

Driving Forces of Bank Liquidity: Evidence from Selected Ethiopian Private Commercial Banks

Authors : Tadele Tesfay Teame, Tsegaye Abreham, HÁgen István Zsombor

Abstract : Liquidity is one of the main concerns for banks, and thus achieving the optimum level of liquidity is critical. The main objective of this study is to discover the driving force of selected private commercial banks' liquidity. In order to achieve the objective explanatory research design and quantitative research approach were used. Data has been collected from a secondary source of the sampled Ethiopian private commercial banks' financial statements, the National Bank of Ethiopia, and the Minister of Finance, the sample covering the period from 2011 to 2022. Bank-specific and macroeconomic variables were analyzed by using the balanced panel fixed effect regression model. Bank's liquidity ratio is measured by the total liquid asset to total deposits. The findings of the study revealed that bank size, capital adequacy, loan growth rate, and non-performing loan had a statistically significant impact on private commercial banks' liquidity, and annual inflation rate and interest rate margin had a statistically significant impact on the liquidity of Ethiopian private commercial banks measured by L1 (bank liquidity). Thus, banks in Ethiopia should not only be concerned about internal structures and policies/procedures, but they must consider both the internal environment and the macroeconomic environment together in developing their strategies to efficiently manage their liquidity position and private commercial banks to maintain their financial proficiency shall have bank liquidity management policy by assimilating both bank-specific and macro-economic variables.

Keywords : liquidity, Ethiopian private commercial banks, liquidity ratio, panel data regression analysis

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