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Determinants of Banks'Profitability : An Empirical Study on Select Indian Public and Private Sector Banks

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Abstract

In this study the determinants of banking profitability has been studied based on the secondary data. The entire study is classified into two parts (i) Public Sector Banks and (ii) Private Sector Banks. Various variables such as NPA, Operating Profit, Credit Size, ROA, Operating Expense, Total Income, Capital etc. and their interrelationship is studied through correlation coefficients, regression analysis, anova etc. The research observes that a large number of independent factors are responsible in determining banking profitability and that in those determinants some create a significant effect on profitability but some factors do not create any significant effect. It is observed that though macroeconomic variables are not so important to determine the profitability of a bank but the GDP growth rate creates a significant effect on determining the profitability of a bank. According to the study based on facts and figures collected, private sector banks performance is better than public sector banks.

I. Introduction

FINANCIAL SECTOR PLAYS a crucial role in the development of economy of any nation. Banking sector is the cornerstone in the overall progress of the country aiming at distributive justice. The extent of development can be gauged based on the performance of banking sector in a country. Over the centuries, the banking has undergone radical changes in its functioning according to the changing needs of developmental economies. The structure and functioning of banking sector has been subject to metamorphic changes and responding to the changes taking place in the overall economy. Another big change took place in 1990-91 with the liberalization of economy and making the Indian economic system, an integral part of the global economy, since then the economic structure has become inter-dependent and interrelated to the global economy. Market forces

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- From the correlation Analysis, it is seen that in case of public sector banks and private sector banks, NPA has a positive relationship with ROA.
- Operating profit in case of public sector banks and private sector banks has a strong positive relationship with ROA.
- Total income in case of public sector banks and private sector banks has a positive relationship with ROA.
- Credit size in case of public sector banks does not have a strong relationship with ROA whereas in case of private sector banks there is a positive relationship of credit size with ROA.
- Operating expense in case of public sector do not have a strong relationship with ROA and private sector banks have a positive relationship.
- Capital in case of public sector and private sector banks has a positive relationship with ROA.
- GDP in case of public sector banks and private sector banks do not have a positive relationship with ROA.

IX. Conclusion

In this research it is seen that a large number of independent factors are responsible in determining banking profitability. Also it can be observed that in those determinants some create a significant effect on profitability but some factors do not create any significant effect. In conclusion it is observed that though macroeconomic variables are not so important to determine the profitability of a bank but the GDP growth rate creates a significant effect on determining the profitability of a bank.

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