LIQUIDITY MANAGEMENT AND PROFITABILITY: A CASE STUDY OF LISTED COMMERCIAL BANKS IN SRI LANKA

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Abstract

Management of liquidity has become a crucial issue in today's dynamic competition between banking sector to attain maximum profitability for achieving target and to survival in the competitive world. This study is aimed to identify the liquidity management on profitability of commercial banks in Sri Lanka during the period of 5 years from 2008 to 2012. In Sri Lanka eight banks are listed under Colombo stock exchange (CSE). Hence, out of eight, only five banks are selected for the study purpose as convenience. Correlation and regression analysis were used in the analysis and findings revealed that there is a significant relationship exists between liquidity and profitability among the commercial banks in Sri Lanka. Here Liquidity of bank was measured through the Liquid Assets Ratio (LAR), Current Ratio (CR), Reserve Ratio (RR) and Capacity Ratio(CAR) and profitability was measured by Return on Asset (ROA) and Return on Equity (ROE) Ratios.

Keywords: *Liquidity, Liquidity management, Profitability, Colombo Stock Exchange (CSE)*

1. INTRODUCTION

General banking business involves the collection of funds from excess or surplus unit of the economy through the deposit and distribute to deficit units as loans and advances. This is called financial intermediation. The concept of liquidity has been a crucial matter to the management of banks of the uncertainty of the future. The liquidity of an asset means how quickly it can be changed into cash. Liquidity of a commercial bank is its ability to fund all contractual obligations as they fall due and is usually measured by different financial ratios.

Eventually, Banks and other financial institutions were plunged into liquidity problems in as much as the global economy puts in efforts to handle the major causes of the crunch managers to ensure and enough liquidity one of such measures that this paper seeks to address is the management of liquidity.

Liquidity management is the regulation, adjustment and control of the balance of current assets and current liabilities of a bank such that lending and investment commitments and deposit withdrawals and liability maturates in the

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