

The Impact of Covid-19 Pandemic on the Profitability of Licensed Commercial Banks and Licensed Finance Companies in Sri Lanka

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ABSTRACT

Purpose: This study is carried out to determine the impact of Covid-19 pandemic on the profitability of Licensed Commercial Banks and Licensed Finance Companies in Sri Lanka and attempts to assess the pandemic's impact in relation to Covid-19 related variables (number of confirmed Covid cases and lockdown effect), Covid-19 related spillover effects (high Non-Performing Loans and low Capital Adequacy Ratio) and in relation to the financial institution category

Design/Methodology/Approach: Three profitability indices, Return on Assets (ROA), Return on Equity (ROE) and Net Interest Margin (NIM) were used as dependent variables and three separate Panel data regression analyses were performed taking data of 23 Licensed Commercial Banks (LCBs) and 33 Licensed Finance Companies (LFCs).

Findings: Covid-19 cases showed a negative but insignificant impact on all the three profitability indices, and the lockdown effect was also negative for all three indices and significant (1%) only for ROE. NPL showed a significant impact at 1% for both ROA and ROE with high coefficients of -0.12 and -0.51 respectively, indicating that high NPL was the main cause for the reduction of their profitability during the crisis.

Originality: This study is the first attempt in Sri Lanka that considers the impact of the Covid-19 pandemic on the profitability of two key financial categories by considering both Covid-19-related factors and Covid-19-related spillover effects.

Keywords: *Covid-19, profitability, Licensed Commercial Banks, Licensed Finance Companies*