

Causal Relationship between Macro Economic Variables and on Firms Profitability. Evidence from: Banking Sector in Sri Lanka

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Abstract

Banks play a vital role in Sri Lanka's financial system because they provide the entire economy with liquidity while changing the risk characteristics of assets. The performance of commercial banks can be affected by internal and external factors which can be classified into bank specific (internal) and macroeconomic variables. Number of Sri Lankan banks have faced financial crisis therefore many banks have been bankrupted in near past. This study focused on the effect of macroeconomic factors on the profitability of private commercial banks in Sri Lanka for 12 years' period from 2009 to 2020. Panel data regression analysis has been used to analyze the secondary data, that were collected from annual financial reports of selected companies and annual reports from central bank in order to answer the research questions. Inflation Rate (IR), Exchange Rate (ER), GDP growth (GDP) taken as independent variables. and return on assets (ROA) is considered as dependent variable. It was used Pearson's correlation analysis and regression models to investigate the relationship among macroeconomic indicators and performance of commercial banks, data were analyzed using E- Views packages. The findings of the study will provide useful insights to the interest parties for purpose of decision making.

Key words: *Macro Economic factors, Inflation Rate (IR), Exchange Rate (ER), GDP Growth (GDP), Return on Assets (ROA)*