

ABSTRACT

Profitability plays a crucial role in reflecting banks' ability to maintain stability in their intermediation functions, particularly when economic conditions are uncertain. Capital is theoretically believed to enhance profitability; however, varying empirical findings across countries indicate that institutional factors such as the level of Economic Freedom (EF) may influence this relationship. This study examines the effect of capital on bank profitability in ASEAN-5 during the 2018–2023 period (covering the pre-, during-, and post-COVID-19 phases) and investigates the moderating role of Economic Freedom in this relationship.

Profitability is measured using Return on Assets (ROA), while capital is represented by Equity to Total Assets (ETA), Tier 1 Capital, and Total Capital, with Bank Size and Non-Performing Loans (NPL) included as control variables. The sample consists of 76 conventional banks listed on the stock exchanges of each respective country, with data obtained from the Bloomberg Terminal and analyzed using a panel data regression with the fixed effect model and cluster-robust standard errors in STATA 17.

The results indicate that Tier 1 Capital and Total Capital have a significant positive effect on ROA, while ETA shows no significant effect. Furthermore, EF is found to weaken the relationship between all capital proxies and profitability, with the strongest weakening effect observed in the ETA–ROA relationship. These findings suggest that risk-based capital contributes more effectively to bank profitability in ASEAN-5, although a higher level of economic freedom has not yet optimally supported the ability of capital to enhance bank performance.

Keywords: *bank capital, return on assets (ROA), economic freedom (EF), ASEAN-5*