Chapter 9

ANALYSIS OF FACTORS INFLUENCING BANK CAPITAL ADEQUACY RATIO: EVIDENCE FROM THE WEST AFRICAN ECONOMIC AND MONETARY UNION BANKING SECTOR

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1. INTRODUCTION

Financial institutions known as financial intermediaries perform brokerage and asset transformation functions. Considered as the important financial intermediary, banks permit credit and liquidity provisions through credit channels and protect companies and households against unexpected needs for cash, they permit rapid economic development through the financing of different sectors of the economy such as agriculture, industry, and trade, and help the promotion of entrepreneurship that leads the private sector to participate effectıvely to economic growth (Aziakpono,2005;Rosengren, 2008). They cannot play this important role if they are not profitable and well capitalized.

The capital adequacy ratio (CAR) for banking institutions has been examined increasingly in the finance literature because of its high importance. It is defined as a measure of bank risk exposure. Regulatory authorities consider CAR asa central measure of ‘’safety and soundness’’ of banks and depository institutions because they consider capital as buffer or cushion for absorbing losses (Abdel-Karim, 1996).

2. LITERATURE REVIEW

Capital adequacy has become today and the major benchmark for financial institutions and so it is considered as the primary measure of safety and soundness (Jeff, 1990). Furthermore, Capital adequacy appeared after the adoption of 1988 Basel Accord by the representatives of G-10 countries. In January 2001,

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5. CONCLUSIONS AND RECOMMENDATIONS

5.1. Conclusions

The topic of this study which is sorting to highlight factors that influence bank capital adequacy ratio in WAEMU has a permit to used robust and sophisticated econometric models which lead to getting efficient outcomes.

In regards to empirical evidence, the outcomes from the analysis of determinants of bank capital adequacy ratios, show that the relevant factors that influence the bank capital adequacy in WAEMU banking sector with high effect, are profitability (ROA), capital (SHER), liquidity (LiDR, LiAR), efficiency (NAR, NIIR), asset quality (NPAR). Also, all the theories (portfolio, bank deposit insurance, expense, and buffer theories) depicted in the model and represented by SHER, LiDR, and NAR and lag CAR respectively, are relevant to bank capital. But among these factors, LiDR constitutes the first most factor because Basel Standards focuses their attention on it to protect depositor's rights.

This work is going to help regulators or policymakers to draw attention and conclusions from present outcomes of their previous actions and to identify and ponder their future actions in the field. Also, this work will significantly contribute to the financial literature review in the union as bank constitutes the bedrock of the regional financial system and will significantly help professionals and academicians in their different fields of decisions. The limitation of this study is that it does not take into account all the banks in the regional sector. This because some banks' data do not cover the period (2006-2014) of the study.

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