Banking sector performance evaluation in Ethiopia for the period of growth and transformation plan (GTP-II): private vs public commercial banks

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Abstract
The main objective of this study was to evaluate and compare the financial performance of commercial banks in Ethiopia during the implementation of growth and transformation plan II. Moreover, determinants of financial performance were examined. The study was conducted using secondary data obtained from the National Bank of Ethiopia, and the official website of each commercial bank. Multiple panel regression and independent sample t tests were used to show the relationship and to compare the financial performance of commercial banks between the study periods. The ratio of non-interest expenses to total expense, log_net profit per employee, interest income to total income, and exchange rate were variables with a positive and significant effect on the financial performance of commercial banks, while log_total loans per branch and inflation affected negatively the financial performance measured by return on assets. Whereas, the ratio of debt to equity, log_net profit per employee, total liquid assets to total deposits, interest income to total income, and exchange rate have a positive and significant impact, while the ratio of loan loss provision to total loan, log_total loans per branch, and inflation negatively and significantly affected financial performance measured by ROE. The independent sample t test shows that except for the ratio of total loans to total deposits and total capital to total assets, the remaining variables did not show significant differences between state and publicly owned banks.

Keywords Growth and transformation plan · Financial performance · Commercial banks · Ethiopia

JEL Classification M14 · M4 · M1

Introduction
Ethiopia's banking system dominates the country's financial sector. By channeling funds from surplus parties to parties with an investment idea, the banking sector contributes to the country's goal of growth and prosperity. The financial system which is the combination of both banks and non-bank is the lifeblood of any economy by mobilizing savings from surplus economic units to deficit economic units [1]. Besides, it also ensures the efficient allocation of resources by channeling funds for different development projects. By doing so, they transfer funds from those with surplus funds to those that need them for productive activities which in turn stimulate investments and improve economic growth and development [2].

The banking sector's failures have many consequences on the economy, so the sector requires periodical investigation concerning their performances. Because of this reason, the Ethiopian government has been taking necessary measures to keep the efficiency and profitability of the banking sector on track. The major objective of a business organization is to maximize both the profit and wealth of its owners. Since the banking sector is known by profit-seeking business organizations, to act as an intermediation role, they have to be profitable. The pliability of the banking sector is even more important in transitional economies that are continuously restructuring their legal and macroeconomic environment to comply with the international policies introduced by the World Bank and International Monetary Fund [3].
Since April 25, 2018, the Ethiopian government is found to be in political reform which includes economic reforms. As economic reform, the banking sector obtained the necessary focus for the Ethiopian government since bank plays a vital role in the growth and development of the nation. Therefore, the regulatory bodies carried out various banking reforms to improve the performance of the sector.

FDRE 2016 [4] states that ‘one of the major goals of the Ethiopian government during GTP-II is strengthening the financial sector intending to establish an accessible, efficient, and competitive financial system. In addition, the strategy in the financial sector will continue to be geared toward ensuring a favorable environment for the banking sector. This will help increase domestic savings to sustain rapid growth and provide the required resources for expanding and improving public services. Measures in reducing information asymmetry, strengthening the existing credit information-sharing system, encouraging the discipline of loan repayments, and creating internal dynamism will be pursued to foster efficiency and effectiveness in the financial sector. The financial industry is expected to finance huge projects both in the public and private sectors during GTP II’ (P.110).

The Ethiopian banking sector is owned by both government and private sectors. Currently, there are sixteen privately owned, and two public-owned commercial banks operating in the country under the supervision of the National Bank of Ethiopia. Both structures of the banks ought to support the development goals that the country planned during GTP-II, particularly by financing the manufacturing industry to support the country’s strategy to transform the economy from an agriculturally dominated to an industry lead economy. Besides, according to the GTP-II strategy, since the focus is given to support the private sector that invests in the export-oriented manufacturing sector, and in the tradable modern service sector, the financial services given to these activities need to be sufficient.

Different scholars conducted a study on the factors affecting the performance of banks in Ethiopia at different times. Recently [5] conducted a study on the financial performance of the Ethiopian banking sector by selecting seven private commercial banks using a simple random sampling technique and using six years (2005–2010) of financial data. The study found that between the study period, the banks showed a persistent increase in the volume of deposits, granting of the loan, and possession of assets throughout the study periods. Furthermore, the profitability of the banks revealed remarkable improvement during the study periods. [6] studied the determinants of Ethiopian commercial banks’ performance between the study period of 1990–2012 taking return on assets (ROA) as a financial performance measurement tool and found that bank size and macroeconomic variables do not affect the banks’ profitability, while the inflation rate has a significant effect on profitability measured by ROA.

The study conducted by [7] on financial performance analysis in the banking sector on selected commercial banks in Ethiopia for the years from 2007 to 2011 discloses that state-owned Commercial Bank of Ethiopia possessed the first rank in terms of assets management, while private-owned bank Awash International Bank and United Bank stands first in terms of profitability and solvency, respectively, between the study periods.

A recent study by [8] investigated the determinants of the financial performance of commercial banks in Ethiopia using panel data over the years 2003 to 2013 with a quantitative data analysis approach. The findings of the study reveal that, except inflation, all bank-specific, industry-specific, and macroeconomic variables have a significant impact on the financial performance of banks measured by ROA, while variables considered as independent significantly affect the financial performance of banks measured by NIM. Shanko et al. [9] examined factors affecting the profitability of the Ethiopian banking industry from 2010 to 2017. The finding of their study reveals that while loan and advance, current deposit, other liabilities, and gross domestic product have a statistically significant and positive relationship with banks’ profitability, fixed deposit, and market concentration has a negative and statistically significant relationship with banks’ profitability measured by ROA. In contrast, the impact of deposits with other banks, the sum of investment, saving deposits, and inflation is found to be statistically insignificant.

A recent study done by Leykun [10] conducted a study to examine factors affecting the net interest margin of commercial banks in Ethiopia from 2005 to 2014 by using pooled ordinary multiple regression models. The result of the study shows that capital adequacy, credit risk, operating costs, degree of competition, and deposit growth rate have a positive and significant effect on the financial performance of banks as measured by NIM. The study conducted by [11] to investigate the impact of bank-specific, industry-specific, and macroeconomic factors on the profitability of commercial banks in Ethiopia between the years of 2007 and 2016 using a random effect regression model shows that capital adequacy, leverage, liquidity, and ownership have a statistically significant and positive relationship with banks’ profitability. Furthermore, operational efficiency, GDP, inflation, and interest rates have a negative and statistically significant relationship with banks’ profitability.

The findings of the study conducted by Assfaw [12] to investigate the bank-specific factors which can affect the financial performance of private commercial banks in Ethiopia over the periods of 2011 to 2017 by using panel data of six private banks reveal that there is a positive and significant relationship between capital adequacy, management efficiency, and size of banks and financial performance of private commercial banks in Ethiopia measured by ROA.
ROE, and NIM, while liquidity management has a negative and significant effect on ROE. Moreover, [13] found that, except for credit risk and management expense, all bank-specific factors have positive and significant effects on bank profitability. Besides, all of the macroeconomic variables, including economic growth, interest rate spread, and exchange rate, have statistically significant and positive relationships with banks’ profitability.

**Literature gap**

As stated in the introduction, various scholars have conducted studies on the financial performance of Ethiopian banking sectors at various times. This study is unique because of the following reasons. First, as far as the researcher’s knowledge, there are no significant studies conducted to compare private and state-owned commercial banks’ performance throughout Growth and Transformation Plan II (GTP-II). Second, the financial statements used in this study were prepared and audited according to International Financial Reporting Standard (IFRS). There were no sufficient studies that used financial statements prepared according to the standards of IFRS. Therefore, in this study, the author tried to examine and compare the financial performance of private- and public-owned commercial banks in Ethiopia. Third, some of the variables used in this study were not applied in the previous studies to examine the financial performance of banking sectors. These variables are the efficiency ratio and national investment. Fourth, the direction of Zenebe [14] about future studies upon his conclusion of the first Growth and Transformation Plan I (GTP-I).

To sum up, to fill the above literature gap, this study tried to examine the financial performance of the banking sector measured by ROA and ROE. Both bank-specific factors such as capital adequacy, assets management, management quality, earning management, and liquidity management and macroeconomic variables like inflation rate, GDP, national investment, and exchange rate were applied as the determinant of the financial performance of the banking sector. Therefore, this study tried to investigate and compare the financial performance of private and state-owned commercial banks of Ethiopia throughout GTP-II (2016–2020). Consequently, the researchers intended to conduct a study on the title “Banking sector Performance Evaluation in Ethiopia for the Period of GTP-II: Private vs Public Banks.”

**Objectives of the study**

The main objective of the study is to evaluate the banking sector’s performance for the period of GTP-II (2016–2020). Parallel with the main objective, the following specific objectives were devised to examine the performance of both private and public commercial banks in Ethiopia during the study period. These are:-

- To compare the financial performance of state and privately owned commercial banks between the study periods.
- To examine factors that affect the financial performance of banks in Ethiopia during Growth and Transformation Plan II.

**The hypothesis of the study**

- $H_0$ GDP growth rate has no significant effect on the financial performance of commercial banks.
- $H_0$ The inflation rate has no significant effect on the financial performance of commercial banks.
- $H_0$ Exchange rate has no significant effect on the financial performance of commercial banks.
- $H_0$ National investment has no significant effect on the financial performance of commercial banks.
- $H_0$ Capital adequacy has no significant effect on the financial performance of commercial banks.
- $H_0$ Assets quality has no significant effect on the financial performance of commercial banks.
- $H_0$ Management efficiency has no significant effect on the financial performance of commercial banks.
- $H_0$ Earning quality has no significant effect on the financial performance of commercial banks.
- $H_0$ Liquidity position has no significant effect on the financial performance of commercial banks.

**Scope and limitation of the study**

The research was carried out in Ethiopia using financial data from 2016 to 2020. In Ethiopia, this period was known as the Growth and Transformation Plan II (GTP-II) period. Between the study periods, both bank-specific and macroeconomic factors were examined for their impact on the financial performance of Ethiopia’s banking sector. Macroeconomic factors that include GDP, annual inflation rate, national investment, and exchange rate were taken as independent variables, while capital adequacy ratio, debt to equity ratio, total loans to total assets, total loans to total deposits, loan loss provision to total loans, net profit per employee, the non-interest expense to total expenses, total loans per branch, total liquid assets to total deposits, total income to total assets, total interest income to total income, and cash to deposits were taken as bank-specific independent variables. Return on assets (ROA) and return on equity (ROE) were taken as dependent variables. Moreover, the
main limitation of this study is the financial performance for the year after and before GTP-II was excluded from the study, and unpublished works were not included in the investigation Table 1.

**Review of related literature**

### Historical development of banking in Ethiopia

The history of banking in Ethiopia was back to the reign of emperor Minilik II. The banking business was started with the establishment of Abyssinia Bank in 1905 which was affiliated with the national bank of Egypt. The country established the State Bank of Ethiopia, which went operational on the 15th of April 1943 and has a status of a central and principal commercial bank with powers to issue banknotes and coins as an agent of the then Ministry of Finance and to engage in all commercial banking activities. [5] Since 1964 private commercial banks were started to established and nowadays the number of banks including private commercial banks is 19. The following table depicts the name of banks, year of establishment, and affiliation:

| No. | Bank name | Year of establishment | Owners/affiliation |
|-----|-----------|-----------------------|--------------------|
| 1   | Abyssinia Bank | 1905                  | Ethiopia/National Bank of Egypt |
| 2   | Bank of Ethiopia | 1931                  | Ethiopia/Dissolved after Italian Occupation in 1936 |
| 3   | Banca d'Italia, Banco di Roma, Banco di Napoli, and Banca Nazionale del Lavoro | Established during Italian occupation | Owned by foreigner |
| 4   | Barclays Bank | 1941                  | Foreign bank by British |
| 5   | State Bank of Ethiopia | 1943                  | Dissolved by the Ethiopian Government in 1963 |
| 6   | National Bank of Ethiopia | 1963                  | Ethiopia |
| 7   | Commercial Bank of Ethiopia | 1963                  | Ethiopia |
| 8   | Addis Ababa Bank | 1964                  | The first private bank dissolved by the Derg regime |

Table 1. Historical development of banks in Ethiopia

National Bank of Ethiopia: https://nbebank.com/history-of-banking/
composition of commercial banks are the results of decisions taken by the bank management [16].

**Liquidity preference theory**

Liquidity preference theory is different from pure expectations theory Abdirizak et al. [18]. It essentially provides a top rate to the PET-calculated yield for long-time period debt to account for investor desire for short-time period bonds over long-time period ones [19]. According to [18], this premium is called the term premium or the liquidity premium. It recognizes the dangers worried in conserving long-time debt, that's much more likely to be exposed to catastrophic activities and rate uncertainty than short-time debt. The second top rate is likewise covered in LPT, for default risk, which is much more likely while maintaining a bond for an extended length of time, yet again because of uncertainty. [19]

**Conceptual framework**

**Materials and methods**

The study used explanatory and descriptive research designs. The first was used to examine the relationship between determinants and financial performance, and the later design was applied to describe the status of the banks during the study periods, respectively, Fig. 1.

**Type of data, source, population, and sampling method**

The study aims to examine the determinants of the performance of commercial banks in Ethiopia during growth and transformation plan- II. Besides, the performance of government-owned and private commercial banks was compared. To achieve the stated objectives, a secondary type of data was used. The data were obtained from the National Bank of Ethiopia and the official websites of the banks under study. Moreover, private commercial banks with no sufficient audited financial data between the study periods were excluded from the investigation Table 2.

**Variables of the study**

**Multiple regression model**

One of the aims of the study is to examine factors affecting the financial performance of commercial banks in Ethiopia during Ethiopian Growth and Transformation Plan II (i.e., 2016 to 2020). Those factors were categorized into two mainly: bank-specific and macroeconomic variables. The financial performance was measured by ROA and ROE. The following two econometrics models were developed to examine the effect of each variable on the performance of commercial banks under study:

- **Model I**

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**Fig. 1 Conceptual framework, (Source: Author construction)**


Table 2 Description of variables understudy

| No. | Variables | Formula/Description of variables | Remark |
|-----|-----------|---------------------------------|--------|
| Case I: Dependent variable | | | |
| 1 | Return on assets (ROA) | ROA = \( \frac{\text{Net Income}}{\text{Total Assets}} \) | |
| 2 | Return on equity (ROE) | ROE = \( \frac{\text{Net Income}}{\text{Total Equity}} \) | |
| Case II: Independent Variables | | | |
| 3 | Capital adequacy ratio | CAR = \( \frac{\text{Tier 1 Capital} + \text{Tier 2 Capital}}{\text{Risk-Weighted Assets}} \) | Bank-specific variables |
| 4 | Efficiency ratio (ER) | ER = \( \frac{\text{Operating Income} - \text{Loan Loss Provision}}{\text{Non-interest Expenses}} \) | |
| 5 | Total capital/Total assets | The ratio of total capital to total assets |
| 6 | Debt/Equity | The ratio of total debt to total equity |
| 7 | Loan loss provision/Total loan | The ratio of loan loss provision to total loans |
| 8 | Total Loan/Total Assets | The ratios of total loans to total assets |
| 9 | Non-Interest Expense/Total Expenses | The ratio of non-interest expenses to total expenses |
| 10 | Total loans to total deposits | The ratio of total loans to total deposits |
| 11 | Net profit/No of employees | The ratio of net profit to the total number of employees |
| 12 | Total loans/Branches | The ratio of total loans to the total number of branches |
| 13 | Interest income/Total income | The ratio of interest income to total income |
| 14 | Total income/Total assets | The ratio of total income to total assets |
| 15 | Total liquid assets/Total deposits | The ratio of total liquid assets and total deposits |
| 16 | Cash/Total deposit | The ratio of cash to total deposits |
| 17 | National GDP | The logarithm of national GDP | Macroeconomic variables |
| 18 | Inflation rate | Annual inflation rate |
| 19 | Exchange rate | Rate of exchange |
| 20 | National investment | The logarithm of national investment |

Source: Author construction

\[
\text{ROA}_{it} = \alpha + \beta_1 \text{CAR}_{it} + \beta_2 \text{DER}_{it} + \beta_3 \text{LLPTL}_{it} + \beta_4 \text{NPEM}_{it} \\
+ \beta_5 \text{NIETE}_{it} + \beta_6 \text{TLBR}_{it} + \beta_7 \text{CTD}_{it} + \beta_8 \text{TLATD}_{it} + \beta_9 \text{TITA}_{it} \\
+ \beta_{10} \text{ITI}_{it} + \beta_{11} \text{NatIn}_{it} + \beta_{12} \text{INF}_{it} + \beta_{13} \text{EXC}_{it} + \beta_{14} \text{GDP}_{it} + \epsilon_{it}
\]

Model II

\[
\text{ROE}_{it} = \alpha + \beta_1 \text{CAR}_{it} + \beta_2 \text{DER}_{it} + \beta_3 \text{LLPTL}_{it} + \beta_4 \text{NPEM}_{it} \\
+ \beta_5 \text{NIETE}_{it} + \beta_6 \text{TLBR}_{it} + \beta_7 \text{CTD}_{it} + \beta_8 \text{TLATD}_{it} + \beta_9 \text{TITA}_{it} \\
+ \beta_{10} \text{ITI}_{it} + \beta_{11} \text{NatIn}_{it} + \beta_{12} \text{INF}_{it} + \beta_{13} \text{EXC}_{it} + \beta_{14} \text{GDP}_{it} + \epsilon_{it}
\]

where ROA = Return on Assets, ROE = Return on Equity, CAR = Capital Adequacy Ratio, DER = Debt to Equity Ratio, LLPTL = Loan Loss Provision to Total Loans, NPEM = Net Profit per Employee, NIETE = Non-Interest Expense to Total Expense, TLBR = Total Loans per Branch, CTD = Cash to total Deposit, TLATD = Total Liquid Assets to Total Deposit, TITA = Total income to Total Assets, \( \epsilon \) = Error term.

Results and discussion

Table 3 reveals the average financial ratios between the study periods. The highest average of ROE belongs to a commercial bank in Ethiopia followed by Anbesa and Awash International Banks. The lowest ROE is recorded by the Development Bank of Ethiopia followed by Enat and Abyssinia Banks. Regarding ROA, Debub Global Bank was positioned first followed by Addis and Awash International Banks. The other very important ratio is the net interest margin. Anbesa International Bank ranked first followed by Buna International and Awash International Banks. The lowest performance was recorded by Enat Bank followed by Zemen and Addis Bank. Besides, according to graph one below, the CAR of state-owned banks was indicating continuous improvements Fig. 2

Regression result

Table 4 depicts the econometrics result of model I with a 5% level of significance. Accordingly, non-interest expense, the logarithm of net profit per employee, interest income to total income, the log of national investment, and exchange rate positively and significantly affect the profitability of
commercial banks measured by ROA, while the logarithm of total loans total branches and inflation have a negative and significant effect on the financial performance of banks measured by ROA.

Table 5 reveals the regression result of model II. From the result debt to equity, loan loss provision to total loans, the logarithm of net profit per employee, interest income to total income, and exchange rate positively and significantly affect the profitability of commercial banks measured by ROE, while logarithm of total loans per branch, inflation and logarithm of GDP have a negative and significant effect on the profitability of commercial banks measured by ROE.

The independent sample $t$ test is used to decide whether the unknown means of two independent populations are varied. This implies the test compares the means of two independent populations and is used to check whether there is a significant difference between the means of two independent groups [20]. The result of the independent sample test in Table 5 depicts that there is a significant difference between private and state-owned commercial banks concerning the ratio of total loans to total deposits (TLTD) and the ratio of total capital to total assets (TCTA). Besides, there is no significant difference between private and state-owned commercial banks with the rest of the performance measurement tools.

**Conclusion and recommendations**

**Conclusion**

The main aim of this study is to examine the financial performance of both private and state-owned commercial banks in Ethiopia in the periods of the Growth and Transformation Plan (GTP-II) (i.e., 2016 to 2020). The financial sector of any economy requires maximum attention since it is the engine of economic sectors. The failure of this sector leads to the failure of any economy. In developing countries, the financial sector is dominated by banks, so it needs special care to save the economy from collapse. The Ethiopian financial sector is not unique from this since it is dominated by banks. In this study, the financial performance was measured by ROE and ROA. The econometrics result reveals that DER, LLP/TL, logNP/Employee, II/TI, and exchange rate have a positive and significant effect on the financial performance of commercial banks, while logTL/Branches,
inflation, and log_GDP have a negative and significant impact on the financial performance of commercial banks measured by ROE. Besides, NIE/TE, log_NP/Employees, II/TI, and exchange rate are the variables that have a positive and significant impact, while log_national investment, log_TL/Branches, and inflation have a negative and significant impact on the financial performance measured by ROA. Moreover, the independent sample t test enumerates that there is a significant difference between state and privately owned commercial banks regarding the TLTD and TCTA. There were no significant differences between both banks concerning the remaining variables. Lastly, Table 6 shows...
### Table 6 Independent sample test result

Independent samples test

| Source | Levene's test for equality of variances | \( t \) test for equality of means |
|-------|----------------------------------------|----------------------------------|
|       | \( F \) | \( \text{Sig.} \) | \( t \) | \( df \) | \( \text{Sig. (2-tailed)} \) | \( \text{Mean difference} \) | \( \text{Std. error difference} \) | 95% Confidence interval of the difference |
|       |       |       |       |       |       |       |       | \( \text{Lower} \) | \( \text{Upper} \) |
| ROE   | EVA   | 46.211 | .000  | \( -.637 \) | 14    | .534  | \( -.023787 \) | .037336 | \( -.103864 \) | \( .056290 \) |
| EVNA  | \( -.215 \) | 1.009 | \( .865 \) | \( -.023787 \) | .110761 | \( -.1.402576 \) | \( 1.355001 \) |
| ROA   | EVA   | .425  | .525  | \( 1.484 \) | 14    | .160  | \( .005672 \) | .003821 | \( -.0.02524 \) | \( .013867 \) |
| EVNA  | \( 1.884 \) | 1.587 | \( .232 \) | \( .005672 \) | \( .003010 \) | \( -.0.11111 \) | \( .022455 \) |
| NIM   | EVA   | 3.621 | .078  | \( .752 \) | 14    | \( .464 \) | \( .004294 \) | \( .005708 \) | \( -.0.007949 \) | \( .016537 \) |
| EVNA  | \( 1.733 \) | 8.192 | \( .120 \) | \( .004294 \) | \( .002477 \) | \( -.0.01395 \) | \( .009983 \) |
| CAR   | EVA   | .339  | .570  | \( .050 \) | 14    | \( .961 \) | \( .002680 \) | \( .005384 \) | \( -.0.112783 \) | \( .118143 \) |
| EVNA  | \( .037 \) | 1.144 | \( .976 \) | \( .002680 \) | \( .0071788 \) | \( -.0.677681 \) | \( .683041 \) |
| TCTA  | EVA   | .877  | .365  | \( 2.212 \) | 14    | \( .044 \) | \( .057541 \) | \( .026009 \) | \( .001757 \) | \( .113326 \) |
| EVNA  | \( 3.701 \) | 2.454 | \( .048 \) | \( .057541 \) | \( .05546 \) | \( .001213 \) | \( .113870 \) |
| DER   | EVA   | .150  | .705  | \( -5.354 \) | 14    | \( .000 \) | \( -6.879743 \) | \( 1.285077 \) | \( -.9.635959 \) | \( -4.123526 \) |
| EVNA  | \( -6.076 \) | 1.427 | \( .055 \) | \( -6.879743 \) | \( 1.132329 \) | \( -14.200677 \) | \( .441191 \) |
| LA    | EVA   | 12.022| .004  | \( 3.295 \) | 14    | \( .005 \) | \( .127284 \) | \( .038635 \) | \( .044421 \) | \( .21047 \) |
| EVNA  | \( 1.438 \) | 1.030 | \( .382 \) | \( .127284 \) | \( .085838 \) | \( -.92529 \) | \( 1.177098 \) |
| LLTL  | EVA   | 139.641| .000 | \( -3.609 \) | 14    | \( .003 \) | \( -.034833 \) | \( .009652 \) | \( -.055535 \) | \( -.014132 \) |
| EVNA  | \( -1.100 \) | 1.003 | \( .469 \) | \( -.034833 \) | \( .031658 \) | \( -.434176 \) | \( .364510 \) |
| TITA  | EVA   | 150.824| .000 | \( .169 \) | 14    | \( .869 \) | \( .008544 \) | \( .050691 \) | \( -.100178 \) | \( .117265 \) |
| EVNA  | \( .052 \) | 1.003 | \( .967 \) | \( .008544 \) | \( .165053 \) | \( -2.071620 \) | \( 2.088708 \) |
| TLTD  | EVA   | .962  | .343  | \( 2.768 \) | 14    | \( .015 \) | \( .305681 \) | \( .110422 \) | \( .068849 \) | \( .542513 \) |
| EVNA  | \( 6.548 \) | 9.470 | \( .000 \) | \( .305681 \) | \( .046682 \) | \( .20872 \) | \( .410490 \) |
| TlslTA| EVA   | 3.531 | .081  | \( .444 \) | 14    | \( .664 \) | \( .006369 \) | \( .014333 \) | \( -.024372 \) | \( .037109 \) |
| EVNA  | \( 1.148 \) | 13.807 | \( .270 \) | \( .006369 \) | \( .005545 \) | \( -.005541 \) | \( .018278 \) |
| TLATD | EVA   | 6.691 | .022  | \( 1.353 \) | 14    | \( .198 \) | \( .206341 \) | \( .152521 \) | \( -.120783 \) | \( .533465 \) |
| EVNA  | \( .617 \) | 1.035 | \( .645 \) | \( .206341 \) | \( .334654 \) | \( -3.718916 \) | \( 4.131599 \) |
| ER    | EVA   | 6.388 | .024  | \( .309 \) | 14    | \( .762 \) | \( .050571 \) | \( .163714 \) | \( -.300560 \) | \( .401702 \) |
| EVNA  | \( .148 \) | 1.041 | \( .906 \) | \( .050571 \) | \( .342441 \) | \( -.3.914096 \) | \( 4.015239 \) |

Source: Stata result
that state-owned commercial banks revealed better performance between the study periods illustrated by a negative sign of the confidence interval column with 95% confidence level.

**Recommendations**

The dominance of banks in the Ethiopian financial sector is one of its distinguishing features. Failures in the banking sector lead to the demise of any economy. Therefore, continuous monitoring and support can protect banks from bankruptcy and improve their economic performance. That is why, during GTP-II, the Ethiopian government attempted to take the necessary measures to strengthen competitive and healthy financial institutions, particularly banks, resulting in improvements in operational efficiency and coverage during the study periods. World Bank [21] reported that over the last decade, Ethiopia's financial sector has been operating within a framework of financial repression used by the government to manage its monetary and foreign exchange policy, as well as to finance large infrastructure projects and state-owned enterprises (SOEs).

The goal of this paper was to look at the financial performance of commercial banks in Ethiopia during the periods covered by GTP-II. The financial performance of state and privately owned commercial banks was compared, and factors influencing the financial performance of Ethiopian commercial banks were investigated. Based on the study findings, the managing bodies of privately owned commercial banks should have to endeavor to improve ROE, and CAR compared with state-owned commercial banks. Besides, to improve the state-owned banks' performance measured by ROA and NIM, drastic measures have to be taken. In general, the government must implement effective regulatory remedies to avoid a future financial crisis and its impact on critical policy issues.

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**Declarations**

**Conflict of interest** The author declares that they have no competing interests.

**Ethical approval** The research, entitled "Banking Sector Performance Evaluation in Ethiopia for the Period of Growth and Transformation Plan (GTP-II): Private vs. Public Commercial Banks," was done independently by the author. It has not been submitted to any other institution for a degree or diploma, nor has it been published in any other journals. The reviewed literature was acknowledged and cited properly. Because the article was scholarly written, it provides new ideas and new opportunities for future research to fill gaps in previous studies. As a result, the paper was original.

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