

Examining Ethiopian Banking Industry in Relation to Factors Affecting Profitability: From 2008 to 2012

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Abstract : In this study, attempts were made to assess the bank-specific, industry-specific, and macro-economic factors affecting bank profitability. Data were collected from ten commercial banks in Ethiopia, covering the period of 2008-2012. A mixed method research approach was adopted for this research. Documentary analysis and in-depth interview were also used to substantiate the data. The study found out that capital strength, income diversification, bank size and gross domestic product are statistically significant and they have a positive relationship with banks' profitability. However, operational efficiency and asset quality have a negative relationship with banks' profitability. The relationship for liquidity risk, concentration and inflation were found to be statistically insignificant. The study revealed that focusing and reengineering the banks in light of the key internal drivers could enhance the profitability as well as the performance of the commercial banks in Ethiopia. In addition to this, the study suggests that banks in Ethiopia should not only be concerned about internal structures but also they must consider both the internal environment and the macro-economic environment in designing strategies to improve their profit or their performance.

Keywords : Ethiopian banking industry, macro-economic factors, documentary analysis, capital strength, income diversification

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