

Determinants of Commercial Banks' Return on Asset: Panel Evidence from Malaysia

Abstract

This paper attempts to investigate the possible macroeconomic factors that influence the profitability of domestic and foreign commercial banks in Malaysia. For this purpose, an unbalanced panel dataset of 16 commercial banks were used and tested using panel data regression technique over the period of 2004-2011. To get the differences of external determinants between domestic and foreign banks, all the samples were then split according to their ownership, resulting in two sub-samples of 8 domestic and 8 foreign banks. The result indicates that all the external factors namely inflation, interest rate and GDP have a positive impact on all commercial bank's return on assets while stock market development influence bank's profit negatively. Similar result was also shown by the two sub samples except that interest rate appears to influence foreign bank's profit positively but shows no impact on domestic bank's performance.