Impact of Liquidity Management Factors on Bank Profitability: Evidence from Pakistan

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Abstract

The aim of study to investigate the factors effecting liquidity management and financial sector performance evidence from Pakistan. Liquidity usually affect the overall profitability/financial performance of any corporate sector. Various techniques of liquidity mitigation are important dealing with downturns in Pakistani economy regarding pandemic, unstable political situations in Pakistan and different time to time polices of state banks regulation which consist of BASEL amendments. Data of seven banks had been selected for the period 2010-2019 and analyzed by using certain statistical techniques which are descriptive statistics, correlation, and regression analysis. As from analysis we found that current ration and Liquidity liquidity ratio has positive significant effect on financial performance of bank, which is measured by ROA, ROE. Further, one of the liquidity factor which is quick ratio diverts from hypothesis which shows insignificant negative effect on financial outcome of Pakistani banks. The results of this study will help the management of banks to find better solutions to enhance the performance. Further, the policy implication of this study advises that banks should follow BASEL regulations and liquidity disclosures strictly to cope with market. The result of the study conclude that liquidity management and performance of financial sector has significant. The correlation result analysis shows the strong relation among the variables.
Key Words*:* Commercial Banks, liquidity Management, Current Ratio, Quick Ratio, Liquid Ratio, Capital ratio, return on asset, Return on Equity.

Introduction

In unique economies, the financial activities depend on the performance of economic establishments, like device of payment, overall performance of economic market demand and supply match idea, trading in the various markets as a monetary dealing make certain the liquidity clearance in economic markets and interest performance ought to be like switch and chance of management. The liquidity control and economic area performance have a critical role in economic growth and profitability. Liquidity measure by using ratios like modern ratio, liquidity ratio, quick ratio, coins ratio, capital ratio which degree liquidity of the firm or organization further profitability degree by the usage of the diverse method such go back on asset, return on equity are degree the profitability of the institution. The purpose of the research to discover powerful banks profitability. The banks play vital position as financial intermarries in economies offerings and mirror crucial function do not forget. The efficiency of economic intermediation effect at the financial increase. The financial growth of the boom then it'll directly affect inflation. For the steadiness of financial machine contribution performance of various banks contribution in special economies which make economy tolerate negative and monetary shocks externally (Athanasoglou et al., 2005). For reason, considerate of productiveness factors is essential.

The primary reason of banks is to acquire the excessive earnings through the banking owner achieving the wealth extra return on the asset. It’s no longer simplest target the proprietor but it additionally the depositors. The depositors additionally percentage the money for the motive of the growing returns. Banking sector in Pakistan has grown and evolved to a huge tempo inside the international. Banks play the role of intermediary to all industries, increase, and the development of the any us of a. According to (Miguel Definer 2020) the religious attachment, culture social very usa has reputation inside the worlds. In modern scenario of the any U. S. Offered economy is the fulfillment of the us of a. Initially absence banking device of Pakistan was unable to manipulate the economic machine. Banking area face many managerial troubles. The banking gadget are able to control the financial device so it's going to increase the general public interest and self-belief. The fashionable public shows the interest inform of deposits cash and avail various funding possibility therefor it will growth the bank profitability and the performance of the management.

Banking region play the important role in economic and stability of the country. The internal and outside aspect make to the profitability of the banking sectors due to the fact maximum of the u. S. A.’s economic system based at the banking gadget (Ali, Akhter & Ahmad, 2011). The inner and the external factor are important for the bank profitability. The inner factor depends upon the financial institution control so it may be coping with without difficulty alternatively the outside factor is out of managed by using the bank control therefor its depends upon the government. The monetary increase of the United States of America depends on the performance of the banks. Investopedia (2016) in finance definition of liquidity base on the only of practice of liquidity control. One of the liquidness refer potential skill belongings inclusive of bond, stock at modern market rate. Second of the liquidity talk to the agency including economic institutions and many others. Bank are often explaining liquidity performance, or capability satisfy the coins requirement and meet the liabilities with none loss. In this example liquidity management has play vital role to provide an explanation for the investor and supervisor attempt to minimize the hazard publicity. Profitability measured by way of various strategies which for the related of proprietor and depositors, to find out the quantity financial institution profitability to make its invested money. Return on property (ROA), Return on assets measured the effective generating profit of their funding or income earning each unit of shareholder equity. The debt of company growth it's going to growth the assets firm but I will decrease your company proprietor fairness and boom legal responsibility like debt. If the debt or liability 0 then your assets equal on your fairness. Return on Equity, every unit shareholder equity of the firm generating earnings of the firm measure by way of using this ratio. Also called earnings earing after tax. Return on equity indicates the generating earing increase of company makes use of of funding. We can say that average performance of the agency.

Banks could not perform without the profitability that no longer cowl its prices however also reward their financier and savers. It is essential element of study that have a high quality effect on profitability of the banks. The essential two source of earnings financial institution considered one of bank pay interest to the depositor and get hold of interest to the debtors. According to Bagh, et al. Discover that banking quarter are the again bone of the usa and economy increase. Liquidity define through Nwaeaku (2008) explain that any asset that is convert into coins. He stated that the asset offered at the fair market charge. According to the Niresh (2012) liquidity control suggests that the company meet its quick time period liabilities. (Riaz and Mehar 2013).This study check out bank profitability effected through the liquidity control. Liquidity method any asset or securities which can be clean exchangeable in liquid asset. Short time period asset and legal responsibility of corporation consider as liquidity. Bank liquidity suggest hold the enough finances to meets it liabilities which is consists of the giving mortgage and distinctive funding, deposits meet its liability. (Eichengreen, B,2020).

Liquidity means to increase the asset of the organization and pay duties after they continue to exist unexpected loss, efficient management in the banking quarter ensure that financial institution has capacity to pay its liabilities. Liquidity management impact the at once meet cash, different withdrawals liabilities. For the financial boom and development, the banking area are economic spine which are play vital function. The banks are financial institution that elevating the fund for the public and giving mortgage on credit. Banks are the returned bone of the any u . S . That is play crucial role in economy boom. Bank has important position in the economic system and enterprise activities. They are investing the cash to earning the income. The liquidity of the any business enterprise play the critical function to pay it responsibilities. In today growing and nicely organize country banking area has important position which make contributions the boom of financial system. The capability to increase the asset via investment, giving loan on credit and meet its liabilities whilst due ant unexpected loss. And so, the impact control of fluidity within the bank help to make certain the bank capable to satisfy sustained coins, that's typically undefined and issue to outside component and to the overall performance of other dealers. The key factor of commercial enterprise manner depends upon the liquidity control. Liquidity play essential role in endured existence of enterprise, the company need to have enough step of liquidity. It must be neither severe nor inadequate.

Liquidity control is a extensive for bank efficiency and productivity. Liquidity discover that banks capability to stumble upon with it brief time period liabilities because its play vital function to outline how productivity a company control its short term responsibility and capitalize the coins to increase the returns. For industrial quarter improvement and economic boom of the United States banking phase play critical position in development. Bank are the financial organization who save the public payment and giving the credit to public and the opposite establishments etc. Bank capitalize the cash for the cause of returns. Thus to get highest returns there's want to effective use of its belongings. To reap the best degree of profit the banking zone create to growth the funds to satisfy it obligation and make their funding of future making plans. Profitability and liquidity has a huge role in banking. The profitability consequences the significance of liquidity control. (T. Veerabhadra Rae 2020).

Internal and external analyst have powerful function on liquidity and powerful courting in commercial enterprise operation (Bhunia, 2012). The company or organization has preference the shareholder within the financial institution. They continually gain the income their investment carried out with the aid of the bank. They also take a look at the income through their funding. Practically agency performance and wealth depend upon the indicator of profitability and liquidity. Deposit cash inside the financial institution is effective for the each liquidity and profitability for the boom of the banking funding. It has been explaining through Owolabi and Obida (2012) the profitability simplest make the money with the aid of their funding. The makes use of of recourse may be effect the management overall performance. The short of fund the corporation forestall the incentive to the contractor of credit, services, as properly. Cost of the product will be better due lack of the inducement therefore it results the profitability of enterprise (Deloof, 2003). The liquidity situation of agency may be affect the hobby of the stakeholder. Before promoting the product on the credit every provider can determine the liquidity of the firm.

The worker related liabilities that's meet by organization are effectively role challenge by the business enterprise. Excess amount of fund needs to preserve the enterprise (Farris, 2002). It has been explaining by (Salem and Rahman 2011) in Saudi Arabia groups have effective courting between go back on asset and the present-day ratio. In different hand there may be negative dating among go back on asset and the quick ratio. According to the Kim et al. For the destiny funding the enterprise have to have hold the excess number of finances or asset liquidation. The primary goal of any generates the income of the company, so it uses the sources successfully. The level of liquidity continues and need for the firm increase in destiny. Bolek and Wolski (2012) emphasized the long-time choice making manner is affected through management rules approximately the corporations. The regulations may have motivated the liquid control because the selections of control section are synchronized.

The felony system of the u. S. Guidelines is varying to each other's therefor to pay the liabilities of company without distracting the profitability (Manyo and Ogakwal, 2013). Liquidity isn't always simple way; it involves the numerous factors of the cost and benefit. Liquidity degree are to be discover the by way of theories of fee and gain. Ferrira and Vilela (2004) said the packing order and alternate off theories give an explanation for the firm coins conserving decions. It's going to create the financial hassle by way of cash holding it also reduces the cost of the outside financing and allow the formulate the funding to fulfill economic problem.

There are many variables of liquidity and profitability. The contemporary management state of affairs identifies by using the variable services and give an explanation for the weak point. Liquidity variables are modern-day ratio emphasized the firm aptitude to meet its contemporary liabilities with its contemporary property. Quick ration advises the current asset much less the inventories and prepayment of the cutting-edge belongings. (Horn and Wachowicz, 2008). Liquid ratio emphasized the coins plus funding with its present-day liabilities.

Many research is carried out to evaluate the banking performance and look at the liquidity is one determinant of bank overall performance. There has been diverse document about the relationship between the liquidity and profitability. Profitability and the performance of banks depend upon the liquidity management which performs critical position. On the other hand, profitability approaches a scenario in which fees are less than revenue and which permits a bank produced its income. (Bawacha, 2018))

1.2 Problem statement

The focused of different investment channels commercial banks play the important position by gripping financial extra from their depositors and for the traders. This investment of financial institution unfastened from the threat and troubles, due to the fact the fundamental goal of financial institution earns to maximum its anticipated profits on their investments, and available assets at highest quality usage. Since the financial institution have to be prepared meet its liabilities any time because the financial institution may be disclosing any time the purchaser and depositors want withdraw its saving

The troubles highlighted financial institution isn't fulfill its call for that is mainly surprising one. It can also lose the confidence and face embarrass to its clients, inside the modern-day equipped monetary surroundings the growing range of local banks in banking, so at this modern state of affairs foreign banks are works in local markets. Consequently, a sufficient amount of liquidity protecting able to meet for its depositors is monetary requirement of bank, commercial bank operating for earn the most earnings.

The bank satisfies the economic requirement through retaining the quantity of liquidity to meet its depositor therefore financial institution need to growth the income. The bank face trouble at this point here that how can get these fundamental objectives to maintain their asset. The first objective of bank is that degree of liquidity control has one-of-a-kind effect on bank performance at different level, the second one trouble of bank is dealing with while it strives increase its earnings by using neglecting the rate of liquidity. This problem that is going through the bank it could reason the adversity in financially and technically. So, the study seeks the solution of following questions

1.3 Research Question

Based on declaration of trouble, the examiner intends to examine that what the effectiveness is of liquidity control on monetary area performance in Pakistani banks? In other word how varies factors affect monetary sectors performance within the Pakistani banks.

1.4 Research Objectives

Based on above question, observe empirically examines the impact of liquidity control and financial region profitability of banks in Pakistan.

Review of Literature

The preceding studies study the impact of liquidity management and profitability of the banks. In these studies, included impartial variables to structured variables. The examiner reviews the related literature of liquidity and profitability. This 2d chapter speak the methodical framework and statistics description, empirical and theoretical researches approximately the liquidity control and its effect on financial institution profitability. Previous study plays crucial function accomplishing any form of research. Its play very critical function and additionally taking tenet from such study could make their studies more precious. Pasiouras and Kosmidou (2007) conducted look at to have a look at the banking sectors profitability and unique characteristic of domestic and foreign nation's banks that are running in distinct European nations. The statistics become accrued for the time 1995–2001. The result suggests the home banks has high quality related suggest that inside the feel of liquidity chance the banks overall performance are definitely relate to the fast term funding and the net mortgage to customer ratio and it's going to affect overseas banks overall performance negatively through the return on asset. According to the (Flannery and Rangan, 2008) said that once the financial institution gains the excessive stage of liquidity then relationship with them in brief time period will now not exist.

The any change of liquidity will not affect on profitability. For the liquidity motel long time Regulatory requirement might be requisite. This suggest that higher liquidity decrease profitability therefore in past bank are excess amount of liquidity. Liquidity outline via the (Idowu A, Essien 2019) propose the asset that is effortlessly into cash and he explain the asset are sold at honest market charge. The inventory, bonds, assets, are example of liquid coins which is convert into coins effortlessly, in order that any corporation meet its obligations with none loss. According to the Lamberg and Valming (2009) had conducting the investigation of effectiveness liquidity management on banks profitability and he find out the end result said that there is insignificant impact in liquidity approaches and profitability insignificant that's measured by means of go back on asset. The estimation of liquidity and short term financing has a superb effect on return on asset all through the monetary disaster.Chen, et al., (2009) explore that banks profitability and liquidity courting among the dangers of boost financial twelve countries. The records accrued over the duration of 1994 to 2006.

The end result discovered that liquidity are the imperative determining detail of the banks overall performance that is measured by way of the hobbies margins, return on assets and go back on equity. Bordeleau E et al., (2010) tested the effect of protecting liquid asset on U.S and Canadian banks. The result revealed that holding the a few amount of asset which is profitability is stepped forward of banks, but at this vicinity bank profitability could be limit due to maintaining of liquid assets. The empirical proof additionally revealed that this relationship varies depending at the banks commercial enterprise version and state of the financial system.Amengor, (2010) behavior have a look at check out financial institution profitability effected by way of the liquidity management. Liquidity manner any asset or securities that are smooth exchangeable in liquid asset. Short term asset and liability of enterprise don't forget as liquidity. Bank liquidity suggest maintain the sufficient finances to meets it liabilities which is includes the giving loan and unique funding, deposits meet its liability European Central Bank (2010) says that bank's profitability is the capacity to supply maintainable profitability that is essential for banks to preserve current commercial enterprise interest and for its traders to get returns on its investment; and crucial for administrators, because it ensures hardier solvency ratios, even in the context of a riskier commercial enterprise environment. Saleem Q, et al., (2011) investigated the relationships of liquidity control and profitability.

They check out that there may be sizable effect among return on asset and liquid asset and different side liquid asset ratio has insignificant impact on ROE. They find out the liquidity ratios cutting-edge ratios short ratios and liquid ratios has no longer extensive effect on return on asset. The overall result suggests that financial function of company has sizable effected by way of the every ratio with exclusive amounts and that along with liquidity ratios within the first region.Adebaya et al., (2011) recognized the profitability business banks and liquidity management in Nigeria and he locate the profitability has great influence by liquidity and vice versa. Saleem and Rehman (2011) check out the connection between the ROA and the cutting-edge ratio in Saudi Arabia businesses. They endorse that there may be superb vast affect every other. Further they advocate the negative insignificant relationship among the ROA and the short ratio in companies of Saudi Arabia.Saleem and Rehman (2011) find out the association between profitability and liquidity. The end result of the experiments discover the financial positions of the employer has vast effected via the ratios variable with distinctive amount and that together with the liquidity ratios inside the first area. Different theories had been provided the notice connection of banks liquidity and profitability.

The more liquidity are steeply-priced for the banks, argued that will increase liquidity decrease the profitability (Bourke 2019). The alternate-off theory endorse that increasing the liquidity reduced financial institution danger and the reducing the financial disaster chance to compensate the investor value for the requirement of destiny top class by using Osborn, Fuerts, and Milne 2012). The additionally provide an explanation for when the predicted prices of distress are anticipated to be high the commercial enterprise cycle banks liquidity are vary, the possible dating between the liquidity and profitability to be extremely routine, displaying extra tremendous end result financial institution attempt to boom the liquidity and profitability via the tiers of distress, so relationship between the profitability and liquidity may be bad and high quality within the short run that's depend upon the cutting-edge liquidity position. Arif (2012) examined the liquidity danger elements effect on 22 bank of the Pakistan. The facts become amassed throughout 2004 to 2009. The major locating of the look at the liquidity threat has considerable impact bank .When the deposit are increase it will lead to increase the financial institution profitability in term of decreasing the dependence on the vital financial institution meet the customers liabilities and the allocation of nonperforming mortgage, liquidity hole effect on the financial institution profitability. Charity (2012) inspect with the aid of the use of the case study the effect on liquidity performance in industrial the use of first bank of Nigeria as. The result revealed that there was fantastic dating between liquidity management and the existence of any banks. Uremadu S. (2012) examined the capital shape which is effected in bank profitability and liquidity within the country of Nigeria.

The information which use to research the effect of capital shape on profitability pick out 1980 to 2006.Auto regressive disbursed lag (ADL) version and descriptive facts have been used evaluation the information. The result shows the advantageous impact of cash reserve ratio, liquidity ratio and company profits tax; and home money have poor effect over the financial institution credit score. Ongore and Kusa, (2013) Profitable banks can be praise their investor and depositors and the opposite hand bad profitability of the banks might also reason the banking machine failure and the face the instability in monetary crisis which has the terrible effect on the banking sectors and monetary increase and development of the united states. Agbada and Osuji (2013) investigate overall performance of Nigerian banking sectors this is effected by using the efficiency of liquidity control, we can say that profitability of banking rely upon the performance of liquidity. The result display that banking profitability and liquidity management has substantial dating with them.(Al-Tamimi and Molyneux 2020)explore utmost crucial variables which affected the capital adequacy of the banks of Jordon. Data become gathered Amman inventory alternate shape 2000 to 2008. The end result discover that factors of liquidity hazard and capital adequacy in banks has extensive correlation with them. Return on property, there may be negative relationship, statistical insignificant among capital adequacy in commercial banks and factors of liquidity danger, and rate of pressure revenue.The courting between the liquidity and profitability of the banks listed on the Ghana stock exchange sought with the aid of the Lartey et al 2013., The changed into accumulated for the duration ten of yr 2005 to 2010. He find out reducing fashion of liquidity and profitability of indexed banks.

He explore that courting in liquidity and profitability has weak effective of the listed banks in Ghana. Al Nimra, et al., (2013) tested that existence dating between liquidity and Jordon banks profitability. This observe inspect liquidity by using the usage of brief ratio and profitability measured by using the usage of go back on asset. The information became collected from the period of 2005-2011.According to the Furthermore, Ibe, (2013) tested the effect of liquidity and profitability of the Nigerian banks. In this observe three banks are randomly selected as pattern length for the analysis and regression has been used for analysis. The result indicates in Nigerian banking area liquidity is extreme and important difficulty.The profitability of Saudi and Jordan banks analyzed that are powerful the internal elements by using the Almazari, 2014. The result found out that the correlation between the profitability in Saudi and Jordon banks changed into fine measure via ROA using liquidity a few signs. For end result and studying the information Simple regression version use. The result revealed in the banking quarter of Jordon liquidity is incredibly effected through profitability.Ehiedv, (2014) examined the bond between liquidity and the profitability of the companies and quantitative approach changed into used. Hypothesis the easy correlation take a look at, and utilized the non-profitability pattern. The result shows that there's good sized wonderful dating among the contemporary ratio and the profitability.According to the (Nzzotta SM ,2020) decide impact of liquidity Jordanian industrial banks profitability. The records turned into accrued over the length (2015 to 2012). They decided on 13 Jordanian industrial banks.

The end result indicates that short ratio, funding ration has tremendous effect at the profitability but capital ratio and liquid ration has poor effect profitability of Jordon banks. The researcher advised that want to growth exploit liquidity at banks. In many reason of funding, path to growth the profitability and get earn make the most of the banks take find out the strong and weak point in liquidity for the use of the systematic processes Mushtaq, et al. (2015) conduct the take a look at at the trade-off among liquidity and the profitability. They have been decided on unique 5 quarter of Pakistan and used quantitative look at. For the records evaluation correlation and panel regression evaluation use in this examine and evaluated the result by means of panel regression analysis. This result give an explanation for that liquidity and profitability has fine relationship every other.

Kim et al. investigate that the organizations meet its favorable investment in destiny then it preserve adequate liquidity. The also suggest that the link among the economic constrain and the firm liquidity present. The liquidity variable which includes modern ratio has the high quality sizeable impact on profitability by means of Ismail (2016). The have a look at also recommend the high contemporary ratio lead firm closer to substantial overall performance. Vodova, (2016) tested banking industry liquidity and profitability effect in polish. The statistics accumulated over the length of 2007 to 2013. The result explained that liquidity has terrible impact on the profitability, Also Abulaila, Alhathlool (2016) conduct the take a look at of Saudi banks. The end result of take a look at give an explanation for that the relationship most of the liquidity and profitability has insignificant. Salim and Bilal (2016) conduct the study of four business bank in Oman. The facts became collected for the length 2010 to 2014. The finding of the observe shows that courting among the liquidity and the profitability has sizable. Ikeora and Andabai (2016) conducted a observe tested courting liquidity control and profitability. The end result of take a look at explain that advantageous dating between them. The records using time collection facts spanning (1989-2013).

They give an explanation for that in Liquidity management money supply and deposits in banks coins and profitability become measured go back on asset ratios.Maqsood, et al., (2016) endorse the impact of liquidity control and bank profitability. They explained that liquidity management has sizeable effect on profitability. They decided on the 8 one-of-a-kind banks. The information amassed over the period 2004 to 2015. In this observe regression and correlation were used for evaluation. To study the liquidity via using the present day ratio dealt with as independent variable and evaluate the profitability by means of the use of go back on asset as based variables.Hakimi and Zaghdoudi (2017) check out the 10 banks of Tunisian. The statistics changed into accrued over the period (1990…2013). The result indicates that liquidity has not wonderful impact profitability of the bank. Munithi and Waweru (2017) investigate banks of Kenya. They decided on 41 commercial banks of Kenya. They analysis Liquid coverage ratio, internet solid investment ration use for tested for liquidity and return on fairness used to examined the profitability. The result give an explanation for that net strong investment has poor impact of banks profitability in longer term and brief run in the meantime Liquid coverage ration insignificantly influence the profitability of commercial banks in long term and brief run.Charmler and al (2018) tested the banks of Ghana. They decided on the twenty banks for analysis. The records amassed from 2000 to 2016.They result revealed that liquidity is positively associated with financial institution profitabilisty. Lucy andal (2018) tested Nigerian banks.

The 5 banks decided on for the research. The information accrued from 2000 to 2016. They result defined that liquidity has high-quality effect on the banks profitability. The studies revealed that liquidity being measured in time period of impact specific banking sectors performance. In other phrase liquidity ratios are effective and poor effect the overall performance of banking sector. Each ratio of liquidity has exclusive effect on the banks profitability, as some liquidity ratios have wonderful full-size and terrible insignificant effect at the banks overall performance. In this literature liquidity has effect on banks profitability in numerous segments. All these factors are very important for measuring the liquidity and profitability of banking sectors therefore results will impact at the banking sectors.

Methodological Framework and Data Description

The research investigates the liquidity management and financial zone performance inside the proof from the Pakistan. For the purpose examine the effect of liquidity management on banks profitability by way of using the distinct ratios. To discover the effect of based variables on independent variables and vice versa. The conceptual body work shows the connection between the variables with them. Return on asset may be excessive and coffee and identical the manner go back on equity can be excessive and coffee. There are many theories that is helping the liquidity control effect the profitability of the banks.

Empirical Model

In the empirical model two established variable and four unbiased variable used for statistics evaluation and empirical equation production. ROA and ROE are based variables and current ratio, brief ratio, liquid ratio, capital ratio are independent variables. Two fashions used to measure the bank profitability.

Return on Assets:

Return on property measured the effective generating earnings in their funding or earnings earning every unit of shareholder equity. The debt of company boom it'll growth the property company however I will decrease your firm proprietor fairness and growth legal responsibility like debt. If the debt or liability zero then your assets same on your fairness.

$$\mathbf{ROAit=\beta\_+ \beta1CRit+ \beta2\ CARit+ \beta3\ QRit+ \beta4\ LRit+ Eit} \qquad (1)$$

CR: Current ratio = Current asset / Current liability

CAR: Capital ratio = Capital /Total asset.

QR: Quick ratio = Quick asset / Current liability

LR: liquid ratio = liquid belongings/ Current liabilities.

Where 〖 β〗 _(1,) β_2,β_3 and β_(4,) : interpreted the coefficients values four impartial variables of the first version, respectively.

The 1st version measured with the aid of the impact of liquidity control and financial area performance of Pakistani banks, whereas return on fairness (ROE) turned into the proxy for profitability.

Return on Equity:

Return on equity measured the performance of the company producing the income of the each unit of shareholder fairness and it's measured the overall overall performance of the firm or any sectors.

ROE = Income after tax / overall asset

Return on asset measured the profitability of the company and return on equity measured by the efficiency of the generating the earnings of each unit of shareholder equity and usual performance of the banks.

ROEit=β +β1 CRit+ β2 CARit+ β3QRit+ β 4LRit+eit (2)

Where β_(1,) β_2,β_3 and β_(4,) and interpreted the coefficients values 4 independent variables of the second version, respectively. β0: shows the constant

The second model measured via the effect liquidity and economic quarter performance of Pakistani banks, while return on property (ROA) become the proxy for profitability.

3. Data Description

This studies explore the effect of liquidity management and economic sector performance within the Pakistani banks. Secondary information used degree the liquidity and monetary quarter overall performance of banks. Ten banks are decided on for this reason and indicate the component which is impact the liquidity management and economic performance of the banks. Annual report of the banks are used for the analysis of banks overall performance and liquidity. The statistics were used at some point of the term of 2010 to 2019 for seven commercial banks indexed in table.

List of banks

S No	Name of banks	No of year	Observation
1	Habib bank ltd	2010/2019	10
2	Muslim commercial bank	2010/2019	10
3	Bank of Punjab	2010/2019	10
4	United bank	2010/2019	10
5	Allied bank	2010/2019	10
6	Askari Bank	2010/2019	10
7	Samba bank	2010/2019	10

Table: 1. Variables definition & measurement units

Independent variables	Construction of Ratios
CR Capital Ratio	Capital / Total assets
LAR Liquid Assets Ratio	liquid asset / Current liability
CR Current Ratio	Current asset /Current liability
QR Quick Ration	Quick asset / Current liability
Dependent Variables	**Construction of Ratios**
ROE Return on Equity	Income after tax/ Total Equity
ROA Return on Assets	Income after tax/ Total Assets

Variables construction

The independent variables represent the liquidity management, which include the following measures (Ratios):

- Current ratio = Current asset / Current liability.
- Capital ratio = Capital / Total asset
- Quick ratio = Quick assets /Current liability
- Liquid assets ratio = Liquid asset / current liability

The dependent variable: Measure the financial sector performance of the banks. Profitability ratio ROA and ROE alternate.

Current ratio:

This ratios measures bank's capacity repayment of their short term liability in the short period of time (less than one year) and compared asset which is consider short term.

Current ratio = Current assets / current liabilities.

Capital Ratio.

Capital ratio measure financially position of banks and the capability of the capital, which shows the banks financial stability.

Capital ratio =capital /total asset

Quick ratio:

This ratio guide to the short term solvency of firm. Quick ratio epitomizes the satisfactory current financial condition.

Quick ratio=liquid assets / current liability

Liquid assets ratio:

Liquid asset ratio measures the ratio of Acid liquid assets, which is involve cash in hand cash reserve at the state bank, percentage of total asset as securities guaranteed government and non-government and short term deposit of the banks.

Liquid asset = liquid asset /current liability

Return on equity:

Return on equity measured the efficiency of the firm generating the profit of the each unit of shareholder equity and it's measured the overall performance of the firm or any sectors.

ROE = Income after tax / owner equity

Return on assets:

Return on assets measured the effective generating profit of their investment or profit earning each unit of shareholder equity. The debt of firm increase it will increase the assets firm but I will decrease your firm owner equity and increase liability like debt. If the debt or liability zero then your assets equal to your equity.

ROA = Income after tax /total assets.

Hypothesis Testing

Current Ratio has significant impact on financial sector performance of commercial banks

Quick ratio had significant impact on financial sector performance of commercial banks

Liquid Ratio had significant impact on financial sector performance of commercial banks

Cash Ratio had significant impact on financial sector performance banks

Results and Discussion

Descriptive statistics

In Table II, the descriptive results shows the variables values of profitability of commercial banks in the prospectus of Pakistan. This table explain the value of mean median standard deviation of variables. The mean explain the average values of the variables and standard deviation shows the deviation from the value of mean. The descriptive test tells us the value of return on equity which are our selective data result 0.128 percent and median is 0.158.

Table: 2. Descriptive statistics

Variables	Mean	Median	Maximum	Minimum	Std. Dev.
ROA	0.100	0.028	0.715	-0.015	0.115
ROE	0.128	0.158	0.294	-0.319	0.099
CPARTIO	0.036	0.014	0.600	0.005	0.075
CRATIO	1.046	0.945	2.520	0.416	0.415
LRATIO	0.995	0.915	2.500	0.010	0.419
QRATIO	0.716	0.633	1.720	0.078	0.335

The standard deviation of return on equity (ROE) has value is 0.099 percent. The return on assets (ROA) average is 0.100 percent and standard deviation is 0.115 percent also median is 0.028. The capital Ratio (CAPR) mean is 0.36 percent and standard deviation is 0.75 percent also median is 0.014. The current ratio (CR) mean are 1.046 percent, standard deviation respectively 0.415 percent also median 0.945. The Liquid ratio (LR) shows the mean 0.995 percent and standard deviation 0.419 percent also the value of median is 0.915. Quick ration (QR) mean 0.716 percent and shows standard deviation value 0.335 percent also value of median is 0.633.

Correlation return on asset between independent variables

The Table III explained that the relationship between independent variables which shows that what is effecting change in one variable to the other variables. The Table III tells us there is no multi collinearity and shows the low relationship among the variable's. Capital ratio has negative relationship with return on asset. The capital ratio (CAPR) has -0.234 percent close to the return on asset and Current ratio (CRATIO) 0.15 liquid ratio 0.20 (LRATIO), quick ratio (QRATIO) has 0.25 close to value return on asset value is 1. The liquid ratio has strong relationship with capital ratio and current and quick ratio has low relationship with capital ratio. The liquid and quick ration has strong relationship with current ratio. Liquid and quick ratio has strong relationship with them.

Table: 3. Correlation Matrix

Variables	ROA	CPARTIO	CRATIO	LRATIO	QRATIO

ROA	1				
CPARTIO	-0.234	1			
CRATIO	0.152	-0.117	1		
LRATIO	0.208	-0.098	0.877	1	
QRATIO	0.258	-0.224	0.913	0.815	1

Correlation Return on Equity between independent variables

The Table III explained that the relationship between independent variables which shows that what is effecting change in one variable to the other variables. The Table III tells us there is no multi collinearity and shows the low relationship among the variable's. Capital ratio has positive relationship with return on asset. The capital ratio (CAPR) has 0.077 percent close to the return on equity and Current ratio (CRATIO) -0.039 liquid ratio -0.069 (LRATIO), quick ratio (QRATIO) has -0.168 close to value return on equity value is 1. The liquid ratio has strong relationship with capital ratio and current and quick ratio has low relationship with capital ratio. The liquid and quick ration has strong relationship with current ratio. Liquid and quick ratio has strong relationship with them.

Table: 4. Correlation matrix

Variables	ROE	CPARTIO	CRATIO	LRATIO	QRATIO
ROE	1				
CPARTIO	0.077	1			
CRATIO	-0.039	-0.117	1		
LRATIO	-0.069	-0.098	0.877	1	
QRATIO	-0.168	-0.224	0.913	0.815	1

Empirical results from panel data analysis:

The regression analysis model are close to the related study which is shows the value of R squared value 0.860 which tells the all explanatory variables explore return on Asset 86 percent. The value of Hausman test Chi-Sq. Statistic 29.19 and Chi-Sq. d.f is 4 and prob is 0. The values are obtained the standard statistical test used in Panel EGLS (Cross-section weights) and regression analysis to determine if variances are significantly different among the mean of two papulation. The value p is 0 and value of F test 36.30 which is shows that model is good for analysis.

Table: 5-Regression Analysis

(Dependent Variable ROA)

Variables	**Coefficient**	**SE**	**t-statistic**	**Prob**
C	0.052	0.025	2.019	0.048
LOG (CPARTIO)	-0.009	0.005	-1.761	0.083
LOG (CRATIO)	0.032	0.014	2.138	0.036
LOG (LRATIO)	0.003	0.001	2.064	0.043
LOG (QRATIO)	-0.024	0.011	-2.141	0.036
R Squared	0.860			
Adjusted R-squared	0.836			
F-statistic	36.307			
Prob(F-statistic)	0.000			

The dating among the capital ratio (CPARATIO) return on asset (ROA) is negative and tremendous effect on profitability of commercial banks at stage of .08 percent. The relationship between the present day ratio (CRATIO) and return on asset (RAO) is fine and effective impact on banks profitability. The liquid asset ratio (LRATIO) and go back on asset (ROA) has big and effective dating on banks profitability. The study find out dating between the short asset (QRATIO) and go back on asset (ROA) is poor and widespread effect on financial institution performance. The liquidity ratios has nice enormous courting with the profitability ratios besides capital ratio and quick ratio has bad dating and substantial impact on bank profitability. Quick ratio and capital ratio has insignificant effect of monetary sector overall performance in prospectus of Pakistan.

The regression analysis model are close to the associated examine which is shows the value of R squared cost zero.933 which tells the all explanatory variables discover return on Asset 93 percentage. The fee of Hausman test Chi-Sq. Statistic 37.93 and Chi-Sq. D.F is 4 and prob is 0. The values are received the standard statistical check used in Panel EGLS (Cross-phase weights) and regression evaluation to determine if variances are drastically exclusive a number of the mean of papulation. The fee p is 0 and fee of F check eighty-two. Fifty-seven which is shows that version is ideal for analysis.

Table: 6-Regression Analysis

(Dependent Variable ROE)

Variables	Coefficient	SE	t-statistic	Prob
C	0. 031	0.028	11.177	0.000
(CPARTIO)	0.046	0.007	6.012	0.000
LOG (CRATIO)	-0.032	0.015	-2.150	0.035
LOG (LRATIO)	0.004	0.004	1.125	0.264
LOG (QRATIO)	0.011	0.016	0.724	0.471
R Squared	0.933			
Adjusted R-squared	0.922			
F-statistic	82.570			
Prob(F-statistic)	0.000			

The courting among capital ratio (CPARATIO) and returns on equity (ROE) is vast and additionally sizable impact on economic zone performance. The relationship between the current ratio (CRATIO) and go back on Equity (ROE) is negative and considerable effect on banks profitability. The relationship between liquid asset ratio (LRATIO) and go back on equity (ROE) has huge and large effect on banks profitability. The study discover courting among the fast asset (QRATIO) and go back on equity (ROE) is wonderful and insignificant impact financial institution profitability. Liquidity ratios variables has wonderful tremendous dating with profitability besides Quick ratio which has insignificant impact on economic area overall performance. Quick ratio has poor big effect profitability business banks of Pakistan.

Conclusions and Recommendations

The primary purpose of the study to research and analysis the liquidity management and the economic region performance within the context of Pakistan. The liquidity has key aspect within the bank's profitability. The observe concentrates the exploration of profitability of business financial institution of Pakistan. The facts become accumulated the seven Pakistani industrial for the time period of 2010 -2019. Panel information technique Panel EGLS (Cross-phase weights) use to analyze the profitability measures the return on asset ROA and go back on fairness ROE.

On the bases the empirical end result evaluation we find out the results. The dating among the capital ratio (CPARATIO) return on asset (ROA) is bad and considerable effect on profitability of industrial banks at level of .08 percentage. The relationship among the present day ratio (CRATIO) and go back on asset (RAO) is advantageous and advantageous impact on banks profitability. The liquid asset ratio (LRATIO) and go back on asset (ROA) has extensive and fine dating on banks profitability. The study discover courting among the short asset (QRATIO) and go back on asset (ROA) is poor and large impact on bank overall performance. The liquidity ratios has wonderful enormous courting with the profitability ratios except capital ratio and quick ratio has negative relationship and extensive impact on financial institution profitability. Quick ratio and capital ratio has insignificant impact of financial sector overall performance in prospectus of Pakistan.

The courting between capital ratio (CPARATIO) and returns on fairness (ROE) is vast and additionally vast effect on monetary zone performance. The relationship among the cutting-edge ratio (CRATIO) and go back on Equity (ROE) is poor and tremendous effect on banks profitability. The courting among liquid asset ratio (LRATIO) and go back on fairness (ROE) has massive and full-size effect on banks profitability. The observe find out courting between the fast asset (QRATIO) and return on equity (ROE) is wonderful and insignificant impact bank profitability. Liquidity ratios variables has effective big courting with profitability except Quick ratio which has insignificant effect on monetary zone overall performance. Quick ratio has bad enormous effect profitability business banks of Pakistan. This observe is performed to investigate the liquidity control and monetary sector overall performance in context of Pakistan.

Recommendations

These findings may be very beneficial for coverage makers and regulators for implication of capital requirement and cushion available for business banks in Pakistan. Because of various new proxies and hazard elements it'll be extra useful for investor to gauge the chance profiling and dangers techniques with the aid of business banks whilst taking funding selections. This studies can also be increased to overseas and Islamic banking machine which additionally faces those styles of threat .In future this scope also can use with relation to different hazard elements such as marketplace threat ,Current ratio ,liquid ratio and several others elements used by researcher to analyze profitability and risk elements .If there's greater time allowed for studies work extra accurate outcomes can be acquired .Several troubles additionally occurred in information series consisting of some put up confined disclosures and associated variable results which makes a research amore hard job however in destiny those banks effects can also be contain in study to reap more marketplace orientated effects

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