Review of: "Conundrums of the Liquidity Determinants of Commercial Banks in Ethiopia"

Karunanithi Ravirajan[1]

1 Larsen & Toubro (India)

Potential competing interests: No potential competing interests to declare.

Body

Article Name: Conundrums of the Liquidity Determinants of Commercial Banks in Ethiopia

By Dr Ravirajan K

The article discusses the factors affecting the liquidity of commercial banks in Ethiopia. The study used Generalized Method of Moments (GMM) dynamic panel regression to examine data between 2011 and 2021 for 15 commercial banks in Ethiopia. Meanwhile, the results suggest that bank profit, interest rate margin, concentration ratio, and inflation significantly reduce bank liquidity, while capital adequacy is not significant. On the other hand, GDP growth and the exchange rate have a positive influence on bank liquidity. Therefore, banks should strike a balance between maximizing profits and spreading interest rates so as to maintain their required liquidity levels. Moreover, policymakers and regulators need to take measures that can offset the harmful influences of market structure on the banking industry's liquidity. Ultimately, it is important for there to be continuous oversight and support aimed at protecting banks from possible fluid shortage problems.

The main strengths of this study are listed below:

1. A two-step system of GMM estimation is adopted to solve the endogeneity problem

2. Liquidity ratios (L1 and L2) are included in the study

3. The following bank, industry, and macro-specific variables are controlled in the study:

i) Size of bank measured by In (Audit Fees)/In(Total Assets)

ii) Lending rate measured by In (Lending rate of a bank /In (Average Male wage)*10

iii) Lending rate variation measured by In(Lending rate variation of a bank /In (Average Male wage)*10) iv)YoY change in GDP measured by Ln (YoY variation in GDP)

v) Interbank lending rate measured by In(Interbank lending rate of a bank /In (Average Male wage)*10) vi)YoY variation in GDP measured by In (GDP variation over YoY);

vii)Foreign Direct Investment (FDI) measured by FDI per Capita b) Unemployment rate measured by Unemployment rate of a country.

Relevance: The study has high relevance because it concerns the banking sector, which plays a prominent role in the country's economy, enabling researchers to determine the factors influencing bank liquidity in Ethiopia. Additionally, the results will guide the management of banks, government agencies and regulatory bodies, and inform further decisions.

Limitations: Although this study emerged as one of the most important econometric studies in Ethiopia, researchers should take notice of the shortcoming that the model developed to determine bank liquidity in Ethiopia does not include non-performing assets. Such profitability measures are essential to the effective risk management and evaluation of a bank's health. Lastly, the main limitations of this study are summarized below: The research period in question is only commercial banks, and the sample is from 2011 to 2021. It does not focus on important variables of the banking industry such as asset quality, business diversification, industry growth, FDI, and the unemployment rate.• Non-performing assets have not been included in the analysis model to assess the impact of bank liquidity, which undoubtedly is among the crucial aspects of the evaluation of bank liquidity at present.

The author has to address how international compliance and norms are influencing the liquidity of the banks. The Covid epidemic impacted the banking sector in the study period, and how it paralysed banking services and liquidity has to be analyzed.

Regarding the references, the article does not explicitly mention the inclusion of non-performing assets in the analysis model. Therefore, it is essential to verify if the references cited in the reference section are accurately quoted in the paper, particularly in relation to the inclusion of non-performing assets in the analysis model. This will ensure the accuracy and reliability of the study's findings and recommendations.