ISSN 2279-3097

Macroeconomics Determinants on Banks Profitability: A Comparative Study between Sri Lanka and India

Wijedasa, W.A.D.I.L.[1] and Madhushani, P.W.G.[2]
Department of Finance, University of Kelaniya, Sri Lanka[1,2]
Wijedasa_bm17482@stu.kln.ac.lk[1], gangam@kln.ac.lk[2]

ABSTRACT

Purpose: Banks play a major role in the service sector of a country. The main aim of this study was to examine the impact of macroeconomic variables on the profitability of listed commercial banks in Sri Lanka and India.

Design/Methodology/Approach: The study used 10 Commercial banks listed in the Colombo Stock Exchange (CSE), in Sri Lanka, and 19 commercial banks listed in the National Stock Exchange (NSE) in India during the period 2012 and 2021. Gross Domestic Product (GDP), Inflation, and the exchange rate were the key independent variables controlled by the Firm size and the years of operations while Return on Assets (ROA).

Research findings: The multiple linear regression analysis revealed that GDP has a significant positive influence on the banks' profitability in both countries whereas Inflation rates also had a beneficial influence on banks' performance. Greater levels of inflation rates have resulted in increasing banks' profitability. The Exchange Rate had a negative and statistically significant impact on Sri Lankan banks' profitability and a positive statistically significant impact on Indian banks' profitability.

Originality: The results contributed to the existing literature on the macroeconomic determinants and provide a better insight into the Sri Lankan and Indian banking sectors when determining their profitability

Keywords: *Commercial Banks, Sri Lanka, India, Gross Domestic Production, Exchange Rate, Inflation Rate*