

## THE PERFORMANCE OF BANKS IN A DEVELOPING COUNTRY: HAS COVID-19 MADE ANY DIFFERENCE?

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### ABSTRACT

**Purpose-** The implications of COVID-19 still evolves. However, it has become clear that the virus has hit the supply and demand sides of economies, severely impacted banks and stocks markets, and led to significant decreases in the global flows of capital. Within this context, the purpose of this paper is to report on the performance of Jordanian banks in 2020, and examine the determinants of their performance.

**Methodology-** To realize the objective of this paper, the performance of all listed Jordanian banks (13) during the period 2010-2020 is examined in terms of their return on assets (ROA) and net interest margin (NIM). Using the Seemingly-Unrelated Regression (SUR), ROA and NIM are regressed on a set of variables including equity capital, bank expenses and size, income diversification, loan loss provisions, lending to the government, and economic growth.

**Findings-** The 2020 financial statements show that the profits of Jordanian banks (return on assets) have decreased from 1.43 percent in 2019 to 0.74 percent in 2020, or by about 48 percent. This decrease in profits was largely due to the increase in loan loss provisions. As far as the econometric results are concerned, it is interesting to note that loan loss provisions impact bank profitability in a negative and significant manner. On average, however, the cost of loan loss provisions are passed-on, at least partly, to bank customers in the form of wider costs of financial intermediation.

**Conclusions-** While much of the determinants of bank performance are applicable to the Jordanian banks, it is encouraging to note that these banks have managed to finish the 2020 financial year in a good shape. Indeed, this is the result of their strong financial positions that enabled them to increase their loan loss provision by large proportions.

**Keywords:** Jordan, banks, profitability, net interest margin, bank size, seemingly-unrelated regression.

**JEL Codes:** G20, G21, G24

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