

Trade-off between Liquidity & Profitability; Evidence from Listed Banks in Sri Lanka

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ABSTRACT

Introduction - The purpose of this paper is to examine the trade-off between liquidity & profitability a study of selected listed bank in Sri Lanka.

Design/Methodology/Approach - Data for 19 commercial banks from 2012 to 2018 is analyzed using E-views.

Findings - There is a negative relationship between the liquidity and the profitability in Sri Lankan context. Return on asset have significance impact of loan to deposit and liquid asset to deposit and the total asset to liquid asset is not significant relationship with return on asset. Further, return on equity have significance impact of loan to deposit and liquid asset to deposit and total asset to liquid asset not significant relationship with bank return on equity in selected Banks in Sri Lanka.

Conclusion-The results of this study conclude that profitability and liquidity have a negative relationship and that liquidity is not determinants of profitability of commercial banks. However from the results of the study liquidity is not a significant determinant but one of the determinants of it.

Keywords: *Liquidity, Profitability, Trade-Off, Banks in Sri Lanka*