Impact of Corruption, Transparency and Regulations on the Performance of the Banking Sector in Pakistan

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Abstract

The study's objective is to analyze the impact of corruption, transparency, and regulations on the performance of the banking sector in Pakistan. The study used data from 2008 to 2022. For the estimation of firm-specific variables, data is collected from the balance sheet analysis provided by the State Bank of Pakistan, corruption and transparency index data is collected from the corruption and transparency organization of Pakistan, and for the control variables (GDP, Inflation, KIBOR), the Statistical Bureau of Pakistan. The CAMEL analysis technique estimates the firm-specific variables and regresses with corruption, transparency index, and control variables. The study results show that corruption and transparency have a minor insignificant impact on the performance of the banking sector in Pakistan. The underlying reason is that when any political party member or the public holding officer is involved in corruption, they cannot hold the money at home. They deposit the money into the bank with their bold relation name, or sometimes in their servent names account. That is why the corruption money is included in the economic circle and cannot affect the economy. The study accepted hypotheses 1 and 2. The researchers left the third hypothesis for future researchers to analyze the impact of regulations on Pakistan's banking sector because both political changes and regulation implementation co-occur. The results partially contribute to the economic shock theory of Pakistan's financial sector.

Keywords: Corruption, Transparency, Regulations, Economic Shock Theory, Banking Sector.

Introduction

A country needs a robust financial sector to attain the goal of economic growth. As per the State Bank of Pakistan (SBP), the country's economic growth strengthens the banking sector and vice versa. The financial sector of Pakistan consists of commercial banks, agricultural banks, small and medium enterprise banks, investment banks, Insurance companies, modaraba and musharka banks, exchange banks, and development finance institutions. The banking sector is the core of Pakistan's financial sector (Ali et al., 2011).

Pakistan is a democratic Islamic country. All the elected government intends to achieve high economic growth year by year to cope with inflation and unemployment and strengthen the value

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of the currency in front of other currencies (USD, Euro, Pound, etc.), which are used in trade with other countries. The government of Pakistan forms regulations for the valuable contribution of the financial sector in the economic growth and development of the economy. The financial industry becomes the source of funding not only to the existing business unit for the growth and development projects but also provides funds as a lender of last resort at the time of insolvency of the corporates. It is also helpful when making the country's budget, and financial institutions contribute in the form of loans (long-term and short-term) to the country's budget deficit. The government policies aim to integrate Pakistan's financial sector according to the requirements, facilitating international trade.

Political Scenario

As we analyze the political scenario of 75 years, 30 years, the country faces three major marshal laws (army dictatorship), and 15 political governments were elected in forty-five years. From these 15 elected, no government completed its electoral period of five years before the year 2000. After that governments, only four governments completed their electoral period. In Pakistan, several large and minor political parties are working, but three are the major parties that rule the country as a federal government. One is Pakistan People's Party Parliamentarian, Pakistan Muslim League, and Pakistan Tehreek e Insaf. Before 2000, two major political parties ruled in the country. Pakistan Tehreek e Insaf took part in the general elections in 2002 elections. When a party comes into power in government, they start blaming the previous government for all the financial setbacks. They have criticized their laws, policies, and the criteria for implementing regulation in the country.

Regulations

State Bank of Pakistan (SBP) is a supervisory bank with the authority to form regulations for the smooth running of the financial sector. The SBP develops the country's monetary policy and interest rate policy. Before 1997, The Institute of Bankers of Pakistan performed these functions. In 1997, the SBP implemented BASEL I in the country and asked commercial banks to meet minimum capital requirements till 2013. After that, BASEL II (implemented in 2008) and BASEL III (implemented in 2013 to 2019) were implemented (Nasreen et al., 2023).

Parallel to this, the Securities and Exchange Commission of Pakistan (SECP) formed the Institute of Corporate Governance in 2002. It issued directions for the listed companies in the Pakistan Stock Exchange to follow the minimum standards of the corporate governance code. In 2009, the Code of Corporate Social Responsibilities was implemented for all listed and non-listed companies working in Pakistan. From time to time, these codes are modified. In 2017, the SECP replaced the company's ordinance in 1984 and passed a new act from parliament named Companies Act 2017. In this way, all the circulars and notifications were issued from the implementation of the companies' ordinance in 1984 till 2017 to become part of the law (Emmanuel et al., 2019).

Pakistan's financial sector has faced frequent legislative changes in the last two decades. During this period, many mergers and acquisitions activities were witnessed in the financial industry to meet the minimum requirements of these legislative changes. Before these changes, financial institution's numbers were significant but small in net worth. They cannot fight any uncertain country or global crisis. However, several small financial institutions merged after the implementation of legislation, and large financial institutions developed. These large financial institutions can perform according to the country's needs and contribute to sustainable economic growth and development of the economy (Ho et al., 2019).

As we have seen, one government makes policies for the growth of the financial sector. When these policies are implemented, the political government changes due to unforeseeable conditions. It hurts the performance of all economic units working in a country, especially the financial sector.

Corruption

Corruption is also a challenging element in underdeveloped and developing countries. Corruption is defined as the act of two people to influence the resource allocation to a particular project of interest. Pakistan's economy also faces corruption in all its sectors, including at the government level, where decisions are made on infrastructure development and hiring workforce in government institutions. Even the members of all political parties in Pakistan have allegations of corruption from the lower level to the chairman level.

Army general of command and president of Pakistan Pervez Musharaf (2003 to 2008) also faced allegations of corruption after his retirement. The prime minister of Pakistan, Mian Nawaz Sharif, was elected for the third time as prime minister of Pakistan. He is the only person elected three times as prime minister. However, he cannot complete a single term in an electoral period of five Years. His last government ended due to the allegation that he did not provide proof of his income, which he invested in Panama—by issuing Panama papers, the Supreme Court of Pakistan disqualified him due to not providing the source of income and procedure to transfer money from Pakistan to Panama.

Imran Khan is the ex-prime minister of Pakistan (2018 to 2022) and the chairman of a political party named Pakistan Tehreek e Insaf. He is a strong political leader in Pakistan and is primarily famous among youngsters. He is the only leader after the independence of Pakistan who is renowned among the people of Pakistan who work in other foreign countries. Supreme Court of Pakistan declared him as Sadiq and Ameen. However, he is also facing the allegation of facilitating a big property dealer in Pakistan, Malik Riaz, and getting bribery in the form of a donation to the Al-Qadir Trust (An organization non-profit established in Pakistan for promoting research in Islam. The ex-prime minister Imran Khan and the first lady are the trustee of the Al-Qadir Trust).

In Pakistan, the owners of large corporations become members of political parties, and after getting the power, they bypass the laws and favor the business community. That is why when they are not in control, law enforcement organizations impose allegations of corruption on them. Corruption is also an unavoidable element in underdeveloped and developing countries. Corruption hurts the performance of the organization's current and future goal achievement. When corruption prevails in public sector organizations from the bottom to the top level, it also influences all sectors of the economy (Private sector organizations). (Emmanuel et al., 2019).

Transparency

The general meaning of transparency is an instrument's quality that clearly shows everything. Nevertheless, concerning law enforcement, it means that every literate person can understand the same purposes defined by the law. The government first gets approval from the parliament and senate (the law-making institutions of Pakistan) and then implements it in the country. In Pakistan, when any government institute enforces a law of any kind, it cannot be understood clearly except by the practicing lawyer. That is the reason why when you go and interact with any government department, i.e., applying for a passport in NADRA, registration of the vehicle in the excise department, applying for a driver's license in the traffic police office, or getting any legal document from a court of law (stamp paper and registration of contracts), you cannot understand the process of applying even filing the application form. No government official can guide you about these. Alternatively, you need the services of paid agents who help you complete all the steps.

Different authorities must do their best to control corruption in public sector organizations. Pakistan National Accountability Bureau (NAB) and the Federal Investigation Agency (FIA) are working to prevent crime in the country. Pakistan's auditor general is another authority that is developing policies to control financial corruption in public sector organizations.

When we analyze the private sector business organization, it is the sole responsibility of the owners and board of directors to develop rules, procedures, and policies to control corruption within the organization. They need to build a solid internal control system based on equality. The business organization working in the country is considered a withholding agent. They collect customer tax and submit it to the Federal Board of Inland Revenue (FBIR). However, top-level corporate management is involved in tax evasion. They collect taxes from people (sales Tax, withholding tax) and try to find ways to steal this revenue. The business community sells the product without documentation (sales without invoice and get paid in cash and avoid bank transactions) and offers sales discounts to the wholesaler. They manipulate the expenses and show losses to save the business from paying income tax. In this way, they earn huge profits, but on the other hand, due to undocumented sales, they cannot be included in the Gross Domestic Product (GDP). It has the ultimate effect on the country's economic conditions. The business community in Pakistan cannot show actual results to its stakeholders (customers and government).

In Pakistan, the Federal Board of Inland Revenue (FBIR) and SECP developed the rules to protect the rights of stakeholders (Government and Customers). According to the International Transparency Index, from 2013 to 2018, Pakistan got the better position, from 130 to 117. However, from 2018 to 2022, Pakistan again reduced its class and is now at 140 on the International Transparency Index.

Problem Statement

Pakistan's economy has stood on the edge for the last three decades; sometimes, it is included in the developing economy, and sometimes in the under-developed economy. For sustainable economic growth, a solid financial sector is considered the backbone of the economy. Pakistan's financial sector faces several macroeconomic risk shocks. For example, frequent changes in the elected government bring frequent policy changes. Secondly, due to corruption, business communities avoid using the banking system to make business transactions. If they use a banking system for making business transactions, they must keep a transparent record and show it as and when required by any government law-implementing organizations. To develop a solid and sustainable financial sector that will contribute significantly to economic growth and development. It gives time for implementing regulations and is corruption-free and transparent regarding stakeholders' interests.

The present literature analyzes the performance of financial institutions in the context of Pakistan, and it is based on an event study. When the particular regulations are implemented? What is the behavior of financial institutions? Furthermore, it analyzes the performance during such a period. In this study, the researcher examines the impact of corruption and transparency on the performance of financial institutions in Pakistan during the electoral term of a government. The study also analyzes the effects of implementing regulations on financial institutions and compares the results with previous rules. In the available literature, the researcher cannot find any study that addresses the impact of corruption, transparency, and government regulation during the implementation period and the period of an elected government.

Research Objective

1) The study's first objective is to analyze the impact of government regulations, corruption, and transparency on the financial sector's performance in Pakistan as a whole.
2) The second objective is to compare the financial sector performance in four elected political governments that completed their electoral term.

Research Question

1) Does corruption, transparency, and government regulations impact the financial sector's performance in Pakistan?
2) What is the impact of government regulations implemented by the elected government on the performance of financial institutions in Pakistan?

Literature Review

In this section, the researcher provides the studies already done on the particular variables of the research and develops the hypothesis based on the findings of the studies. The researcher finds a literature gap and justifies the importance of conducting a present study.

Corruption and Financial Institutions Performance

The word corruption alarmed everyone to take steps to protect their business operations. Corruption slowly affects the performance of the business and creates critical situations in which business survival is made difficult. In one day, the company may be liquidated or merged with another business unit of similar nature. The importance of a financial institution in an economy is considered like the importance of blood in the body. A study was conducted on South Asian banks with a sample size of fifteen (15) commercial banks from 2010 to 2020. The results explain that corruption hurts banks' performance (Nasreen et al., 2023). Testa et al., 2018 conducted a study on 40 commercial banks. The study data was collected from 1987 to 2013. The study also found a negative relationship between the bank's stability and performance. His study also analyzed the impact of corruption on inflation and found a negative relationship. Atitianti & Chikelu 2021surveyed 400 business units established and working in the United States of America (USA) and found that corruption hurt the firm performance except for the young, small, and monopolist firms. A study was conducted on Russian financial institutions using a primary study model. The study's objective was to analyze the impact of corruption on firm performance with the mediating role of product innovation. The results explained that the phenomenon of corruption had a significant adverse effect on athletic performance and product innovations(Chadee & Roxas, 2013). Ellis, 2006 conducted a study on government organizations' data and found that corruption assesses organizations' performance. However, the study suggests how to reduce corruption in government organizations. If the government organization's spending was on capital accumulation, corruption cannot prevail in this organization. However, if the spending was based on itself, it means that corruption exists in this organization.

H_1 : Corruption hurts the performance of financial institutions.

Transparency and Financial Institutions Performance

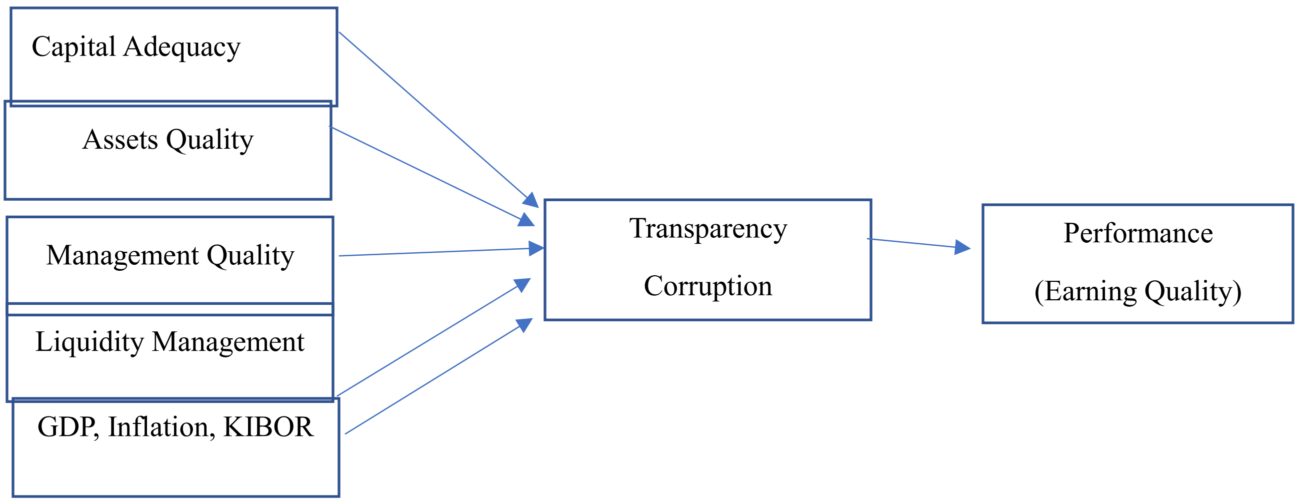
Transparency is needed in social relations and is essential in developing customer-business relationships. The bank customer requires transparency in every step, from investment execution to maturity, because the investor's current investment impacts future financial decisions. For this reason, banking customers need transparency in investment plans. Neifar et al., 2020 they Studied

25 Gul Corporation Islamic banks from 2008 to 2017. The results of the study explained that transparency in Islamic banks reduces operational risk and has a positive significant impact on the banks' performance. Oino, 2019 The study examined the effects of compliance and transparency on the performance of banks. The authors used primary research and collected data through a questionnaire. The study results showed that clarity improves banks' audit, risk management practices, and compliance. For this reason, the performance of banks also has a significant impact on their performance. Lahrech et al., 2014 study Based on financial data of global Islamic banks from the period 2006 to 2010. The results proved that transparency increased customer confidence in banks, which was why banks' performance increased during such a period. Akhigbe et al., 2013 Conducted a theoretical study based on available literature. The results show that transparency reduces the cost of capital, positively contributing to the banks' financial performance. Using big data from 37 countries' commercial banks, the impact of regulations and transparency on the performance of banks was analyzed. The author used the GMM model. The results proved that high transparency leads to high performance in the banking sector. (de Mendonça et al., 2012).
$H_{2.}$ *:* Transparency has a significant positive impact on the performance of financial institutions.

Regulations and Financial Institutions Performance
The regulation was formed for the sustainability and increased performance of the country's financial sector: Nastiti.& Kasri, 2019 study based on American banks. The study results showed that the performance of North and Latin American banks increased with the implementation of regulations. Still, it did not significantly impact the European and African banks. Hassan, 2020 analyzed the impact of the performance of regulations on 12 Islamic Indonesian banks from 2015 to 2017. The study results explained that the rules positively affect Indonesia's Islamic banks. Ofoeda et al., 2016 Studies the impact of an increase in the capital requirement of 10% in nonbanking financial institutions of Ghana from 2006 to 2010. The results explained that the capital adequacy ratio improved, and it had a positive impact on the performance. The researcher developed an argument based on his finding that the higher the capital adequacy ratio, the higher the profitability of Ghana's non-banking financial institutions. (Jamal Zeidan, 2012)explored the relationship between violating and nonvolatile regulation in the USA's financial institutions. The results showed that the financial institutions that broke the rules hurt their performance, and those who did not violate the regulations positively impacted the profit performance of the financial institutions in the USA. However, this was not implemented in small financial institutions. (Barth et al., 1997) analyzed the European and G-10 countries' banks. The researcher concluded that the impact of regulations on financial institutions was not the same for all; it depends on the bank's size, operations, and the country's overall geopolitical situation.
H_3*:* Implementation of regulations has a positive impact on the performance of financial institutions.
From the above discussion on the corruption, transparency, and regulations on the performance of financial institutions in the different contexts. The overall inference made by all the researchers is that sin hurts the performance of financial institutions. Still, transparency and regulations have a positive impact on their performance. The researchers suggested that these results differ from country to country and the size of the operations of financial institutions.
In the available literature, the researcher cannot find any study that analyzed the impact of corruption, transparency, and regulations on the performance of financial institutions during electoral governments. To control inflation and unemployment and achieve the goal of targeted economic growth based on the country's solid financial sector, every government is the ultimate

beneficiary of the sustainable development of financial institutions. The political parties used this data in their political campaigns.
The researcher fills this gap by studying the impact of corruption, transparency, and regulations on the performance of financial institutions working in Pakistan during the four electoral government periods. They completed their electoral period of five years, individually and as a whole.

Figure 1: Theoretical Model



Methodology

In the methodology, the research describes the population, sample size, sample section criteria, variables estimation, and model used in the study. The study population comprises all the financial institutions working in the country during the analysis period from 2008 to 2022. The study sample consists of those financial institutions that survived from 2008 to 2022 for the analysis of corruption, transparency, and regulations in Pakistan's financial sector.
The data collected for analysis purposes is the financial statement analysis of financial institutions provided on the State Bank of Pakistan website, the financial statement provided on the bank-specific website, and the financial statements of listed companies provided on the websites of the Pakistan Stock Exchange. If those financial institutions were merged, acquired, or liquidated, the financial statement data is unavailable on the mentioned sources. This data will be collected from the Business Recorder newspaper archive because this newspaper was considered an authentic source of publication of annual financial statements.
For the data analysis, the researcher will use the CAMEL analysis technique, first used in the USA in 1978, to analyze financial institutes' performance. Secondly, this technique was widely used for the performance evaluation of financial institutions after the implementation of BASEL (Afroj, 2022a). The researcher will use regression analysis to analyze the overall effect of CAMEL variables control with Gross Domestic Product (GDP), Inflation (I), and Karachi interbank offer rate (KIBOR) corruption and transparency as mediators.

Econometric Model

The modified econometric model used by (Yildirim & Ildokuz, 2020)

$EQR1_{it}$ (Earnings before interest and Taxes) $= \alpha_{it} + \beta_1 CAR1_{it} + \beta_2 CAR2_{it} + \beta_3 AQR1_{it} + \beta_4 AQR2_{it} + \beta_5 MQR1_{it} + \beta_6 MQR2_{it} + \beta_7 LMR1_{it} + \beta_8 LMR2_{it} + \beta_9 GDP_{it} + \beta_{10} INF_{it} + \beta_{11} KBR_{it} + \beta_{12} CTI_{it} + e_{it}$ ……………………………………………………………………………………………...(1)

Table 1: Variables

Variable	Variable Estimation
Capital Adequacy (CAR)	Equity to Assets Ratio (EA) = Equity /Total Assets Equity = Total Equity – Total Debt (Short-Term Debt + Long-Term Debt) Total Assets = Current assets + Fixed Assets + Other Assets
	Debt-Equity Ratio (DE)= Total Debt / Equity Total Debt = Short-Term Debt + Long-Term Debt
Assets Quality (AQR)	Non-Performing Advances to Total Assets Ratio (NPATA) = NPA/ Total Assets
	Non-performing Advances to Net Advances Ratio (NPANA) = NPA/ Net Advances Net Advances = Total Advances – Reserves for Non-Performing Advances
Management Quality (MQR)	Return on Net worth Ratio (RONW) = EAT / Net worth EAT = Earnings After Tax Net Worth = Total Assets – Fixed Assets
	Total Deposit to Total Assets Ratio (TDTA) = Total Deposit / Total Assets
Earning Quality (EQR)	Earning After Tax to Total Assets Ratio (EATTA) = EAT / Total Assets EAT = Earnings After Tax
	Increase in Net Profit (INP) = Current Year Profit – Last Year Profit. Profit = Earnings After Tax
Liquidity (LQR)	Liquid Assets to Total Assets Ratio (LATA) = Liquid Assets / Total Assets Liquid Assets = Total Assets – Fixed Assets – Other Assets
	Liquid assets to Total Deposit Ratio (LATD) = Liquid Assets / Total Assets
Gross Domestic Product (GDP)	Log (ln) of Gross domestic product reported by the government of Pakistan.
Inflations (INF)	Annual Rate of Inflation (I) in percentage reported by the Statistical Bureau of Pakistan and The State Bank of Pakistan.
KIBOR (KBR)	Karachi Inter Bank Offer Rate declared by the Pakistan Stock Exchange
Corruption and Transparency (CTP)	The International Transparency Organization announces the Corruption Index on an annual basis. The International Transparency Organization announces the Corruption Index on an annual basis.

(Afroj, 2022; Danlami et al., 2022; Ledhem & Mekidiche, 2020; Saeed et al., 2020Derviz & Podpiera, 2008; Keenay et al., 1977;)

Results and Discussion

In this section, researchers present the study's results by calculating descriptive statistics, correlation matrix, and regression analysis.

Table 2: Descriptive Statistics

	EQR1	CAR1	CAR2	AQR1	AQR2	LMR1	LMR2	MQR1	MQR2	GDP	INF	KBR
Mean	0.005	0.096	18.445	0.503	0.162	0.969	1.336	0.894	-0.126	0.04	9.188	10.57
Median	0.008	0.071	12.75	0.411	0.095	0.976	1.268	0.764	0.128	0.04	9.589	10.42
Maximum	0.069	1.119	636.46	8.206	3.649	1	9.4	14.485	2.347	0.07	20.29	16.1
Minimum	-0.09	-0.17	-51.013	0.014	0	0.597	0.041	0.104	-49.79	0.01	2.529	6.45
Std. Dev.	0.016	0.123	46.799	0.768	0.352	0.039	0.589	1.288	2.912	0.02	4.554	2.9

In table 2 the mean values of ERQ1 are (0.005), LMR1 is (0.0.969), GDP is (0.038), CTI is (2.429), and the standard deviation of EQR1 is (0.016); LMR1 is (0.039), GDP is (0.016), and CTI is (0.080). These values indicate that the standard deviation for EQR1, LMR1, GDP, and CTI is close to the mean. The mean values of CAR1 are (0.096), AQR1 are (0.503), and AQR2 are (0. 162), MQR is (10.894), MQR2 is (-0.126), LMR2 is (1.336), INF is (9.188), and KBR is (10.566). The standard deviation is CAR1 is (0.123), AQR1 (0.768), AQR2 (0.352), MQR1 (1.288), MQR2 (2.912), LMR2 (0.589), INF (4.554), and KBR (2.900). The means and standard deviations usually are spread not very close to the mean or not highly spread, but the mean value of CAR2 is (18.445), and the standard deviation is CAR2 (46.799). It shows that the standard values are highly spread out from the mean. The maximum and minimum values are not highly differentiated. The descriptive stats results show that the data is standard and there are no outliers.

Correlations

In table 2, the researchers show the correlation matrix of dependent and independent variables. The correlations matrix shows a positive correlation with CAR1 being (0.134), AQR1 being (0.105), LMR1 being (0.058), MQR1 being (0.161), MQR2 is (0.378), GDP being (0.090), and CTI (0.059). It indicates that when independent variables increase, the values of the dependent variable EQR1 also increase. The found negative correlations with CAR2 are (-0.296), AQR2 is (-0.216), LMR2 (0.082), INF is (-0.140), and KBR is (-0.089). It means that changes in independent variables adversely affect the dependent variables EQR1.

Table 3: Correlations

	EQR1	CAR1	CAR2	AQR1	AQR2	LMR1	LMR2	MQR1	MQR2	GDP	INF	KBR	CTI
EQR1	1												
CAR1	0.134	1											
CAR2	-0.296	-0.12	1										
AQR1	0.105	0.835	-0.002	1									
AQR2	-0.216	-0.094	0.079	-0.071	1								
LMR1	0.058	-0.766	-0.038	-0.87	-0.02	1							
LMR2	-0.082	-0.161	-0.004	-0.239	-0.001	0.242	1						
MQR1	0.161	0.814	-0.01	0.98	-0.012	-0.881	-0.299	1					
MQR2	0.378	0.048	-0.801	-0.006	-0.08	0.075	-0.006	0.008	1				
GDP	0.09	-0.049	0.093	-0.005	0.005	0.11	0.062	0.011	-0.058	1			
INF	-0.14	0.071	-0.065	0.03	0.005	-0.148	-0.046	-0.004	0.015	-0.693	1		
KBR	-0.089	0.019	-0.058	-0.013	0.01	-0.091	-0.077	-0.014	0.034	-0.757	0.586	1	
CTI	0.059	0.023	-0.102	-0.017	0.013	0.007	0.094	-0.048	-0.042	-0.299	0.129	0.196	1

Regression Analysis

In table 4 below, the regression results of all independent variables with dependent variables are shown. Here, the R-squared is 0.629 (62.9%), and the adjusted R-squared is 0.622 (62.20%), which means the model is 62.9%, explaining the results at 95% confidence intervals. F- Statistics is 79.607 is also significant.

Table 4: Regression analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.324	0.027	-11.939	0.000
CAR	0.027	0.006	4.460	0.000
CAR2	0.000	0.000	0.538	0.591
AQR1	-0.038	0.003	-12.615	0.000
AQR2	-0.012	0.001	-10.080	0.000
MQR1	0.031	0.002	16.495	0.000
MQR2	0.001	0.000	6.466	0.000
LMR1	0.316	0.023	13.872	0.000
LMR2	0.002	0.001	2.715	0.007
CTI	0.006	0.005	1.089	0.277
GDP	-0.005	0.042	-0.131	0.896
INF	0.000	0.000	1.446	0.149
KBR	0.000	0.000	-1.295	0.196
R-squared	0.629	**F-statistic**	79.607	
Adjusted R-squared	0.622	**Prob(F-statistic)**	0.000	

The coefficient is negative (-0.324), representing that if the change occurs in independent variables, the dependent variable EQR1 shows an inverse relationship. The results of CAR1 are (0.027), MQR1 is (0.031), MQR2 is (0.001), LMR1 is (0.316), and LMR2 is (0.002), a positive significant relationship with dependent variables earning management quality. This means that if the independent variable increases, the dependent variable decreases. The CAR2, INF, and KBR show zero insignificant relationships with dependent variables. This means no change occurs when there is a change in CAR2, INF, and KBR. However, the relationship is insignificant. The AQR1 is (-0.038), AQR2 is (-0.012), and GDP is (-0.005). The results show that AQR1, AQR2, and GDP directly relate to the dependent variable EQR1. Any change in these variables results in the same direction as the dependent variable.

Conclusion

The present study intends to analyze the impact of corruption transparency and regulations on the performance of financial institutions in Pakistan. The results of the study accepted the first and second hypotheses. This proves that corruption and transparency have a minor insignificant impact on the performance of financial institutions in Pakistan. The macroeconomic indicators are gross domestic product (GDP) and inflation (INF). Karachi Inter Bank Offer Rate (KBR) does not impact the performance of Pakistan's banking sector. However, they have insignificant relationships. Political setup changes and regulations in Pakistan are implemented in the banking sector. In 2008, a new electoral government took over the country after general elections, and Basel

II was implemented. In 2013, another electoral government took over the country after the general elections, and the BASE III implementation process started, which ended in 2019. In 2018, another government took over the country after general elections. In 2017, the Companies Act replaced the previously implemented Companies Ordinance 1984 by the Securities and Exchange Commission of Pakistan (SECP). So, it is tough to analyze whether the regulation changes impact the performance of the banking sector in Pakistan or political risk in the form of changes in political government, changes in regulations, and changes in law-and-order conditions of the country. So, the researchers left the third hypothesis undecided so that future researchers could analyze the impact of regulations on Pakistan's banking sector.

The study's results partially accepted the economic shock theory because the economic events in the country have very little or no impact on the performance of the banking sector in Pakistan.

This study contributes to the literature on financial institutions' performance concerning political government setups. It provides a new dimension for researchers of financial management and political finance. This study provides guidelines to local and international investors interested in investing in the projects of financial institutions; they first analyze the political scenario and then make the investment decision. This study also provides guidelines for the law-making and policy implementation institutions of Pakistan to analyze the policies of a particular government in their electoral period. It provides a base for policy and implementation.

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