ABSTRACT

The large commercial banks in China have increased impact on Chinese economy. However, the current market situation contains some constraints that go against the sustainable development and profitability generating by Chinese large commercial banks. The purpose of this study is to explore the determinants of 16 Chinese listed commercial banks' profitability, which are noted by three categories: internal determinants, industry-specific determinants and macroeconomic determinants. This study applied panel data method, and total 96 observations were used for the analysis. Descriptive analysis and the fixed effect regression model were used in this research to get reliable and accurate results.

The results showed that liquidity ratio, demand deposit ratio, market concentration, banking sector development, stock market development, real interest rate and unemployment rate have significant relationship with the bank's profitability. Particularly, liquidity ratio, demand deposit ratio, banking sector development, stock market development and unemployment rate have negative relationship with net interest margin. Liquidity ratio has negative relationship with profit margin and market concentration has negative relationship with Tobin's q. In contrast, demand deposit ratio has positive relationship with both net interest margin and profit margin. In addition, banking sector development, real interest rate and unemployment rate have positive relationship with Tobin's q.

The finding of this study indicated that demand deposit is important factor affecting the net interest margin and profit margin of the listed commercial banks in China. Moreover, banking sector development and real interest rate also impact Tobin's q of the listed commercial banks. If the listed commercial banks want to improve profitability, they should collect more deposits and maintain the net loans at the optimal level; develop the retail and intermediary business; create own organization culture to increase the core competitive advantage; strength the ability of macroeconomic analysis; and establish early response mechanisms of macroeconomic cycle changes to improve the banks' profitability.