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Bank profitability and GDP growth in China: a note

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Abstract

This article examines the effect of GDP growth on bank profitability in China over the

period 2000-2009. The results show that the persistence of profitability is higher than the persistence of profitability. The results also show that the cost of capital is higher than the cost of capital. The results also show that the relationship between profitability and GDP growth is positive. The results also show that the level of non-performing loans is higher than the level of non-performing loans. The results also show that the market structure is more competitive than the market structure.

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Notes

1. It accounts for 66% of total financial assets and 17.5% of GDP (as of 2006).
2. The factors include asset turnover ratio, ratio of long-term debt to short-term debt, overdue loan ratio, stagnant loan ratio, lost loan ratio, core capital ratio, capital adequacy ratio, capital risk ratio, asset profitability ratio, and capital profitability ratio.
3. Logarithm of GDP is used as the indicator of economic growth.
4. The bank-specific variables include size, capitalization, liquidity, cost efficiency, credit risk, non-traditional activity. The inflation, unemployment rate and GDP growth rate are used as the macroeconomic determinants.
5. The bank-specific variables mainly include technical efficiency, liquidity, capitalization, etc, while the macroeconomic variables include concentration, GDP growth, inflation, volatility of interest rate, etc.
6. Correlation among variables is tested through the correlation matrix and shows that there is no multicollinearity problem in our sample; these results are available upon request.

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