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Determinants of Bank Productivity: Evidence from the Ethiopian Commercial Banks

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Abstract

This paper examines the determinants of productivity in the Ethiopian commercial banks from 2006 to 2017 using a balanced panel data of eight banks as well as 96 observations. For this purpose, DEA-based Malmquist productivity index is used to analyze the banks' productivity measured by total factor productivity change (Tfpch) in the first stage, whereas Tobit regression model is employed to investigate the determinants of Tfpch for the banks under study in the second stage. Meanwhile, DEAP software 2.1 version, as well as STATA 12, are applied to estimate Tfpch and its determinants, correspondingly. Moreover, the independent variables diversification (DIV), market share (MKS), bank size (BS), capital adequacy (CA), asset quality (AQ), liquidity (LIQ), economic growth (EG) and inflation (INF) are part of this study. The findings of the study show that the banks have exhibited a productivity progress of 0.4% throughout the study period due to technological progress (0.9%) rather than the efficiency loss (0.5%). Meanwhile, the results suggest that the decline in the banks' technical efficiency is caused by the regress in both pure technical efficiency and scale efficiency. In addition, the second stage regression results reveal that all of the explanatory variables under study have a statistically significant effect on the bank's productivity (measured by Tfpch). As per the findings of the study, the variables DIV, MKS, BS, CA, AQ, EG and INF are found to have a positive significant effect on the banks Tfpch. Alternatively, the results show that Tfpch of the banks under study is affected negatively and significantly by LIQ over the study period.

Keywords: Determinants, Productivity, Commercial Banks, DEA, Malmquist Productivity Index, Tobit Regression Model

Is Being a Good Corporate Citizen Monetarily Good for the Shareholders? Evidence Based on Companies Announced as 100 Best Corporate Citizens, 2008-2017

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Abstract

We examine the impact on the shareholders of companies announced as the 100 Best Corporate Citizens by the *Corporate Responsibility Magazine*. The global financial crisis triggered a profound shift in the expectations for companies to be good citizens; hence, we examine the period 2008 – 2017. Correlations between the ranks of these firms on the dimensions used for rating their overall citizenship suggest that these firms have been deploying significant financial resources towards climate change and environment issues. Further, we find that the average abnormal return to the shareholders at the time of announcement and over three subsequent years is significantly negative (-0.21% and -7.2%, respectively). Panel regressions indicate that the better the rankings of these firms on the Climate Change, Employee Relations and Financial Performance dimensions, the worse their post-announcement abnormal returns. We discuss possible explanations that are consistent with these findings.

Keywords: Social Responsibility, 100 Best, Event Study

JEL Classifications: G12, G14, M14

Stock Price Reactions to the Paris Climate Agreement

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Abstract

We use an event study methodology to examine the reaction of U.S. stock prices to the signing of the Paris Climate Agreement. We find that firms with higher Environmental, Social and (Corporate) Governance (ESG) rankings relative to their industry peers experienced negative and significant cumulative abnormal returns in the five-day window around the date that the Agreement was opened for signing. However, the same firms experienced positive and significant abnormal returns in the year following the signing date. We interpret these findings to mean that investors believe firms with better ESG have already committed to environmental protection and therefore could incur more costs than their peers after the agreement is signed. Such reasoning suggests nearsightedness on the part of investors, as ESG is positively related to stock performance in the long run. This result is partly driven by the rapid growth in exchange-traded funds (ETFs) over the sample period.

Key Words: Paris Climate Agreement, Environmental-Social-Governance Rankings, Stock Prices

JEL Classifications: G12, Q54, Q58

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Impact of Macroprudential Measures on Non-Banking Financial Intermediaries: Evidence of Regulatory Arbitrage in a Cross-Country Framework

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Abstract

Does tightening of regulation in the banking system reallocate intermediation from banks to unregulated or less regulated entities like non-banks? Do economic stakeholders take advantage of the regulatory arbitrage to off-set intended policy effects and exacerbate systemic risks? Using panel data of non-bank financial intermediaries from 27 countries spanning developed and emerging economies classified according to economic functions in the Financial Stability Board (FSB) database for the period 2006-2018, we show

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that tightening of macro-prudential measures, such as capital to risk weighted assets ratio (CRAR) in the domestic banking sector, raises the Non-banking Financial Intermediaries (NBFI) assets in financial firms producing close bank substitutes, extending convincing evidence of regulatory arbitrage by NBFIs. Quantile regression results illuminate that this phenomenon is restricted to firms with small and medium asset size specializing in collective investment schemes (EF1) and finance and leasing companies (EF2). At the aggregate level, for every 100 basis point increase in CRAR, NBFI as sets increase by over 16 basis points, with the largest response coming from EF1 and EF5 NBFIs. Inefficiency of the banking system is one of the crucial factors behind replacement of banking business by non-banks in NBFI firms performing bank-like functions. NBFI regulations have been instrumental in constraining the growth of the NBFI sector to some extent, but their impact is restricted to large NBFIs. However, tighter regulation and lower efficiency in the banking sector are not conducive to the growth of NBFIs in emerging economies because the latter are connected with banks on the fund side. But it is strongly positive and statistically significant for offshore financial centers.

Keywords: Regulatory Arbitrage, Shadow Banking, Non-banks, Panel Regression, Quantile Regression, Macroprudential Measures

JEL Classifications: E30, E44, E50.