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## **Bank Profitability, Credit Structure, Regulatory Conditions, And Macroeconomic Dynamics in Emerging and Developing Economies: A Narrative Research Analysis of Determinants, Stability, And Banking Performance**

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### **ABSTRACT**

**Background:** Bank profitability remains one of the most widely studied indicators of financial sector health because it reflects the capacity of banks to absorb shocks, support credit intermediation, maintain depositor confidence, and contribute to wider economic development. The references provided for this article collectively address a broad but interconnected set of themes, including bank size, market concentration, credit structure, regulatory conditions, liquidity requirements, governance mechanisms, macroeconomic cycles, and efficiency across diverse banking systems in Africa, the Middle East, Europe, and other emerging and developing contexts.

**Objective:** This article develops a publication-ready narrative research study that synthesizes the supplied literature in order to explain how internal bank characteristics, credit maturity composition, governance, regulation, and macroeconomic conditions shape bank profitability and banking performance. It also examines the tension between profitability and stability, especially in contexts where short-term financing, liquidity constraints, or structural market differences influence banking outcomes.

**Methodology:** A qualitative narrative review design was employed using only the references supplied by the user. The study identifies major thematic clusters within the literature and analyzes them through an integrative interpretive framework. These clusters include size and scale, concentration and market structure, efficiency and governance, credit risk and credit maturity composition, regulation and liquidity requirements, crisis and cyclical dynamics, and the specific experience of African and emerging banking systems.

**Results:** The synthesis indicates that bank profitability is multidimensional and cannot be explained by a single factor. Bank size may enhance profitability through scale, diversification, and market reach, but it may also introduce inefficiencies and organizational complexity (Bourke, 1989; Aladwan, 2015; Kolapo et al., 2016). Credit composition matters substantially, with short-term lending linked both to profitability opportunities and to liquidity or refinancing concerns (Beck et al., 2019; BIS, 2020; Federal Reserve, 2021; Johnson & Scott, 2019). Regulatory quality, market structure, and institutional conditions significantly shape intermediation costs and performance (Demirgüç-Kunt et al., 2004; Demirgüç-Kunt & Huizinga, 1999). Governance, efficiency, and macroeconomic growth further condition banking outcomes across countries (Grigorian & Manole, 2006; Brown & Green, 2021; Ghosh, 2020; Faida & Nizigiyimana, 2022).

**Conclusion:** The central conclusion is that bank profitability should be understood as the outcome of continuous interaction among bank-level strategy, credit structure, institutional design, and macroeconomic context. Sustainable profitability is strongest where efficiency, prudent regulation,

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**sound governance, and balanced maturity transformation coexist.**

**KEYWORDS**

**Bank profitability, banking performance, credit structure, liquidity, regulation, governance, emerging markets.**

**I**NTRODUCTION

Bank profitability has long occupied a central place in banking research because it serves as both an accounting outcome and a broader institutional signal. It reveals not only whether a banking institution generates earnings above its costs, but also whether the institution is operating efficiently, managing risk prudently, allocating assets productively, and positioning itself effectively within a regulatory and macroeconomic environment. In modern economies, banks are not ordinary firms. Their profitability carries systemic importance because banks mediate savings and investment, transform maturities, create credit, transmit monetary conditions, and influence the resilience of the wider financial system. A profitable banking system is often interpreted as one with stronger loss-absorbing capacity and greater continuity in lending, but profitability that is achieved through excessive risk-taking or unstable funding structures can also foreshadow fragility rather than strength (De Jonghe, 2010; Johnson & Scott, 2019; BIS, 2020).

The literature provided for this article reflects the long-standing recognition that the determinants of bank profitability are complex and layered. Early comparative work demonstrated that concentration, market structure, and bank-specific factors all shape profitability across national banking systems (Bourke, 1989). Subsequent research expanded that perspective by examining how interest margins, institutional quality, regulation, and intermediation costs interact across countries and banking models (Demirgüç-Kunt & Huizinga, 1999; Demirgüç-Kunt et al., 2004). More recent studies have deepened the discussion by focusing on efficiency, governance, credit risk management, liquidity requirements, and the maturity profile of credit, while also paying greater attention to emerging and developing economies where institutional environments, market depth, and macroeconomic conditions differ markedly from those of mature financial systems (Kablan, 2009; Beck et al., 2019; Faida & Nizigiyimana, 2022; Gouiaa & Ouedraogo, 2022).

A central issue that emerges from the supplied references is that profitability cannot be reduced to the simple excess of revenues over costs. In banking, revenues are generated through intermediation, fees, investment activities, and maturity transformation; costs arise not only from operations and labor but also from funding structure, regulatory compliance, loan losses, liquidity maintenance, and governance failures. This means that profitability is simultaneously operational, strategic, regulatory, and macroeconomic. A bank may appear profitable because it has market power, because it manages assets well, because it benefits from favorable GDP growth, or because it accepts liquidity and credit risks that may not be sustainable over time. Conversely, a bank may appear less profitable in the short run precisely because it maintains prudent buffers and stronger governance arrangements. The analytical challenge is therefore to distinguish transient profitability from sustainable profitability.

One of the most recurrent themes in banking scholarship is the role of size. Larger banks may benefit from economies of scale, greater brand recognition, broader geographic diversification, and access to more varied funding sources. These features can improve profitability if they reduce average costs or increase market reach (Aladwan, 2015). Yet size may also create bureaucracy, complexity, weaker monitoring, and higher coordination

costs, which may erode efficiency despite apparent scale advantages. Research from Nigeria, Jordan, and other settings shows that the relationship between size and profitability is not linear or universal, but contingent on institutional and market conditions (Kolapo et al., 2016; Aladwan, 2015). The broader implication is that scale matters, but only in interaction with management quality, competition, and strategic discipline.

Another key theme concerns the structure of bank credit, especially the distinction between short-term and medium-term lending. Short-term credit may increase turnover, interest income, and balance-sheet flexibility. It may also align with certain borrower needs and emerging-market financing patterns. However, excessive dependence on short-term financing can intensify rollover risk, liquidity stress, and maturity mismatch problems, especially in volatile environments (Beck et al., 2019; BIS, 2020; Federal Reserve, 2021; Johnson & Scott, 2019). This tension lies at the heart of banking: banks are expected to transform maturities and meet liquidity demands while remaining profitable. The literature supplied here suggests that credit maturity composition is not merely a portfolio detail; it is a core strategic determinant of both profitability and stability.

The macroeconomic environment is equally decisive. Bank performance improves or deteriorates in relation to GDP growth, economic cycles, crisis conditions, and the quality of the institutional environment in which banks operate (Brown & Green, 2021; Khan et al., 2020; Ghosh, 2020). In growing economies, credit demand may rise, repayment capacity may strengthen, and intermediation spreads may widen in favorable ways. During downturns, asset quality can deteriorate, margins may compress, and liquidity risks may become more pronounced. Yet macroeconomic growth alone does not guarantee profitability. Its effects depend on whether banks possess sound governance, adequate risk management, and regulatory frameworks that prevent the conversion of credit expansion into later fragility.

The references also place major emphasis on the significance of institutional and regulatory arrangements. Demirgüç-Kunt et al. (2004) argue that regulation, market structure, and institutions shape the cost of financial intermediation, while Demirgüç-Kunt and Huizinga (1999) demonstrate that bank profitability and interest margins vary according to country-specific and bank-specific factors. These findings are especially relevant in developing and emerging regions where banking sectors may face weaker legal enforcement, lower market depth, different competitive pressures, or stronger state influence. In such contexts, profitability is not just the result of internal bank decisions but also of the surrounding institutional architecture. Liquidity requirements under Basel frameworks, as discussed in relation to WAMU banks, further highlight that prudential rules can affect efficiency and profitability in ways that are neither trivial nor uniform (Konan, 2022).

A further dimension emerges from the literature on governance and efficiency. Governance mechanisms shape managerial discipline, risk appetite, resource allocation, and accountability. Efficiency studies, whether conducted through parametric, non-parametric, or stochastic frontier approaches, attempt to distinguish banks that convert inputs into outputs effectively from those that do not (Benzai, 2016; Boutheina & Moez, 2013; Grigorian & Manole, 2006). Governance and efficiency are related but distinct. A bank may have acceptable formal governance structures yet still perform inefficiently due to operational rigidity or poor strategic choices. Similarly, efficiency gains achieved through cost cutting may not be desirable if they weaken risk oversight. The more nuanced view suggested by the references is that profitable banking performance requires a productive alignment between governance quality and operational efficiency.

Several country-specific studies in the provided list broaden the empirical geography of this discussion. Ghana, Jordan, Morocco, Tunisia, Côte d'Ivoire, Burundi, Algeria, Canada, Nigeria, and the West African Economic and Monetary Union all appear in the literature, illustrating that banking performance must be interpreted with sensitivity to national and regional differences (Anarfi et al., 2016; Alami et al., 2021; Dembélé & Machrafi, 2021;

Faida & Nizigiyimana, 2022; Kablan, 2009). This is important because profitability drivers that appear robust in one system may be weaker or reversed in another. For example, concentration may support profitability under one competitive regime but signal inefficiency or rent extraction under another. Liquidity requirements may improve stability in one banking sector while compressing returns unduly in another where capital markets are underdeveloped. There is therefore no universally applicable formula for bank profitability.

The present article addresses this complexity by developing a narrative research synthesis based strictly on the supplied references. It aims to provide a publication-ready scholarly analysis of how profitability and banking performance are shaped by internal bank factors, credit structure, governance, regulation, and macroeconomic context. The article also explores the ongoing tension between profitability and stability, particularly where short-term financing and liquidity management are central. Rather than offering a single-country econometric exercise, it undertakes a conceptual and comparative interpretation of the literature. This approach is justified because the supplied references themselves are heterogeneous, spanning empirical studies, institutional reports, theses, and comparative analyses. Their collective value lies not in statistical homogeneity but in thematic richness.

The literature gap this article addresses is therefore interpretive rather than purely empirical. Many studies identify particular determinants of profitability within specific countries or periods. Others examine regulation, liquidity, or efficiency in isolation. Fewer attempts synthesize these strands into a coherent narrative that treats profitability as the product of interacting systems: organizational scale, market structure, governance, maturity transformation, regulatory design, and macroeconomic fluctuation. By bringing these elements together, the article argues that sustainable bank profitability is not merely a function of maximizing return, but of balancing intermediation ambition with institutional discipline.

## **M**METHODOLOGY

This article adopts a qualitative narrative review methodology grounded exclusively in the references provided by the user. The methodological purpose is not to estimate pooled effect sizes, reproduce an econometric regression, or extend the source list beyond the supplied literature. Instead, the method is interpretive and thematic, aimed at generating a coherent, publication-ready research article from a bounded set of sources that collectively address the determinants of bank profitability, financial performance, stability, efficiency, governance, regulation, and credit structure.

The first methodological step involved identifying the main thematic clusters within the reference list. These clusters emerged inductively from repeated reading of the titles, publication venues, institutional origins, and substantive focus of the references. The first cluster concerns classical determinants of bank profitability, especially bank size, concentration, interest margins, and cross-country variation, represented by works such as Bourke (1989), Demirgüç-Kunt and Huizinga (1999), Duca and McLaughlin (1990), and Aladwan (2015). A second cluster centers on efficiency and performance measurement, represented by Benzai (2016), Boutheina and Moez (2013), Grigorian and Manole (2006), Kablan (2009), and Konan (2022). A third cluster addresses macroeconomic context and cyclical dynamics, represented by Brown and Green (2021), Khan et al. (2020), and Ghosh (2020). A fourth cluster concerns the structure of credit and liquidity, particularly the role of short-term credit, medium-term lending, and liquidity stability, represented by Beck et al. (2019), BIS (2020), Davis (2021), Federal Reserve (2021), and Johnson and Scott (2019). A fifth cluster addresses governance, regulation, and institutional conditions, represented by Demirgüç-Kunt et al. (2004), De Jonghe (2010), Faida and Nizigiyimana (2022), and Gouiaa and Ouedraogo (2022). A sixth cluster consists of country-specific empirical studies from

African and other emerging-market banking systems, represented by Anarfi et al. (2016), Alami et al. (2021), Ben Naceur (2003), Dembélé and Machrafi (2021), Kolapo et al. (2016), and related sources.

The second methodological step was to determine an organizing analytical frame. Because the references address both profitability and broader performance concepts such as efficiency and stability, the article uses a layered analytical framework in which profitability is treated as the central dependent concept, but not an isolated one. In this framework, profitability is interpreted as the outcome of interaction among internal bank characteristics, credit composition, institutional governance, regulatory design, and macroeconomic environment. This allowed the article to incorporate studies that do not speak solely about profitability ratios but nevertheless illuminate the conditions under which profitability becomes stronger, weaker, more volatile, or more sustainable.

The third methodological step was thematic synthesis. Rather than summarizing each source one by one, the article compares sources across shared conceptual dimensions. For example, studies on bank size in Jordan and Nigeria were interpreted alongside classical literature on concentration and profitability in Europe, North America, and Australia (Aladwan, 2015; Kolapo et al., 2016; Bourke, 1989). Similarly, literature on short-term credit profitability was considered together with reports on liquidity stability and long-run financing risk (Beck et al., 2019; BIS, 2020; Federal Reserve, 2021; Johnson & Scott, 2019). Efficiency studies from Tunisia, Algeria, transition economies, and WAMU contexts were synthesized with institutional and regulatory studies to understand how prudential requirements and operational performance intersect (Boutheina & Moez, 2013; Benzai, 2016; Grigorian & Manole, 2006; Konan, 2022). This cross-source synthesis makes it possible to draw conceptually rich conclusions without claiming a false statistical comparability that the reference set does not support.

The fourth methodological step involved interpretive analysis. This article is not a neutral inventory of findings. It advances a clear scholarly argument: that bank profitability is multidimensional and that sustainable profitability cannot be adequately explained by single-factor accounts. This argument is grounded in the literature itself. References dealing with regulation, crisis performance, liquidity, and governance all caution against simplistic notions of profitability based solely on scale or lending intensity (De Jonghe, 2010; Demirgüç-Kunt et al., 2004; Faïda & Nizigiyimana, 2022). The interpretive method therefore seeks to identify tensions and countervailing forces rather than merely listing positive determinants. A factor that enhances profitability in one setting may reduce stability in another. A regulatory rule that compresses margins in the short term may strengthen performance over the long term by reducing fragility. Such interpretive tensions are central to the analysis.

The article also follows a disciplined citation strategy. The user required in-text citation using the author-year format, and every major claim in the body of the article is supported accordingly. Where a point draws on multiple references, multiple citations are provided. Where the supplied literature includes incomplete or institutional-style references, these are incorporated cautiously and used mainly for broader contextual or policy-oriented claims rather than highly granular assertions. For instance, BCEAO (2021), BIS (2020), and the Federal Reserve (2021) are treated as institutional sources relevant to banking conditions, liquidity, and financial stability. This ensures that the argument remains faithful to the nature of the sources provided.

The epistemological stance of the study is interpretivist-comparative rather than strictly positivist. A purely positivist approach would privilege numerical aggregation and model specification. Such an approach would not suit the present source base, which includes articles, reports, theses, and country-specific case analyses. Instead, the interpretivist-comparative method asks how these varied sources collectively illuminate the logic of bank

profitability and banking performance. It recognizes that profitability is context-sensitive and that banking systems are shaped by institutional histories, market configurations, and regulatory traditions. This is especially important when interpreting evidence from Africa, the Middle East, Europe, and international comparative studies side by side.

The methodology further acknowledges limitations inherent in the source set. The references are rich in thematic coverage but uneven in publication type and empirical scope. Some focus directly on profitability; others emphasize efficiency, liquidity, or governance. Some are journal articles with explicit methodological frameworks, while others are policy reports or academic theses. Rather than seeing this heterogeneity as a weakness, the article treats it as an opportunity for broad synthesis while remaining cautious about overgeneralization. The conclusions are therefore framed as analytically grounded interpretations rather than universal empirical laws.

A final methodological principle guiding this article is internal fidelity. The article's title, structure, arguments, and conclusions are all derived strictly from the references supplied by the user. No external sources have been added, no unsupported examples introduced, and no claims made that depend on evidence outside the bibliography. The narrative research design is therefore both bounded and purposeful: bounded by the user's source list, and purposeful in constructing an original article that integrates determinants of profitability, stability, and banking performance into a single scholarly framework.

## **RESULTS**

The narrative synthesis of the provided references yields several major findings. These findings can be grouped into seven interrelated domains: the multidimensional character of bank profitability; the mixed effects of bank size and concentration; the importance of efficiency and governance; the crucial role of credit structure and liquidity; the influence of regulation and institutional conditions; the macroeconomic and cyclical sensitivity of banking performance; and the contextual specificity of emerging and developing banking systems.

A first major finding is that bank profitability is inherently multidimensional and cannot be adequately explained by any single variable. Classical and modern studies alike show that profitability reflects the interaction of internal bank decisions and external environmental conditions. Demirgüç-Kunt and Huizinga (1999) demonstrate that interest margins and profitability depend on both bank-specific and country-specific determinants, meaning that profitability is not only about management quality or portfolio structure but also about the broader institutional and financial environment in which a bank operates. Bourke (1989) similarly shows that profitability is influenced by concentration and other structural determinants across multiple regions. These studies indicate that profitability should not be treated as a narrow accounting outcome; rather, it is an institutional performance indicator shaped by strategy, regulation, competition, and macroeconomic setting.

A second major finding concerns bank size. The literature suggests that size can enhance profitability, but not automatically or without limits. Aladwan (2015), in the Jordanian context, identifies bank size as an important variable in understanding profitability. Larger banks often have greater balance-sheet capacity, broader client networks, better diversification opportunities, and more room to spread fixed costs. Kolapo et al. (2016), examining Nigerian banks in the post-consolidation era, also engage directly with the size-profitability relationship. Their contribution reinforces the idea that size can matter in banking systems that have undergone structural reform or consolidation, where larger institutions may command greater confidence or operational reach. However, the literature does not support a simplistic assumption that bigger banks are always more

profitable. Large size may create administrative complexity, slower response to market shifts, and internal inefficiencies. Thus, the result is better understood as contingent scale advantage rather than universal scale superiority.

A related finding concerns concentration and market structure. Bourke (1989) indicates that concentration can influence profitability, implying that market power may permit stronger margins or more stable earnings under some conditions. Yet concentration may also reduce competitive pressure and potentially encourage inefficiency. Demirgüç-Kunt et al. (2004) deepen this discussion by linking regulation, market structure, and institutions to the cost of financial intermediation. The key result here is that profitability reflects not only how a bank is managed internally but also the structure of the market in which it operates. In more concentrated systems, banks may enjoy pricing power. In more competitive systems, profitability may depend more strongly on efficiency, innovation, and risk discipline. Therefore, the relationship between structure and profitability is contextual rather than fixed.

A third major finding is that efficiency is central to bank performance and profitability. This emerges strongly from studies using stochastic frontier analysis, data envelopment analysis, and other efficiency frameworks. Boutheina and Moez (2013) examine Tunisian commercial banks through the stochastic frontier approach, highlighting that observed performance differences among banks are not simply accidental but related to how effectively institutions transform inputs into financial outputs. Benzai (2016), studying Algerian commercial banks through parametric and non-parametric methods, reinforces the importance of methodological approaches that distinguish efficient from inefficient performance. Grigorian and Manole (2006), focusing on transition economies, show that performance determinants can be fruitfully analyzed through efficiency-based frameworks. Kablan (2009) adds a developing-country dimension through the case of the West African Economic and Monetary Union. The overarching result is that profitability cannot be understood solely through revenue generation; it must also be understood through cost discipline, allocation effectiveness, and operational productivity.

A fourth major finding concerns governance. Governance mechanisms influence profitability by shaping managerial incentives, monitoring quality, strategic coherence, and risk control. Faida and Nizigiyimana (2022), in their study of commercial banks in Burundi, directly analyze how banking governance mechanisms affect performance. Their work suggests that governance is not an abstract institutional formality but a practical determinant of outcomes. Banks with stronger governance structures are likely better positioned to align managerial conduct with institutional objectives, reduce opportunism, and maintain decision-making quality. This insight is consistent with the broader literature on banking performance, even when governance is not named explicitly, because many profitability and efficiency differences across banks can be traced to how well decisions are supervised, how risks are reviewed, and how accountability is embedded in operations.

A fifth major finding is that credit risk management is inseparable from performance. Gouiaa and Ouedraogo (2022), examining Canadian commercial banks, show that credit risk management significantly affects performance. This result has wide relevance beyond the Canadian context because lending remains the core revenue-generating activity of many banks, especially in emerging and developing economies where capital-market activities may be less dominant. Profitability built on weak credit screening or poor monitoring may appear attractive in the short term but can deteriorate rapidly when non-performing assets increase. This implies that performance must be judged in terms of its quality as well as its level. A bank with somewhat lower short-term profitability but stronger credit discipline may be healthier than a bank with temporarily high returns based on fragile asset quality.

A sixth major finding concerns the maturity structure of credit. Short-term credit appears in the literature as both an opportunity and a risk. Beck et al. (2019) argue that short-term credit is associated with bank profitability in emerging markets, suggesting that shorter maturities may allow banks to reprice more quickly, manage turnover more dynamically, and maintain favorable margins under certain conditions. However, institutional and regulatory literature complicates this positive association. The BIS (2020) research report warns of the implications of short-term credit for financial stability, while the Federal Reserve (2021) emphasizes its impact on bank liquidity. Johnson and Scott (2019) similarly highlight the long-run problem of short-term financing, indicating that excessive dependence on short maturities may undermine sustainable stability. Davis (2021), discussing medium-term loans, contributes a balancing perspective by suggesting that maturity structure affects stability outcomes, not merely earnings patterns. The result of synthesizing this literature is clear: maturity composition matters greatly, and profitability derived from short-term credit may be fragile if not balanced by prudent liquidity management and stable funding arrangements.

A seventh major finding is that regulation and institutional quality significantly shape bank profitability and banking performance. Demirgüç-Kunt et al. (2004) show that regulations, market structure, and institutions influence the cost of financial intermediation, which is directly relevant to profit margins. This implies that profitability is partly institutionalized: banks earn within systems of rules, enforcement structures, and competitive arrangements. Konan (2022), analyzing WAMU banks, raises the question of whether Basel II and III liquidity requirements can contribute to efficiency. This is an especially important finding because it reflects the real tension between prudential regulation and bank returns. Liquidity requirements can constrain balance-sheet flexibility and compress short-run profitability, but they may also improve resilience and long-run performance by limiting vulnerability to shocks. De Jonghe (2010), in examining whether banking should return “to the basics,” contributes a micro-analytical view of system stability that reinforces the importance of prudent structure over aggressive but unstable profit-seeking.

An eighth major finding concerns macroeconomic growth and economic cycles. Brown and Green (2021) and Khan et al. (2020) both suggest that GDP growth affects banking sector outcomes. In periods of economic expansion, banks may benefit from higher credit demand, stronger repayment capacity, and broader transactional activity. Ghosh (2020) further shows that banking sector performance is sensitive to economic cycles in advanced economies, implying that macroeconomic fluctuation remains a core determinant even in mature systems. The implication is that profitability is not simply made inside the bank; it is partly inherited from the macroeconomic environment. Yet the literature also implies that macroeconomic growth does not affect all banks equally. Institutions with weak governance or poor risk management may fail to convert favorable macro conditions into durable performance, while well-managed banks may navigate downturns more successfully.

A ninth major finding concerns the significance of crisis periods and structural change. Cousin (2011), examining French retail banks during the crisis period from 2007 to 2009, highlights the fact that performance differences become especially visible under stress. Duca and McLaughlin (1990) similarly discuss developments affecting commercial bank profitability, indicating that banking performance evolves with broader structural and policy changes. These references suggest that profitability is not static. Determinants that matter in ordinary times may behave differently under crisis conditions. Size may shift from being an asset to a burden, short-term funding may become more dangerous, and governance failures may be exposed more clearly.

A tenth major finding is the importance of regional and national context. Anarfi et al. (2016) provide evidence from Ghana, Alami et al. (2021) from Morocco, Ben Naceur (2003) from Tunisia, Dembélé and Machrafi (2021) from Côte d’Ivoire, and Kablan (2009) from WAMU. These studies show that while certain determinants recur

across contexts, their weight and expression vary. Banking systems differ in market maturity, legal infrastructure, regulatory depth, customer profile, competitive intensity, and macroeconomic volatility. Therefore, profitability research must avoid universalistic simplifications. A determinant that appears dominant in a highly concentrated market may be secondary in a diversified system. This contextual result is one of the strongest conclusions of the whole synthesis.

Overall, the results suggest that bank profitability is best explained as the product of interaction among scale, structure, governance, efficiency, credit maturity composition, regulatory architecture, and macroeconomic conditions. The literature consistently indicates that stable profitability requires more than revenue growth. It requires disciplined management of risk, liquidity, and institutional constraints.

## **D**ISCUSSION

The results of this narrative analysis invite a deeper interpretation of how bank profitability should be understood in contemporary research and practice. The central argument emerging from the supplied references is that profitability is neither a purely internal managerial outcome nor a passive reflection of external conditions. It is the result of strategic action within institutional boundaries. Banks earn profits through choices about asset composition, liability structure, scale, market positioning, governance arrangements, and risk appetite, but those choices are constrained and shaped by regulation, macroeconomic cycles, and the structure of financial intermediation in each economy (Demirgüç-Kunt & Huizinga, 1999; Demirgüç-Kunt et al., 2004; Ghosh, 2020). This makes profitability a hybrid concept: part operational outcome, part systemic indicator.

One of the most theoretically important issues in the literature is the distinction between profitability and sustainable profitability. The former refers to observable earnings in a period; the latter refers to profitability that can be maintained without undermining the institution's resilience. The references on short-term credit and short-term financing highlight why this distinction matters so much. Beck et al. (2019) suggest that short-term credit can support profitability in emerging markets, presumably because it allows faster repricing, stronger turnover, and flexible asset rotation. Yet BIS (2020), the Federal Reserve (2021), and Johnson and Scott (2019) all indicate that short-term financing structures can create instability and long-run vulnerability. The implication is that profitability must be evaluated not only by its magnitude but by the liquidity and maturity assumptions on which it rests. A bank that earns strongly by relying heavily on short-term assets funded with unstable liabilities may be more fragile than one with lower but better-grounded returns.

This tension between earnings and resilience is fundamental to banking. Banks operate by transforming maturities and taking calculated risks. If they behaved as fully risk-averse custodians of liquidity, they would fail to perform their intermediation role. Yet if they pursue yield without adequate regard for funding stability or credit quality, they can become sources of systemic fragility. The literature suggests that the most analytically useful conception of profitability is therefore one embedded in prudential balance. Profitability is desirable when it reflects efficient intermediation, sound governance, controlled credit risk, and well-managed liquidity. It becomes suspect when it rests on distorted incentives, regulatory arbitrage, or excessive maturity transformation.

The discussion of bank size illustrates this problem well. In many banking systems, size is attractive because it is associated with scale economies, brand strength, diversified portfolios, and broader access to funding channels (Aladwan, 2015; Kolapo et al., 2016). Large banks may spread fixed technological or compliance costs over larger asset bases and may possess stronger bargaining power in financial markets. However, the literature

also suggests that size can conceal complexity. As banks grow, coordination costs rise, internal monitoring becomes harder, and management may become more distant from credit quality and local informational signals. Large size may therefore improve profitability only when accompanied by corresponding improvements in governance, systems, and managerial discipline. Without those, size can produce the illusion of strength while incubating inefficiency or risk.

This suggests that the scale-profitability relationship is conditional rather than absolute. The classical literature on concentration and profitability reinforces this interpretation. Bourke (1989) found that concentration influences profitability, but concentration itself is ambiguous. On one hand, concentrated markets may enable stronger margins and stable earnings. On the other hand, they may reduce competitive discipline and allow banks to remain profitable despite inefficiency. The same ambiguity persists today. Profitability in concentrated banking systems can reflect genuine strength, but it can also reflect structural privilege. This distinction is important because not all profitable banking systems are equally socially productive. Some may achieve profits by efficiently allocating credit and managing risk. Others may achieve profits by leveraging market power in ways that increase costs to borrowers and reduce financial inclusion.

The literature on regulation and institutions deepens this concern by showing that profitability is partly shaped by the architecture within which banks operate. Demirgüç-Kunt et al. (2004) argue that regulation, institutions, and market structure affect the cost of financial intermediation. This means that profitability is not merely “earned” through bank effort; it is also enabled or constrained by legal frameworks, supervisory quality, competition policy, and financial infrastructure. In weak institutional settings, banks may charge high spreads not because they are unusually efficient but because risk, information asymmetry, or limited competition allow them to do so. In stronger institutional environments, margins may be narrower but performance may be more stable and allocatively efficient. Therefore, profitability must be interpreted with reference to institutional quality. High profits in a weak system may not signal superior banking in the developmental sense.

The efficiency literature is particularly helpful in clarifying this distinction. Studies using stochastic frontier or data envelopment approaches do not simply ask whether banks are profitable; they ask whether banks use their resources effectively relative to peers or theoretical frontiers (Boutheina & Moez, 2013; Benzai, 2016; Grigorian & Manole, 2006). This matters because profits can coexist with inefficiency under favorable market conditions. A bank may be profitable because spreads are high, even while operational practices are wasteful. Efficiency analysis is therefore a corrective lens. It reveals whether profitability reflects productive use of inputs or merely advantageous market conditions. Kablan (2009), in the WAMU context, further underscores the relevance of performance measurement in developing-country banking systems, where profitability indicators alone may not capture operational quality.

Governance adds another layer of nuance. Faida and Nizigiyimana (2022) show that governance mechanisms affect performance in Burundian commercial banks. This finding can be generalized conceptually, even if not mechanically, because banking is an agency-intensive sector. Depositors, shareholders, managers, regulators, and borrowers all interact through relationships marked by asymmetry of information and divergent incentives. Good governance matters because it reduces the likelihood that managers pursue private benefits, excessive risk, or short-term reporting gains at the expense of institutional health. Governance also supports more credible strategic consistency. A bank with strong governance is better positioned to manage growth, lending standards, liquidity policies, and regulatory change. In this sense, governance is a hidden architecture of profitability. It may not appear directly in headline profit ratios, but it shapes the conditions under which those profits arise.

The issue of credit risk management, highlighted by Gouiaa and Ouedraogo (2022), is similarly central. In banking, lending remains the dominant source of income in many systems, especially outside the largest global financial centers. Yet lending income is always shadowed by the possibility of default. The profitability of a loan portfolio is therefore only meaningful in relation to its risk quality. Weak credit assessment can inflate income temporarily while undermining future performance. This is why credit risk management should be treated not as a defensive or regulatory burden, but as a core profitability function. Banks that manage credit well may sacrifice some volume in the short run but preserve income quality over time. The broader literature on banking cycles and crisis performance supports this interpretation, because many banking problems become visible only when macroeconomic conditions deteriorate (Cousin, 2011; Ghosh, 2020).

Macroeconomic context itself deserves careful interpretation. The literature consistently suggests that GDP growth and economic cycles shape bank performance (Brown & Green, 2021; Khan et al., 2020; Ghosh, 2020). During expansions, borrowers generally appear healthier, loan demand may rise, and fee-generating transactions increase. Yet growth can also encourage excessive optimism, weaker underwriting, and credit expansion into lower-quality sectors. Thus, macroeconomic growth is not purely beneficial. It amplifies opportunities, but it can also relax discipline if governance and regulation are weak. The reverse is also true in downturns. Recession reduces profitability through weaker demand, rising defaults, and margin pressure, but it can also reveal which banks are genuinely robust. A bank that sustains performance through downturns is demonstrating something more valuable than cyclical luck. It is demonstrating resilience.

The literature on crisis periods, especially Cousin's analysis of French retail banks during 2007–2009, reminds us that performance differences are often magnified in stress. In tranquil periods, weak governance, inefficient processes, or unstable funding may remain partially hidden. In crisis periods, these weaknesses are exposed. This reinforces the view that profitability should always be read alongside vulnerability indicators. The debate over whether banking should return "to the basics," as framed by De Jonghe (2010), can be understood in this context. The question is not whether banks should abandon innovation or diversification altogether, but whether profitability models have drifted too far from stable intermediation foundations. A banking system dominated by short-run opportunism may look successful until stress arrives.

This brings the discussion back to liquidity regulation and Basel-related issues. Konan (2022) asks whether Basel II and III liquidity requirements can contribute to the efficiency of WAMU banks. This is a highly significant question because it reflects a broader dilemma in banking regulation. Prudential rules may reduce flexibility, increase compliance costs, and suppress some profit opportunities. Yet they may also reduce funding fragility and make profits more durable. The literature supplied here suggests that this is not a simple trade-off between regulation and profitability. Rather, it is a question of temporal horizon. Rules that reduce short-run returns can strengthen long-run performance by discouraging fragile business models. Institutional reports from BIS (2020) and the Federal Reserve (2021) support this idea by emphasizing the systemic implications of short-term credit and liquidity structures. From this perspective, regulation should not be judged solely by whether it narrows margins; it should also be judged by whether it improves the quality and durability of those margins.

The regional diversity of the provided literature is especially valuable for theory-building. Studies from Ghana, Morocco, Tunisia, Côte d'Ivoire, Nigeria, Jordan, and WAMU collectively show that profitability research cannot rely on universal assumptions detached from place (Anarfi et al., 2016; Alami et al., 2021; Ben Naceur, 2003; Dembélé & Machrafi, 2021; Kolapo et al., 2016; Kablan, 2009). Emerging and developing economies often feature narrower capital markets, heavier reliance on bank intermediation, more pronounced state roles, and different legal or supervisory capacities. Under such conditions, determinants like size, governance, or liquidity rules may operate differently than in advanced economies. This context sensitivity is not a weakness in the literature; it is

one of its most important insights. Banking is always institutional. Its profitability reflects not just economics in the abstract but economics as embedded in legal, political, and developmental realities.

There are also important limitations in the source base that shape how the present article should be read. First, the references are heterogeneous in method and scope. Some are formal journal articles with cross-country or national empirical analyses, while others are theses or policy reports. This diversity supports conceptual breadth but limits strict empirical comparability. Second, several institutional reports in the supplied list are used as contextual evidence rather than as directly comparable empirical studies. Third, because the article is based strictly on the supplied references, it does not incorporate more recent or alternative schools of thought beyond that set. Fourth, the narrative method privileges interpretive integration over causal quantification. These limitations mean that the article should be viewed as a deeply reasoned synthesis rather than as a meta-analysis or formal systematic review.

Future research directions emerge clearly from the synthesis. One promising direction is the comparative study of how short-term credit affects profitability under different regulatory liquidity regimes. Another is the examination of whether bank size improves profitability more strongly in highly concentrated markets than in competitive ones. Governance research could also be extended by exploring how specific board structures, ownership patterns, and managerial incentive systems influence profitability and asset quality simultaneously. Efficiency studies in African and emerging-market contexts could benefit from linking frontier-based measures more directly with regulatory and governance variables. Further research might also examine whether macroeconomic growth strengthens profitability primarily through credit expansion, improved asset quality, or broader fee-based banking activity. Finally, there is room for more work on how Basel-style liquidity standards affect not only stability but also lending patterns, competition, and developmental banking capacity in low- and middle-income regions.

The deeper theoretical conclusion of this discussion is that bank profitability is best understood as a disciplined equilibrium rather than a single target. Banks must earn enough to survive, invest, and absorb shocks, but the route to those earnings matters profoundly. Profitability that is built on efficiency, governance, balanced maturity transformation, and institutional credibility is qualitatively different from profitability that depends on market power, weak oversight, or unstable funding. The supplied literature, when read together, strongly supports this distinction.

## **C**ONCLUSION

The narrative evidence assembled in this article shows that bank profitability is a multidimensional outcome shaped by the interaction of internal strategic choices and external institutional conditions. The literature consistently indicates that profitability depends on more than bank earnings capacity in a narrow sense. It is linked to size, scale, concentration, credit composition, governance arrangements, efficiency levels, regulatory structures, liquidity conditions, and macroeconomic cycles (Bourke, 1989; Demirgüç-Kunt & Huizinga, 1999; Aladwan, 2015; Ghosh, 2020). The most important conceptual insight is that profitability cannot be treated as inherently positive without considering how it is produced and whether it is sustainable.

Bank size can support profitability through diversification, market reach, and scale economies, but its benefits are conditional on effective management and institutional control (Aladwan, 2015; Kolapo et al., 2016). Market structure may enhance earnings through concentration effects, yet it may also conceal inefficiency or reduced competitive discipline (Bourke, 1989; Demirgüç-Kunt et al., 2004). Efficiency studies demonstrate that profitable banks are not always efficient banks, and that performance quality depends on how well resources

are transformed into outcomes (Boutheina & Moez, 2013; Benzai, 2016; Grigorian & Manole, 2006). Governance further shapes these outcomes by influencing accountability, risk-taking, and strategic coherence (Faida & Nizigiyimana, 2022).

The literature also makes clear that credit structure is a decisive factor. Short-term credit can support profitability, especially in emerging markets, but excessive reliance on short-term financing and liquidity-sensitive portfolios can weaken long-run resilience (Beck et al., 2019; BIS, 2020; Federal Reserve, 2021; Johnson & Scott, 2019). This confirms that profitability and stability must be analyzed together rather than separately. Macroeconomic growth and business cycles further influence performance, but their effects are mediated by bank-level governance and risk discipline (Brown & Green, 2021; Khan et al., 2020; Ghosh, 2020). Regulatory and institutional settings shape the cost and quality of financial intermediation, making profitability an institutional as well as managerial outcome (Demirgüç-Kunt et al., 2004; Konan, 2022).

In conclusion, sustainable bank profitability is strongest where efficiency, prudent credit risk management, sound governance, balanced liquidity practices, and supportive but disciplined institutional frameworks coexist. Banks do not prosper in isolation from their environments, and profit indicators cannot be interpreted adequately without attention to how markets, rules, and macroeconomic conditions structure financial behavior. The broad lesson of the supplied literature is that the healthiest banking systems are not merely the most profitable in the short run. They are the systems in which profitability is aligned with stability, operational discipline, and developmental financial intermediation.

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