



THE CAUSES AND EFFECTS OF LIQUIDITY PROBLEM ON THE ETHIOPIAN BANKING INDUSTRY

ABSTRACT

This research project is a very crucial study for the Nigeria Banking Industry. The research work is aimed at identifying the causes of liquidity problems in the Nigerian Banking Sector. By this concept, factors militating against Bank liquidity as well as measure to remedy such factors are also identified.

To solve the research problem secondary source of data was extensively used by the research that in the review of related materials by prominent writers and authors. This helped immensely to obtain facts on the issues relating to liquidity problem in the Nigerian Banking sector.

Furthermore, the research work is established on five different chapters, therefore the research in been able to establish her finding appropriately the cause of liquidity problems such as fraud, loan default/ded debt and mismanagement as well as possible measures to solve such problems.

However, recommendation and conclusion were made in respect to the causes of liquidity problems in Nigerian Banking Industry as well as measure to solve such constraints, if properly employed, the concept of liquidity problem in Nigerian Baking Industry will be curtailed or even be eradicated entirely.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Basically, a bank has a two-fold function to receive deposits and to make loan such fund available as and when demanded by the depositors.

In connection with receiving deposits and making it available, there are many service that banks render which are fundamental important to the normal functioning.

According to Orjih (1980) a firm is said to be liquid when it is able to meet its obligations they become due. This by implication entails that a firm is said to be facing liquidity problems, when it cannot be able to meet its obligations as they become due.

The issue of liquidity problem in the Nigerian Banking Industry cannot be over emphasized.

This has been considered disastrous in the past present and even in the anticipating future.

Liquidity problems have resulted to the loss of Goodwill of many banks distress as well as failure of most banks. Banks like society Generals, Allied Bank, Pan-African Bank, Progress Bank, Highland Bank of Nig ltd, etc are not an existence have faced distressed.

Hence, the researcher is motivated to write on this particular problem because of its present negative effect to most banks who though survive it, and well as those who are still being confronted by such problem.

1.2 STATEMENT OF THE STUDY

Presently, a lot of banks are being criticized by many individuals, people moving their funds from one bank to the other, and people changing their bank of transaction to another.

Also so many banks are faced with the concept of liquidity problem, there by not being able to meet their obligations as and when due. Most individual's loss confidence on some banks while some do not have confidence on bank in general.

Furthermore, some categories of persons prefer holding their cash (liquidity preference) while some prefer investing it rather than saving such fund with the bank as a result of lack of trust and confidence on Nigerian Banks.

This research work is contained with the affect and causes of liquidity problem in Nigerian Banks Industry.

1.3 OBJECTIVE OF THE STUDY

The study of the work," the effect of liquidity problem on the Nigerian Banking Industry. Intends to achieve the following objectives:

1. To find out the possible causes of liquidity problems.
2. To examine the effects of liquidity problem on the Nigerian Banking Industry.
3. To find out impact of liquidity problem on the Nigerian Banking Industry on the economy.
4. To identify way of contending with or possibly eradicating the causes liquidity problems on the Nigerian banking sector.

1.4 RESEARCH QUESTIONS

In order to attain the afforested objectives the researcher is expected to employ the following research question.

- What are the causes of liquidity problem in your bank?
- What impact do you think liquidity problem has on the Ethiopian Banking Industry?
- Does liquidity problem has any effect on the economy at large?
- What are the likely measures or necessary steps taken by your bank in times of liquidity problem?
 - Is this liquidity has relationship with political instability?
 - What is the role of Ethiopian customs & Revenue authority to stabilize bank cash liquidity?
 - The role of local investors to moderate the bank cash Liquidity
 - The role of Foreign investors to moderate the bank cash Liquidity
 - Is this cash Liquidity related with adaptation of E-commerce in Ethiopia?
 - What is the role of FDRE Government to stabilize bank cash liquidity?
 - Describethe impact of Liquidity on unemployment
 - As a banker mobilizing additional deposit is the right solution to stabilize the cash liquidity of bank?
 - What is your recommendation for this problem?
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1.5 SIGNIFICANCE OF THE STUDY

The significance of the study establishes the justification for carrying out my study. Therefore, banks and other numerous financial institutions will have this research work an item of reference.

Banks will benefit from this work as it will reveal to them the major and other factors that militate against the concept of liquidity, as well as its measures to be prevented.

However, this research work will be of great significance to the Nigerian Banking Industry and curtail the extent of liquidity problems, bank distress as well as failures.

1.7 DEFINITION OF TERMS

LIQUIDITY: Liquidity entails the ability of the bank to meet promptly its current obligation, or ability of the bank to meet the customers demand as and when due.

LIQUIDITY PROBLEM: This arisen where the bank cannot be able to meet up with its current obligations.

BANK DISTRESS: This implies failure that is when a bank has a negative net worth and can no longer meet up with bank examination rating or acronym known as CAMEL; that is capital Adequate, Assets quality, Management competency earning capacity and liquidity position.

BAD DEBT: This can also be called irloverable debt, which means debt due to creditor but which for some inherent weakness the full or partial recovery is considered not possible.

LIQUIDITY PREFERENCE: This means the idea of an individual holding his/her money as cash with him/her instead of investing it.

DEPOSIT: This is use to refer to the fund or money paid-in or lodged-in by a bank customer into an account which may be his or not.

CHAPTER TWO

REVIEW LETRATURE