

Impact of Liquidity Risk on the Performance of Licensed Commercial Banks in Sri Lanka

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ABSTRACT

Purpose: The objective of this study is to identify the significant liquidity risk factors and the impact of them on both top line and bottom-line performance indicators of commercial banks. Therefore, a bank should endeavor to achieve both sides' goals, which are respectively profitability and liquidity. This study identifies the relationship between several liquidity measurements and their impact on bank performance.

Design/Methodology/Approach: The dependent variable, the Return on Total Assets and the Return on Total Equity are used as measures of profitability and to measure the relation between liquidity risk management. The independent variable, which is the liquidity level is measured by using the Liquidity Coverage Ratio, Loans to Deposit, Financial Gap to Total Asset, Cash Reserves, and NPL Ratio. The sample selected by the author is 12 listed commercial banks that are Systematically important banks in Sri Lanka used in data analysis for the period of 2012–2021.

Findings: The present study expects to fill the gap in the existing literature of banks on the impact of liquidity risk and macroeconomic determinants on Sri Lankan commercial banks' profitability by providing new empirical evidence. The results of the present study have significant contributions to the existing stock of literature by comprehensively clarifying and analyzing the current state of Sri Lankan commercial banks' profitability.

Originality: When it comes to making good decisions, the causes of information overload can become a burden, according to this study. The results of this study will therefore aid in managing both financial and non-financial information and assist future researchers in identifying research needs.

Keywords: *Liquidity Risk, Bank Performance, Return on Total Assets, Return on Total Equity, Non-Performing Loans*