Malaysian banking sector efficiency, structural breaks and cross-sectional dependence: Empirical evidence

Abstract

This paper examines the weak-form market efficiency of the Malaysian commercial banks over the period of 17 October 1994 to 23 May 2014. We apply a powerful panel stationarity tests proposed by Carriȯn-i-Silvestre et al. (2005) that allow for the presence of multiple structural breaks and exploit the cross-section variation of the bank prices series. Our results indicate that all series can be characterized by a random walk process suggesting the bank stocks are weak-form efficient. We also find the evidence showing the presence of structural breaks and cross-sectional dependence (CSD) in the series. The results suggest that ignoring structural breaks and CSD can lead to biased estimates and spurious inference. The overall finding of this study is in favour of the weak-form efficiency. This finding has salient implications in terms of capital allocation, stock price predictability, forecasting technique, and the impact of shocks to stock prices.