

## **Effect of Macroeconomic Variables on Profitability of Commercial Banks in Sri Lanka**

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Objective of the research was to examine the effect of macroeconomic variables on profitability of commercial banks in Sri Lanka. There are several studies conducted to examine the effect of macroeconomic variables on banks profitability in past. However, it has been viewed that different studies explained different conclusions on the effect of macroeconomic variables on banks profitability. Therefore, there were inconsistencies observed in findings from the previous studies and it can be justified by the nature of sample companies that are analysed in the previous studies, by the methods, research design and approaches to the study, by the background of the firms that are explored. Thus, research problem of the study was that to what extent selected macroeconomic variables effect on banks profitability which was focused on Sri Lankan listed commercial banks. Accordingly, current study was expected to give geographical contribution to the existing literature. There are thirteen domestic licensed commercial banks in Sri Lanka, but only ten licensed domestic commercial banks have been considered in this study as per the availability of the data for ten years period. Secondary data have been collected from selected bank's annual reports and Central Bank reports of Sri Lanka for the ten years period from 2006 to 2015. Interest rate, exchange rate and real output percentage of gross domestic product have been considered as macroeconomic variables. Return on equity has been considered as profitability measure. Pooled ordinary least square was used to examine the effect of selected macroeconomic variables on profitability. Results of the study revealed that interest rate and exchange rate have not significantly affected on the profitability while Gross domestic product has positively significantly influenced on profitability of listed domestic licensed commercial banks in Sri Lanka. Therefore, it can be suggested that interest rate and exchange rate will not effect on bank profitability adversely in all times. Outcome of the study has essential implication for policy makers and regulators in Sri Lankan banks, decision makers want to be attentive in setting up economic policy that will not affect profitability negatively.

*Keywords:* Interest rate, Exchange rate, Gross Domestic Product, Profitability