The effect of macroeconomic factors on banks’ performance –

A case study of Jordanian commercial banks

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Abstract

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This study attempts to investigate the impact of macroeconomic
factors on Jordanian banks' performance during the period 1990 –
2003 period using fourteen commercial banks.

The study uses multiple regression approach to determine
the effect of macroeconomic factors on banks performance, with
dependent variables, return on equity (ROE), before – tax profit to
total assets (ROA) and market to book value (M/B). The
independent variables are; inflation, money supply, interest margin,
Gross National Product per capita and market risk.

The study found a significant negative relationship between interest
margin and market risk with banks' performance, and a significant
positive relationship between Gross National Product per capita with
banks' performance, but the study cannot explain why money supply is related to banks' performance.

The study provided evidence that the Jordanian commercial banks are affected by macroeconomic factors.

The study's main recommendations can be summarized as follows: Jordanian commercial banks should take into their consideration the main factors that are found significant by the study to determine their effect on banks' performance. The inclusion of bank-specific variables into the modeling framework would allow a more complete investigation of the relative contribution of individual-bank characteristics and movements in macro economy variables on overall bank performance.