

Impact of Bank-Specific and Macroeconomic Factors on the Profitability of Commercial Banks in Sri Lanka

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ABSTRACT

Purpose: This study aims to examine how macroeconomic and bank-specific factors affect the profitability of commercial banks in Sri Lanka. The balance panel data regression model was used to attain the study objective and to respond to the research questions.

Design/Methodology/Approach: All bank-specific and macroeconomic profitability determinants for the ten years from 2012 to 2021 were the subject of secondary data collection. Twelve licensed commercial banks, including private and state banks, made up the study sample. To examine the impact of bank-specific and macroeconomic factors on banks' profitability, the study separately generated two regression models using STATA 15.0. In addition to being dependent variables, ROA and ROE were used in the study as proxies for banks' profitability. As independent variables, the exchange rate, GDP growth rate, inflation, lending interest rate, unemployment, BOP, operating margin, deposits, loans to assets, debt to equity, capital adequacy, loans to deposits, and asset size were used. The fixed effect was used to analyze both ROA model and ROE model as suggested by the Hausman test.

Findings: According to research, there is a positive correlation between commercial banks' profitability as measured by ROA and the following variables: Ex. rate, GGR, inflation, BOP, operating margin, and loan-to-deposit ratio. The remaining factors were discovered to be negatively linked with ROA. The Ex. rate, GGR, inflation, BOP, operating margin, loans to total assets, debt to equity and capital adequacy were positively associated with ROE. In contrast, the rest of the variables negatively correlated with ROE. Ex. rate, inflation, operating margin, Loans to Assets, Deposit, DE, Asset Size and LD had a significant impact in deciding how they affected banks' profitability.

Keywords: *Bank-Specific Determinants, Commercial Banks, Fixed Effect, Hausman Test, Macroeconomic determinants, Profitability*