

Credit risk management and its impact on the profitability of Algerian banks: An applied study using Panel –Data model during the period 2009-2020

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Abstract

This study aims to investigate the relationship between credit risk management and the profitability of commercial banks by testing the impact of credit risk indicators on assessing the profitability of a sample of Algerian commercial banks during the period 2009-2020 by using a panel-data model. The results of the applied study indicate that: the ratio of loan loss provisions to total loans and capital adequacy ratio are the most important indicators of credit risk management that affect and contribute to evaluating the profitability of Algerian commercial banks.

1. Introduction

The role of banks as financial intermediaries is crucial in financing economic growth by borrowing from savers and lending to companies that need resources for investment. The success of this role depends primarily on their efficiency and performance. Bank lending is a key function, it determines future profitability and reflects the banks' performance; banks recently have become more aware of customer selection to avoid the negative effects of poor and non-performing loans. Credit risk management is becoming increasingly important as an effective tool in assessing banks' performance and profitability, owing to the extent of losses that banks can bear as a result of the non-performing loan problem, where credit risk is a serious problem facing banks in their business. It can freeze an important portion of bank funds because of the inability of borrowing customers to pay their premiums and interests in due time. This may attenuate their profits. This study aims to emphasize the importance of credit risk management and its role in supporting actions and measures to improve the profitability and performance of banks. It also attempts to link the effect of credit risk indicators with profitability indicators in Algerian commercial banks by analyzing how credit risk management indicators help assess Algerian commercial banks' performance and identify factors affecting profitability the most.

1.1. The study objectives

Accordingly, the study seeks to achieve the following objectives:

- To clarify the importance of credit risk management on banks' performance.
- To examine the relationship between credit risk management and the profitability of Algerian banks.
- To determine the indicators and measures that illustrate the relationship between Algerian banks' profitability and credit risk management.

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