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Determinants of Performance of Indian Commercial Banks

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ABSTRACT

Introduction: Emerging markets are considered the main source of global economic growth. This shows that the development of the world depends on the development of these sectors. The development of the new country also benefited the local people and improved their living conditions.

Objective of study: This paper examines the determinants of banking performance in emerging economies. Sustainable growth of emerging economies depends on the financial performance of their banks.

Research methodology: Determinants of banking performance during the crisis from 2015 to 2017 are analyzed using a panel market approach using data from top 25 commercial banks in a sample of 10 emerging markets. Both bank-specific and macroeconomic variables are taken into account in the analysis.

Data Analysis: data analysis in this article paper is descriptive statistics, Fixed Effect Model Results on Dependent Variable Profitability (ROA) and Dependent Variable Net Interest Margin (NIM)

Result: The results show that the difference between macroeconomic variables such as GDP and inflation is a significant factor behind the high return on assets (ROA) of banks in the newly published economy, but both have a negative impact on net interest income (NIM). High interest rates and interest rates from banking operations are associated with high operating costs. This indicates that expenses in these sectors are well managed. Leverage also has a positive impact on both (ROA) and (NIM). is important for companies in the economic recovery phase in emerging markets.

Conclusion: With the emergence of the global crisis, new financial institutions have undergone many changes. In general, the results show that there is a positive and favorable environment for emerging companies after the financial crisis. This shows that he can develop his business in the company.

Keywords: Commercial Bank, Financial Crisis, Emerging Economies

INTRODUCTION

Financial security plays an important role in economic development. Banking is an important part of the financial system; therefore, the economic development of each country depends on the efficiency of the banking sector. Banks in emerging markets are not only expanding, but also growing faster (Claessens and Van Horen, 2008). Emerging markets account for more than 40% of global GDP and have an average annual growth rate of over 7% in the last few years. Therefore, emerging markets are considered as the main source of global economic growth. This shows that the development of the world depends on the development of these sectors. The development of the new country also benefited the local people and improved their living conditions.

The new countries are also participating in international trade in goods and services. Since the 1990s, these new countries have played an important role in international exports of goods and services. All these factors should therefore provide better opportunities for new companies to get off the ground. However, emerging markets have recovered rapidly from the global crisis and despite the crisis, the economy looks bright. The duration of the recession and the post-crisis period will depend on the performance of emerging markets, partly due to their processes and partly due to their policies (World Bank,

World Development Bank, 2010). As the credit/deposit ratio falls, the demand for savings and credit in emerging markets will decrease (Van Horen, 2007). And the deposit management is still lending. Second, many emerging market companies have significant investments; 17% of investments are in Latin America and 13% in Asia (World Bank, Global Development Finance, 2010). This will help you reduce your balance. The fact that the majority of the population in these countries does not have money gives banks more money to grow (Berger and Deyoung, 2004). The country's construction companies face a different situation in the domestic economy, as credit growth must be slow due to the general economic weakness and the ongoing stagnation in business and family. The 25 countries that currently offer the best returns on capital are all emerging economies (Claessens, 2008). In addition, the macroeconomic prospects of developing economies are better than those of developed economies. Therefore, emerging market economies have a more significant financial position than banks in developed countries. These facts, combined with high profits, put these banks in a good position to expand their international reach. .

In addition, much of the money invested in these businesses is locked up in state banks, which hinders further expansion. New business banks have fewer restrictions than banks in developed countries. This has put pressure on banks to increase provisions for bad loans. Regulators also oppose using domestic funds for external financing because they see this as a risk to the country. But recent examples from Russia, Chile and Turkey suggest that new companies can grow not only domestically but also abroad in the coming years. Developing countries are struggling to raise funds because of debt problems and lack of progress. This makes investing in other emerging markets easier than investing in mature markets. Although many emerging markets have good returns on investment, they can still be difficult to operate. New businesses are more profitable if they invest in small, poor countries because they have a better chance of making a profit in these markets (Focarelli and Pozzolo, 2000).

Business finance helps in boosting the country’s economy. Therefore, analyzing the new world can help management, government and investors to achieve growth. Management should develop new strategies to improve the company’s performance. Marketers can also get guidance on how to manage their data better. The government can determine the country’s economy by analyzing the performance of the economy. The new business is of interest to the company because of its role in the company. They contribute to GDP growth, provide employment opportunities and are a source of financing for many other activities. Commercial banks also provide opportunities for investors. Emerging markets were selected for this study because of their growth and significant growth in the global economy. The financial sector has undergone major financial changes due to the major changes in the financial world since the 1980s. However, banks still play an important role in accelerating the country's development. The study of banking principles has become very important for researchers and bank managers. Financial markets are widely studied in emerging markets such as Brazil and China, as well as in the United States and Europe. This article discusses the explanatory factors that may affect the performance of banks in emerging markets.

This paper examines the relationship between the performance of emerging market companies and the asset size of the largest banks in each country. Analyze the company performance by looking at the return on assets (ROA) and net interest income (NIM) by analyzing the impact of company-specific factors and events at different macroeconomic levels. The purpose of this study is to extend the previous research on various macroeconomic and bank-specific variables by determining the performance of the banking sector in the economy. The main purpose of this study is to determine the performance and financial performance of banks at a certain financial and macroeconomic level. We will analyze the differences in banking performance and investigate the factors that lead to these differences. The results of these studies will help bank managers in the new country to better understand the current state of the business and to set new goals. The rest of this article is divided into four sections, the first section will briefly describe the bank account, the second section will give the structure of data collection, standard, difference and capital, the third section will explain the results and the fourth will give the conclusions. Provide the results and findings.

LITERATURE REVIEW

According to Saunders and Schumacher, 2000; Brock and Rojas-Suarez, 2000. Financial stability in the construction sector is affected by economic growth and inflation as it directly affects the distribution of loans and the cost of loans in the bank account.

Sanders and Schumacher, 2000; Martinez-Peria and Mody, 2004. Athasanoälu et al., 2006, 2008; Doylan, 2013). Many studies conducted in different parts of the world have revealed that both bank-specific differences and macroeconomic changes affect the banking sector.

According to Bourke, 1989; Athasanoälu et al., 2008. Banking decisions can be divided into internal and external factors. Internal decisions include the bank's firm-level characteristics such as credit risk, leverage risk, performance management, and default rates. There is a strong relationship between operating costs and bank performance. They also see a difference between measurement and outcome (Yilmaz, 2013)). Net income (NIM) is often considered in the literature (Gerlach et al., 2003; Claeys and Vander Vennet, 2008). Since the return on deposits is very low, higher interest rates may discourage people from saving, which reduces the likelihood of borrowing and thus affects business growth. (1999) argue that high interest rates can stimulate a country's economy through increased investment. In such a system, banks lend at low interest rates to avoid problems if they are weak. Many studies on Latin America analyze microeconomic and macroeconomic conditions in different countries.

Brock and Rojas-Suarez (2000a, b) examine interest rates and their determinants in Chile, Argentina, Bolivia, Mexico, Colombia, Uruguay, and Peru in the mid-1990s. Based on their analysis, they conclude that overspending and underinvestment led to the epidemic. Similarly, changes in GDP and inflation may also cause interest rates to rise. Bank income has a positive effect on income (Bourke, 1989). The size of the bank is important because many operations of the company depend on it, such as risk, price differences and product characteristics controlled by size. If the economics of the issue is large, then there will be a positive relationship between the income of the bank and its size (Akhavein et al., 1997; Bikker and Hu, 2002; Chirwa, 2003). However, if the bank is larger, costs will be saved as the business will expand and develop (Boyd and Runkle, 1993; Athanasoglou et al., 2008). Profit can only be gained if the size of the bank is more than the first level, the management of the financial institution will become difficult. The results of this relationship are mixed. (Goddard et al. 2004) found a relationship between size and value, but there are also studies that show a relationship between size and value (Kosak and Çok 2008; Dietrich and Wanzenried 2011). There is a relationship between underperformance and overperformance. Previous studies also concluded that higher cost banks have larger spreads (Valverde and Fernández, 2007).

Liquidity has been analyzed by Drakos (2003) and Elian and Valentine (2005). This was also found in a study conducted by Athanasoglou et al. in 2006, which showed that inflation in macroeconomic variables is related to profitability. The performance of financial markets is often affected by inflation. Also, the resource allocation and ability of companies to reduce resources is also difficult (Boyd et al., 2001). This is also the result of a study evaluating the performance of banks in terms of growth (Doyran, 2013). In many developing countries, reservations play an important role in policy development (Glocker and Towbin, 2012).

While the role played by the deposit reserve ratio in emerging markets has been very important in the past, the main research on the deposit reserve ratio in emerging markets is to check the effect of the deposit reserve ratio on bank profits and interest rates (Azevedo and de Carvalo, 2004).

Profitability refers to the situation where the main objective is to generate revenue and earn profit on expenses (Banwo, 1997; Sanni, 2006). Profit is the main objective of a profit-oriented organization. If there is hope that revenue will increase, the business will continue, but if there is no profit, the business will fail. Return on assets (ROA) and net interest income (NIM) are frequently adopted as income measures in the literature (Ahmed, 2003). In this study, we use two general measures: ROA and NIM.

Objective Of Study:

- To examines the determinants of banking performance in emerging economies.
- To study sustainable growth of emerging economies depends on the financial performance of their banks

RESEARCH METHODOLOGY

Sample size: This study has chosen 25 large banks from 10 emerging economies.

Reference period: Between the years 2015 to 2017.

Source of data: The financial data was collected from secondary sources like central bank of respective countries' annual reports and annual reports of selected commercial banks.

Data analysis: The determinants of banks' profitability are analyzed with the data from 25 commercial banks in India

DATA ANALYSIS

Table No.1 Descriptive Statistics

	Observation	M	S.D
GDP	125	4.231	3.469
INF	125	1.76	1.124
RR	125	0.286	0.134
OPTEXP	125	2.617	1.431
LEVR	125	2.017	1.169

(**Source:** Statistical analysis on the Annual report 2015-2017)

Table No.2: Fixed Effect Model Results on Dependent Variable Profitability (ROA)

Independent Variable	Coefficient	Std. Erro	t-Statistic	Prob.
C	2.2501	0.0123	141.82	0.0153
GDP	2.6489	1.5914	87.32	0.0146
INF	1.4927	1.8638	126.84	0.0122
RR	2.3497	-0.6419	-0.89	0.0145
OPTEXP	2.4792	1.8941	61.82	0.0227
LEVR	3.3816	2.6493	21.76	0.0137
R-squared	0.2617			
Adjusted R-squared	0.4372			
F-statistic	54.0176			
Prob. (F-statistic)	0.0179			

(**Source:** Statistical analysis on the Annual report 2015-2017)

Table No.3: Fixed Effect Model Results on Dependent Variable Net Interest Margin (NIM)

Independent Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.3942	0.0139	152.43	0.0257
GDP	1.6743	0.0246	57.24	0.0171
INF	3.7829	0.0175	116.67	0.0134
RR	2.4817	-0.5618	-0.73	0.0181
OPTEXP	2.6489	1.6719	48.37	0.0234
LEVR	3.3489	2.5794	34.49	0.0149
R-squared	0.2476			
Adjusted R-squared	0.3187			
F-statistic	48.0264			
Prob. (F-statistic)	0.0264			

(**Source:** Statistical analysis on the Annual report 2015-2017)

RESULT

There is a negative relationship between operating costs and profits, which is expected since most studies show a positive relationship (Bourke, 1989; Demirguc-Kunt and Huizinga, 1999; Athanasoglou et al., 2005). This relationship is well explained by studies (Molyneux and Thornton, 1992) indicating that higher debt can be used to increase efficiency and ultimately produce better results. Operating expenses are related to interest rate, meaning that a percentage of operating expenses leads to a 26.06% increase in interest rate. Yilmaz (2013) also found a positive relationship between operating costs and interest rates. Leverage has a positive effect on interest rates. It was found that for every 1 percent increase in income, income would increase by 4.36 percent. Since leverage is considered as a measure of risk, it has both positive and negative effects on banking.

The results show that an increase in specific demand leads to a decrease in ROA of 0.011 percentage points. There is also a relationship between savings and interest rates, which means that interest rates are lower than interest rates. As deposit rates increase, the ability of banks to lend decreases, which leads to a decrease in lending capacity. Finally, interest rates are affected by increases or decreases in spreads.

The results showed that the increase in interest rates caused the bank interest rates to decrease by 0.12 points. This is not the finding of (Glocker and Towbin, 2012). Interest rate (RR) is one of the regulations that require banks to hold a portion of their debt to the central bank. It helps financial research, financial institutions health care and business risk analysis. This is a measure that companies can use in emergency situations because it provides some guarantees for safety and security, instead the higher it is, the lower the risk. During the financial crisis, many central banks reduced banks' need for more capital. The results for macroeconomic variables were mixed. First, inflation has a positive effect on profitability (ROA). If a company's revenues are growing faster than its costs, inflation should have a positive effect on profits. This is based on the results of (Demirguc-Kunt and Huizinga, 1999), who found a positive relationship between inflation and ROA. This also shows that bank management can predict inflation and respond accordingly (Vong et al., 2008). Therefore, the results show that banks in these new countries tend to make more money from the financial sector. On the other hand, inflation has a negative impact on bank interest rates and interest rates are positively related to inflation. Ameur and Mhiri (2013) found that interest rates are negatively affected by inflation. This means that banks are not good at controlling their credit costs based on inflation, which ultimately leads to a negative inflation rate. There is a positive relationship between GDP and ROA. As a country’s GDP grows, so do the profits of companies. Emerging market companies are recovering. The scale of the financial crisis also affects the GDP growth of emerging economies. During a crisis, GDP falls from peak to trough. In a growing economy, this period is shorter than in a developing economy affected by the financial crisis. On the other hand, GDP growth is inversely proportional to interest income (NIM). This indicates that for every percentage point of GDP growth, net interest income (NIM) will decrease by 0.15 percentage points.

DISCUSSION

In this study, there should be a good relationship between operating costs and interest rates. Banks that cannot make a profit try to reduce costs by keeping interest rates on their assets high and thus pass the cost on to customers. As interest rates increase, credit demand decreases. In addition, there should be a negative relationship between operating costs and the bank's return on investment (ROA). A high cost ratio indicates that costs are lower and profits are lower. These high-cost banks also have higher interest rates. Leverage is the ratio of total debt (liabilities) to total assets and represents the bank's capital. Leverage is a measure of good and bad leverage that can be used to make money. Low leverage means banks have low risk, which has a positive impact on profits. Increased debt increases investment costs and financial stress due to increased risk. This is also supported by the work of Athasanoälu et al. (2006) who show that more capital leads to higher risk and more shocks for the firm. ROA and NIM are also affected by macroeconomic conditions. GDP and inflation are used as macroeconomic variables. According to the literature (Kosmidou, 2008) this difference should have a positive impact on bank revenues and interest rates. Another macroeconomic variable is inflation, which affects the costs and profits of banks. Studies on INF show both good and bad results. Some studies show a positive relationship between inflation and bank performance. According to (Boyd et al., 2001), high inflation has negatively affected the country's economy and economy. According to (Demirgüç-Kunt et al., 2004), NIM increases in the event of inflation. Some studies have also shown a positive relationship between inflation and bank performance (Molyneux and Thornton, 1992). This depends on the nature of the review and how inflation is generated (Perry, 1992).

The fact that the leverage ratio is very close to the profitability ROA means that the leverage ratio has a positive effect on bank performance. These findings are consistent with the relationship between ROA, NIM and leverage found by Demirgüç-Kunt et al., 2010. During the crisis, large banks are more profitable and have better results. Studies have shown that this ratio has a negative impact on ROA.

CONCLUSION

Following the outbreak of the global financial crisis, many changes have occurred in new financial institutions. This study examines the impact of banking reforms and macroeconomic changes on the performance and profitability of banks in emerging markets between 2015 and 2017. The empirical analysis is based on panel data of 25 commercial banks in 5 different sectors. The results show that among the endogenous characteristics of emerging market companies, operating expenses and capital have a greater impact on corporate income and interest rates. Higher profits and interest rates are associated with higher operating costs. In addition, the use of leverage has a significant and positive effect on the profitability and performance of banks. The deposit ratio as a measure of income is negative and significant in ROA and NIM. The discovery of these characteristics shows that emerging companies increase their profits; the results of macroeconomic factors show that inflation has a positive effect on bank income, leading to an increase in prices and therefore profits. This means that income is higher than cost. GDP growth has a positive and positive impact on income, but a negative impact on interest rates. The results also show that banks need to have sufficient capital and resources to maintain interest rates and spreads at appropriate levels. In addition, the management of special needs should ensure the bank's profit and interest and provide the necessary resources according to the conditions faced by the financial institution.

Overall, the results show a positive and favorable environment for banks in emerging markets after the financial crisis. This suggests that can continue to develop their banking systems.

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