

The Relationship Between Profitability of Banking Sector and Macroeconomic and Financial Variables: Panel ARDL Application

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Abstract

Banking sector is the key to financial markets especially in developing countries. The performance of the banking system, which affects all markets in terms of ensuring financial stability of the countries, is also important. In this study, the short and long term relationship between macroeconomic variables that may affect the profitability of the banks and selected ratios as financial variables have been researched. When the empirical results are examined, it is seen that all variables used in the study are statistically significant, the ratio of the non-performing loans and inflation are negatively influences the performance of banks according to the long term coefficients whereas the ratio of total credits/total assets and economic growth rates positively affects. The error correction parameter is found negative and statistically significant. Accordingly, it is seen that approximately 38,34% of the deviation from the long-run equilibrium between bank performance and total loans, non-performing loans, economic growth and inflation is eliminated in the following period.

Keywords: Banking Sector, Bank Performance, NPL, Panel Data Analysis, ARDL

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