

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

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Potential competing interests: No potential competing interests to declare.

Topic: Conundrums of the liquidity determinants of commercial banks in Ethiopia

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Comments

This is an interesting paper that examines conundrums of the liquidity determinants of commercial banks in Ethiopia. However, the paper, in its current form, is underdeveloped. The writing in places is a bit unclear and fairly general, with no explanations provided. There are several sweeping and unattributed statements. I found it difficult to connect arguments across the various sections of the paper.

Abstract

The abstract is succinctly presented, providing a good overview of the study. However, it could be enhanced if the authors included information about the originality/value/novelty of the study. What is the unique contribution of the study?

Introduction

The first sentence needs a reference to make it authoritative.

The second sentence is too long and winding. It should be broken into two, and references provided accordingly.

The reference „Prefontaine, 2012" in the third statement is too old for a study with data spanning 2011-2021. There is a barrage of more recent studies on liquidity that the authors can make reference to. The authors need to see Girma, Lakew & Nurebo (2022) and Diriba & Berhe (2022), who also talk of liquidity in their works. I provide full references below.

- Girma, B., Lakew, D. M., & Nurebo, B. Y. (2022). Determinants of commercial banks' liquidity in Ethiopia. *Horn of African Journal of Business and Economics (HAJBE)*, 5(2), 15-29. <https://www.ajol.info/index.php/hajbe/article/view/250520>

- Diriba, T., & Berhe, A. H. (2022). Determinants of bank liquidity: Empirical evidence on Ethiopian commercial banks. *Research Journal of Finance and Accounting*, 13(11), 1831.

The second statement in paragraph two needs a reference to afford it authority.

The third statement in the same paragraph is a bit controversial: „ . . . several large commercial banks with serious liquidity problems went insolvent (Arif & Anees, 2012)“.

- i. Are the authors referring to commercial banks in Ethiopia or commercial banks elsewhere? This is relevant for context, as clarification would help in understanding the scope of the statement and its implications.
- ii. Was this still the problem in 2021 (i.e., considering the data windows 2011-2021), looking at the source the authors cited? Was it still relevant in 2021?
- iii. The authors should address (i) and (ii) to avoid the conundrums and ensure specificity, currency, and relevance of the statement provided.

Provide reference (s) for the first statement in paragraph three.

Provide a more recent reference for the second statement in the same paragraph. „Diamond & Dybvig, 1983,“ is too old.

The third statement in the same paragraph sounds speculative. Provide a verifiable and factual statement.

The fourth statement in the same paragraph is winding and without authority. The authors should break it into easy-to-understand pieces and provide references accordingly. This would improve the readability and reliability of the statement.

In the same paragraph, provide a verifiable source for the last statement containing, “15 billion birr”.

In paragraph four, declutter the citations in the first statement. Indicate who found what before concluding that no definite findings have been reached.

In the same paragraph, provide reference (s) for the second statement which reads in part, „ . . . many studies overlooked the market concentration ratio . . . “

Support, with credible source (s), the third statement in the same paragraph, which reads in part, „ . . . earlier studies had neglected crucial macroeconomic variables . . . “

In the same paragraph, the authors tried to highlight the relevance/significance of the study in statements four and five. However, the effort was not enough for the following reason:

- i. Sentence four reads, „The work builds on existing knowledge, contributing theoretically to the subject as well“. The authors failed to provide how the work did this.

There is no purpose statement in the introduction. I do not get a sense of research question, research objective, or hypothesis.

The findings in the abstract suggest that the authors used the following independent variables:

- Bank profit
- Interest rate margin
- Concentration ratio (even this, the qualifier, „market“, is missing from the abstract)
- Inflation
- Capital adequacy
- Growth of GDP
- Exchange rate, and Money supply (M2).

However, only market concentration, broad money [i.e., money supply (M2)], and exchange rates can be traced to the introduction. The rest, and indeed the majority, are not motivated.

The authors were unable to tell us what „conundrums“ is and why it should be part of the topic. What is „conundrums“ about the liquidity determinants of commercial banks? How does its addition or otherwise change the fact that the work is about liquidity determinants of commercial banks? It appears this is the term that the authors intend to use to differentiate their work from existing ones, but I am not sure it lived to its purpose. This study is therefore not starkly different from existing ones done on commercial banks in Ethiopia, such as those listed above.

The paper is poorly motivated. Why is the study important? What do we learn from it?

Literature Review

The first and only statement under this section is not clear. Recast it for improved readability.

The authors could not demonstrate how the Shiftability Theory explains the relationship (s) between the determinant (s) and liquidity. Which specific relationship does this theory help explain? Between bank profit and liquidity or inflation and liquidity, or . . . ?

A similar issue is identified with the Commercial Loan Theory. The authors were unable to link the theory to the issues under study. Let the theories help you connect your variables.

Verify the second statement under Bank Liquidity Creation and Financial Fragility Theory. Provide a reference for the statement and appropriately separate the part starting with „Peterson and Rajan (1994)“.

Under the same theory, provide reference (s) for the statement that reads in part, „Thus, it is lending credence to the financial fragility . . . “

This theory should also be linked directly to the study.

While the authors provided reviews on bank profit, capital adequacy, interest rate margin, inflation, exchange rate, GDP, money supply, and their relationship with liquidity, aiding in the development of hypotheses, they also reviewed new

variables such as bank size and deposit mobilisation in relation to liquidity, formulating hypotheses accordingly.

Surprisingly, although mentioned in both the abstract and introduction, the market concentration ratio is missing from the review. At this point, coherence is lost.

Methods

Remove the apostrophe on „banks“ in the last statement under Data and Sample Size.

Under the same heading, the authors should provide justification for using data spanning 2011-2021, but not other windows.

Provide references for the second, third, and fourth statements under Model Specifications.

Provide references for the sixth and seventh statements under the same heading.

Under the same heading, ensure that the GMM model is correctly specified. „it“ is a subscript.

Equations (3) and (4) contain return on assets (ROA) as an explanatory variable. This variable has no background or motivation in either the introduction or the literature review. It appears that the various aspects of the study are on their own – no flow of thoughts.

The authors used two proxies for liquidity – total liquid assets/total assets (L1) and total liquid assets/deposits (L2). Once again, the introduction did not introduce these proxies. Upon examining Tables 3 and 4, which present estimates for L1 and L2, respectively, it is apparent that the statistics differ. However, the findings indicated in the abstract suggest that liquidity was assessed using only one proxy. This is misleading.

Provide sources for the measures employed for the variables in Table 1.

Results

The authors provided descriptive statistics of the variables used in the model. This is commendable.

Separate estimations were done for L1 and L2 models. This is good.

The authors provided brief interpretations of the statistical outcomes. This is okay.

Discussion

The authors passively explained what the statistical outcomes implied. Not enough of their voice was heard here. They were unable to provide the intuitions behind the findings. Why those outcomes? Did they support the a priori expectations in Table 1? Why did they or did they not support them?

The authors linked the discussion to extant empirical literature. This is a good practice. However, the discussion was not theorised, though several theories were reviewed. This supports the concern raised earlier under Literature Review that the theories were not linked directly to the relationships under investigation.

Conclusion

Summarise the findings (see paragraphs two and three). Do not repeat what has already been presented under the discussion section. Here, readers are interested in the implications of the study.

How does the study support or refute existing literature? The „so what“ question is inadequately addressed in the paper.

The paper, in general, is under-theorised. The theories stated did not feature in the conclusion. Could future related studies apply the shiftability, commercial loan, or bank liquidity creation and financial fragility theory?

Interestingly, the authors claimed, in parts, that “This result completely supports the well-known „too big to fail“ theory” (see second paragraph). Is this the framework within which the study was conducted?

The authors proffered recommendations based on the findings, as well as suggested avenues for future research possibilities based on the study’s limitations. This is a good practice.

Overall, I am not sure of the international significance of the research. Strong theoretical arguments could improve this.

The paper in its current form is significantly underdeveloped. The authors may incorporate the comments herein to improve the quality and scholarship of the research.

Thank you.