in Malaysia followed by Thailand and then Indonesia. However, the declining level of significance for all countries from windows (0, +5) to (0, +10) shows that in the long-run, the effect of government ownership is less significant.

Firm size also appears to negatively affect stock returns for Indonesia and Malaysia after elections. This means that the larger the size of the bank, the lower the abnormal returns generated, which is in line with the results of Bunkanwanicha et al. (2013). Additionally, the firm's leverage may also negatively influence stock returns for all three countries after election. This result is consistent with Bunkanwanicha et al. (2013). In terms of profitability, the results of this study indicate that generally, more profitable firms have higher stock return.

Table 6: Regression Results of Government-Owned Banks.

	Indonesia		*Malaysia*		*Thailand*		*Overall*	
Variables:	CAAR (0,5)	CAAR (0,10)	CAAR (0,5)	CAAR (0,10)	CAAR (0,5)	CAAR (0,10)	CAAR (0,5)	CAAR (0,10)
Government	0.027**	0.021*	0.030**	0.025**	0.030**	0.023*	0.028**	0.022*
	(0.024)	(0.077)	(0.011)	(0.039)	(0.014)	(0.057)	(0.017)	(0.066)
Size	-0.002	-0.0078*	-0.002	-0.0041	0.001	-0.0033	-0.005	-0.0096*
	(0.681)	(0.092)	(0.583)	(0.211)	(0.808)	(0.218)	(0.348)	(0.073)
Debt-asset	0.004	-0.040	-0.016	-0.054	-0.006	-0.042	-0.014	-0.051
	(0.944)	(0.505)	(0.793)	(0.388)	(0.917)	(0.501)	(0.817)	(0.415)
ROA	-0.043	0.061	-0.021	0.126	0.002	0.125	-0.066	0.048
	(0.681)	(0.568)	(0.810)	(0.171)	(0.987)	(0.184)	(0.536)	(0.662)
Crisis	0.002	0.0226	0.004	0.0230	0.003	0.022	0.004	0.0236
	(0.861)	(0.100)	(0.783)	(0.106)	(0.841)	(0.110)	(0.765)	(0.187)
Constant	0.036	0.152	0.044	0.086	-0.014	0.067	0.124	0.226*
	(0.694)	(0.108)	(0.550)	(0.261)	(0.814)	(0.279)	(0.333)	(0.087)
No. of obs.	40	40	30	30	40	40	110	110
R^2	0.07	0.06	0.04	0.06	0.04	0.04	0.06	0.06

Table 6 shows the fixed effect regression's coefficient estimates. Dependent variable is cumulative average abnormal returns (CAARs) around election. The event date is defined as the first trading day after election. Government is a dummy variable that takes the value of 1 if the bank is government-owned and 0 if it is a private bank. Size is the natural logarithm of total asset and is used to measure firm size. Leverage is the ratio of total debt to total assets. ROA is the ratio of earnings before interest and tax to total assets and is a proxy for firm profitability. Crisis is a dummy variable which takes the value of 1 if the period where CAAR is calculated falls in period of economic crisis. The numbers in parentheses are *t*-statistics from heteroskedasticity-robust standard errors.
*, **, and *** denote statistical significance at the 10%, 5% and 1% levels respectively.

6. Conclusion

Using event study methodology, this study investigated the impact of election on the stock returns of banks in Indonesia, Malaysia and Thailand. The aim of this study was to test the above relationship by using daily data before and after elections from 2000 to 2013. The analysis concludes that stock returns of both government-owned banks and private banks react positively following election day.

However, government-owned banks have a higher positive CAAR and significance level when compared to private banks. In addition, CAAR for government-owned banks is also found to be continuously significant for the subsequent 60 days after the election. The findings indicate that government-owned banks respond more to election results than private banks do. Government-owned banks appear to rely a lot on their government because the owner of these banks is the government.

The above findings imply that before election, the prospects of government-owned banks are not clear because investors are unsure of the results of the election. Therefore, if the status of the owner of a bank is not certain before the election, then consequently, investors prefer not to take a big risk by holding on to the stocks of these banks. In this regard, investors will quickly sell off the stocks of these banks in order to avoid losses. On the other hand, stock returns of government-owned banks tend to increase after election because by such time, investors are already certain of the status of the owner of the banks. Informational efficiency means that stakeholders of the market gather the information on their own – from acquiring all available news and the political trends of their country to translating them into prices, in anticipation of the election outcomes. However, uncertainty regarding the result of the election may be resolved even before the real election date (Pantzalis, Strangeland, & Tuttle, 2000). Brown et al.'s (1988) uncertain information hypothesis (UIH) states that returns should increase when uncertainty is resolved. Thus, if uncertainty is resolved before the actual election day, an upward price changes is expected. In contrast, if the outcome of the election does not allow investors to immediately assess the effect on the country's future, then the election outcome constitutes an uncertainty that can induce surprises. In this case, positive price changes should be expected following the election as uncertainty about the policies to be implemented by the election winner is resolved (Pantzalis et al., 2000).

The relationship between politics and finance has been well documented in several international studies (Alesina & Perotti, 1997; Bernhard & Leblang, 2006; McGillivray, 2000). The results of the current study concur with Lin, Ho, Shen, and Wang (2016) and Chen et al. (2013) who find positive abnormal return for politically connected firms during elections. Differing from the aforementioned two studies which investigated firms from all industries, the current study specifically shows that government-owned banks have higher positive abnormal return during elections as compared to private banks. The findings of the current study may help investors to better understand and evaluate

the political impact of an election on an industry when they are investing in Indonesian, Malaysian and Thai banks.

Two limitations prevail in this study. Firstly, on the aspect of survivorship bias, the study sample does not have the information on inactive stocks thus this paper did not allow for a survivorship bias analysis. Secondly, this study could not run a separate analysis for each country as the maximum sample was only 30 firms which is the minimum requirement for a reliable statistical analysis. In this regard it would not be meaningful to divide the analysis according to countries. If a separate analysis was conducted for each country, the sample size for each country would then be only 10 firms each. These three countries were examined collectively because they share similar characteristics. For example, the economic growth miracle in the 1990s was largely assisted by their country's banks. Further, the financial markets of these three countries had also witnessed similar growth patterns over the years (Casserley et al., 1999) and as was mentioned in the motivation of the study, they all share similar political influences on their economies respectively. Thus, they were deemed most suitable to be studied together.

That being said, there is still room for improvement. Future research can investigate whether different percentage or level of government ownership in banks yields different result. Additionally, they can also investigate whether indirect government influence in private banks such as having ex-politicians serving on their board of directors will have an impact on bank performance.

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