Journal Homepage: -www.journalijar.com

INTERNATIONAL JOURNAL OF ADVANCED RESEARCH (IJAR)

ISSN NO. 2320-5407

Article DOI:10.21474/IJAR01/14731
DOI URL: http://dx.doi.org/10.21474/IJAR01/14731

RESEARCH ARTICLE

THE IMPACT OF COVID-19 ON LIQUIDITY AND PROFITABILITY IN COMMERCIAL BANKS

Noor Aldeen Kassem Al-Alawnh[1], Hayder Jerri Mohsin[2], Laith Yousef Bani Hani[3], Basil Mohammad Al-Naser[4], Awad Adel Qurran[5] and Sara Khaled Alzu'bi[6]

1. Ph.D. Student Putra Business school, University Putra Malaysia, Malaysia.
2. Faculty of College of Administrative Technology, Southern Technical University, Iraq.
3. Researcher: Osmania University- Business Management and Commerce College, India.
4. Researcher: Economics and Administrative Sciences College,Yarmouk University, Jordan.
5. Ph.D. Student Putra Business School, University Putra Malaysia, Malaysia.
6. Researcher: Jadara University- Business College, Jordan.

Manuscript Info

Manuscript History
Received: 15 March 2022
Final Accepted: 17 April 2022
Published: May 2022

Key words:-
COVID-19, Liquidity, Profitability, Commercial Banks

Abstract

The study examines the impact of the COVID-19 pandemic on the profitability and liquidity of Jordanian commercial banks. The LIQ Ratio has been used and returns on equity (ROE) to find the impact of COVID-19 on the profitability and liquidity of Jordanian commercial banks; this study is based on the use of the causal descriptive approach. This methodology was used to compare both liquidity and profitability before the Corona pandemic period during the year (2017-2018). Also, a comparison of liquidity and profitability during the pandemic period (2019-2020) and the study data were obtained from the Amman Stock Exchange. The study results show through statistical analysis that the COVID-19 pandemic has an impact on the profitability of Jordanian commercial banks and does not affect the liquidity of Jordanian commercial banks. The study recommended that Jordanian commercial banks diversify their sources of profitability by diversifying their securities investments diversifying their fund investments. And encouraging special studies in profitability and liquidity by bank administrations and monetary authorities because it impacts the future of banks and their ability to continue.

Introduction:-

The world has experienced an unprecedented health crisis known as Covid 19 worldwide, and the first infection in the Chinese city of Whan in December 2019 (Chakraborty &Maity, 2020).And since the spread of the virus to this day, Covid 19 continues to threaten the world, spreading rapidly, posing a threat to the process of social and economic stability, and affecting global markets significantly. (Schröder, 2020). With the spread of the virus, the global economy slowed down, global supply chains were disrupted, and there were changes in global stock indices. (Li et al., 2021)

As a result of the virus, many countries have been subject to quarantine orders and complete closures, which has affected the economy of those countries (Chu, 2020).and led to the banks facing many problems (Marcu, 2021).Our study will study the impact of the virus on the liquidity and profitability of Jordanian commercial banks. Liquidity is

Corresponding Author:- Noor Aldeen Kassem Al-Alawnh
Address:- Ph.D. Student Putra Business School, University Putra Malaysia, Malaysia.

an important factor for banks and is effective (Abdillah et al., 2016). during the recent global financial crisis, some banks succeeded in covering their obligations in the event of maturity. Some banks failed and resorted to merging with other banks to achieve financial stability and create large amounts of liquidity.

If we ask ourselves a question about liquidity, it can be defined as the ability to buy and sell assets (Gabrielsen et al., 2011). Insufficient liquidity is a major cause of bank failure, and in times of instability, banks may choose to increase liquidity holdings to reduce risk (Marozva, 2015).

As a result of the significant impact of the liquidity crisis on banks' operating environment, financial bodies such as the Basel Committee have called for Banking Supervision and effective liquidity management (Kowalik, 2013). And banks must maintain a large position of liquid assets and, on the other hand, be profitable for them to be sustainable(Alim, 2021).

As for profitability, business establishments, including commercial banks, always strive to achieve the largest possible profit (Dietrich &Wanzenried, 2011). But profit in the banking system is the main variable to achieving stability (Dwumfour, 2017). And all legislation all countries around the world, for profitability, business establishments, which come from commercial banks, always seek to achieve as much profit as possible.

However, making a profit in the banking system is the main variable in achieving stability. All legislation in all countries worldwide, for profitability, always seeks business facilities from commercial banks to achieve the maximum profit.

However, profit-making in the banking system is the key variable to achieving stability (Albulescu, 2010). And all legislation in all countries around the world does not allow the establishment of a commercial bank only to ensure that there is an adequate return for the owners to ensure the survival of their investments (Fernando, 2011)**.**The importance of profitability can be highlighted by the primary goal of commercial banks is to maximize profitability (Anjichi, 2014).

Liquidity and profitability are two important factors in commercial banks, so liquidity represents working capital management. On the other hand, profitability is seen to know the bank's financial health(Adam, 2014). with the outbreak and the impact of the virus, we still do not know the impact of covid-19 on the liquidity and profitability of Jordanian commercial banks. More importantly, there is no study investigated in that matter, which is to know what is the impact of covid-19 on the profitability and liquidity of Jordanian commercial banks, so the problem of the study is an experimental test of the effect of covid-19 on the liquidity and profitability of Jordanian commercial banks.

Thus, the study of the impact of the coronavirus on the profitability and liquidity of Jordanian commercial banks is important for what the Jordanian commercial banks play in the environment of the Jordanian economy. As a result of the importance of commercial banks in the Jordanian economic environment, the study aimed to find out what is the impact of covid-19 on the liquidity and profitability of Jordanian commercial banks so that branches from the main objective of the study, the following two questions:

Determine the impact of covid-19 on the liquidity of Jordanian commercial banks.

Determine the effect of covid-19 on the profitability of Jordanian commercial banks.

Study questions:-

Study questions include :

1. Does the covid-19 pandemic affect the liquidity of Jordanian commercial banks?
2. Does the pandemic affect the profitability of Jordanian commercial banks?

Study hypotheses:-

The following hypotheses have been formulated in line with the objectives of the study

H 0: there is no impact of the covid-19 pandemic on the liquidity of Jordanian commercial banks.

H 0: there is no impact of the covid-19 pandemic on the liquidity of Jordanian commercial banks.

Literature Review:-

Profitability and liquidity have received much attention from researchers and academics; this section provides an overview of studies related to profitability and liquidity and has been reviewed.

Almumani (2013) The study was entitled The impact of administrative factors on the profitability of Jordanian commercial banks, a pilot study of Jordanian commercial banks, and the study aimed at identifying factors that can be controlled by management to determine profitability in Jordanian commercial banks, and many variables were derived that have to do with banks as income data, and the balance sheet,

The study period was from 2005 to 2011. The study found that the cost-to-income ratio is the main internal factor under management control and determining profitability in Jordanian commercial banks.

Erfani& Vasigh's (2018)The impact of the global financial crisis on commercial bank profitability was the title of a study that attempted to compare the effect of the global financial crisis on the efficiency and profitability of commercial and Islamic banks. The study included 9 Islamic banks and 11 commercial banks. The study indicated that Islamic banks managed their efficiency during the study period, but most commercial banks experienced a loss of efficiency. The study discovered no major influence on Islamic banks' profitability.

Akter& Mahmud (2014) The study titled Liquidity and Profitability in the Banking Industry looked at 12 banks in four different sectors: government banks, Islamic banks, multinational banks, and private commercial banks, and discovered the relationship between liquidity and profitability in the banking industry in Bangladesh. According to the study, there was a difference in liquidity and profitability in these industries. The government showed variable liquidity, while stability was in other sectors. Still, there were fluctuations in profitability for all sectors, and the study found no statistical relationship between liquidity and profitability in banks in different sectors in Bangladesh.

Chen et.al. (2017) study titled The impact of liquidity on company values: the guide to banking in Taiwan, empirically categorized financial institutions in Taiwan into three main categories: fragile, contagious, and secure; the study found that the results can serve as an early warning signal for the liquidity disaster, and the factors that affect the liquidity discounts of companies before and after the financial crisis, and show that liquidity changes significantly during the financial crisis.

Harahap (2018)The study was titled The impact of bank performance on profitability A pilot study of banks in Indonesia. The study aimed to determine the effect of capital structure, credit efficiency, non-performing loan, and capital adequacy ratio on the profitability of banking companies in Indonesia. The study consisted of 10 banks with the largest assets in the study community, namely banking companies listed on the Indonesian Stock Exchange from 2010 to 2016. The study found that the most important finding is that the capital structure has a negative impact on the profitability of banking companies on the Indonesian stock market.

BAKSHI (2018) The study was titled The effect of profitability on stock prices. The study aimed to analyze the impact of profitability on stock prices by adopting it in India as a case example.

Also, to explore the criteria for decision-making in investors based on the profitability of stock prices. The data were collected using a descriptive approach to analyze profitability based on income and expenses from 2015 to 2018. The study found that the most important results of the company's profitability, capital structure, overdue debt, and liquidity significantly impact stock prices.

Devi et al. (2021) The study was titled The impact of the COVID-19 pandemic on the financial performance of companies on the Indonesian Stock Exchange, and the study aimed to study the effect of the Covid-19 pandemic on the financial performance of listed companies in Indonesia Stock Trading. The research samples included 214 companies proportionally divided into nine sectors or(49) sub-sectors. The descriptive approach was used, and the data was analyzed by testing the Wilcoxon rank of the statistical package (spss). The study reached results, the most important of which is an increase in the ratio of financial leverage and the ratio of activity in the short term, but a decrease in the liquidity ratio of public companies and the ratio of profitability during the corona pandemic.

Study Methodology:-

Introduction:-

The study methodology will clarify the study community and sample, the study performance, the sources of information collection, and the statistical method.

The applied aspect of the study will be based on the analysis of the data listed on the ASE market, To examine the impact of the corona pandemic on the liquidity and profitability of Jordanian commercial banks; for the period before the corona pandemic during the year (2017-2018) also compare liquidity and profitability during the pandemic period (2019-2020). The liquidity ratio represented by LIQ Ratio and profitability by ROE will be measured. Through these variables, the extent to which Jordanian commercial banks are affected by COVID-19 will be measured. The study population consists of all Jordanian commercial banks listed on the Amman Stock Exchange, numbered (13) banks.

Study tools and data collection:-

To achieve the objectives of the study and test its hypotheses, the data will be collected through the financial statements of the Jordanian commercial and Islamic banks listed on the Amman Stock Exchange during the period 2017-2020

Data analysis methods:-

This study is based on a causal descriptive approach, and this methodology was used to compare both liquidity and profitability before the period of the corona pandemic and during the period of the pandemic.

To examine the impact of the corona pandemic on the liquidity and profitability of Jordanian commercial banks,the data collected were analyzed using the (spas v, 26) statistical package program and the selection of the appropriate statistical test Wilcoxon.

Table 1:- Source: prepared by researchers from Amman stock exchange.

Bank name	Year	liquidity	profitability	Year	liquidity	profitability
		Befor	before		After	After
Arab Bank	2017	0.36	5.49	2019	0.38	11.16
	2018	0.35	11.81	2020	0.41	0.57
Invest bank	2017	0.28	8.67	2019	0.24	8.84
	2018	0.26	8.88	2020	0.21	3.23
Bank of Jordan	2017	10.79	0.35	2019	9.69	0.38
	2018	10.08	0.37	2020	7.87	0.33
Cairo Amman Bank	2017	9.01	0.36	2019	8.03	0.25
	2018	8.96	0.24	2020	4.95	0.23
Jordan Kuwait Bank	2017	5.75	0.29	2019	6.51	0.27
	2018	9.46	0.22	2020	-0.99	0.24
Jordan Commercial Bank	2017	2.53	0.17	2019	3.82	0.12
	2018	3.75	0.15	2020	0.37	0.17
Arab Jordan Investment Bank	2017	8.04	0.22	2019	7.56	0.26
	2018	7.96	0.28	2020	5.25	0.3
Housing Bank	2017	11.46	0.28	2019	7.57	0.25
	2018	8.8	0.27	2020	3.33	0.25
Ahli bank	2017	4.35	0.24	2029	7.22	0.18
	2018	7.06	0.22	2020	3.01	0.18
Bank al Etihad	2017	8.46	0.25	2019	8.16	0.25
	2018	9.49	0.19	2020	5.78	0.27
ABC Bank	2017	8.09	0.19	2019	1.23	0.16
	2018	6.07	0.2	2020	0.76	0.18
Capital Bank	2017	8.35	0.36	2019	8.55	0.22
	2018	10.74	0.25	2020	8.44	0.24
Societe General bank	2017	5.82	0.18	2019	7.51	0.2
	2018	6.48	0.24	2020	3.75	0.18

Display Data:-

The above table shows the financial statements of the Jordanian commercial banks listed on the Amman Stock Exchange. which consisted of Arab Bank, Housing Bank, Capital Bank, Bank of Jordan, Ahli Bank, Cairo Amman Bank, Al Etihad Bank, Arab Investment Bank, Jordan Commercial Bank, Arab Jordan Investment Bank, SocieteGenerale Bank, Jordan Kuwait Bank, and investment bank, for the period (2017-2020).

Hypothesis testing:-

Test the first hypothesis that states

H0: there is no impact of covid-19 on the liquidity of Jordanian?

Average grade	Statistical test z	Probability-sig(p.value)
Signals(-) Signals(+)		
8.2115.45	-2.997	0.03

Table 2:-

We note from the results of this test that the p.value equal to 0.03 (3%) is less than the 5% level of significance. Therefore we accept the alternative hypothesis that there is no effect of Covid-19 on the liquidity of Jordanian commercial banks.

To determine the direction of the relationship, we compare the average ranks of the negative and positive signs and note that the average ranks of the positive signs are greater than the negative ones, which indicates that the average liquidity of Jordanian banks is greater than the average before the Covid-19 epidemic, thus with a probability of p.value %2 = 0.015

Test the second hypothesis that states

H0: Is there an impact of the Covid-19 epidemic on the profitability of Jordanian commercial banks?

average rank	Statistical test z	Probability-sig(p.value)
Signals(-) Signals(+)		
12.6713.19	-1.309	0.191

Table 3:-

We notice from the results of this test that the p.value of 0.191 (19.1%) is greater than the 5% level of significance. Therefore, we reject the alternative hypothesis that there is no effect of Covid 19 on the liquidity of Jordanian commercial banks.To determine the direction of the relationship, we compare the average ranks of the negative and positive signs and note that the average ranks of the positive signs are greater than the negative ones. This indicates that the average profitability of Jordanian banks is greater than the average before the epidemic, Covid-19, with a probability of p.value 2% = 0.0955.

Conclusion:-

The result of the study analysis using the Wilcoxon test tool through the program (spss.v26). In hypothesis H0: There is no impact of the Covid-19 epidemic on the liquidity of Jordanian commercial banks, in light of the analysis as shown in table (2). The result indicates that the COVID-19 pandemic does not affect the liquidity of Jordanian commercial banks. The outbreak of COVID-19 does not significantly affect the liquidity of Jordanian commercial banks. This can be justified with a P-value of 0.03, as shown in table (2). The test is considered statistically significant. As such, the alternative hypothesis was accepted.

Moreover, in second hypothesis H0: Is there an impact of the Covid-19 epidemic on the profitability of Jordanian commercial banks? Because of the analysis as shown in table (**3**). The result shows an effect of the Covid-19 epidemic on the liquidity of Jordanian commercial banks that the outbreak of COVID-19 significantly affects the profitability of Jordanian commercial banks. This can be justified with a P-value of 0.191, as shown in table (3). The test is considered statistically significant. As such, the alternative hypothesis was rejected.

The study results concluded that the COVID-19 pandemic impacts the profitability of Jordanian commercial banks, and it was found that the COVID-19 pandemic does not affect the liquidity of Jordanian commercial banks listed on the Amman Stock Exchange.

Recommendations:-

Based on the results of the study, the following recommendations are proposed:

The study recommends enhancing the sources of profitability for Jordanian commercial banks by diversifying investments in securities and the investment of funds. The importance of encouraging private studies in the field of profitability and liquidity by bank administrations and monetary authorities is because it impacts the future of banks and the possibility of their continuity.

Discoveryofways to improve profitability in commercial banks and how to improve their performance **.**Conduct a more comprehensive study of liquidity and profitability during the pandemic and identify reasons for the impact of profitability in commercial banks.

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