

Factors Affecting the Profitability of Commercial Banks: An Empirical Study of Indian Banking Sector

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Abstract : The banking system plays a major role in the Indian economy. Banking system is the payment gateway of most of the financial transactions. Banking has gone a major transition that is still in progress. Recent banking reforms after liberalization in 1991 have led to the establishment of the foreign banks in the country. The foreign banks are not listed in the Indian stock markets and have increased the competition leading to the capture of the significant share in the revenue from the public sector banks which are still the major players in the Indian banking sector. The performance of the banking sector depends on the internal (bank specific) as well as the external (market specific and macroeconomic) factors. Profitability in banking sector is affected by numerous factors which can be internal or external. The present study examines these internal and external factors which are likely to effect the profitability of the Indian banks. The sample consists of a panel dataset of 64 commercial banks in India, consisting of 1088 observations over the years from 1998 to 2016. The GMM dynamic panel estimation given by Arellano and Bond has been used. The study revealed that the variables capital adequacy ratio, deposit, age, labour productivity, non-performing asset, inflation and concentration have significant effect on performance measured.

Keywords : banks in India, bank performance, bank productivity, banking management

Conference Title : ICSRD 2020 : International Conference on Scientific Research and Development

Conference Location : Chicago, United States

Conference Dates : December 12-13, 2020