

DETERMINANTS OF THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN ETHIOPIA: SPECIAL EMPHASIS ON PRIVATE COMMERCIAL BANKS

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Received: 11 Jan 2021

Accepted: 16 Jan 2021

Published: 31 Jan 2021

ABSTRACT

The purpose of study was to investigate the bank specific factors and macroeconomic determinants of private commercial banks performance in Ethiopia. Seven private commercial banks were purposely selected based on availability of the required data and audited financial data of those banks for the period of 2010-2019 were analyzed. For this purpose, descriptive statistic, Pearson Correlation Coefficient and Multiple Linear Regression Analytical approaches were applied.

In this study, returns on equity, return on asset and net interest margin are used as the dependent variables. The independent variables categorized into internal determinants and external determinants. Bank specific factors (internal determinants) are banks size, liquidity management, asset quality, management efficiency and capital adequacy where as inflation is used as macroeconomic determinants.

Any autocorrelation problem was checked. The results indicated that capital adequacy, management efficiency and size of banks have positive and statistically significant effect on financial performance of private commercial banks of Ethiopia measured by ROA, ROE and NIM. But, liquidity management and inflation have negatively significant impact on financial performance of the banks (ROE) and ROA. Finally, the study also depicted that asset quality was not statistically significant determinant of sound financial performance of private commercial banks in Ethiopia. Therefore, appropriate attention required to be given in ensuring capital adequacy, optimum liquidity, efficient expense management system and adequate size of assets by commercial banks for better performance.

KEYWORDS: *Ethiopia, Commercial Banks, Determinants, Financial Performance*