



Analysis of Factors Influencing Bank Profitability: Evidence from the West African Economic and Monetary Union Banking Sector

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Abstract

This paper investigates the factors that influence bank profitability. Using static and dynamic panel data techniques, a sample of 86 banks from eight countries making up the West African Economic and Monetary Union over the period 2006-2014 is utilized. In the static framework, the size effect is investigated for both determinants of profitability and CAR models, while the time effect is incorporated in the dynamic framework. In regards to the determinants of bank profitability, the results show evidence of significant effects of bank-specific factors, as well as bank-industry and macroeconomic factors on profitability in WAEMU except two bank-specific factors (ratios of liquid asset to total deposit and nonperforming asset), which are insignificant. Also, due to less competition in the banking sector, the results point to a significant persistence of profit from year to year. Furthermore, the analysis of the bank size effect confirms evidence of significant economies and diseconomies of scale in the banking sector.