

Determinants of Commercial Banks Liquidity: Systematic Review

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ABSTRACT

The objective of this systematic review is examining determinants of commercial banks liquidity which is conducted from 2014-2021. The review only focused on conventional bank liquidity. And the specific objectives of this review are to examine macroeconomic factor affect the liquidity, to scrutiny bank/firm specific factor that determine liquidity, and to identify the literature gap among the study. Inclusion and exclusion criteria of the data are The article included in this review are only on conventional bank liquidity. The research included in this which is conducted on “determinant (firm specific and macro-economic factor) of commercial bank liquidity” and “factor influencing commercial bank liquidity” between the year 2014 up to 2021. The data included in this review are more than 15 published research articles. Those were conducted by using different data type like cross-sectional, panel and time series data. Finally, the macroeconomic factor and bank related factor identified as well as the gap presented in this review. The gap stated helps for further researcher to conduct and fill the gaps.

Keywords: Bank liquidity; Macroeconomic; Bank size

INTRODUCTION

Banks are financial institutions that play intermediary function in the economy through channelling financial resources from surplus or depositors economic units to deficit (borrowers) economic unit. Liquidity creation is the main concerns of commercial banks because banks are mainly involved in deposit mobilizing and lending which have direct impact on their liquidity. Liquidity for a bank means the ability to meet its financial obligations as they come due, without incurring unacceptable losses. Also liquidity can be defined as the ability of a financial institution to meet all legitimate demands for funds [1].

Thus, liquidity risk arises from the fundamental role of banks in the maturity transformation of short term deposits into long term loans. Therefore, banks have to hold optimal level of liquidity that can maximize their profit and enable them to meet their obligation [2]. Banks strive to strike a balance between profitability and liquidity because the provision of sufficient liquidity to customers at all times is an essential feature of banking.

On this topic many research are conducted but some of the result are contradict as well as overdone title. Due to this the researcher tries to summarize their findings and make the way open for further researcher as well as to show the gaps in literature. Reviewing the empirical study which is conducted by different researcher in various countries on factor influencing the commercial bank

liquidity answered the following questions:

- What is macroeconomic factor affect commercial banks liquidity?
- What is bank/firm specific factor affect liquidity?
- What is the literature gap among the study?

Objective of the review

General objective of the review is to examine determinants of commercial banks liquidity which is conducted (2014-2021). By having specific the objective of

- ✓ To examine macroeconomic factor affect the liquidity
- ✓ To scrutiny bank/firm specific factor determine liquidity.
- ✓ To identify the literature gap among the study

METHODS

Inclusion and exclusion Criteria

The data inclusion and exclusion in the review is as follows. The article included only on conventional bank liquidity. The research included in this which is conducted on “determinant (firm specific and macro-economic factor) of commercial bank liquidity” and “factor influencing commercial bank liquidity” between the year 2014 up to 2021. Those included article are regardless of the data

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type used. And also included which is conducted in the same topic regardless of the country it investigated. Exclusion criteria, those are conducted before 2014 even if they are conducted on the same titles. Due to many factor progression since 2014 like economic, technological, and social as well as globalization makes countries neighbourhood. And also the increment of service and features that provided by the banking industry.

Data Source

The data included in this review are fourteen published research articles. These are conducted by using different data type like cross-sectional, panel and time series data. The time period covered which the articles included in the review conducted 2014-2021 within seven years.

ARTICLE REVIEW

Tafirei investigated on determinants of commercial banks liquidity in Zimbabwe [3]. He concluded that non-performing loans are highly and negatively affect banks liquidity.

Mohamed and Ben study on determinants of bank liquidity in case of Tunisia by using sample 18 banks [4]. They found that financial performance, capital to total asset ratio, operating cost to total asset ratio, growth rate of GDP, inflation rate, delayed liquidity have significant impact on liquidity.

Sheefeni and Nyambe investigated on macroeconomic determinants of commercial banks liquidity in Namibia [5]. The result shows real GDP is the main determinants of commercial banks liquidity. And monetary policy rate is positively related to bank even though statistically insignificant. In other side, inflation and commercial banks liquidity has negative relationship in this study.

Diep and Nguyen conducted on determinants of liquidity of commercial banks in Vietnam in the period 2000-2016 [6]. The study concluded that three determinant of commercial bank liquidity in this period. Those are: size of bank (positively affect), ratio of total loans to total deposits and capital to asset proportion are negative and significantly affect the liquidity.

Josephat and Justus assessment on determinants of liquidity on Tanzanian banks result shows that capital adequacy, bank size, and interest rate margin had a negative and statistically significant effect on liquidity [7]. Other hand revealed that, non-performing loans and inflation had positive and significant effect on liquidity. However, profitability and GDP growth rate had insignificant effect on bank liquidity.

Shah investigates factor affecting liquidity of banks operating in Pakistan [8]. They concluded that internal factor that affect liquidity capital adequacy, cost of fund, and bank size are statistically significant and negatively related to liquid asset to total asset ratio. From macro-economic factor GDP and unemployment are statistically and negatively affect banks liquidity. In addition their finding shows the relationship between deposits and bank liquidity is negative and statistically significant.

Abdu investigated on firms-specific and macroeconomic determinants of banks liquidity on Ethiopian private banks [9]. His findings shows that bank specific factor like size of bank, loan growth, and deposit are determinant of the bank liquidity. And macroeconomic determinants like interest rate margin, national banks bill purchase, GDP and annual inflation have significant factor influence on bank liquidity. Norazwa study show that bank

capitalization and interest rate are significant determinant of liquidity [10].

El-Charani conducted on determinants of bank liquidity in the Middle East Region by using 183 banks from eight countries for the period of three years (2014-2016) [11]. Its study revealed that economic growth, asset quality, capital level, and bank size are significant determinants of bank liquidity. He concluded that Lebanese banks have highest level of liquidity whereas Omani banks have lowest level of liquidity.

Gjorgij and Goran investigated on determinants of liquidity and its relationship with profitability in case of Macedonian banking sector [12]. The study includes important and potential factor banks internally related like lagged value of liquidity, bank profitability, size of banks, capital adequacy, and non-performing loan. While macroeconomic factors are GDP growth rate and Central bank reference interest rate. Their result shows that profitability, lagged value of liquidity, and central bank interest rate has positive effect on liquidity.

Puja investigated on bank specific determinants of liquidity of public and private sector banks [13]. The result shows determinants of liquidity for both public and private banks are varying. Public sector banks increase in their size, increase the amount of liquid asset adequately to manage liquidity risk. But, private banks rely more on financial market with their increase size holds less liquidity.

Zelalem investigated on determinants of bank liquidity and its impact on bank Profitability in Ethiopia findings shows that bank profitability, foreign exchange availability, and real GDP growth have positive significant effect on bank liquidity but net loan and advance has an undesirable significant effect on bank liquidity [14].

Tojiev investigated on factors affecting the liquidity of commercial banks [15]. His findings revealed level of development of market relation in different segments of the economy, activities of central bank, and rational allocation of resources in terms of profitability has a positive impact on liquidity. However, low quality of loan issued, increase in the volume of loan had negative impact on liquidity.

Mekonnen investigation which is on firm-specific and macroeconomic determinants of commercial banks liquidity in Ethiopia revealed that lagged value of liquidity and deposit has a positive and statistically significant effect [16]. On other side capital adequacy, bank size, interest rate margin, and GDP have a negative and statistically significant effect on commercial bank's liquidity.

Donjeta and Albert investigated on factors that affecting bank liquidity in Kosovo [17]. They concluded that non-performing loan, capital adequacy, and credit interest rate are grand and important factors on the liquidity banking position.

LITERATURE GAP

As long as the third specific objective of the review is to show the literature gap which exists tried to summarize their findings. The findings of various authors are not consistent to each other for the same variables. For instance; non-performing loan has negative and statistically significant effect on bank liquidity [3]. Whereas result shows non-performing loans has positive and statistically significant impact on bank liquidity [10]. Capital adequacy has positive impact on bank liquidity [10]. But other's result shows capital adequacy has negative effect on bank liquidity [7,16].

Also bank size effect on bank liquidity contradicts each other. Size of banks has negative and statistically significant effect on bank liquidity [4,7,8,11,16]. Other result shows size of banks has positive and statistically significant effect on bank liquidity [6,13]. Gross domestic product effects on liquidity are positive [14]. But other result shows as negatively and statistically significant effect on liquidity [8,11,16]. Finally, the gap mentioned here above give insight for further researcher particularly on banks liquidity.

CONCLUSION

According to the reviewed article so many determinant factor of commercial banks liquidity. Basically, these factors categorized as firm/ bank specific factor and macroeconomic factor. The bank related and important factor which is depicted by different author are: asset quality, capitalization ratio, bank size, lagged value of liquidity, bank profitability, non-performing loan, capital adequacy, credit interest rate, loan growth, low quality of loan issued, capital level, increase volume of loan and interest rate margin.

The second determinant factor which is macroeconomic are according to various author's findings the following. Those are: interest rate margin, national bill purchase, gross domestic product (GDP), inflation, Foreign exchange availability, unemployment, activities of national bank, real GDP, level of development of market relation, and rational allocation of resource.

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