

Bank Competition and Moderating Role of Diversification on Liquidity Creation in ASEAN- 4

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ABSTRACT

Liquidity creation is one of the main roles of banking services. Bank creates liquidity through two channels; firstly, it transforms the relatively liquid liabilities into illiquid assets on its balance sheet. The second channel comes from its off-balance sheet activities by providing loan commitment facilities, bank guarantees, and facilitating the financial derivatives transactions products (Holmstrdm, 2009) (Kashyap et al., 2002). Globalization, rapid changes in technology, and sustainable financial deregulation in the last three decades have brought the banking industry into tight competition (Beck et al., 2013). It leads banks to engage and expand their market by diversifying their product into complex non-traditional banking activities such as trading and derivative market that might increase the volatility of income (Beck et al., 2016). Studies of the impact of bank competition and diversification on liquidity creation are hardly found in the literature, especially for the banking industry in the ASEAN.

Keywords: ASEAN Competition; Diversification; Liquidity Creation.