Abstract

This research is conducted to investigate the determinants of liquidity in Lebanese commercial banks. These determinants have been categorized into two types: bank’s specific factors and macroeconomic factors. In addition, the researcher tested the effect of financial crisis on banks' liquidity for the period 2008-2009.

Balanced Random Effect regression was used for testing the data of twelve Lebanese commercial banks for the sample covering the period from 2007 to 2013. Two different measures of liquidity were analyzed in this research consisted of liquid asset to total assets ratio (L1) and net Loans to total asset ratio (L2). Therefore, two econometric regression models proposed by Malik and Rafique (2013) were adopted to represent these two measures.

Seven factors affecting commercial banks' liquidity were analyzed in this research. Bank's specific factors consisted of four factors: Capital Adequacy (CAP), Nonperforming Loan (NPL), Bank Profitability (ROE), and Bank Size (TOA). Whereas, macroeconomic factors consisted of two factors: Inflation Rate (INF) and Monetary Policy Interest Rate (MIR).

The results of the two regression models (L1, L2) revealed that bank Nonperforming Loan (NPL) and Monetary Policy Interest Rate (MIR) had a significant positive effect on banks' liquidity. Whereas, the results revealed that Inflation Rate (INF) had a significant negative effect on banks' liquidity. The results of the regression analysis also indicated that Capital Adequacy (CAP), Bank Profitability (ROE), Bank Size (TOA), and Financial Crisis (FC) had statistically insignificant effect on banks liquidity. However, the results of correlation analysis revealed that Bank Profitability (ROE) and Bank Size (TOA) had a significant positive relationship with banks' liquidity.