

DETERMINANTS OF BANKING PROFITABILITY IN THE PHILIPPINES

By

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Presented by

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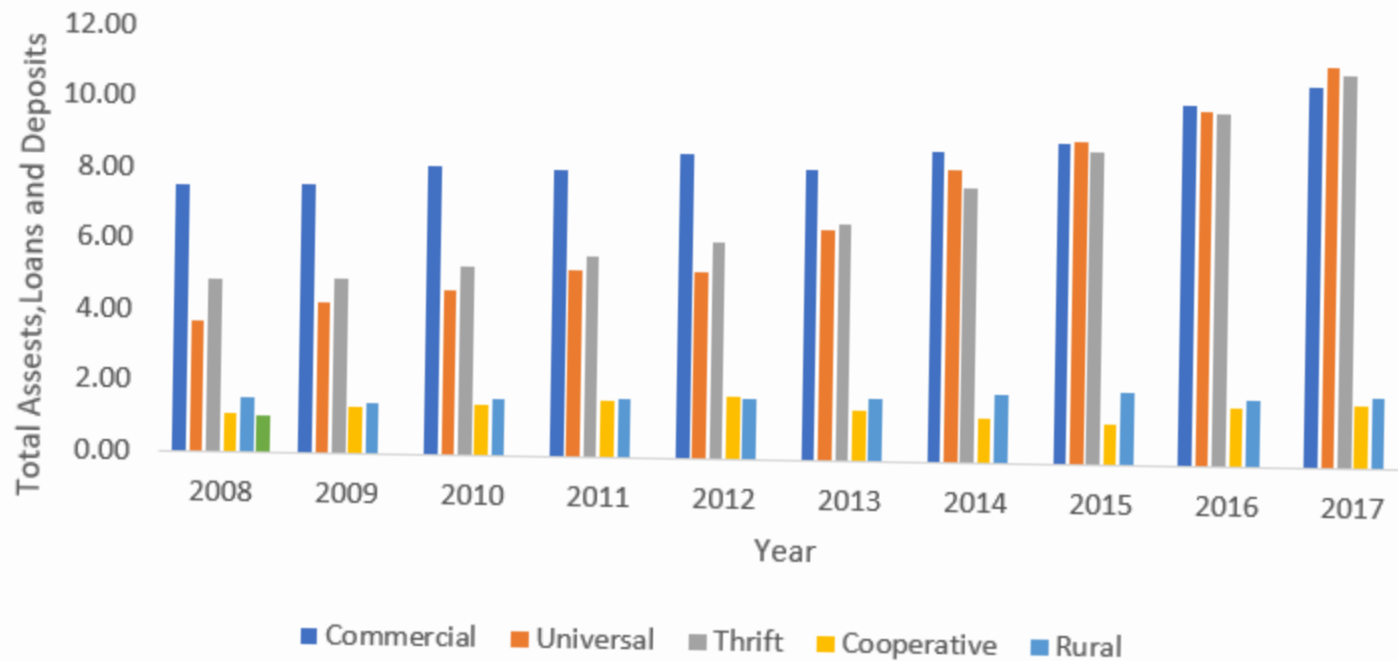
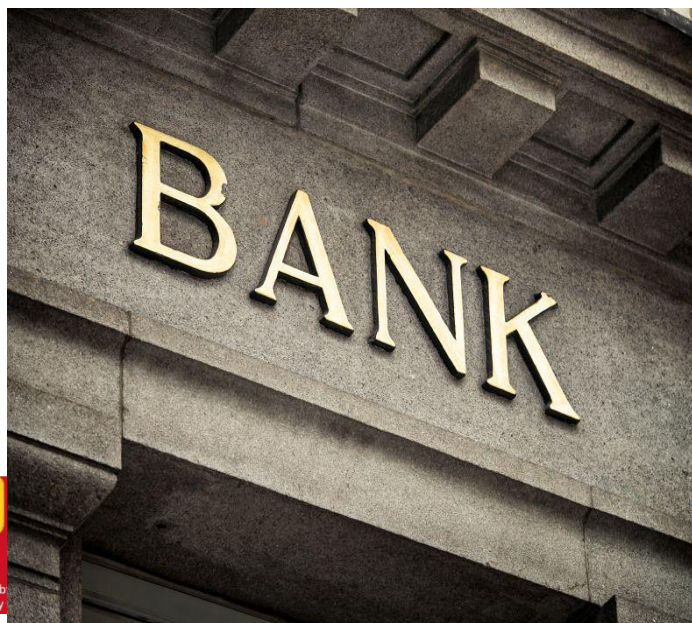
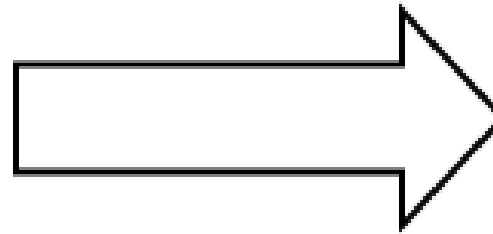


Figure 1. Annual total assets, loans and deposits of different bank group, Philippines, 2008 to 2017.
 Source: Bangko Sentral ng Pilipinas



What determines bank profitability?

- Efficiency of the bank
- Money Supply
- Government Securities
- Bank size
- Inflation rate



Banking
Profitability

METHODOLOGY

A. Trend Analysis

B. Time Series Analysis

B.1 Test for Stationarity

B.2 Autoregressive Distributed Lag (ARDL) Models

B.3 Stability Test

B.4 Diagnostic Test

ARDL MODEL

$$y_t = \alpha + \sum_{k=1}^p \gamma_k Y_{t-k} + \sum_{j=1}^m \sum_{l=1}^{q_j} \delta_{jl} X_{j,t-l} + \varepsilon_t$$

where:

p = optimal lag of dependent variable

q_j = optimal lag of j^{th} independent variable

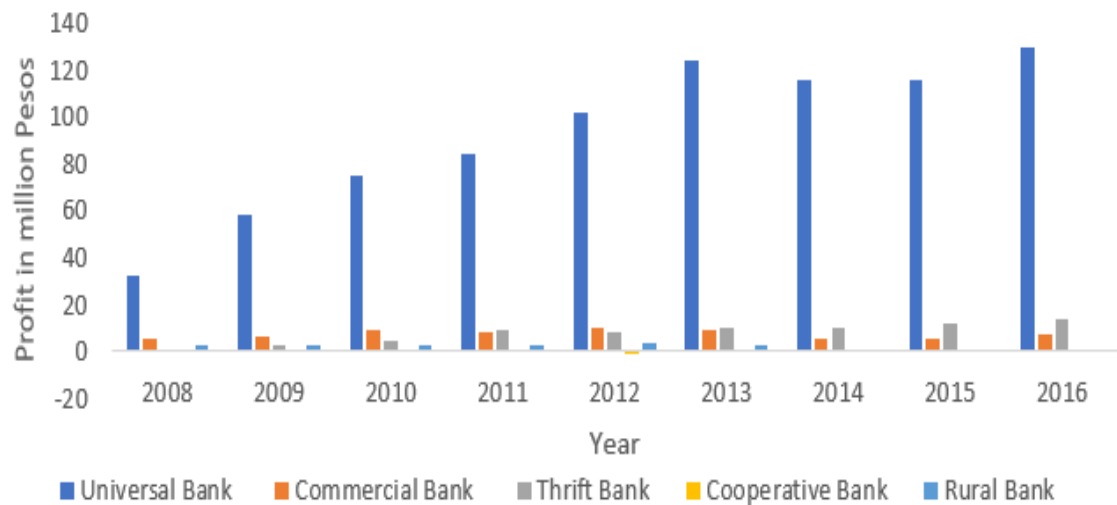


Figure 4. Annual net profit of different bank group, Philippines, 2008 to 2016.
Source: *Bangko Sentral ng Pilipinas*.

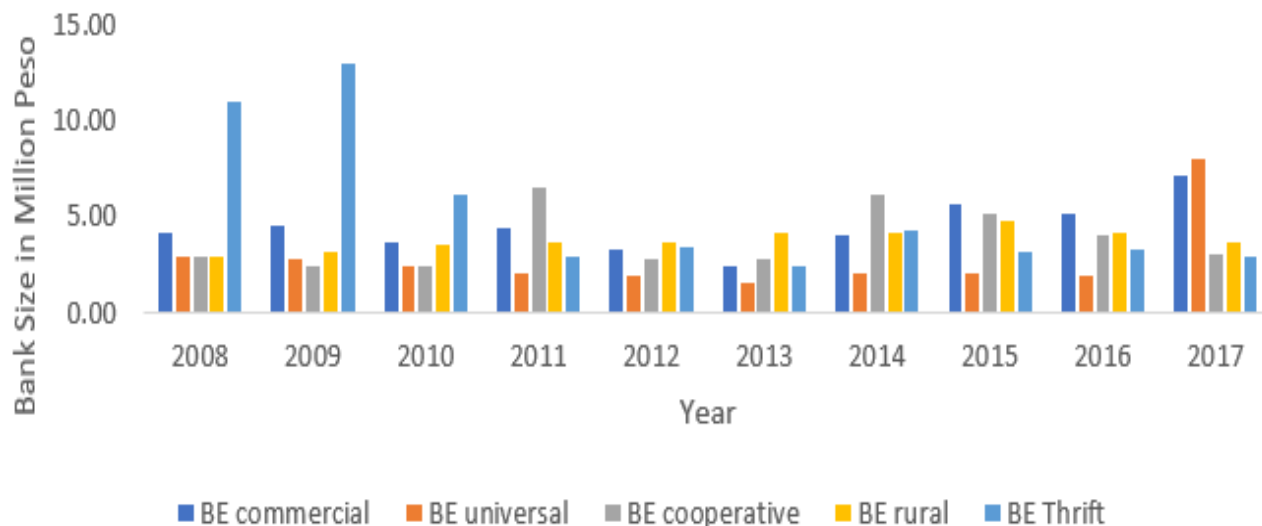


Figure 5. Annual Bank Efficiency of different bank group, Philippines, 2008 to 2017.
Source: *Bangko Sentral ng Pilipinas*

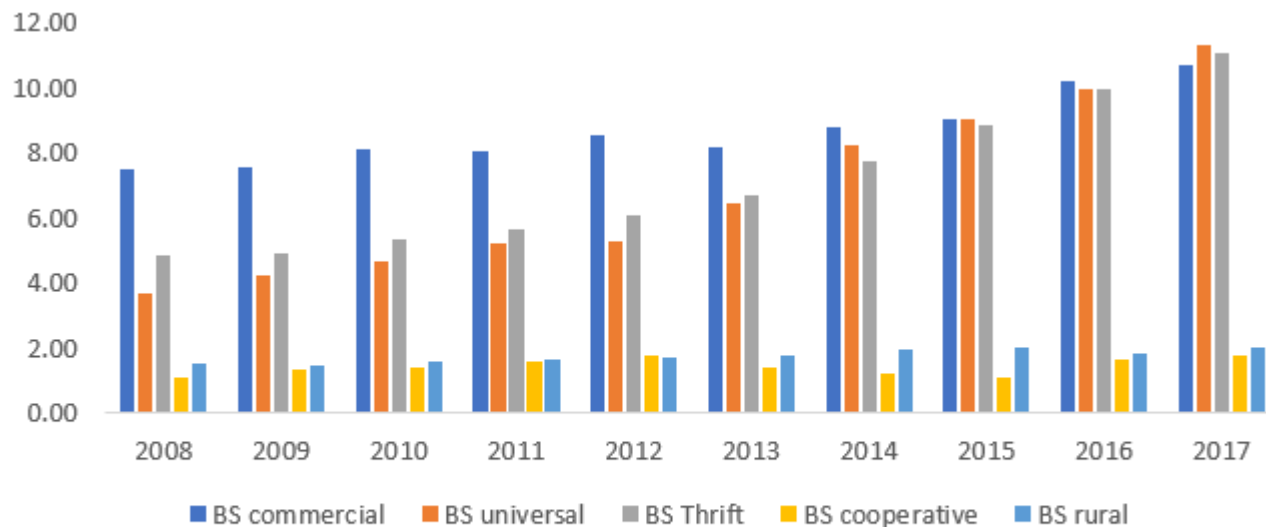


Figure 9. Annual Bank Size of different bank group, Philippines, 2008 to 2017.
Source: *Bangko Sentral ng Pilipinas*

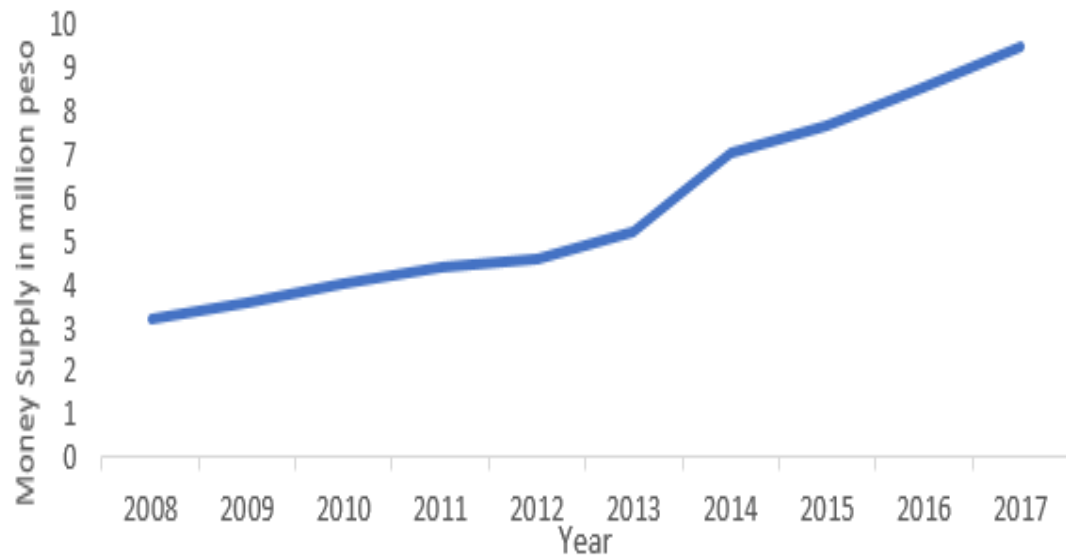


Figure 6. Annual Money Supply in the Philippines, 2008 to 2017.
 Source: *Bangko Sentral ng Pilipinas*

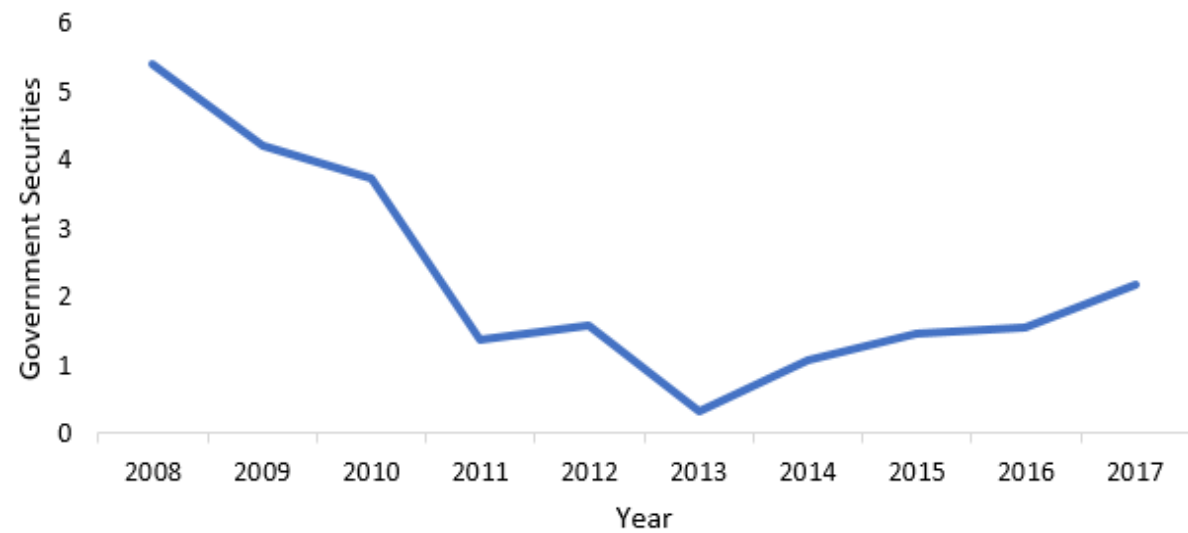


Figure 7. Annual Government Securities in the Philippines, 2008 to 2017.
 Source: *Bangko Sentral ng Pilipinas*

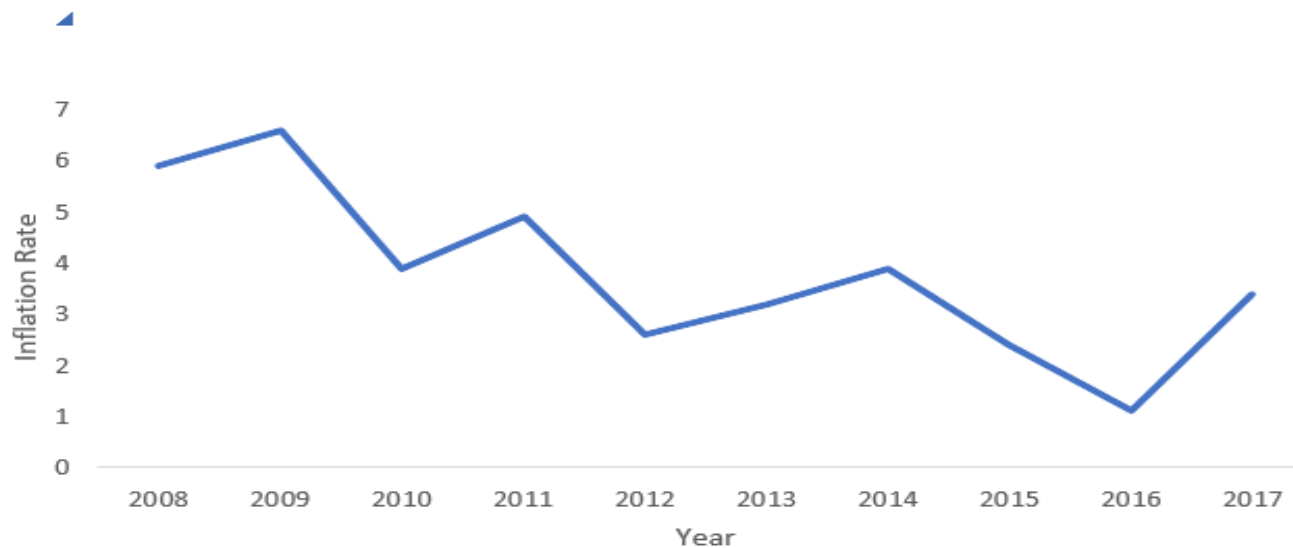


Figure 8. Annual Inflation Rate in Philippines, 2008 to 2017.
 Source: *Philippine Statistics Authority*.

Summary and Conclusion

- There is an indication of long run relationship between the variables.
- Results showed that among those 5 banking groups, universal bank provided evidence for long run and short run relationships with its determinants.
- Generally, in the short run, bank efficiency, money supply and government securities have a positive and significant effect to banking profitability.
- Based on the SBC criterion, the generated optimal lag order is 9. The significant determinants to banking profitability are bank efficiency, money supply, government securities, bank size and inflation rate.

Recommendations

- Periodic monitoring of indicators affecting bank profit
- Enhance banking regulations to boost profit
- Employ other methodological techniques such as Vector Auto Regression (VAR), Full-Modified Ordinary Least Square (FMOLS), and by Pedroni's (2004) test for panel cointegration
- Use of longer time series data, preferably daily, weekly or monthly periods, to fully analyze and understand real time fluctuations of banking indicators

Thank You!