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An Evaluation of Impact on Macro-Economic Variables in the Financial Performances of Companies

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ABSTRACT

Micro economic variables are having influence and impact of the financial operating process. but macro-economic variables also influence the business environment as a whole. Generally, banks are the institutions which follows many macro-economic factors like bank rates, inflation rates, repo rates and currency value etc. macro-economic variables mostly affecting business operations as per regulations of government and market demand. Macro-economic variables namely inflation rate, monetary policy and fiscal policies of the government regulate business process and introduced policy related rules. So that industries must follow their business process. As per new regulations of motor vehicles instruct that third party insurance must be paid. So that motor vehicles prices were hiked. Due to the implementation of GST consumers' needs to pay CGST and SGST. Business firms needs to collect GST from their consumers and paid to the government; in this regard, products prices were increased. As consumers we may pay the petrol prices due to tax implications. The financial performance indicators namely Return on Assets, return on Equity, Earnings per share, operating cost ratio, Earnings yield ration were also taken for present study. These economic variable how influence the financial performance of the banks were analysed but three major variables influenced by the banks financial performance remaining GDP and Gross National Income were not influenced financial performance of the banks. Last decades all the macro economic factors were influenced financial performance of the banks. But there may be a possibility each bank managers have own powers to change process and do the needful for the business environment needs.

***Keywords**: Inflation Rate, Economic Growth Rate, Earnings Per Share, Return on Equity, Earnings Yield Ratio and Return on Assets.*

Introduction

The economic progress is important of every business. Finance is an essential sources of business firms. Financial position of the firm denotes the market value of the share value. Investors needs to analysed before make an investment decision in any business firm's financial position. Renowned scholars and social scientist opined that each and every business process and financial performance of the business firms influenced by the macro economic variables of the country. Dramatic changes in monetary policy and fiscal policy influenced that financial positions of the firms. We were witnessed at time of covid-19 all the industry facing lot of challenges and due to closing industries, government rules affect the economic growth as well as financial position of the firm's.

Macro-economic variables namely inflation rate, monetary policy and fiscal policies of the government regulate business process and introduced policy related rules. So that industries must follow their business process. As per new regulations of motor vehicles instruct that third party insurance must be paid. So that motor vehicles prices were hiked. Due to the implementation of GST consumers' needs to pay CGST and SGST. Business firms needs to collect GST from their consumers and paid to the government; in this regard, products prices were increased. As consumers we may pay the petrol prices due to tax implications.

Macro-economic variables were mostly influenced by the firms in financial services. Especially banks and non-banking financial institutions were following rules and regulations prescribed by the RBI. Inflation rate is increased that should be corrected to regulate the currency circulations. Based on the monetary policy banks process functioned according to the policy regulations.

Individual firm's financial performance influences the stake holders' financial decisions. So that stake holders like creditors, suppliers, employers, shareholders, government also get hope towards financial success of the firm. Micro economic variables are having influence and impact of the financial operating process. but macro-economic variables also influence the business environment as a whole. Generally, banks are the institutions which follows many macro-economic factors like bank rates, inflation rates, repo rates and currency value etc. macro-economic variables mostly affecting business operations as per regulations of government and market demand.

Review of Literature

Author Name and Year	Objectives of the study	Methodology	Determinants of the research	Findings	Suggestions and conclusions
Carol Cheong & Huy Viet Hoang (2021)	To study the impact of macroeconomic factors and firm-specific components on corporate productivity in Singapore and Hong Kong some time recently, amid and after the worldwide monetary emergency.	This paper employments the two-step framework Generalized Strategy of Minutes to look at the effect of macroeconomic and firm-specific variables on corporate benefit.	firm size, leverage, liquidity, sales growth and previous year's profitability	The collected data analysed findings shows that past profits, firm size and debt are closely related to firm performance. It also show that Hong Kong firms were more affected by macroeconomic factors during the global financial crisis than Singapore firms.	It gives bits of knowledge into the relationship between firm-specific variables, macroeconomic components and firm execution beneath three diverse financial periods in two created economies within the Asia-Pacific.
Hussain, S., Nguyen, V.C., Nguyen, Q.M. *et al. (2021)*	To investigate the interaction impact of macroeconomics markers, and working capital streams on money related execution in a creating economy.	By utilizing the inactive and dynamic approach of board investigation, it has been appeared that there's a relationship between the components of working capital and the net benefit and cash change term	Cash conversion cycle, Average collection period, Inventory turnover ratio, Average payment period, Exchange rates, interest rates.	the change cycle of cash contains a negative relationship, but it reverses its activities after utilizing intrigued rate interaction. There's a negative relationship with net benefit within the simple regression trade rate and cash change cycle whereas utilizing the moment interaction variable with money change cycle, has positive impacts.	It also insists that exchange rate increments, companies that can pay early to payable will get higher firm execution whereas trade rate and the intrigued rate have a critical part in changing the firm execution

Keshav Garg & Rosy Kalra (2018)	Study the relationship between the Indian Stock market and Macro economic variables	The research is based on secondary data collected from the sensex data. The data were included in the year 1991 to 2017.	Unemployment rate, Inflation rate, GDP, Exchange rate, Sensex	The relationship between GDP and sensex was negative. Gold price and interest price had positive significant level	This study recommends the policy makers to concentrate on fiscal policy to improve economic development
Chinedu Francis Egbunike ed. Al. (2018)	To investigate the interrelationship between macroeconomic variables, firm characteristics and financial execution of cited fabricating firms in Nigeria	The study utilized the ex post facto investigative plan. The samples comprised all cited fabricating firms on the Nigerian Stock Trade. The test was confined to companies within the buyer products segment, chosen utilizing non-probability examining strategy.	interest rate, inflation rate, exchange rate and the gross domestic product (GDP) growth rate, while the firm characteristics were size, leverage and liquidity	The study finds no critical impact for interest rate and exchange rate, but a noteworthy impact for inflation rate and GDP development rate on ROA. Moment, the firm characteristics appeared that firm estimate, use and liquidity were noteworthy.	The study has suggestions for controllers and approach producers in defining arrangement choices. In expansion, directors may superior understanding the interaction between macroeconomic variables, firm characteristics and productivity of firms.
Mohammed Issah &Samuel Antwi (2017)	Find out role of macroeconomic variable of individual firm's financial performance	The collected secondary data consists of share prices 116 listed companies in UK.	Tax rates, Return on equity, Return on Assets,	The study was analysed through regression and it was found that tax rates, return on assets, return on equity were highly influenced the financial performance of the firm	Further study concentrates on liquidity ratio, earnings per share, GDP, to analyses role of macroeconomic variable in individual firm's financial performance.

Rationale of the Study

The financial position of the firms is very crucial for the investors. It also very much essential for the stake holders of the firm. Most of the social scientist and renowned scholars expressed that macro-economic variables. In most cases products and services prices were hiked due to macro-economic factors like inflation rate, exchange rates, GDP rates. These determinants were influenced the financial performance of the firms. Covid-19 period also proves that many industries were struggled to run their business due to government regulations and lockdown. Not only business people suffer but common people also were struggle to maintain their family for day to day basis. Intervention of government business firms may face lot of challenges to operate their business process. it leads to heavy losses. Many stakeholders need to know financial position of the firm for future scope of their business operations. Government responsibility to sustain their regional economic development. So they try to modify their monetary and fiscal polity according to need of the circumstances. so that the researcher tries to attempt that to know the impact of macro-economic variables of financial performance of the banks.

Objectives of the Study

The following objectives were framed to attain the results of the study

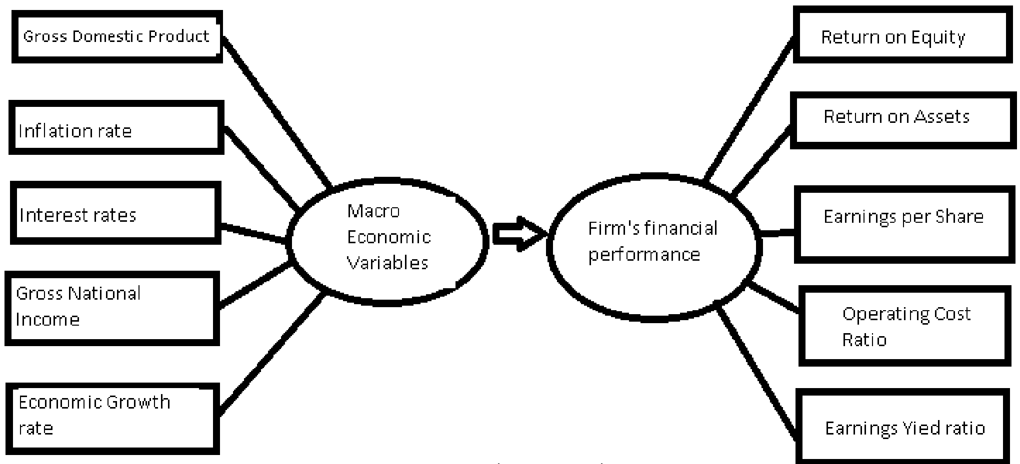
- To know the impact of macro-economic variables in the financial performance of individual firms

- To study the relationship between the macro-economic variable and factors of the financial performance of the banks.
- To analyses the positive and negative impact of inflation towards the variables of individual firm's financial position.

Methodology

The present study adopting ex-facto approach to analysing the data. The last 5 years secondary data were collected. The collected data namely inflation rate, GDP, GNP, Economic Growth rate were selected as macro-economic variables and ROE, ROA, Earnings Per Share, Operating Cost Ratio and Earnings Yield ratio as individual firms' financial performance indicators. The collected data were analysed by using regression in SPSS package.

Conceptual Frame Work



Conceptual Frame work

Analyses

Descriptive Statistics

	Mean	Std. Deviation	Variance	Skewness	Kurtosis
ROA	.0720	1.22348	1.497	-3.033	9.371
ROE	7.5590	4.61744	21.321	-.562	-.103
EPS	37.1860	66.33612	4400.481	2.970	9.118
operating cost ratio	1.6410	.62445	.390	-3.055	9.506
Earning yield	.7710	.94659	.896	.482	-2.268

The above table reveals that descriptive analyses ofdata related to return on assets, return on equity, earnings per share, operating cost ratio and earning yield ratio.

H_0: There is a relationship between the Gross Domestic Product and the variables of financial performance of the banks

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	30.948	56.398		.549	.916
	ROA	-.272	2.312	-.077	-.118	.412
	ROE	.884	1.299	.950	.681	.663
	EPS	-.174	.342	-2.681	-.508	.818
	Operating Cost Ratio	-15.028	32.530	-2.184	-.462	.168
	Earning yield	-.980	3.084	-.216	-.318	.260
a. Dependent Variable: GDP						

The above step wise regression analysis reveals that Gross Domestic Product (GDP) does not impact the banks financial performance. It could be perceived that GDP does not have directly influenced banks financial performance. So that research hypothesis is rejected and alternative hypothesis is accepted.

H_0: There is a relationship between the Inflation rate and the variables of financial performance of the banks

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.447	14.017		-.175	.040
	ROA	-.660	.575	-.407	-1.149	.015
	ROE	.407	.323	.946	1.260	.026
	EPS	.018	.085	.589	.207	.046
	Operating Cost Ratio	2.153	8.085	.677	.266	.003
	Earning yield	1.079	.766	.515	1.408	.032
a. Dependent Variable: inflation						

The above regression analyses explain that inflation rate have directly influenced by banks financial performance. The results reveals that Return on Assets (P=0.015), Return on Equity (P=0.026), Earnings per share (P=0.046), Operating cost ratio (P=0.003), earning yield ratio (P=0.032). the overall significant value (P=0.040) states that inflation rate directly affected banks financial performance.

There is a relationship between the interest rates and the variables of financial performance of the banks

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-10.748	17.314		-.621	.008
	ROA	1.481	.710	.692	2.087	.005
	ROE	-.994	.399	-1.751	-2.491	.007
	EPS	.132	.105	3.356	1.261	.026
	Operating Cost Ratio	12.340	9.987	2.942	1.236	.024
	Earning yield	-3.079	.947	-1.113	-3.252	.031
a. Dependent Variable: interest rate						

The above regression analyses explain that interest rates have directly influenced by banks financial performance. The results reveals that Return on Assets (P=0.005), Return on Equity (P=0.007), Earnings per share (P=0.026), Operating cost ratio (P=0.024), earning yield ratio (P=0.031). the overall significant value (P=0.008) states that interest rates rate directly affected banks financial performance.

There is a relationship between the Gross National Income and the variables of financial performance of the banks

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	31.068	56.230		.553	.210
	ROA	-.188	2.305	-.053	-.082	.139
	ROE	.845	1.295	.899	.652	.202
	EPS	-.172	.341	-2.631	-.504	.641
	Operating Cost Ratio	-14.925	32.433	-2.148	-.460	.109
	Earning yield	-1.169	3.075	-.255	-.380	.223
a. Dependent Variable: GNI						

The above step wise regression analysis reveals that Gross National Income does not impact the banks financial performance. It could be perceived that GNI does not have directly influenced banks financial performance. So that research hypothesis is rejected and alternative hypothesis is accepted.

There is a relationship between the Economic Growth rate and the variables of financial performance of the banks

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	30.947	56.400		.549	.002
	ROA	-.272	2.312	-.077	-.118	.012
	ROE	.884	1.299	.950	.680	.034
	EPS	-.174	.342	-2.680	-.507	.039
	Operating Cost Ratio	-15.026	32.531	-2.184	-.462	.008
	Earning yield	-.980	3.084	-.216	-.318	.017
a. Dependent Variable: Economic Growth Rate						

The above regression analyses explain that Economic Growth Rate have directly influenced by banks financial performance. The results reveals that Return on Assets (P=0.012), Return on Equity (P=0.034), Earnings per share (P=0.039), Operating cost ratio (P=0.008), earning yield ratio (P=0.017). the overall significant value (P=0.002) states that interest rates rate directly affected banks financial performance.

Discussion

Most of the research scholars stated that macro-economic variables strongly influenced or affected the financial performance of the banks. The macro economic variables namely GDP, inflation rate, Gross National Income, interest rate and economic growth rate were taken for the present study. The financial performance indicators namely Return on Assets, return on Equity, Earnings per share, operating cost ratio, Earnings yield ration were also taken for present study. These economic variable how influence the financial performance of the banks were analysed but three major variables influenced by the banks financial performance remaining GDP and Gross National Income were not influenced financial performance of the banks. Last decades all the macro economic factors were influenced financial performance of the banks. But there may be a possibility each bank managers have own powers to change process and do the needful for the business environment needs. Due to information technological advancement, communications among the stake holders of financial services institutions are very good. Free flow of communications all the stake holders get information on time. So there may minimum possibility to influence the macro economic factors like Gross Domestic Product and Gross National Income to the financial performance of the banks. Each and Every operative functions must be computerized, the policy matters avoid unnecessary procedures, so all the business decisions to be separated in concern. In view of this, macro-economic variables have least impact on individual firm’s financial performance.

Conclusion

Business firms try to find out suitable business process to overcome obstacles for earn maximum profit. Even though government regulate through monetary and fiscal policy but business decisions have its own agenda, managers have its own powers to change procedure to take effective and efficient decisions. No one is ready to listen, if a company makes loss. It is applicable all types business firms. Especially for banks and non-banking financial institutions play a crucial role to provide financial services to the customers. Financial services is having evergreen demand and they need loan for their business and personal needs. So banks and also non-banking institutions grows enormously because it has ways to doing business and makes huge profit. according to this research, macro-economic variables have least impact on individual firm’s financial performance.

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