Testing The Causal Relationship Between Profitability and Liquidity: Evidence from a Panel of Banks Listed in Damascus Securities Market

Mouhanad Arnaout[*]

[*] Department of Business Administration, Damascus University

ABSTRACT

Purpose: This study aims to explore the causal relationship between liquidity and profitability over both short- and long-term periods for Syrian banks listed on the Damascus Securities Market.

Design/Methodology/Approach: Utilizing a quantitative analytical framework with a deductive approach, the research applies a vector error correction model (VECM) to analyze annual data from 11 Syrian banks during the period from 2013 to 2021.

Findings: The findings reveal that although the time series data for liquidity and profitability are nonstationary at their initial levels, they become stationary following the first differencing. The analysis confirms a long-term co-integrating relationship between the two variables, indicating that profitability significantly and positively influences liquidity in the long run. Conversely, liquidity does not show a significant effect on profitability. In the short term, there is no statistically observable causal relationship in either direction.

Recommendation: the study recommends that Syrian bank managers should reinvest profits strategically to develop liquidity buffers. Additionally, policymakers are advised to incorporate considerations of long-term profitability in the regulations concerning liquidity and capital adequacy.

Index terms: profitability, Liquidity, return on assets, Current ratio, Vector Error Correction Model.

1-Introduction:

Banks serve as vital financial intermediaries by channeling funds from depositors to borrowers and offering a range of services that facilitate economic and commercial activity. To perform this role effectively, banks must strike a balance between profitability, ensuring operational sustainability and shareholder value, and liquidity, which enables them to meet short-term obligations and client demand. The relationship between liquidity and profitability is intricate. The trade-off theory posits that banks must navigate the benefits and costs associated with holding liquidity. While increasing liquidity can help mitigate risks and satisfy monetary authority requirements, it often leads banks to invest in liquid assets, such as cash or short-term securities with lower returns. However, maintaining higher liquidity means that banks will invest in larger liquid assets, such as holding cash or investing in short-term assets with low returns, which can ultimately lead to a decrease in profitability. Therefore, banks must seek the optimal level of liquidity that balances their benefits and costs, making liquidity a determinant of profitability.

The pecking order theory argues that profitable banks enhance liquidity by relying on retained earnings. In contrast, banks with lower profits depend on external funding sources to secure their liquidity. Banks with higher profits can avoid costly external funding, indicating that profitability positively influences liquidity.

Given the complex nature of their relationship, studying the interplay between profitability and liquidity is essential, especially in light of the mixed findings in existing research. Numerous scholars have explored this connection, but definitive conclusions regarding which variable is independent and which is dependent remain elusive. Additionally, they have not clarified whether this relationship is causal in one direction or both. Consequently, this study aims to address the gap in existing research by investigating the causal relationship in a new context: banks listed on the Damascus Securities Market,

2-Literature Review:

Liquidity in banks is defined as the ability to meet obligations promptly during a specific horizon. (Drehmann et al., 2013). (Maness et al. 2005) describe liquidity as comprising three elements: the resources the bank has available to meet its financial obligations; how long it takes to convert assets into cash; and the cost associated with that conversion. The importance of liquidity is not confined to individual

banks; liquidity shortages in one institution can have ripple effects, impacting the entire financial system (Kodakkal, 2010). For commercial banks, liquidity can be achieved through asset sales, borrowing from financial markets, repayment of debts from clients, and retained profits. (Adalsteinsson 2014).

Profit maximization remains the primary objective for all commercial banks, as it signifies their capacity to generate returns through investment, operational, and financing strategies. In the banking sector, profitability is crucial for ensuring business continuity, stability, capital growth, fostering investor confidence, and contributing to economic development.

Numerous studies have examined the effect of liquidity on profitability, revealing mixed results. Some research indicates that increased liquidity may necessitate holding larger amounts of liquid assets, such as cash or short-term securities, potentially harming profitability. Conversely, others argue that boosting profitability often requires more investments in loans and high-yield assets which may come at the expense of liquidity. Additionally, some studies suggest that enhanced liquidity can facilitate smoother operations, reduce borrowing costs, and ultimately improve profitability. For instance, Golubeva et al. (2019) analyzed a data set of 45 European banks between 2014 and 2018 and found that an increase in the loans-to-deposits ratio not only leads to higher liquidity risk but also results in greater profitability. Additionally, Alali (2019) found that liquidity ratios significantly affect the return on assets and return on equity of Jordanian commercial banks over the period from 2013 to 2017, underscoring the importance of maintaining an optimal liquidity level for bank profitability. This aligns with Alnimr et al, (2013) who identified a significant effect of the quick ratio on the return on assets of Jordanian banks. In contrast, Abdullah et al., (2014) did not find a statistically significant relationship between liquidity ratios and profitability indicators in their study of five Bangladeshi banks.

Few studies have explored the reverse effect – how profitability influences liquidity, yielding contradictory results. Some researchers suggest that higher profitability allows banks to hold more liquid assets, thus decreasing liquidity risk. Conversely, others argue that high profitability may lead to a preference for retaining earnings over providing liquidity. For example, Padashi (2006) reported that Profitability positively influences liquidity in the short-term although no long-run causality was identified. Kumar et al (2011), Amponsah (2017), and Ogundipe, S. E. et al (2012) reached a similar conclusion, while Uremadu, S. O., et al (2012) found that Profitability positively influences liquidity in both the short and long runs, with variable strength depending on firm size.

In a different context, studies have examined the causal relationship between liquidity and profitability. Eljelly, A. M. A. (2004) and Raheman, A. et al (2007) found that Short-term liquidity significantly affects profitability, though long-term causality remained ambiguous. Deloof, M. (2003) highlighted that Short-run liquidity management positively impacts profitability, with long-run effects showing diminishing returns on excess liquidity. Egbunike et al. (2018) suggested that while liquidity predicts short-term profitability well, the long-run impact is non-linear, indicating that excessive liquidity can detract from profitability.

Awad et al., (2013) applied the two-step Engle and Granger method on panel data from 11 manufacturing firms in Palestine, revealing bidirectional causality between working capital management and profitability indicating a unidirectional causality from liquidity to profitability. Olarewaju et al., (2015) explored the causality direction between liquidity and profitability in 15 Nigerian banks using the Granger test and found no causal relationship in 11 banks, while four showed a unidirectional influence from liquidity to profitability. Additionally, the findings indicate a trace of a unidirectional causal relationship from liquidity to profitability in 4 banks. More recent studies, such as Pluskota et al. (2020), indicated that liquidity affects profitability in three out of six cases in the Warsaw securities market, whereas the reverse was true in five out of six instances. Similarly, Islam (2020) noted unidirectional causality from profitability to liquidity among public banks in Bangladesh, while private banks showed no significant causal relationship. Finally, Jaworski et al. (2021) conducted a meta-analysis across 16 economies, finding varied results and suggesting that macroeconomic and institutional factors may moderate the profitability-liquidity relationship. Ratajczak et al. (2024) assessed the stability of this relationship over time in Poland, finding evidence that companies with balanced profitability and liquidity maintained this relationship through varying economic conditions.

Overall, it is clear that existing studies on the causal relationship between liquidity and profitability yield mixed conclusions. This motivates the current study to re-evaluate this relationship specifically within the context of banks listed on the Damascus Securities Market. The inquiry is especially timely given the unprecedented challenge facing Syrian banks, including political unrest, international sanctions, and the devaluation of the Syrian pound. By analyzing data from 11 conventional banks between 2013 and 2021, the study examines the short and long-term interdependence between these two fundamental dimensions of financial performance.

3–Research Questions:

This study aims to address the primary question: Is there a causal relationship between liquidity and profitability in both the short and long term? From this primary question, the following sub-questions emerge:
-Is there a causal relationship between liquidity and profitability in the long term?
-Is there a causal relationship between liquidity and profitability in the short term?
-Is the relationship between liquidity and profitability unidirectional or bidirectional?
-Which one drives the other: liquidity or profitability?

4-Research Objectives:

The primary aim of this study is to establish whether a causal relationship exists between liquidity and profitability in both the long and short term.

This overarching aim leads to the following sub-objectives:

- To determine the extent of the causal relationship between liquidity and profitability in the long -term.
- To assess the extent of the causal relationship between liquidity and profitability in the short -term.
- To evaluate the strength and direction of the relationship between liquidity and profitability.
-To identify the influencing and influenced variables in the relationship between liquidity and profitability.

5-Research Significance:

The significance of this study is twofold: theoretical and practical. Theoretically, it aims to provide support for either the pecking order theory or the trade-off theory elucidating the liquidity-profitability relationship.

Practically, by focusing on Syrian banks, this study addresses a significant gap in the literature due to the country's economic and political challenges. The findings will guide managers of banks listed on the Damascus Securities Market in determining the appropriate liquidity levels. If the results indicate that liquidity influences profitability, it would recommend maintaining higher liquidity levels even if it temporarily reduces profitability.

Conversely, if profitability affects liquidity, it implies that banks should focus on increasing their profits to enhance liquidity.

6-Research Philosophy and Approach and Data:

The study adopts a positivist research philosophy, emphasizing objectivity and the use of empirical data. It follows a deductive approach based on established theories and prior empirical findings. The research design is explanatory, utilizing balanced panel data analysis. The dataset comprises annual financial reports from 11 commercial banks listed on the Damascus Securities Market: Arab Bank - Syria, Ahli Trust Bank, Bank Bemo Saudi Fransi, Bank of Syria and Overseas, the International Bank for Trade & Finance, Shahba Bank, Qatar National Bank, Bank of Jordan Syria, Syria Gulf Bank, Bank Alsharq, and Fransabank Syria.

The key variables selected for analysis are the current ratio (CR) and return on assets (ROA). The current ratio is calculated by dividing current assets by current liabilities, selected for its simplicity and benchmark utility. Return on assets is calculated by dividing net income after interest and taxes by total assets, reflecting the management's ability to generate profits independently of the bank's financing structure.

7. Research Hypotheses:

H1: Liquidity has a significant effect on profitability in the long term.
H2: Profitability has a significant effect on liquidity in the long term.
H3: Liquidity has significant short-term effects on profitability.
H4: Profitability has significant short-term effects on liquidity.

8-Empirical Results:

The results of the study are organized into four distinct parts. Initially, descriptive statistics were calculated to summarize the main features of the data. This was followed by testing the variables for stationarity to ensure that the time series data met the necessary conditions for analysis. Next, the extent of co-integration between profitability and liquidity was assessed to establish whether a long-term relationship exists between the two variables. Finally, causality tests were conducted to analyze the dynamic interactions between profitability and liquidity in both the long and short term.

8.1 Descriptive Statistics:

The analysis revealed that the mean return on assets for the banks listed on the Damascus Securities Market was 6.47%, while the mean current ratio stood at 28.34% during the period from 2013 to 2021.

These figures suggest a decline in the overall performance of these banks throughout the study period.

Furthermore, the Jarque-Bera test indicated a significance level of less than 0.05, which suggests that the data did not conform to a normal distribution.

Table (1) Descriptive statistics of return on assets and current ratio during the study period

	ROA	CR
Mean	0.064722	0.284362
Jarque-Bera	4055.688	59.25213
Probability	0.000000	0.000000
Number of observations	99	99

8.2 Test of Stationarity:

To assess the stationarity of the variables, the PP-Fisher chi-square test was utilized on the time series data at both the level and first difference. This test is advantageous as it accommodates heterogeneous autoregressive parameters across cross-sections and demonstrates greater robustness against serial correlation compared to traditional Augmented Dickey-Fuller (ADF) tests (Mandala et al., 1999). The null hypothesis for this test posited that the time series contains a unit root, indicating nonstationary, while the alternative hypothesis asserted that the time series is stationary. The test was conducted with individual intercepts and trends. The findings revealed that both variables were nonstationary at the level ($P > 0.05$) but became stationary at the first difference ($P < 0.05$). This result underscores the importance of differencing the data to achieve stationarity, which is a prerequisite for further analysis in the study.

Table (2) Panel Unit Root Test result: PP-Fisher chi–square

Level			
variables	T statistic	prob	result
Current ratio (CR)	16,0108	0,8153	Non Stationary
Return on assets (ROA)	9,52346	0,9901	Non Stationary
First Difference			
Current ratio (CR)	51,0641	0,0004	stationary
Return on assets (ROA)	39,6492	0,0119	stationary

8.3 Test of co-integration:

Co-integration refers to a situation in which two or more non-stationary variables share a stable, long-term relationship, despite individual short-term fluctuations or trends. This implies that even if the variables may exhibit volatility in the short run, their shared trajectory remains consistent over a longer period.

In the context of economic analysis, co-integration suggests that such variables move together along a long-run equilibrium path, making it essential for accurate modeling and forecasting. Understanding co-integration allows analysts to capture the enduring nature of relationships between variables while accounting for their long-term characteristics.

Pedroni (2000, 2004) introduced several tests to assess the null hypothesis of no co-integration within a panel data model, which accommodates significant heterogeneity across different cross-sections. The tests proposed by Pedroni can be divided into two categories: one averages the test statistics for co-integration across time series in the cross-sections, while the other averages in segments, ensuring that the limiting distributions are based on the limits of the piece-wise numerator and denominator terms (Baltagi, 2005).

For these tests, the null hypothesis posits that there is no co-integration, while the alternative hypothesis asserts that co-integration exists. Table (3) presents the results of the Pedroni co-integration test without intercept or trend, revealing that the null hypothesis of no co-integration is rejected for six out of the eleven test statistics at a 5% significance level.

Table (3) Panel co-integration test: The Pedroni test with no intercept or trend

Alternative hypothesis: common AR coefs. (within-dimension)

	Statistic	Prob.	Weighted Statistic	Prob.
Panel v-Statistic	1.529751	0.0630	1.039151	0.1494
Panel rho-Statistic	-2.001149	0.0227	-1.702022	0.0444
Panel PP-Statistic	-1.959151	0.0250	-1.515130	0.0649
Panel ADF-Statistic	-3.234071	0.0006	-3.197992	0.0007

Alternative hypothesis: individual AR coefs. (between-dimension)

	Statistic	Prob.
Group rho-Statistic	1.010083	0.8438
Group PP-Statistic	-0.630470	0.2642
Group ADF-Statistic	-3.567387	0.0002

Additionally, Table (4) shows the results for the model specification with an intercept, which rejected the null hypothesis for three out of the eleven test statistics at the same significance level. This indicates that liquidity and profitability are indeed co-integrated.

Table (4) Panel co-integration test: The Pedroni Test with intercept

Alternative hypothesis: common AR coefs. (within-dimension)

	Statistic	Prob.	Weighted Statistic	Prob.
Panel v-Statistic	-0.146180	0.5581	-0.456657	0.6760
Panel rho-Statistic	-0.051065	0.4796	-0.017452	0.4930
Panel PP-Statistic	-0.949235	0.1713	-1.141722	0.1268
Panel ADF-Statistic	-2.525788	0.0058	-2.505774	0.0061

Alternative hypothesis: individual AR coefs. (between-dimension)

	Statistic	Prob.
Group rho-Statistic	1.690614	0.9545
Group PP-Statistic	-0.764626	0.2222
Group ADF-Statistic	-1.987060	0.0235

To further substantiate the existence of co-integration between liquidity and profitability, the Kao test was employed. This test, introduced by Kao (1999), builds on the Dickey-Fuller (DF) and Augmented Dickey-Fuller (ADF) tests (Dickey & Fuller, 1981) and aims to evaluate the null hypothesis of no co-integration. Unlike Pedroni's tests, the Kao test does not permit heterogeneous autoregressive parameters across cross-sections. Thus, the hypotheses for the Kao test are the same: the null hypothesis states that there is no co-integration, while the alternative hypothesis indicates the presence of co-integration.

Table (5) reports The Kao co-integration test results. The model specification with intercept rejects the null hypothesis of no co-integration (The P is below 0,05). This indicates that the series of liquidity and profitability are co-integrated.

Table (5) Panel co-integration test: The Kao Test with an intercept

	t-Statistic	Prob.
ADF	-1.891950	0.0292
Residual variance		0.011678
HAC variance		0.005437

8.4 The Panel Vector Error Correction Model:

The existence of co-integration between liquidity and profitability indicates a long-term stable relationship between them and the feasibility of using the vector error correction model. VECM models help model short-run deviations from long-run equilibrium relationships between series. The main idea of VECM is to model the short-term dynamics of time series, taking into consideration the long-term equilibrium between them. Our analysis has two models, based on the dependent variable corresponding to the other variable. In the first model, profitability is considered the dependent variable, while liquidity is considered the dependent variable in the second model.

Table (6) Results of the long-term causality between liquidity and profitability

	Coefficient	Standard Error	t-statistic	Dependent variable
Co-integration EQ 1	-0.006322	0.04472	[-0.14136]	ROA
Co-integration EQ 2	-158.1792	25.9683	[-6.09123]	CR

Table (7) Error correction estimates

	Coefficient	Standard Error	t-statistic	prob	Dependent variable
Error correction 1	-1.424057	0,23880	-6,09095	0,0000	ROA
Error correction 2	-0.000826	0.004183	-0.197528	0.8437	CR

The results of the first model in Table (6) indicate that the coefficient of CR (-1) is -0,006322 and it is not statistically significant as the value of (t) is less than 1.96. We can conclude that there is no significant long-run causality relationship from liquidity to profitability. This leads to the rejection of the first hypothesis. Table (7) shows that profitability adjusts strongly to deviations from the long-run equilibrium. This implies a very rapid correction of deviations from equilibrium, which could indicate instability. Additionally, this suggests that profitability is endogenous and liquidity is weakly exogenous.

The results of the second model in Table (6) indicate that the coefficient of ROA (-1) is -158,1792 and is highly significant as the value of (t) exceeds 1.96. We can conclude that there is a strong positive long-run causal relationship from profitability to liquidity. Eventually, a 1-unit increase in profitability is associated with a 158,1792 increase in liquidity. This indicates that higher profitability leads to higher liquidity supporting the acceptance of the second hypothesis. Table (7) reveals that liquidity does not adjust significantly to restore equilibrium. In summary, there is a unidirectional causal relationship from profitability to liquidity in the long run, meaning profitability significantly influences liquidity. However, short-term changes in liquidity are not explained by profitability.

The next procedure is to test for a short-run causality using the Wald test as outlined in Table (8) below. The results of the tests for the two models show that there is no short-run cause running from liquidity to profitability or from profitability to liquidity. The significance is greater than 0,05. This indicates the rejection of the third and fourth hypotheses.

Table (8) The result of the Wald Test

Test Statistics	Value	DF	Prob
Chi-square model 1	0,245036	2	0,8847
Chi-square model 2	0,835566	2	0,6585

After examining the long- and the short-run causality between liquidity and profitability The impulse response analysis is employed to assess how all variables in a system react to a disturbance (Shock) of one standard deviation at any given time. Impulse response analysis is a critical tool in the VECM model. It traces the dynamic impact of a one–time shock to one variable on another over multiple periods, holding the other factor constant. The graph (bottom left) in Figure (1) illustrates that the response of profitability to liquidity is very weak fluctuating around zero. There is no clear pattern or sustained effect, and the magnitude remains small throughout. This result reinforces earlier results that liquidity does not granger–cause profitability in the long or short run.

The graph (top right) in Figure (1) indicates that the liquidity responds positively to one standard deviation shock in profitability from around period 2 onward. The response becomes consistently positive in the later period (4–10) indicating a persistent effect. This aligns with the long-run causality from profitability to liquidity finding in the VECM (model 2).

In the same context, the variance decomposition test was applied. This test reveals how much of the forecast error variance of each variable in a panel, VECM can be explained by shocks to the other variables over time. The results shown in Table (9) indicate that the

Figure (1) Response to Cholesky one s. d (d.f. adjusted) innovations

Response to Cholesky One S.D. (d.f. adjusted) Innovations
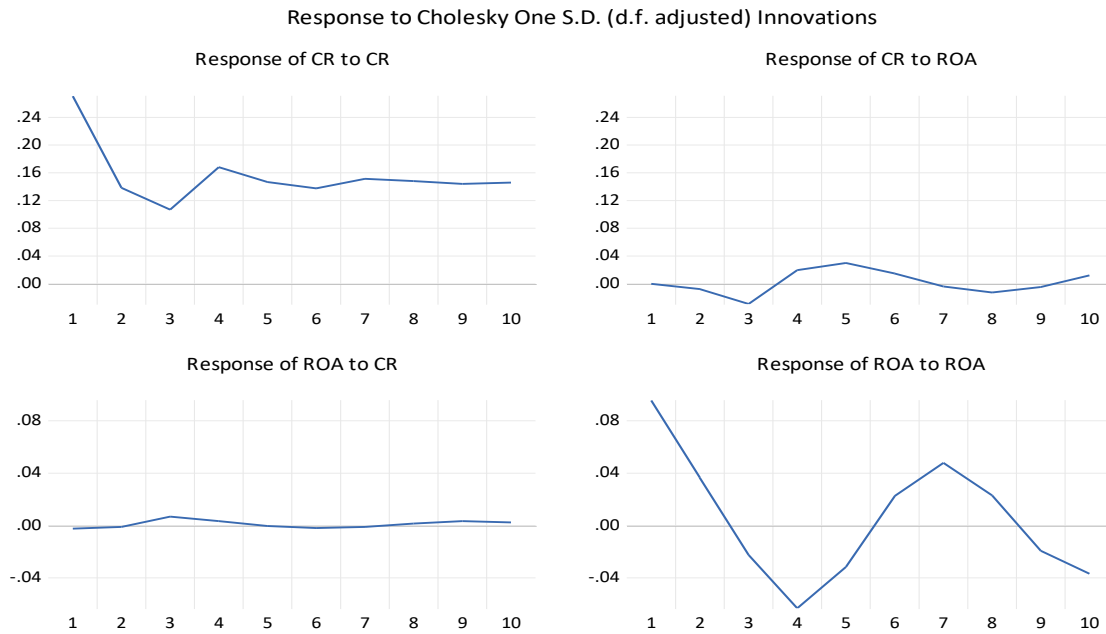
Return on assets variance is initially (99,5% - 99,9%) explained by its innovations even in the long run. Liquidity (CR) accounts for less than (0,5%) of the variability in profitability (ROA), suggesting no significant short–run causal effect from liquidity to profitability. Conversely, the results indicate that liquidity (CR) is explained by its shocks across periods (>98%) suggesting it is relatively stable, while profitability (ROA) contributes only marginally to the fluctuation in liquidity (CR) (max 1,4% at period 5) This implies that profitability has a weak influence on liquidity (CR) in the short to medium-term.

Table (9) Variance decomposition of return on assets

Variance Decomposition of CR :			
Period	S.E.	CR	ROA
1	0.270637	100.0000	0.000000
2	0.303994	99.93740	0.062602
3	0.323567	99.13278	0.867225
4	0.365150	99.02362	0.976385
5	0.394715	98.58434	1.415660
6	0.418261	98.61267	1.387333
7	0.444808	98.76592	1.234079
8	0.468996	98.82016	1.179838
9	0.490600	98.91299	1.087012
10	0.511974	98.94638	1.053622

Variance Decomposition of ROA :			
Period	S.E.	CR	ROA
1	0.095631	0.061315	99.93868
2	0.102361	0.064818	99.93518
3	0.105027	0.488054	99.51195
4	0.122651	0.435754	99.56425
5	0.126674	0.409362	99.59064
6	0.128659	0.420069	99.57993
7	0.137296	0.374565	99.62544
8	0.139239	0.377488	99.62251
9	0.140605	0.428678	99.57132
10	0.145347	0.428820	99.57118

Cholesky Ordering: CR ROA

9-Discussion:

This research examined the long- and short-term causal relationship between liquidity and profitability in Syrian banks listed on the Damascus Securities Market using the Vector Error Correction Model (VECM). The results indicated a significant long-term, uni-directional causal relationship from profitability to liquidity, with no observable effect in the opposite direction. This finding highlights that profitability is the primary focus of bank management in Syria and one of the key determinants of liquidity for these institutions.

The conclusion aligns with the profitability-liquidity trade-off theory, which suggests that profitable banks tend to maintain a more substantial liquid buffer to address potential future uncertainties, even if this entails incurring short-term costs. This behavior allows banks to build liquidity strategically, balancing the risks of cash shortfalls against the opportunity costs associated with holding idle funds. Furthermore, the positive long-term relationship between liquidity and profitability also resonates with the pecking order theory, which asserts that banks primarily depend on retained earnings as their main financing source. Thus, as profitability rises, so does the bank's capacity to accumulate liquid assets, reinforcing the cycle of financial health. The positive long-term effect of profitability on liquidity is consistent with earlier empirical studies by Opler et al. (1999) and Ferreira et al. (2004), which found that firms with strong profits tend to build liquidity buffers to maintain operational flexibility. Findings from this study suggest that profitable banks perceive liquidity as a strategic asset rather than a resource that is mismanaged.

In contrast, the results indicate that there is no short-term causal relationship between liquidity and profitability among Syrian banks listed on the Damascus Securities Market. This lack of a short-term connection may stem from the nature of banking operations, where changes in liquidity levels often do not immediately result in shifts in profit. Similarly, fluctuations in profitability might not prompt immediate changes in liquidity if banks are maintaining stable liquidity buffers as a precaution or in compliance with regulatory mandates.

These observations align with earlier work by Brourke (1989) and Molyneux et al. (1992), which highlighted that while liquidity is vital for the stability of banks, its effect on profitability may be delayed. The absence of a short-run causal relationship from profitability to liquidity could also be associated with regulatory constraints, such as capital adequacy requirements and liquidity coverage ratios as outlined by Basel III. These regulations restrict how profits are transformed into usable liquidity, suggesting that the strategies banks employ regarding liquidity are influenced more by the need for regulatory compliance and risk management than by immediate profitability considerations, as noted in studies such as Athanasoglou et al. (2008). Moreover, impulse response analysis results reaffirm the VECM findings, which indicate a significant long-run effect of profitability on liquidity. Conversely, liquidity shocks exert minimal

effects on profitability, confirming a unidirectional causal pathway from profitability to liquidity. This observational dynamic supports the theoretical viewpoint that firms tend to utilize retained earnings (profits) to gradually enhance their liquidity positions.

Finally, the variance decomposition test further affirms the pecking order theory, indicating that profitability plays a more substantial role in influencing liquidity than the other way around. The evidence suggests that liquidity does not have a significant impact on profitability, aligning with previous research findings by Raheman et al. (2007).

10-Limitations and Future Research:

This study has several limitations, particularly regarding the sample, as it did not include Islamic banks listed on the Damascus Securities Market due to the unique nature of their operations. Consequently, the results may not be generalizable to all banks operating within the Syrian Arab Republic. Additionally, since the study is confined to Syrian banks, the findings may not apply to banking institutions in other countries. The analysis covers a specific period from 2013 to 2021.

Moreover, the study's findings are tied to the methods used for measuring liquidity and profitability, specifically through return on assets and the current ratio. Utilizing alternative measures for these variables could potentially yield different results. The application of the VECM methodology also means that employing different analytical methods might lead to varying conclusions. Furthermore, the incorporation of moderating or mediating variables could also significantly affect the outcomes of future research.

Future research could explore various avenues, such as incorporating moderating variables like bank size and age. Additionally, extending the study to include Islamic banks and analyzing companies outside the banking sector could provide more comprehensive insights. Alternative measures of liquidity and profitability could also be employed to see if they yield different findings.

11-Conclusion:

In summary, the study presents two primary findings. The first finding indicates a strong, positive long-term causal relationship between profitability and liquidity among Syrian banks listed on the Damascus Securities Market, demonstrating a unidirectional rather than bidirectional relationship. The second finding highlights the absence of a short-term causal relationship between liquidity and profitability, regardless of direction, suggesting that Syrian bank managers prioritize long-term profitability to enhance liquidity.

Overall, this long-term focus may contribute to achieving greater financial stability for Syrian banks over time. The study recommends that managers of Syrian banks strategically reinvest profits to strengthen liquidity buffers during stable economic conditions. Regulators should also consider the long-term implications of profitability when formulating capital adequacy and liquidity coverage regulations. Additionally, investors should recognize profitability as a leading indicator of future liquidity strength, which could influence dividend policies and reinvestment strategies.

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Author: Mouhanad Arnaout, Assistant Professor in Financial Markets, Business Administration Department, Damascus University.

Correspondence Author –Mouhanad Arnaout.