Chapter 9
The Factors Determining the Profitability of Tunisian Banks

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ABSTRACT

The main objective of this chapter is to study empirically the performance indicators of Tunisian banks during the period from 1999 to 2020. The authors use NIM and ROA as profitability measures. They employ GLS method to estimate the panel model who measure the bank profitability. From the empirical findings, the authors find that EQUITY has a positive impact on the profitability of banks. The credit risk presents a negative impact on performance. The size of the banks affects their performance positively. The financial regulations and the financial reform are statistically significant and positive. The density is statistically significant and negative. In that case, the level of the collected deposits has a negative impact on the profitability of Tunisian banks. Private credit is statistically significant and positive. The improved performance by Tunisian banks largely reflects the prudential supervision exercised by the Central Bank of Tunisia.

1. INTRODUCTION

The banks in Tunisia constitute the main source of funding of the economy. Besides, there are predictable evolutions which entail inevitably financial, technological, organizational and human significant investments. Furthermore, the impact of these changes decreases the profitability of banks. To finance them, it is necessary to envisage fusions between national banks or alliances or partnerships with foreign

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banks to realize economies of scale, to increase the productivity, to widen the banking ranges of products and services and to attract and motivate of the qualified personnel.

Bank profitability is usually explained by multiplies measurement who is expressed as a function of internal and external determinants. The internal determinants include bank-specific characteristics variables. The external variables reflect environmental variables that are expected to affect the profitability of financial institutions (Olson and Zoubi, 2011; Ben Naceur and Omran, 2011; Derbali, 2020, Jamel et al., 2020; Derbali, 2021a; Derbali, 2021b; Khalfaoui and Derbali, 2021; Derbali and Lamouchi, 2021). The problem of measuring the performance of banks has been developed in the literature of financial theory. Thus, bank's profitability may be influenced by internal factors and external factors (Hooi, 2019; Kallel et al., 2019; Ben ltaifa et al., 2020; Be Ltaifa et al., 2021).

The main objective of this paper is to study empirically the performance indicators of Tunisian banks. We use NIM and ROA as profitability measures to determine the effect of bank-specific characteristics, regulatory policies, macroeconomic indicators, financial development indicators, and bank concentration and density, institutional constraints to competition and crisis on banking performance. We employ GLS techniques to estimate the panel model who measure the bank profitability. From the empirical findings, we show that the EQUITY has a positive impact on the profitability of Tunisian banks. The credit risk has a negative impact on performance. The size of the Tunisian banks affects positively their performances. The financial regulations and the financial reform are statistically significant and positive. The density is statistically significant and negative. In that case, the level of the collected deposits has a negative impact on the profitability of Tunisian banks. The private credit is statistically significant and positive.

To do so, section 2 presents a literature review about the determinants of performance of financial institutions. Section 3 presents the data and the empirical methodology. In section 4, we analyze empirically the determinants of Tunisia banks and we interpret the results of the estimation of the models that measures the performance of banks. Finally, section 5 concludes.

2. LITERATURE REVIEW

Several studies have examined various industries, commodities and products using profitability measures and multiple regression methods. The studies by Molyneux and Thornton (1992), Demirguc-Kunt and Huizinga (1999) and Pasiouras and Kosmidou (2007) investigate a panel data set. The empirical results obtained by many authors (Ben Naceur, 2003; Ben Naceur and Omran, 2011) can demonstrate that bank-specific characteristics bank size and credit risk have a positive and significant