

THE IMPACT OF EFFECTIVE CREDIT RISK MANAGEMENT ON COMMERCIAL BANKS LIQUIDITY PERFORMANCE: CASE OF EGYPT

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ABSTRACT

This empirical study examines the impact of commercial bank's credit risk management on enhancing liquidity performance. The results of the study are based on the analysis of financial statements for a sample of eight Egyptian commercial banks for the period 2004-2010, the data is obtained from the Bank scope database. A Panel data analysis is utilized to investigate the association between liquidity performance and effective credit risk management. In addition, this study tackles the Egyptian banking performance indicators trend regarding asset quality (credit risk) and liquidity, during the period 2008-2011. Findings show that there is a significant positive relationship between effective credit risk management and improving liquidity levels in Egyptian commercial banks. Credit risks remain a major threat to Egyptian banks. It influences the health of the bank's loan portfolio, which might adversely affect bank liquidity. The more the commercial banks are exposed to high credit risk, the higher the accumulation of default loans and consequently, the lower the bank liquidity. On the other side, the results show that the higher value of liquidity ratio makes bank liquid and less sensitive to failure. Thus, commercial banks need to analyze the relationship between liquidity-sensitive exposures and the default risk of the borrower as a critical component of credit risk management essential for long-term success of the Egyptian banking system.

KEYWORDS: Credit Risk Management - Liquidity Performance - Commercial Banks in Egypt