Impact of Bank Specific and Macroeconomic Determinants on Commercial Banks Profitability: Evidence from Sri Lanka

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Abstract

The financial intermediary is one of the most important financial functions of an economy. Among all financial intermediaries commercial banks are the most important intermediaries. Because they provide various services to lenders and vendors. The main focus of this study is to investigate the impact of bank specific and macroeconomic factors on the profitability of commercial banks in Sri Lanka. Eleven domestic commercial banks were selected as sample of this study and annually data were collected during the period of 2008 to 2017. Bank specific factors include bank size (SZE), operating cost (OC), capital adequacy (CA), liquidity ratio (LR) and asset quality (AQ) while GDP growth rate (GDP) and Inflation rate (IFR) selected as macro specific factors. The profitability measured by Return on Assets (ROA) selected as dependent variables. The multiple panel repression model were used to find out the explanatory power of independent variables on dependent variables and data were collected from annual reports of selected commercials banks and central bank reports. The finding of this study reveal that bank size and capital adequacy ratio positively impact on bank profitability while operating cost, liquidity ratio and asset quality negatively impact on bank profitability. And also Macro specific determinants, GDP growth rate and inflation rate found a significant positive impact on the bank profitability which measured by ROA. Substantive findings of this study will may guide in policy makers, investors, shareholders, employee to have better decisions when their decision making.

Keywords: Profitability, Bank specific, Macro specific