

Abstract

A strong and profitable banking system plays a vital role in the stability of the overall financial sector system of the country. My research aims to investigate the determinants of the profitability of the banks and their contribution to the economic growth in Asia-Pacific region over a period 2003-2014.

The topic “Profitability and Contribution of Banking in Asia-Pacific Economies” is selected because the existing literature does not cover these two aspects of banking, i.e., factors affecting the profitability of banks and the contribution of the banking sector to economic development. Ten countries from Asia-Pacific economies are included in this study which are divided into five categories, i.e., emerging economies (Pakistan and Bangladesh), large emerging economies (India and China), emerging Islamic economies (Malaysia and Indonesia), semi-developed economies (Singapore and Hong Kong) and developed economies (Japan and Australia). These countries are of particular interest because of their institutional and regulatory differences. To my knowledge, there are no research studies that have previously examined the profitability and economic contribution of the banking systems in Asia-Pacific countries. Furthermore, Islamic emerging markets (Malaysia and Indonesia) are included in the sample and so the banking systems in these countries will differ because they are governed by Islamic laws and work on a profit/loss sharing basis. An investigation of the profitability and economic contribution of Islamic banks may answer the key question as to whether Islamic banks need to be regulated by the same regulations as conventional banks or do they require a different set of regulations.

We will use multivariate regression technique and Granger causality tests to resolve the research questions. The study will have significant importance for the policy makers of selected countries because it will help policy makers whether to expand banking sector and improve intermediating function of banks or to consolidate it through stringent measures and regulations. The study will also help central banks of the selected countries to formulate and improve the regulations of banking sector.