

Impact of Macroeconomic Variables on the Performance of the Licensed Finance Companies in Sri Lanka

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ABSTRACT

Purpose: This research was undertaken to determine the effect of macroeconomic variables on financial performance of licensed finance companies in Sri Lanka.

Design/methodology/approach: This study adopted a quantitative research approach using a sample of 12 licensed finance companies in Sri Lanka for the 10 years' period. Secondary data on finance performance was obtained from the annual financial reports and Central bank reports. Hypotheses were tested using panel data regression model employing STATA.

Findings: The regression results show that foreign reserves and GDP have a positive but not significant impact on the ROA and ROE of licensed finance companies in Sri Lanka. Results indicated that inflation is positively related to the financial performance of licensed finance companies in terms of ROA and ROE. The regression results show that increasing the exchange rate would lead to an increase in the financial performance of licensed finance companies in terms of ROA and ROE. Results indicated that the interest rate has a negative on the ROA and ROE of licensed finance companies in Sri Lanka.

Originality: The Sri Lanka Government through the Central bank should come up with policies that create a conducive environment for finance companies to operate in since it will translate to the economic growth of the country. Mainly this study helps industry participants, investors, and regulators. Also, policymakers can use the findings of this study to establish policies that are related to the finance industry.

Keywords: *Inflation, Exchange Rate, Interest Rate, Foreign Reserves, Gross Domestic Product*