IMPACT OF MACROECONOMIC VARIABLES ON PROFITABILITY OF FINANCE COMPANIES IN NEPAL

A Dissertation submitted to the Office the Dean, Faculty of Management in partial fulfillment of the requirements for the Master's Business Studies (MBS)

By

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July, 2024

CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **"Impact of Macroeconomic Variables on profitability of Finance Companies in Nepal**" The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of this dissertation.

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Report of Research Committee

Mr. Govinda Raj Naral has defended research proposal entitled " **Impact of Macroeconomic Variables on profitability of Finance Companies in Nepal** " successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work and guidance of supervisor and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **" Impact of Macroeconomic Variables on profitability of Finance Companies in Nepal** " presented by Govinda Raj Naral, a candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ACKNOWLEDGMENTS

First and foremost, I would like to express our gratitude to thesis supervisor to. Arun Neupane for his consistent help and support to complete my thesis. Indeed, his guidance, cooperation, encouragement is very admirable and praiseworthy without which the research work would not have been possible. I am also greatly indebted to Research Head Asso. Prof. Dr. Sajeeb Kumar Shrestha and Campus Chief Asso. Prof. Krishna Prasad Acharya for the overall management and guidance to complete my thesis.

The Graduate Research Thesis entitled " Impact of Macroeconomic Variables on profitability of Finance Companies in Nepal.'' has been prepared to fulfill the partial requirement for MBS degree of Tribhuwan University It is matter of great delight and pleasure to complete this Graduate Research Project Report with the indispensable cooperation, guidance, and help from many individuals. I therefore take this opportunity to most sincerely express my gratitude to all of them.

Similarly, I am equally thankful to my all teachers and friends for their moral support and encouragement. They are always helpful and supportive towards me and I really appreciate them for their care and support. I also express my enormous gratitude to all the respondents who take their initiation to fill up my questionnaire and response to my queries without any hesitation. I am also very thankful and feel fortunate towards my parents for always supporting me in every steps of life. I cannot define the compassion and support of my parents in words.

Govinda Raj Naral

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ABBREVIATIONS

ANOVA	:	Analysis of Variance
BOD	:	Board of Directors
C.V.	:	Coefficient of Variation
CA	:	Correlation analysis
CAR	:	Capital Adequacy Ratio
CRR	:	Cash Reserve Ratio
GDP	:	Gross Domestic Product
ICAN	:	Institute Of Chartered Accountants of Nepal
IPO	:	Initial Public Offering
LC	:	Letter Of Credit
MVPS	:	Market Value per Share
NEPSE	:	Nepal Stock Exchange
NRB	:	Nepal Rastra Bank
PER	:	Price Earnings
ROC	:	Registrar of Companies
S.D.	:	Standard Deviation
SC	:	Standardized Coefficient
SD	:	Standard Deviation
SEB	:	Securities Exchange Board
SEC	:	Securities Exchange Centre
SPSS	:	Statistical Packaged for Social Sciences Software

ABSTRACT

This study is conducted to analyze the Impact of Macroeconomic Variables on profitability of Finance Company in Nepal. The study variables used in this study are for this study Capital adequacy ratio (CAR), Lending Ratio (LR), Inflation (INF), Default Risk (DR), Operational Expenses to Total Loan (OETL), and Return on equity (ROE) is calculated. To analyze the data a combination of descriptive and casual comparative research design has been used in this study. This study considered only five finance company Gurkhas Finance, Goodwill Finance, Nepal Finance, ICFC Finance, Reliance Finance as a sample finance company. This study is totally based on secondary data which are collected from the annual reports of sample finance company from year 2013/14 to 2022/23 covering recent ten year's data.

The relationship of Return on Equty of finance company in Nepal taking the independent variables in finance this study Capital adequacy ratio (CAR), Lending Ratio (LR), Inflation (INF), Default Risk (DR), Operational Expenses to Total Loan (OETL) conclude that defult risk (DR) is positive and low positive relationship also which insignificant relationship with profitability. In other hand Profitability and OETL is positive relationship also which in not significant relationship . The relationship between the profitability and lending ratio is negetive and low level of relationship but not perfectly and also which in insignificant relationship. The effect of Capital adequacy ratio (CAR), Lending Ratio (LR), Inflation (INF), Default Risk (DR), Operational Expenses to Total Loan (OETL) using the multiple regression analysis in this study conclude that ratio (CAR), Lending Ratio (LR), Inflation (INF), Default Risk (DR), Operational Expenses to Total Loan (OETL) are the major factors affecting the profitability of finance company Nepal. On the other hand, it is concluded that, loan loss provision ratio of the banks does not influence the profitability of development banks in Nepal.

Key Words:*Performance, inflaction ,CAR, LR, and OETL*

CHAPTER-I
INTRODUCTION

1.1Background of the Study

The economic growth of any nation is significantly influenced by its financial institutions. In Nepal, the financial sector is instrumental in driving the country's economic progress. Financial institutions are fundamental to the economy's growth and functioning (Paolucci&Menicucci, 2016).

Among these institutions, financial companies are pivotal in the Nepalese economy. They facilitate financial intermediation and stimulate economic growth by converting deposits into profitable investments. As capital providers, their stability is vital to the financial system's health. An efficient financial system is characterized by higher profitability, increased capital flow from savers to borrowers, and enhanced client services. Research on bank profitability is crucial for mitigating financial risks and addressing pertinent issues. Since its inception, bank profitability has been a heavily studied topic in banking literature (Maria & Maria, 2019).

Financial companies are central to fostering economic prosperity and industrialization in a country. Profitability, which is the ratio of an organization’s profit to its costs, is crucial for maintaining stability and navigating an uncertain economic environment. Efficient organizations achieve higher profitability by minimizing costs to earn the same profit compared to less efficient ones. Profitability results from various policies and decisions, with profitability ratios offering valuable insights into a firm’s performance, including the impact of debt.

According to a 2022 report by Nepal Rastra Bank, financial companies comprised 3.7 percent of the financial sector, with other institutions holding the remaining funds. This highlights how financial companies have evolved to meet the nation's financial needs. Understanding the factors that influence the profitability of financial companies in Nepal is essential, and this study aims to investigate these determinants (Pradhan, 2022).

Achieving profits is the primary goal of management and is essential for any operations. Despite the financial deregulation program by the Nepalese government and Nepal Rastra Bank to increase bank capital and promote mergers and acquisitions, academic research on Nepal's financial industry remains limited. A bank's profitability is vital for sustained operations and providing investors with strong returns. While some studies have examined factors influencing financial company profitability, research on Nepalese financial companies has primarily focused on bank performance.

Economics, a social science, studies the production, distribution, and consumption of goods and services, and the decisions made by individuals, businesses, governments, and nations in allocating resources. Microeconomics examines how individual consumers and firms make decisions to allocate resources, respond to price changes, and demand goods at specific price levels. It explores how goods are valued, financial decisions are made, and how entities trade, coordinate, and cooperate. Microeconomics also analyzes supply and demand dynamics, production costs, labor division, and how businesses and individuals approach uncertainty and risk (Ongore and Kusa, 2013).

Existing literature has primarily focused on internal variables affecting financial company profitability, often overlooking the influence of macroeconomic factors. Despite the significant impact of the macroeconomic environment on financial company performance, research in this area is scarce. This study aims to fill this gap by incorporating key macroeconomic indicators, such as Return on Assets (ROA), Return on Equity (ROE), and the broad money supply, as independent variables in assessing the profitability of commercial banks.

1.2Problem of the Statements

The challenges of low profitability in financial companies are linked to sluggish economic growth, as indicated by wide interest rate spreads, high inflation, elevated interest rates, low deposit rates for capital investment, significant exchange rate volatility, and slow growth in GDP and GDP per capita. Persistent low profitability in banks has resulted in increased credit risk for private entities, poor asset quality, insufficient capitalization, operational inefficiencies, a rise in non-performing loans,

higher liquidity risks, and increased overall financial intermediation costs (Maria & Maria, 2019). This study will answer the following question.

1. What is the existing position of profitability of financial company?
2. Is there any relationship between macroeconomic variables and profitability of financial company?
3. How is the impact of macroeconomic variables (CAR, Inflation, DR, GDP and Lending Ratio) on profitability of financial company?

1.3 Objectives of the study

The purpose of this study aims to investigate how financial company-specific and macroeconomic factors influence the profitability of financial companies in Nepal. It focuses on variables such as default risk, cost per loan assets, capital adequacy ratio, and the annual growth rates of gross domestic product, as well as exchange rates inflation.

1. To examine the existing position of profitability of financial company.
2. To analyze the relationship between macroeconomic variables and profitability of financial company.
3. To evaluate impact of macroeconomic variables (CAR, Inflation, DR, GDP and Lending Ratio) profitability of financial company.

1.4 Rationale of the Study

As this study explores both internal and external factors influencing financial company profitability, offering valuable insights applicable to diverse organizations. However, its findings hold particular significance for shaping financial company policies in Nepal. The study offers valuable information for policymakers, researchers, organizational stakeholders, and financial institutions alike, and regulatory bodies.

- This research helps financial company to reassess their strategies to cope in terms of external factors.
- Individuals who have keen interest in Nepalese economy and banking sector are also benefited.

- This study helps researchers to fulfill the academic requirements.
- This study is important to the entire stakeholder that includes customers, employees, competitors, shareholders, society, government, and the regulators to know the condition of financial company.

1.5Limitationofthestudy

The study is limited to the following factors:

- Out of 17 financial companies, only five financial companies (Gorkhas Finance, Goodwill Finance, ICFC Finance, Nepal Finance, and Reliance Finance) are taken for the study.
- This study is based on secondary data taken from the annual financial reports of the sample financial companies.
- The study covers the data of 10 years from 2013/14 to 2022/23.
- This study only focuses on macroeconomic variables and others are ignored.
- Only limited financial and statistical tools are used for analysis.

CHAPTER-II
LITERATUREREVIEW

Review of literature a crucial component of every study, the literature review serves to uncover existing research findings relevant to our area of inquiry. This chapter primarily explores the background and conducts a thorough review of recent literature related to the impact of Macroeconomic Variables on the Profitability of Nepalese Commercial Banks. During the preparation of this thesis, extensive review of books, journals, articles, and related studies was undertaken. Additionally, various indirectly related topics were also reviewed within the Nepalese and international contexts to ensure a comprehensive and effective presentation scenario.

2.1Conceptual ofReview

Microeconomics explores how individual consumers and firms make resource allocation decisions. It examines how individuals, households, and businesses respond to price changes and investigates their demand for specific goods at particular price levels. This field also delves into the valuation of goods, financial decision-making processes, and the mechanisms of trading, coordination, and cooperation. Additionally, microeconomics analyzes supply and demand dynamics, production costs, labor allocation, and how businesses structure themselves and how individuals manage uncertainty and risk in their decision-making processes (Kamande, 2016).

Macroeconomics, on the other hand, studies the behavior and performance of entire economies. It focuses on recurring economic cycles, overall economic growth and development, and factors such as foreign trade, government fiscal and monetary policies, unemployment rates, inflation, interest rates, total production output growth, and business cycles, including expansions, booms, recessions, and depressions. Economists use macroeconomic models and aggregate indicators such as gross domestic product (GDP), employment rates, phases of the business cycle, inflation rates, money supply, government debt levels, and the short- and long-term impacts of these indicators to formulate economic policies and strategies.

Monetary policy involves the tools used by a nation's central bank to regulate the money supply and promote economic growth. These tools include adjusting interest

rates and modifying bank reserve requirements. In Nepal, the Nepal Rastra Bank is responsible for formulating monetary policy and providing guidelines for banks to conduct their operations (Kamande, 2016).

During economic cycles, banks act as intermediaries for the real sector, exposing them to conditions that significantly affect the overall economy. In periods of stagnation or recession, economic downturns increase the riskiness of banking activities. Banks face challenges such as adverse selection and moral hazard behaviors among borrowers due to information asymmetries. These asymmetries and associated agency costs tend to be heightened during economic downturns. Additionally, bank profits typically suffer from low interest rates during recessions, which compress interest margins, and reduced fee revenues from declining stock markets and fewer merger and acquisition deals. Overall, bank risk tends to correlate negatively with the business cycle, increasing during economic slowdowns.

Research on the determinants of banking profitability in Nepal has examined both bank-specific factors and macroeconomic variables over the period from 2004 to 2013. Studies, such as those by Gwachha (2019), have utilized metrics like Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM) to gauge bank profitability. Bank-specific factors include total assets, equity capital ratios, loan-to-asset ratios, deposit-to-asset ratios, and liquid asset-to-asset ratios. Macroeconomic factors such as GDP, the consumer price index, real interest rates, and stock market capitalization have also been studied. Gwachha's findings indicate significant positive effects of asset size and deposit ratios on bank profitability, while loan portfolios show a negative impact. Additionally, real interest rates and stock market capitalization were found to positively influence bank performance (Gwachha, 2019).

2.2.1 Laws of Macro Economy

a) Law No. 1

Private investment is significantly influenced by monetary policy, while fiscal and taxation policies impact government investment. For economic growth, investment is prioritized, distinguishing between government and private investment, each governed by distinct policy measures. Private investment, primarily funded through loans from

financial institutions, expands in favorable financial conditions and contracts when conditions tighten. Conversely, government investment depends mainly on fiscal and taxation policies, although it can also utilize debt financing. The growth of fiscal revenues and tax collections is the primary determinant of the government's investment capacity (Ramirez, Loyola University Chicago, School of Law, 2020).

b) Law No. 2

Infrastructure and real estate development are crucial for a country's economic advancement, directly influencing industrial and consumption growth. According to industrial repression theory in economics, the progress of various industries can impede one another. Infrastructure development, including highways, railways, power grids, and high-speed rail networks, is foundational for industrial progress, acting as a catalyst for growth by expanding markets wherever it is established. The efficiency of infrastructure reflects the efficiency of a market economy, making it essential for industrial development.

Conversely, real estate development significantly drives consumption growth, serving as a conduit for consumption activities. Enhanced real estate development correlates with higher consumption levels and quality. Therefore, macroeconomic development focuses on optimizing both real estate and infrastructure projects to promote industrial and consumption growth. These initiatives are jointly undertaken by government and private sectors, requiring equal attention and investment (Ramirez, Loyola University Chicago, School of Law, 2020).

c) Law No. 3

Macroeconomics determines the survival of an enterprise, while microeconomics influences its scale. Entrepreneurs must consider both the macroeconomic environment and microeconomic factors when conducting business. They must be mindful of overarching trends as well as immediate operational details. Businesses tend to follow economic cycles, experiencing periods of growth and decline. Macroeconomic factors dictate economic events and opportunities, affecting industry dynamics and ultimately determining whether an enterprise can expand. Entrepreneurial success often aligns with broader economic trends, where standing in

favorable macroeconomic conditions, combined with personal talent and effort, facilitates success. Conversely, adverse macroeconomic conditions can lead to failure.

Enterprise development should align with economic trends rather than oppose them. Business failures are often attributed not to management issues but to macroeconomic cycles. Entrepreneurs face long-term macroeconomic cycles and government economic policies. Failing to anticipate these macroeconomic shifts can result in business failure. Microeconomics, on the other hand, affects the quality of business operations and the potential size of the enterprise. Regardless of a company's greatness, its success or failure is tied to macroeconomic conditions. Entrepreneurs must understand macroeconomics and stay attuned to its developments to succeed (Steven A. Ramirez, Loyola University Chicago, School of Law, 2020).

d) Law No. 4

Competition is a fundamental aspect of market economies, ensuring that only the fittest survive at the microeconomic level. However, during macroeconomic crises, even the strongest companies can face financial strain. Financial constraints tighten significantly during such periods, disproportionately affecting highly leveraged top-performing companies. These companies, known for their strong credit profiles, often carry higher debt leverage ratios. Ironically, in economic downturns, larger enterprises are often the first to encounter difficulties. As a result, many exceptional companies can be eliminated during economic crises, despite their critical roles in driving production capacity and technological innovation for a country.

Issues within these companies can severely impact a nation's economic vitality, leading to prolonged recovery periods. Therefore, maintaining macroeconomic stability is crucial. It is essential not to view macroeconomic crises as opportunities to weed out less competitive firms. From a contemporary perspective, the cyclical expansion and contraction of currency represent significant macroeconomic risks. Each cycle tends to eliminate numerous outstanding companies. Experts advocate for consistent fiscal policies to promote economic growth without destabilizing fluctuations. Governments should focus on managing their own investments across economic cycles rather than imposing controls on private investment. This approach aims to smooth economic cycles without compromising private sector productivity (Ramirez, Loyola University Chicago, School of Law, 2020).

e) Law No. 5

Economic experts have developed a theory of inflation that distinguishes between endogenous and exogenous types. Endogenous inflation arises from economic growth and is unrelated to monetary factors. It is primarily driven by increased labor costs due to enhanced productivity and correlates directly with economic growth, typically at about half the rate of growth itself. On the other hand, exogenous inflation results from shortages in production factors or an excessive supply of currency, with the latter commonly referred to as exogenous inflation.

Endogenous inflation is considered a natural outcome of economic growth and generally requires minimal intervention. Only in cases where economic growth accelerates too rapidly, leading to pronounced inflationary pressures, might economic slowdowns be employed to alleviate inflation. In contrast, exogenous inflation necessitates intervention. If it results from excessive currency supply, monetary measures are needed to reduce money circulation. If it stems from production factor shortages, industrial policies should be employed to bolster supply.

f) Law No. 6

To effectively manage the macroeconomy, understanding monetary operations requires a different approach compared to fiscal policy. The dynamics of currency operations differ significantly from those of fiscal policies. Most currency in circulation is not issued but rather utilized. Base currency is issued and used, while derivative currency, primarily used for corporate investments, circulates more freely with reduced fiscal involvement.

Government investment not only avoids crowding out private investment but can also stimulate it by providing distribution funds through loans. These funds can subsequently support private sector investments. The quantity theory of money, originally applicable in pre-banking eras, has had limited success since the emergence of banking, though there are exceptions. Failing to recognize the distinction between currency operations and fiscal policies indicates a misunderstanding of

macroeconomics. Effective macroeconomic governance depends on understanding these operational differences.

g) Law No. 7

Insufficient demand, productivity deficits, and inadequate taxation can each precipitate distinct types of macroeconomic crises. Experts classify these crises into three main categories: overproduction crises prevalent in the 19th century, financial bubble crises dominant in the 20th century, and government debt-related crises increasingly observed in the 21st century. Each crisis type has unique triggers necessitating tailored governance strategies.

During the 19th century, characterized by fewer industries, new technologies occasionally led to volatile fluctuations in production capacity within specific sectors, contributing to periods of economic prosperity or crisis due to overproduction. In the 20th century, with increased industrial diversity, crises shifted towards financial bubbles that propagated across sectors through capital markets, exemplified by events like the bursting of the Internet bubble. Consequently, the economic crises of the 20th century primarily manifested as financial in nature.

In the 21st century, characterized by even greater industrial diversity and complex economies, there is a heightened demand for government services, resulting in increased government expenditures as a share of national economies. Failure to adjust fiscal and taxation structures in a timely manner to accommodate these expanding expenditures can lead to government debt crises in various countries. Therefore, government debt-related economic crises have become recurring challenges in the 21st century.

Keynesian economics attributes economic crises to insufficient demand, offering solutions suited for managing overproduction crises. In contrast, Friedman's monetary school attributes crises to insufficient currency, which is more relevant for addressing

financial bubble crises. Modern economics introduces the concept of government debt-related economic crises, linking fiscal inadequacies to debt crises and advocating for new fiscal and taxation strategies to effectively manage these crises (Ramirez, Loyola University Chicago, School of Law, 2020).

h) Law No. 8

In the theory of balanced economics, market products are classified based on their supply difficulty into those that are readily available and those that are scarce. Products with high supply difficulty are typically scarce in the market, while those with low supply difficulty often face oversupply issues during economic crises.

During an economic crisis, reducing production capacity is unnecessary because economic cycles are typically short-lived, and any capacity reductions would need to be reinstated within a year or two. Both active and passive reductions in overcapacity lead to significant waste of social resources, particularly in developing countries that have not yet achieved full development and lack genuine excess capacity.

To effectively navigate an economic crisis, it is sufficient to increase the supply of products with high supply difficulty. These include large-scale transportation infrastructure, energy facilities, water conservancy projects, military installations, environmental protection facilities, and extensive scientific and technological research and development initiatives. By boosting the supply of these challenging-to-produce products, economic equilibrium can naturally be restored. Additionally, strategies can be implemented to enhance the supply of other complex products to stimulate economic growth (Ramirez, Loyola University Chicago, School of Law, 2020).

i) Law No. 9

The growth of economic volume depends on addition, and the growth of economic quality depends on multiplication

There are two pathways to economic growth: additive growth and multiplicative growth. Traditional economic growth, driven by investment, consumption, and exports, exemplifies additive growth where each component contributes

independently to economic expansion. However, true economic progress should aim for multiplicative growth, which hinges on enhancing overall economic efficiency.

Experts advocate a "new troika" approach to stimulate economic growth, emphasizing the enhancement of production efficiency, transaction efficiency, and the availability of goods. The synergy among these factors acts as a multiplier effect, where improvements in one area amplify the benefits in others.

The combination of production efficiency and transaction efficiency can collectively be termed supply efficiency. When an economy diversifies its product offerings and continuously enhances the efficiency of production and transactions, it paves the way for sustained development. Genuine multiplicative growth occurs only when economic management prioritizes efficiency enhancements across these domains.

Therefore, effective economic management should concentrate on optimizing economic efficiency. As efficiency improves, the economy not only grows but also achieves sustainable and inclusive development naturally grow.

j) Law No. 10

The introduction of new products typically leads to increased living costs for individuals, while enhancements in production efficiency have the potential to raise people's incomes. Economists studying survival economics argue that the happiness index is influenced by the balance between income levels and the cost of living. Higher incomes generally correlate with higher levels of happiness, whereas rising living costs tend to lower this index.

Economic development often stimulates the introduction of new products, which can drive up living expenses as these products become essential expenditures. This financial burden can contribute to decreased happiness among individuals. Conversely, improvements in labor productivity can lead to higher incomes. National income growth is closely associated with enhanced labor productivity, as increased productivity levels can elevate individual incomes and contribute to greater overall happiness within the population (Ramirez, Loyola University Chicago, School of Law, 2020).

2.1.2Variables of macroeconomy

a) Unemployment Rate

The unemployment rate reflects the percentage of individuals in the workforce who are currently without jobs. During periods of economic expansion, unemployment rates typically decrease. As GDP levels increase, indicating higher productivity, there is usually a greater demand for labor to support the increased output.

The addition of new workers earning income results in higher consumer spending. This increased spending may encompass vacations, home purchases, and upgrades to personal belongings, thereby stimulating demand across various sectors of the economy. Consequently, businesses in these sectors may find it necessary to hire more staff, further contributing to the decline in the unemployment rate.

Conversely, a decrease in economic output (a GDP decline) often signals reduced demand for labor, which can impact incomes and ultimately influence consumer spending levels.

b) InterestRate

Fluctuations in market interest rates pose a significant interest rate risk for banks. While rising market interest rates typically increase returns for banks on newly issued or variable interest loans, they also heighten the risk of credit problems. According to theories of asymmetric information, higher interest rates exacerbate issues of adverse selection. This phenomenon occurs when borrowers more likely to face unfavorable project outcomes, termed "bad risks," are more inclined to seek loans.

Higher interest rates deter safer project borrowers, leading to a shift in the applicant pool towards riskier borrowers. Moreover, increased interest rates change the incentives for borrowers after receiving loans, encouraging them to pursue riskier projects (known as moral hazard among borrowers). Therefore, in an environment marked by unequal access to information, an interest rate hike generally escalates credit risk for banks' balance sheets, assuming all other factors remain constant.

c) GDP Growth Rate

GDP growth rate is a crucial macroeconomic factor influencing Non-Performing Loans (NPLs). Umar and Sun (2018) demonstrated an inverse relationship between

GDP growth rate and NPLs, indicating that higher economic growth tends to reduce the NPL ratio in the country. This finding is similarly supported by Buncic and Melecky (2013), who also observed that NPLs decrease as GDP growth increases and increase during economic downturns or recessions (Fernández de Lis and Saurina 2000) this relationship suggests prior studies.

d) Inflation

An elevated inflation rate diminishes the real returns on bank assets, prompting credit rationing. Consequently, countries facing high inflation often experience reduced financial intermediation (Boyd, Levine, and Smith, 2010). Furthermore, while higher inflation rates may reduce the volume of bank assets and credit risks, they can adversely impact the profitability of existing borrowers, thereby eroding the quality of previously issued loans. If credit rationing is pronounced, higher inflation rates may compel banks to adopt a more cautious approach to risk management on their balance sheets.

Conversely, not only high inflation but also disinflation can pose risks to the financial sector and increase bank vulnerability. A rapid decrease in inflation rates in an environment previously marked by high inflation can lead to elevated real interest rates. This situation constrains economic activity and heightens credit risk due to diminished borrower profitability and increased risk incentives akin to those observed during periods of rising nominal interest rates (Mishkin, 2008).

e) Money Supply

The money supply refers to the aggregate of liquid instruments, including cash and deposits, circulating within an economy at any given moment. As economic activity expands, there is typically an increased need for money to facilitate transactions and investments.

In response to economic growth and rising interest rates, a central bank may choose to increase the money supply. This measure aims to meet the growing demand for money and mitigate the effects of higher interest rates. Moreover, expanding the money supply can act as a stimulus for economic expansion.

An increase in the money supply often leads to higher consumer spending, driven by lower interest rates, which in turn encourages businesses to ramp up production. This rise in production can enhance profitability and create greater demand for labor.

f) Government Debt Levels

When a nation's government accumulates substantial debt, there is a potential risk that its citizens' quality of life may diminish. This is because tax revenue often must be diverted to repay the debt rather than funding crucial government services. Additionally, increased government borrowing can drive up interest rates overall, raising the cost of consumption for both individuals and businesses. In less stable countries, high levels of debt can heighten risk, escalating the costs and uncertainties associated with conducting business within the nation.

g) Monetary Policy

Monetary policy is comprises a toolkit employed by a nation's central bank to manage the total money supply, foster economic growth, and implement measures such as adjusting interest rates and modifying bank reserve requirements. In Nepal, the Nepal Rastra Bank formulates and implements monetary policies, guiding banks to conduct their operations within established frameworks and guidelines their operation.

h) Related Theories

Banks play a pivotal role as intermediaries in the real economy, making them vulnerable to the cyclical fluctuations that significantly impact overall economic health. During periods of economic stagnation or recession, banks face heightened operational risks. They are more exposed to adverse selection and moral hazard behaviors from borrowers, which stem from information disparities and are particularly pronounced during economic downturns.

Furthermore, economic slowdowns generally diminish bank profitability. Lower interest rates prevalent in recessions often compress banks' interest margins. Additionally, fee revenues tend to decrease as stock markets contract and activities such as mergers and acquisitions decline. As a result, bank risk typically correlates negatively with the phases of the business cycle, increasing during economic slowdowns.

2.1.3 Financial Company Specific Factors

a) Size of Financial Company

Size is recognized as a significant factor influencing non-performing loans (NPLs) (Lu et al., 2005). Existing literature presents divergent findings regarding the correlation between bank size and NPLs. Stern and Feldman (2004) contend that larger financial institutions, because of their more relaxed credit policies, are prone to higher NPL rates compared to smaller entities. In contrast, other studies (Ozili, 2019) suggest that larger banks possess superior managerial capabilities to recover loans from borrowers, leading to a negative relationship between bank size and NPLs. Based on prior research, the expected trend in this relationship is as follows.

b) Profitability of Financial Company

Based on prior research, financial institutions typically aim to maximize profits as their primary objective. Research indicates that more profitable banks tend to engage less in high-risk activities, which often results in lower levels of non-performing loans (NPLs) (Gurbuz et al., 2013). Conversely, Bonin and Huang (2002) argue that credit policies may not solely depend on financial performance but also on management reputation and pressures to adopt more lenient credit standards, potentially leading to a positive correlation between profitability and NPLs. Similarly, Messai and Jouini (2013) provide evidence supporting a negative relationship between the profitability of financial institutions and NPLs. Based on these findings, we anticipate the following relationship.

c) Net Interest Margin

Net interest margin based on the literature, the relationship between net interest margin and non-performing loans (NPLs) is a crucial bank-specific factor. Recent research (Bonin et al., 2005) indicates a significant positive correlation between net interest margin and NPLs. Furthermore, other studies (Ozili, 2019; Adusei, 2018) suggest that higher net interest margins can increase NPLs due to the added interest burden, as banks adjust their margins to mitigate default risks (Cavallo and Majnoni, 2002) is expected.

d) Return on Assets (ROA)

ROA is an essential gauge of enterprise profitability, return on assets (ROA) is a widely employed metric for assessing financial performance. It calculates the firm's profit in relation to its total assets, revealing the efficiency with which resources are utilized to generate income. ROA essentially measures management's effectiveness in leveraging organizational assets to generate revenue. Consequently, ROA serves as a reliable benchmark for evaluating a bank's asset profitability against that of its peers the banking industry.

f) Return on Equety (ROE)

ROE isReturn on Equety (ROE) is a key measure of enterprise profitability and a commonly used metric for assessing financial performance. It measures the firm's profit relative to its total assets, indicating how effectively the firm utilizes its resources to generate income. ROE reflects the efficiency of management in income generation through the organization's assets. Therefore, ROE is widely regarded as a valuable indicator for evaluating the profitability of a bank's assets relative to its peers the banking industry.

2.1.4 Macro-Economic Factors

a) Interest Rate

Changes in market interest rates pose significant market risk for financial institutions. While higher market interest rates can potentially increase returns on newly issued or variable interest loans, they also elevate the risk of credit defaults. According to theories of asymmetric information, higher interest rates can exacerbate adverse selection issues in credit markets. This means that lenders may prefer borrowers with higher risks of project failure, known as "bad risks," over safer borrowers, thereby skewing the risk composition of loan applicants.

Moreover, increasing interest rates can alter the post-lending incentives for borrowers, potentially motivating them to pursue riskier projects (referred to as borrowers' moral hazard). Consequently, in environments marked by information asymmetry, higher interest rates generally lead to heightened credit risk on banks’ balance sheets, all else being equal.

2.2 Empirical Review

Studies conducted in various countries have examined the impact of both bank-specific variables and macroeconomic indicators on profitability. These studies typically consider internal factors (such as financial metrics specific to the bank) and external factors (such as the broader financial industry and economic environment).

Mahmoud (2023) investigated the influence of macroeconomic variables on the performance of Islamic banks, focusing on metrics such as return on assets (ROA) and return on equity (ROE). Using multiple linear regression analysis on data from Jordanian Islamic banks over the period 2007-2021, the study found that most macroeconomic indicators, including economic growth and public debt growth, positively impacted performance, while foreign direct investment had a negative impact due to its reliance on external financial resources. The study suggests that expansionary fiscal or monetary policies can enhance performance.

Lyimo (2022) examined the impact of macroeconomic variables on the performance of commercial banks in Tanzania, specifically focusing on ROA. The research indicated that economic growth significantly affects bank performance, whereas exchange rates, interest rates, and money supply showed no significant relationship with performance. The study recommends further investigation into the challenges faced by commercial banks to improve operational efficiency and monitoring.

Isayas (2021) explored the determinants of bank profitability in Ethiopia, considering both firm-specific and macroeconomic factors. Using the generalized method of moments (GMM) estimation on dynamic panel data from 14 Ethiopian banks spanning 2008 to 2019, the study identified factors such as firm size, liquidity ratio, asset tangibility, capital adequacy, leverage, and real GDP growth rate as having a positive impact on profitability. Conversely, firm age and inflation rate had a negative but statistically insignificant effect. The study suggests future research should include additional variables and encompass all financial institutions.

Keo (2020) studied the impact of bank-specific and macroeconomic determinants on the financial performance of commercial banks in Thailand and Vietnam. The

research focused on profitability factors, including non-performing loan ratio, bank capital ratio, total loan-to-asset ratio, and GDP growth rate. The findings underscored significant impacts on financial performance measures like ROA and ROE, highlighting the importance of tailored strategies based on specific bank and macroeconomic conditions.

Gwachha (2019) analyzed the determinants of banking profitability in Nepal over the period 2004-2013, using metrics such as ROA, ROE, and net interest margin (NIM). The study examined factors like asset size, equity capital ratio, loan portfolio composition, deposit ratio, liquid asset ratio, and macroeconomic variables such as GDP growth, consumer price index, real interest rate, and stock market capitalization. The findings indicated significant positive effects of asset size and deposit ratio on profitability, while loan portfolio composition had a negative impact. Real interest rates and stock market capitalization positively influenced bank performance.

Al-Homaidi et al. (2018) investigated the bank-specific and macroeconomic determinants of profitability in Indian commercial banks using panel data analysis. The study utilized ROA, ROE, and NIM as profitability proxies and considered factors such as bank size, asset quality, capital adequacy, liquidity, efficiency metrics, deposits, leverage, asset management, and branch network, alongside macroeconomic variables like GDP growth, inflation rate, interest rate, and exchange rate. The findings indicated significant impacts of most bank-specific factors on profitability, while macroeconomic variables generally had a negative influence, except for a few cases like real interest rate and stock market capitalization.

Teshome (2018) examined the macroeconomic determinants of financial performance in private commercial banks in Ethiopia, focusing on factors such as capital adequacy ratio, non-performing loans, bank size, leverage ratio, and operational efficiency. Using panel data analysis for eight Ethiopian banks from 2007 to 2016, the study revealed that capital adequacy ratio, credit interest income, and bank size positively influenced financial performance, whereas non-performing loans, loan loss provisions, leverage ratio, and operational costs had negative effects. The study recommended measures to enhance profitability through effective risk management and operational efficiency.

Kamande (2016) explored the effect of bank-specific factors on the financial performance of commercial banks in Kenya from 2011 to 2015. Using panel data analysis, the study assessed the impact of capital adequacy, asset quality, management efficiency, earnings ability, and liquidity on ROA. The findings highlighted the significant role of asset quality in determining bank profitability, emphasizing the need for effective management practices to maintain financial stability and performance.

Simiyu (2015) investigated the effect of macroeconomic variables on the profitability of commercial banks listed on the Nairobi Securities Exchange from 2001 to 2012. Employing fixed effects panel data analysis, the study examined the effects of GDP growth, exchange rates, and interest rates on profitability, measured by ROA. The findings suggested that real GDP growth had a positive but insignificant impact on profitability, while real interest rates negatively influenced profitability. Exchange rates were found to positively affect profitability among listed commercial banks in Kenya.

Table1

Summary of Literature

Authore/ Year	**Topic**	**Objectives**	**Method**	**Findings**
Mahmoud (2023)	The Impact of Macroeconomic Variables on the Performance of Islamic Banks	the impact of macroeconomic variables (economic growth, public debt growth, inflation, foreign direct investment, and balance of payments) on the performance of	Multiple linear regression analyses	The findings demonstrated a positive correlation between macroeconomic factors and performance, except for foreign direct investments, which have a negative effect on performance because they require the use of external

		Islamic banks		financial resources
Lyimo and Hussein (2022)	Impact of Macroeconomic Variable son Performance of Banks: A case of Commercial Banks in Tanzania	To examine the impact of macroeconomic variables on performance of banks	Explanatory with Quantitative Approach With ROA, ROE, Co-relation Analysis	Economic growth has significant relationship with commercial banks performance. exchange rate has insignificant relationship with commercial banks performance money supply has insignificant relationship with commercial banks performance
Isayas (2021)	Determinants of banks' profitability: Empirical evidence from banks in Ethiopia	To investigate the key firmspecific and macroeconomic determinants of profitability of commercial banks in Ethiopia.	ROA, Size, GDP, Capital Adequacy, Liquidity Ratio Regression Analysis	Firm size, liquidity ratio, asset tangibility, capital adequacy, leverage and real GDP growth rate have a positive and statistically significant effect on the profitability of banks, while firm age and the inflation rate have a negative but statistically insignificant effect on the profitability of banks in Ethiopia.
Keo	Impact of	To understand	Explanatory	Inflation show a

(2020)	Bank-Specific and Macroeconomic determinants of Financial Performance in Commercial Bank- Case Study iin Thailand and Vietnam	criteria affecting the profitability of commercial banks which are bank-specific and macroeconomic determinants	with Quantitative Approach GDP, Inflation, Political Stability, Concentration Ratios, ROA, ROE, bank Size. Regression	significant relationship with return on asset, return on equity, and LNZ-SCORE
Al-Homaidi, Tabash, Farhan and Almaqtari (2018)	Bank specific and macroeconomic determinants of banking profitability in Nepal	To analyze the impact of bank specific and Macroeconomic determinants on Bank Profitability	Explanatory with Quantitative Approach With Regression Analysis	GDP and INTR rate show significant evidence at the level of 1% (p value < 0.01). They are both associated negatively with ROA.
Teshome, Debela and Sultan (2018)	Determinant of financial performance of commercial banks in Ethiopia: Special emphasis on private commercial banks	To analyze the financial performance of the bank	Explanatory with Quantitative Approach, Co-relation and Multiple Linear Regression	when Loan Loss Provision ratio (LLP) increased by one percent, Return on Asset (ROA) of sampled private commercial banks would decrease by 2%.an increase in NPLs by one percent, decreased Return on Asset (ROA) by 0.8033%.banks size has positive,

				relationship with profitability which is statistically significant at 1% significance level.
Yesmine and Bhuiyah (2015)	Determinants of banks' financial performance: A comparative study between nationalized and local private commercial banks of Bangladesh	To determinants of the performance of national and local private commercial banks of Bangladesh	Explanatory with Quantitative Approach Ratio Analysis and Regression Model	Assets utilization and operating efficiency has significant positive impact on the financial performance of bank
Capraru and Ihnatov (2014)	Banks' profitability in selected Central and Eastern European countries	To assess the main determinants of banks' profitability	Explanatory with Quantitative Approach Regression Model and Pearson Corelation	Credit risk has a negative, statistically significant impact on ROE and ROA, but not on NIM. The impact on ROE is much stronger (-0.792) than on ROA (-0.0754).
Teshome, Debela and Sultan (2018)	Determinant of financial performance of commercial banks in Ethiopia: Special	To analyze the financial performance of the bank	Explanatory with Quantitative Approach, Co-relation and Multiple	When Loan Loss Provision ratio (LLP) increased by one percent, Return on Asset (ROA) of sampled private commercial banks

	emphasis on private commercial banks		Linear Regression	would decrease by 2%.an increase in NPLs by one percent, decreased Return on Asset (ROA) by 0.8033%.banks size has positive, relationship with profitability which is statistically significant at 1% significance level.
Ongore and Kusa (2013)	Determinants of Financial Performance of Commercial Banks in Kenya.	To analize the effect of bank specific factors and macroeconomic variables on the financial performance of commercial banks	Explanatory based on secondary data, Multiple Regression Model and Least Square	Bank specific factors affect the performances of commercial banks with a minimum of 95% confidence level, correlation coefficient of capital adequacy with ROA, ROE and NIM was 0.04, -0.03 and 0.06 with 95%, 99% and 99% confidence level
Al Karim and Alam (2013)	An evaluation of financial performance of private commercial banks in Bangladesh: Ratio analysis.	To measure the performance of selected private sector banks	Quantitative Approach, Ratio Analysis and Regression Model	90% of the variation in the dependent variable is explained by independent variable.

2.3 Research Gap

In recent years, there have been reforms aimed at enhancing the performance of financial companies and mitigating the adverse effects of lending in the Nepalese financial sector. Policy makers have also prioritized consolidating financial institutions to bolster capital requirements and reduce competition. Despite these measures to mitigate credit risk in Nepal's financial sector, there continues to be a rising trend in loan defaults and nonperforming loans among financial companies. Therefore, there is a pressing need for studies that examine the impact of both financial-specific and macroeconomic variables on bank performance in the Nepalese context.

Based on a review of existing literature, a conceptual framework for this study has been developed to explore the relationship between the dependent variable (return on assets) and several independent variables: bank-specific factors such as default risk, cost per loan assets, and capital adequacy ratio, as well as macroeconomic indicators including annual GDP growth, exchange rates, and inflation.

This research will analyze data spanning ten years, from 2013/14 to 2022/23, focusing on sampled banks using a purposive sampling method based on the most recent available data. Additionally, the study will differentiate itself by considering the banking size aspect, which has received less attention in existing literature.

CHAPTER-III
RESEARCH METHODOLOGY

The research methodology research methodology constitutes the structured approach to resolving research issues. It encompasses elements such as research design, definition of the study population and sample, procedures for data collection, characteristics of data sources, and the financial and statistical tools and techniques employed for analysis. In this particular study, data are analyzed utilizing suitable financial and statistical methods, and the findings are subsequently presented in a simple way.

3.1 Research Design

The research design entails defining the research problem and organizing conditions for collecting and analyzing data in a manner that balances relevance to the research objectives with efficiency in execution. It serves as the conceptual framework guiding the research process. The primary aim of this study is to examine and evaluate the financial performance of financial companies. To achieve this objective, both descriptive and causal-comparative research designs have been adopted.

The study focuses on exploring the relationships among variables influencing financial decisions within the sampled financial companies. Research design encompasses the plan, structure, and strategic approach to investigation designed to answer research questions and manage variability. It specifies the methods and procedures for gathering necessary information, providing the operational framework that outlines what information will be collected from which sources and how.

3.2 Population and Sample

In order to achieve the objective of this study 17 financial company will be considered as population and 5 financial companies are taken as sample of this study. The financial companies were choosing based on the capital and estabilishment. Purposive Sampling Method was selected to understand the impact on various factors on the performance of the financial company. Data from 2013/14 to 2022/23was taken. The selected sample financial companys for the analysis are:

Table 2

List of sample Financia Company

No.	Company Name	Paid-Up Capital	Establishment
1	Gurkhas Finance	0.87 Arab	2051 B.S
2	Goodwill Finance	0.95 Arab	2051 B.S
3	Nepal Finance	0.73 Arab	2049 B.S
4	ICFC Finance	1.18 Arab	2061 B.S
5	Reliance Finance	1.12 Arab	2066 B.S

Source: *Profiles for class C financial institutions, NRB, 2024*

3.3 Source of data

This research study is based on the secondary data. The required data for the study was collected through library research study, Internet, homepage, related links, Directives of NRB 2079, Monetary Policy, Annual report of related banks, Published articles and journals from various researchers and lecturers.

3.4 Data Collection Procedures

It shows the sources of data and how they are collected. Most of the data necessary for the research is collected from the secondary sources. Data related company's performance will be taken from the financial statements of financial company and their annual as wel as quarterly reports. The collection procedure is summarized below:

- Financial documents provided by the related financial company on their website.
- Trading Report published by Nepal Stock Exchange Limited.
- Related websites of financial banks.
- Materials published in papers and magazines.
- Other related books and booklets.

3.5 Descriptive Statistics

Descriptive analyze for this the researcher selects the representative sampling of the people. Descriptive statistics encompass specific measures, including measures of central tendency (such as the mean) and measures of dispersion (such as standard

deviation, minimum, and maximum values), which are employed to effectively summarize data points. These summaries aim to reveal patterns within the data that meet all conditions required for the research. According to Trochim, descriptive measures provide a concise representation of a dataset, whether it represents a sample or the entire population under study. In descriptive research, the primary goal is to identify and describe events. For instance, in descriptive research, the central question often revolves around understanding the current or historical state of events.

3.5 Data Analysis Tools

For the accomplishment of the envisaged objectives of this research study, various financial and statistical tools will be employed in the course of the analysis of data.

3.5.1 Financial Tools

Various financial tools such as ROE, Capital Adequacy ratio,

a) Return on Equity

It measures a company's success in earning a return for the common stockholders. Higher ROE indicates better utilization of capital fund. The Return on Equity ROE is derived by dividing net profit after tax by total equities. Mathematically,

$$\text{ROE} = \frac{\text{Net Profit after Tax (NPAT)}}{\text{Total Equities (TE)}} * 100\%$$

b) Net Interest Margin (NIM)

Net interest margin (NIM) is a measurement comparing the net interest income a financial firm generates from credit products like loans and mortgages, with the outgoing interest it pays holders of savings accounts and certificates of deposit (CDs).

$$\text{NIM} = \frac{\text{IR} - \text{IE}}{\text{Average Earning}}$$

c) Default Risk

Default risk is the risk that a lender takes on in the chance that a borrower will be unable to make the required payments on their debt obligation.

$$\text{Default Risk} = \frac{\text{Total Non Performing Loan (TNPL)}}{\text{Total Loan (TL)}} * 100\%$$

d) Capital Adequacy Ratio

The capital adequacy ratio is one of the most significant ratios, used specially to assess the bank's strength of the capital structure of the adequacy of the capital. The adequacy ratio is the primary tool to analyze the capital fund of a bank. It is based on total risk-weighted assets of the bank. Capital adequacy ratios are a measure of the amount of a capital fund ratio according to increase in deposit.

To determine the adequacy of total capital fund:

$$\text{Capital Adequacy Ratio} = \frac{\text{Total Capital Fund}}{\text{Total Risk Weighted Asscets}} * 100\%$$

e) Operating Expenses to total Loan

It is the ratio of total operating expenses to total loan. It analyzes the cost of total loan.

$$\text{Operating Expenses to Total Loan} = \frac{\text{Operating Expenses}}{\text{Total Loan and Advances}}$$

3.5.2 Statistical Tools

Many statistical tools are often employed in the analysis and interpretation of data as an aid to management and managerial decision. For this research standard deviation, correlation coefficient is analyzed.

Statistical methods involved in carrying out a study include planning, designing, collecting data, analyzing, drawing meaningful interpretation and reporting of the research findings.

a) Mean

Anmean is a single value that represents a group of values. It depicts the characteristics of the whole group. It is a representative of the entire mass of homogenous data, its value lies somewhere in between the two extremes, i.e. the largest and the smallest items. It is obtained by dividing the sum of the quantities by the number of items.

$$\text{Mean} = \frac{\text{Sum of the terms}}{\text{N}}$$

b) Standard Deviation

Standard deviation is the measure of dispersion, that is used to quantify the amount of variation or dispersion of a set of data values. It can be defined as the positive square root of variance. A useful property of the standard deviation is that, unlike the variance, it is expressed in the same units as the data. If the data points are further from the mean, there is higher deviation within the data set. Thus, the more spread out the data, the higher the standard deviation.

$$\text{Standard Deviation} = \sqrt{\frac{\sum(x_2 - \mu)^2}{\text{N}}}$$

x= Data point Value

μ = population mean

N= Population Size

c) Variance

Variance is a measurement of the spread between numbers in a data set. The variance measures how far each number in the set is from the mean. Variance is calculated by taking the difference between each number in the set and the mean squaring the differences and dividing the sum of the squares by the number of values in the set Variance is a statistical measure of how much a set of observation differ from each other. It is used in statistics for probability distribution since variance measures the variability from an average or mean.

$$\text{CV} = \frac{S.D}{Mean}\ x\ 100$$

d) Co-relation Coefficient

Correlation is a statistical tool used to measure how strong a relation is between two variables. Correlations re useful because they can indicate a predictive relationship that can be exploited in practice. Degree and type of relationship between any two or more variables vary together over a period. Correlation value falls between -1 to +1. Values lose to+1 indicates a high – degree of positive correlation, and values close to

-1 indicate a high – degree of negative correlation. In this study, correlation is calculated for the respond provided in Likert scale to find the degree of relation between independent and dependent variables for all sample

$$r = \frac{n(\sum xy) - (\sum x)(\sum y)}{\sqrt{[n\sum x^2 - (\sum x)^2][n\sum y^2 - (\sum y)^2}}$$

Where,

x= Data point Value of dependent variable

y = Data point Value of independent variable

n = Number of value

e) Regression Analysis

Regression analysis is a mathematical measure of the average relationship between two or more variables in term of the original units of the data. Thus, it can be said that regression is the estimation or prediction of one variable's value from the given of other variables value. The regression model used in this study assumes that the relationship between each independent variable CAR, INF, DR, GDP and Lending Ratio and the dependent variable; ROE.

The model used in this study would be stated as;

ROE = a + P1 CAR + P2 INF + P3 DR+ P4 GDPG + P5 LR +e

Where,

ROE= Return on equity

CAR= Capital adequacy ratio

LR= Lending Rate

INF= Inflation

DR= Default Risk

GDPG = GDP per Capital Growth

a = constant term

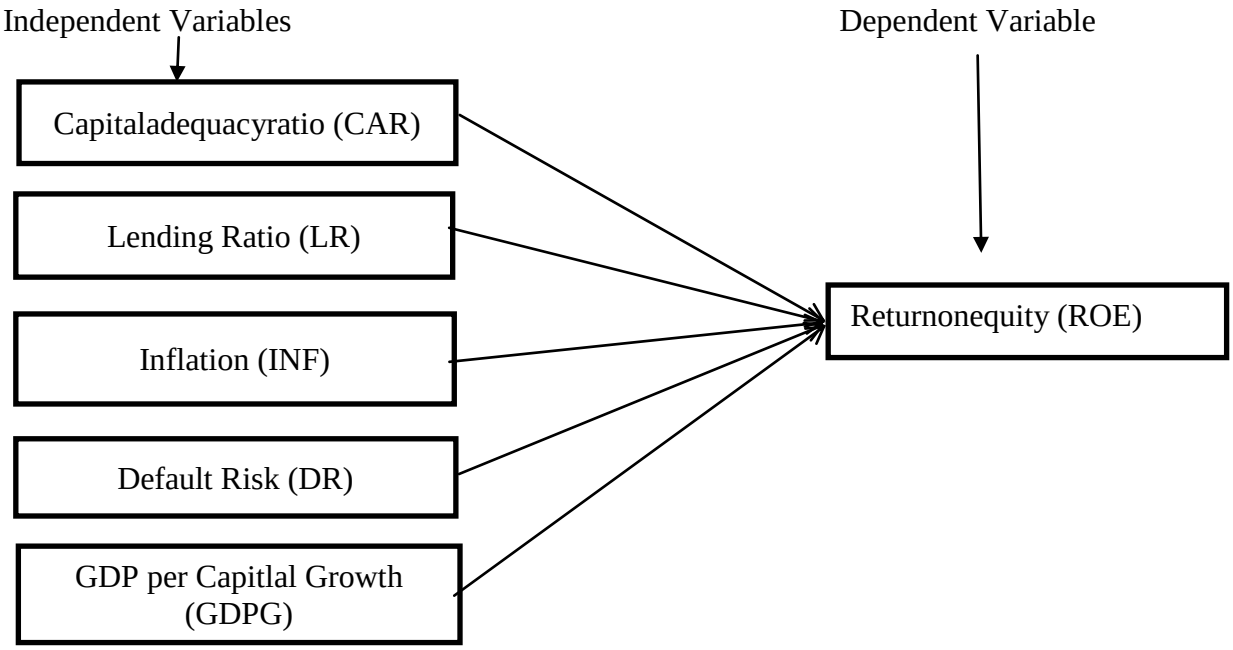
e= error term,

P1, P2, P3, P4, P5 = Beta coefficient of variables

3.6 Conceptual Framework

Figure: 1

Structure of Conceptual Framework



Source: *Al-Homaidi, et.al (2018)*

Independent variables are what we expect will influence dependent variables. A Dependent variable is what happens as a result of the independent variable. In this research independent variables are Capital adequacy ratio, Lending Rate, Inflation, Default Risk and GDP per Capitlal Grow, while the dependent variable is ROE.

Independent Variables

a) Capital Adequacy Ratio (CAR)

Capital Adequacy Ratio (CAR) is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities.

b) Inflation (INF)

Inflation refers to a general increase in the prices of goods and services in an economy. When the general price level rises, each unit of currency buys fewer goods and services; consequently, inflation corresponds to a reduction in the purchasing power of money.

c) Defult Risk (DR)

Default risk is the risk that a lender takes on in the chance that a borrower will be unable to make the required payments on their debt obligation.

d) GDP per Capital Growth (GDPG)

GDP per capita measures the economic output of a nation per person. It seeks to determine the prosperity of a nation by economic growth per person in that nation. Per capita income measures the amount of money earned per person in a nation. (Davydenko, 2019) employed the fixed-effects technique and proved that the gross domestic product reveals a significant positive relation with the return on assets of Ukrainian banks. (Solovjova&Saksonova, 2011) found that the gross domestic product growth had a progressive contribution to profits and inflation adversely affects return on assets in Latvian commercial banks.

As stated by International Monetary Fund (IMF), an increase in real GDP is interpreted as a sign that the economy is doing well.

e) Lending Ratio (LR)

Lending Ratio means the percentage allocated to particular Eligible Security or class of Eligible Security (or any other type of Secured Property in the Bank's absolute discretion), as amended from time to time by the Bank, in its absolute discretion

Dependent Variables

a) Return on Equity (ROE)

Return on equity (ROE) is the measure of a company's net income divided by its shareholders' equity.

CHAPTER-IV

RESULTANDDISCUSSION

This chapter is structured to present, analyze, and interpret the results accordingly. Secondary data, collected in raw form, are organized systematically and presented in structured formats. Various appropriate tools and techniques are employed to analyze these collected data. The secondary data, sourced from multiple outlets, are presented in a clear format and analyzed individually using quantitative measures wherever applicable.

4.1 Data Presentation and Analysis

For this study Capital adequacy ratio (CAR), Lending Ratio (LR), Inflation (INF), Default Risk (DR), GDP per capital growth (GDPG), and Return on equity (ROE) is calculated.

4.1.1 Default risk (DR)

Default risk,also known as default probability, it refers to the likelihood that a borrower will not fulfill the contractual obligation to make complete and timely payments of principal and interest as stipulated in the debt security agreement. Alongside loss severity, default risk constitutes one of the two fundamental components of credit risk.

Table 3
Summary of Default Risk

Year	GF	GWF	NF	ICFC	RF
2013/14	0.54	2.09	2.33	0.94	0.54
2014/15	0.37	2.89	2.13	0.99	1.37
2015/16	0.26	1.96	2.23	1.2	1.26
2016/17	0.19	3.22	1.82	1.23	2.19
2017/18	0.14	1.23	1.14	1.24	2.14
2018/19	0.1	0.85	0.8	1.25	1.1
2019/20	0.2	1.4	0.1	2.12	1.2
2020/21	0.2	1.12	0.74	2.53	0.62
2021/22	0.23	1.01	0.98	1.12	0.75
2022/23	0.24	0.49	0.84	1.59	0.77
Mean	0.247	1.626	1.311	1.409	1.194
SD	0.1257	0.89452	0.76209	0.617	0.58359
CV	50.89	55.01	58.13	52.28	48.88

Source: *Appendix I*

Table 3 shows the finance companies defult risk ratio has decreased for the past ten years. It is due to a decrease in credit payment. However, Gurkhas finance was limited and goodwill showed some increment. Goodwill Finance Limited showed the highest average i.e 1.626 % and Gurkhas finance shows the lowest i.e1.60.247 %. Gurkhas Finance Limited showed the highest consistency on repayment of principal and interest and Goodwill finance shows the lowest over the period. The result shows decrease in defult risk due to timely recover of due which causes positive impact on defult risk.

4.1.2 Capital adequacy ratio (CAR)

The capital adequacy ratio (CAR), also referred to as the capital to risk-weighted assets ratio, assesses a bank's financial robustness by evaluating its capital relative to its assets. This metric is crucial for safeguarding depositors and enhancing the stability and effectiveness of financial systems globally.

Table 4

Capital Adequacy Ratio

Year	GF	GWF	NF	ICFC	RF
2013/14	12.63	18.26	20.55	14.78	16.82
2014/15	14.9	19.4	23.54	15.51	17.56
2015/16	15.78	19.84	21.63	18.8	19.81
2016/17	16.39	24.11	23.86	19.91	20.56
2017/18	19.35	26.83	22.56	20.65	22.46
2018/19	15.05	26.9	24.23	23.28	23.89
2019/20	16.3	23.416	22.57	21.56	25.55
2020/21	16.55	22.012	20.64	18.24	23.34
2021/22	14.34	21.56	22.65	19.32	22.46
2022/23	16.79	18.67	19.65	18.48	21.52
Mean	15.81	22.10	22.19	19.05	21.40
SD	1.77313	3.16916	1.532	2.56847	2.75688
CV	11.22	14.34	6.90	13.48	12.88

Source:*Appendix I*

Table 4 shows that the Capital Adequacy Ratio of all financial banks are in fluctuating trend from 2013/14 to 2022/23. Nepal finance has the highest CAR (i.e. 22.19)and Lowes of Gurkha finance (i.e. 15.81). Goodeill finance is more fluctuate than that of

ICFC and Reliance finance in terms of capital adequacy ratio.Which also indicates that Gurkha finance and Nepal finance has the lowest capital adequacy ratioof 1.77 and 1.53 respectively.Further, the coefficient of variation of GF, GWF, NF, ICFC and RF are 11.22, 14.34, 3.90, 13.48 and 012.88 respectively which shows that Nepal fiance has been more consistent in maintaining the CAR during the study period than that of GF, GWF, ICFC and RF.

4.1.3GDP per Capital Growth (GDP)

Economists use GDP per capita to determine the prosperity of countries based on their economic growth. GDP per capita is calculated by dividing the GDP of a nation by its population.

Table 5

GDP per capital growth

Year	GF	GWF	NF	ICFC	RF
2013/14	0.03	0.03	0.03	0.03	0.03
2014/15	0.02	0.02	0.02	0.02	0.02
2015/16	0.08	0.08	0.08	0.08	0.08
2016/17	0.07	0.07	0.07	0.07	0.07
2017/18	0.06	0.06	0.06	0.06	0.06
2018/19	0.04	0.04	0.04	0.04	0.04
2019/20	0.05	0.05	0.05	0.05	0.05
2020/21	0.04	0.04	0.04	0.04	0.04
2021/22	0.05	0.05	0.05	0.05	0.05
2022/23	0.06	0.06	0.06	0.06	0.06
Mean	0.048	0.048	0.048	0.048	0.048
SD	0.02044	0.02044	0.02044	0.02044	0.02044
CV	42.58253	42.58253	42.58253	42.58253	42.58253

Source: *Appendix I*

Table 5 shows that the GDP per capital growth of GF, GWF, NF, ICFC and RF is in fluctuating trend. During the study period of 10 years the highest GDP per capital growthis highestin F/Y2015/16 i.e. 0.08 percentages. Similarly, the lowestGDP per capital growth was in F/Y 2014/15 i.e. 0.02.The average growth of GDP is 0.048. The maxium growth is 0.08 and minium growth is 0.02.

4.1.4 Lending Rate (LR)

Lending ratios exist to conduct credit and financial analysis of potential borrowers before loan origination. They include the debt-to-income ratio, the housing expense ratio, and the loan-to-value ratio. Lending ratio usage varies across lenders.

Table 6

Lending Rate

Year	Deposit	Lending	Base Rate
2013/14	6.17	12.40	9.75
2014/15	5.25	12.09	9.83
2015/16	4.09	10.555	8.36
2016/17	3.94	9.62	7.88
2017/18	3.28	8.86	6.54
2018/19	6.15	11.33	9.89
2019/20	6.49	12.47	10.47
2020/21	6.60	12.13	9.57
2021/22	6.01	10.11	8.50
2022/23	4.65	8.43	6.86
Mean	5.68	10.42	8.70
SD	1.44	1.93	1.34
CV	25.35	18.52	15.40

Source: *Economic Survey, 2023*

Table 6 shows that the mean deposit interest has been 5.68 in the duration of 10 years and lending rate has been 10.42. The base rate has been 8.70. Between 2013/14 and 2022/23, deposit rates averaged 5.68%, lending rates averaged 10.42%, and base rates averaged 8.70%. The standard deviations for these rates were 1.44, 1.93, and 1.34 respectively, indicating some variability in these figures. The coefficients of variation for deposit, lending, and base rates were 25.35, 18.52, and 15.40 respectively, reflecting the relative consistency in these rates over the period. These figures are sourced from the Economic Survey of 2023.

4.1.5 Inflation

Inflation is the rate of increase in prices over a given period of time. Inflation is typically a broad measure, such as the overall increase in prices or the increase in the cost of living in a country.

Table 7

Inflation

Year	Inflation
2013/14	9.22
2014/15	9.45
2015/16	9.04
2016/17	8.36
2017/18	7.86
2018/19	8.79
2019/20	3.62
2020/21	4.06
2021/22	5.56
2022/23	5.05
Mean	7.52
SD	2.13
CV	28.32

Source: *Economic Survey, 2023*

Table 7 shows that the There has been significant increase in the inflation each year. Nepal has reached anmean inflation of 7.52 during the study period of 10 years. While the standard deviation has been 2.13. Over the period from 2013/14 to 2022/23, inflation rates fluctuated significantly. In 2013/14, the inflation rate was 9.22%, slightly increasing to 9.45% in 2014/15. The rate then decreased to 9.04% in 2015/16 and continued to drop to 8.36% in 2016/17. This downward trend persisted, reaching 7.86% in 2017/18. However, in 2018/19, the inflation rate rose to 8.79%. A substantial decline occurred in 2019/20, with the inflation rate falling to 3.62%. The following year, 2020/21, saw a slight increase to 4.06%. In 2021/22, the inflation rate climbed to 5.56%, but it dropped again to 5.05% in 2022/23. The average inflation rate over this ten-year period was 7.52%, with a standard deviation of 2.13, resulting in a coefficient of variation of 28.32.

4.1.6 Return on Equity (ROE)

ROE stands for Return on Equity, a financial measure that assesses how efficiently a company generates profits from its shareholders' equity. It offers valuable insights into the company's ability to utilize shareholder investments effectively for profit generation.

Table 8

Structure of ROE

Year	GF	GWF	NF	ICFC	RF
2013/14	17.76	15.02	19.96	14.63	15.02
2014/15	23.28	20.31	11.21	16.68	20.31
2015/16	22.63	22.85	14.04	15.66	22.85
2016/17	21.23	21.51	16.49	16.27	21.51
2017/18	24.53	22.16	14	13.49	22.16
2018/19	21.58	14.85	11.98	13.11	14.85
2019/20	14.17	15.81	18.66	11.44	15.81
2020/21	18.34	16.2	19.49	20.24	16.2
2021/22	15.4	10.44	15.15	17.97	10.44
2022/23	14.89	6.26	15.42	16.25	11.02
Mean	19.38	16.54	15.64	15.57	17.02
SD	3.76	5.36	3.02	2.54	4.49
CV	19.41	32.43	19.29	16.31	26.39

Source: *Appendix I*

Table 8 shows that the five financial banks, GF has the highest average of ROE value is 19.38 % among the five financial companies, ICFC has the lowest average of ROE value is 15.57 %. GR (Gurkhas Finance) has the highest mean across the ten-year period, indicating relatively strong profitability and efficiency in generating returns for shareholders.In terms of variation, GWF (Goodwill Finance) has the highest coefficient of variation (CV) of 32.43 percent, indicating higher relative variability in ROE compared to the mean.

4.1.8 Descriptive Analysis

The descriptive statistics of all the variables utilized in the study are shown together in Table 8. It displays the descriptive statistics for each of the analysis's variables. In columns two through five, the mean, median, maximum, minimum, and standard deviation are shown in sequential order.

Table 9

Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Dev.
Return on Equity (ROE)	50	6.26	24.53	16.8306	4.05101
Defuelt Risk (DR)	50	.10	3.22	1.1598	.77547
Capital Adequacy Ratio (CAR)	50	12.63	26.90	20.1092	3.39017
GDP per Capital Growth (GDP)	50	0.02	0.08	0.048	36.5148
Lending Ratio (LR)	50	6.54	10.47	8.7650	1.29844
Inflation (INF)	50	3.62	9.45	7.1010	2.18361
Valid N (listwise)	50				

Source: *SPSS Analysis*

Table 9 shows the descriptive statistics of the research variables. The research variables are, Returnonequity (ROE), Capitaladequacyratio (CAR), Lending Ratio (LR), Inflation (INF), Default Risk (DR) and GDP per capital growth (GDP)**.** The data are collected from the annual report of the respective sample financial company annual report and each of banks has 10 observations or in total 50 observations are the research observations. All the 50 observation are used for the calculation of the descriptive statistics know as mean, standard deviation, minimum and maximum.

In the tables the minimum, maximum, mean and standard deviation of profitability (ROE) is 6.26, 24.53, 16.83, and 4.051respectively. The defult risk one of the independent variables of the research minimum, maximum, mean and standard deviation is 0.10, 3.22, 1.1598, and 0.77547 respectively. The capital adequacy ratio also the independent variables of the research minimum, maximum, mean and standard deviation is 12.63, 26.90, 20.1092 and3.39 respectively. The GDP per capital growthalso the independent variables of the research minimum, maximum, mean and standard deviation is 0.02, 0.08, 0.048 and 36.5148respectively.The lending ratio is also the independent variables of the research which is minimum, maximum, mean and standard deviation is 3.6.54, 10.47, 8.765 and 1.298 respectively. The inflation is also the independent variables of the research and minimum, maximum, mean and standard deviation is calculated, they are 43.62, 9.45, 7.1010 and 2.1836 respectively.

The research shows the all the variables has a the gap between minimum and maximum is very and on the basis of the mean the standard deviation is seem to be very high which represent the current position of the research variables is the very fluctuating nature of the data.

4.1.9 Correlation Analysis

In this section, the correlation between profitability measures (ROE) and explanatory variables has been presented and analysed. The Correlation coefficients between two variables range from +1 (indicating a perfectly positive relationship) to -1 (indicating a perfectly negative relationship), while a correlation coefficient of zero suggests no linear relationship between the two variables.

Table 10

Correlation of the varabiles

		ROE	DR	CAR	GDPG	LR	INF
	Pearson	1					
ROE	Correlation						
	Sig. (2-tailed)						
	Pearson	.098	1				
DR	Correlation						
	Sig. (2-tailed)	.498					
	Pearson	-.209	.368**	1			
CAR	Correlation						
	Sig. (2-tailed)	.145	.009				
	Pearson	-0.076	-	0.130	1		
GDPG	Correlation		0.056				
	Sig. (2-tailed)	.160	.246	.083			
	Pearson	-.050	-.003	-.067	-.019	1	
LR	Correlation						
	Sig. (2-tailed)	.731	.981	.644	.896		
	Pearson	.294*	.239	-.147	.350*	-.042	1
INF	Correlation						
	Sig. (2-tailed)	.038	.094	.309	.013	.772	

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source: *SPSS Analysis*

Table 10 shows the correlation between the independent and dependent variables. In this research the dependent variable is the Profitability measuredbyROE and

independent variables are Capital adequacy ratio (CAR), Lending Ratio (LR), Inflation (INF), Default Risk (DR) and GDP per Capital Growth (GDPG). The objective two of the research is to analyse the relationship between independent and dependent variables is calculated in this correlation table.

The relationship between the profitability and defult risk (DR) is positive and low positive relationship also which insignificant relationship. The correlations value is 0.098 which represent the positive correlations value. The insignificant value is 0.498 which is more than 0.05 so the relationship is not significant.

The relationship between the profitability and capital adequacy Ratio is negative and low level of relationship also which in not significant relationship. The correlations value is -0.209 which represent the low negative correlations value. The significant value is 0.145 which is more than 0.05 so the relationship is not significant.

The relationship between the profitability and GDPG is negetively relationship also which in not significant relationship. The correlations value is -0.076 which represent the negetive correlations value. The significant value is 0.160 which is more than 0.05 so the relationship is not significant.

The relationship between the profitability and lending ratio is ngetive and low level of relationship but not perfectly and also which in insignificant relationship. The correlations value is -0.050 which represent the lownegetive correlations value. The significant value is 0.731 which is more than 0.05 so the relationship is insignificant.

The relationship between the profitability and inflation is positive and low level of relationship but not perfectly and also which in significant relationship. The correlations value is 0.294 which represent the moderatepositive correlations value. The significant value is 0.038 which is less than 0.05 so the relationship is significant.

4.1.10 Regression Analysis

The third objectives of the research are to examine the impact of the independent variables to the dependent variables of the research. The regression is based on the multiple regression equation. The multiple regression equation isROE = a + P1CAR + P2INF + P3DR+ P4GDPG + P5LR + e. The model summary, ANOVA and Coefficient is calculated. Regression analysis helps to find out the impact of

independent variables on the dependent variable. The regression analysis is conducted for sampled finance. In this study, regression analysis is done for the different determining factor towards ROE. Regression analysis looks at how one dependent variable relates to one or more other independent factors in order to estimate the average value of the dependent variable using the independent variable's known values.The table presents the regression analysis of the major variables under study. This table depicts the regression analysis where ROE is used as dependent variable.

Table 11

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.767[a]	.534	.336	3.97712

a. Predictors: (Constant), NF, LR, CAR, DR, GDPG

Source: *SPSS Analysis*

Table 11 shows the model summary of 50 observations of five fianance in Nepal and respondent of each finance has 10 observations. Here R-square is 0.534 means 53.4 % of total variations in profitability is explained dependent variables and independent variable i.e. Capital adequacy ratio (CAR), Lending Ratio (LR), Inflation (INF), Default Risk (DR), GDP per capital growth (GDPG)but 36.6 % of total variation on profitability is explained by other factors which are not included in our research.

Table 12

ANOVA of Varibles

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	108.154	5	21.631	1.368	.004[b]
	Residual	685.970	44	10.817		
	Total	794.124	49			

a. Dependent Variable: ROE

b. Predictors: (Constant), NF, LR, CAR, DR, GDPG

Source: *SPSS Analysis*

Table 12 shows the ANOVA of fivefinance of 50 observations. Here dependent variable Profitability called predictor and independent variable Capitaladequacyratio (CAR), Lending Ratio (LR), Inflation (INF), Default Risk (DR), and GDP per Capital

Growth (GDPG). Here regression is significant because significant value is 0.004 which is less than 5%. Its mean the regression is strong.

Table 13

Coefficient of Variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	22.696	8.089		2.806	.007
	DR	5.744	.848	.142	4.877	.035
	CAR	-1.337	.230	-.282	-3.468	.049
	GDPG	0.024	.156	.063	0.261	.068
	LR	-.186	.440	-.060	-.423	.074
	INF	.461	.288	.248	1.600	.117

a. Dependent Variable: ROE

Source: *SPSS Analysis*

Table 13 shows the coefficient of finance company. The coefficient of different fivefinance total 50 respondents of each of 10. Here dependent variable Profitability called predictor and independent variable Capitaladequacyratio (CAR), Lending Ratio (LR), Inflation (INF), Default Risk (DR), GDP per capital growth (GDPG). Here coefficient table shows the individual variable variation to the dependent variable, their accuracy, significant level.

The impact of the defult risk to the Profitability is positive which shows by the beta value of 5.744. The beta value shows 1 percent change in to defult risk than positive5.744 percentage change into profitability of the finance. The standard error calculated is very high i.e. 0.848 which mean low level of accuracy of calculated value. The significant value is more than 0.05 so the impact is significant i.e. 0.013.

The impact of the Capital Adequacy Ratio to the Profitability is negetive which shows by the beta value of negetive1.337. The beta value shows 1 percent change in to Capital Adequacy Ratio than negetive1.337 percentage changes into profitability of the finance. The standard error calculated is very low i.e. 0.230 which mean high level of accuracy of calculated value. The significant value is less than 0.05 so the impact is significant i.e. 0.049.

The impact of the GDPG to the Profitability is negetive which shows by the beta value of 0.024. The beta value shows 1 percent change in to GDPG than positive 0.024 percentage change in to profitability of the finance. The standard error calculated is very low i.e. 0.156 which mean high level of accuracy of calculated value. The significant value is more than 0.05 so the impact is not significant i.e. 0.68.

The impact of the lending ratio to the Profitability is positive which shows by the beta value of negitive 0.186. The beta value shows 1 percent change in to lendig ratio than negetive0.186 percentage change in to profitability of the finance. The standard error calculated is very high i.e 0.440 which meansmoderate level of accuracy of calculated value. The significant value is more than 0.05 so the impact is insignificant i.e. 0.074.

The impact of the inflation to the Profitability is positive which shows by the beta value of positive 0.461. The beta value shows 1 percent change in to inflation than positive 0.461 percentage change in to profitability of the finance. The standard error calculated is very low i.e. 0.288 which mean low level of accuracy of calculated value. The significant value is more than 0.05 so the impact is insignificant i.e. 0.117.

4.2 Discussion

The primary objective of this research is to assess the current status of macroeconomic variables and the profitability of financial companies. It was observed that these variables exhibit considerable fluctuations. This finding is aligned with previous studies by Keo (2020) and Simiyu (2015), but differs from the findings of Al-Homaidi et al. (2018).

The second objective is to analyze the relationships between macroeconomic variables and the financial performance of financial companies. The study reveals a positive and moderately significant relationship between profitability and default risk, consistent with Mahmoud (2023) and Lyimo (2022). Conversely, the relationship between profitability and capital adequacy ratio shows a negative and significant association, which corroborates findings by Gwachha (2019) and Al-Homaidi et al. (2018). The relationship between profitability and GDPF is positive but not significant, consistent with Isayas (2021). Similarly, the relationship between profitability and lending ratio is negative and insignificant, in line with Kamande (2016) and Simiyu (2015). The relationship between profitability and inflation shows

a positive and moderately significant correlation, but is not statistically significant, which is consistent with findings from Isayas (2021), Keo (2020), Gwachha (2019), and Al-Homaidi et al. (2018).

The third objective examines the impact of default risk on the financial performance of financial companies. The study finds that default risk (DR) has a negative impact on profitability (ROE), supported by a beta value with a significance level less than 0.05, indicating its significance. This result is consistent with Mahmoud (2023) and Lyimo (2022). The impact of capital adequacy ratio (CAR) on profitability (ROE) is also negative and significant, with a beta value and significance level above 0.05. This finding aligns with Gwachha (2019) and Al-Homaidi et al. (2018). Conversely, the impact of GDP per capital growth (GDPG) on profitability (ROE) is negative but not significant, consistent with Isayas (2021). Similarly, the impact of lending ratio (LR) on profitability (ROE) is negative and insignificant, as found by Kamande (2016) and Simiyu (2015). The impact of inflation (INF) on profitability (ROE) is positive, but not statistically significant, in line with findings from Isayas (2021), Gwachha (2019), and Al-Homaidi et al. (2018).

CHAPTER-V
SUMMARYANDCONCLUSION

This chapter encompasses the summary, conclusions, and implications of the research. The summaries provide a detailed overview of the research from its inception to its conclusion. The conclusions are based on the findings and objectives of the study, encapsulated in a final statement. The implications discuss how the research impacts the relevant sector, individuals involved, and the broader society.

5.1Summary

The study assesses the profitability of financial companies by examining return on equity and conducting regressions on specific financial variables such as Lending Ratio (LR), Capital Adequacy Ratio (CAR), Default Risk (DR), and GDP per capital growth (GDPG). Additionally, it investigates the influence of macroeconomic factors such as Inflation Rate (INF) alongside these bank-specific variables on profitability within Nepalese financial firms. The research focuses on exploring the "Impact of Macroeconomic Variables on Profitability of Financial Companies in Nepal."

The research problem examines the current status of macroeconomic variables and the profitability of a selected sample of financial companies. It aims to understand the relationship between macroeconomic conditions and the financial performance of these companies, and to evaluate the direct effects of macroeconomic variables on their profitability. To address these issues, the study sets several objectives: assessing the current state of macroeconomic variables and financial company profitability, analyzing the relationship between macroeconomic variables and financial performance, and examining the specific impacts of macroeconomic variables on financial performance.

The research employs a descriptive, correlational, and causal-comparative research design, utilizing secondary data from five chosen financial companies in Nepal. The variables under scrutiny include profitability, lending ratio, capital adequacy ratio, default risk, operational expenses to total loan ratio, and inflation. Financial and statistical analyses are conducted using various ratio analyses and statistical methods

such as descriptive statistics, correlation analysis, and regression analysis, utilizing tools such as SPSS and Excel.

The findings reveal significant variations in data ranging from minimum to maximum values, indicating substantial fluctuations in the research variables. The analysis shows a positive and significant relationship between profitability (ROE) and default risk (DR), whereas profitability (ROE) correlates negatively and significantly with capital adequacy ratio (CAR) and GDP per capital growth (GDPG). The lending ratio (LR) demonstrates a negative relationship with profitability (ROE), although it is not statistically significant. Similarly, the inflation rate (INF) shows a negative relationship with profitability (ROE), but lacks statistical significance.

It is crucial to note that the impact of these macroeconomic variables on the profitability of Nepalese financial companies can vary significantly depending on specific circumstances, individual company strategies, and market conditions. Therefore, conducting a comprehensive analysis that considers each bank's financial profile and exposure to these variables would be essential for accurately assessing their specific impact on profitability.

5.2 Conclusion

The study utilizes secondary data obtained from annual reports published on financial institutions' websites and the Ministry of Finance for macroeconomic variables. Various tools and techniques were employed for analysis over a span of ten years from 2013/14 to 2022/23. The accuracy of the secondary data hinges on the performance reporting of financial companies, which are influenced by multiple performance determinants. The study specifically focuses on the dependent variable return on equity (ROE) and examines bank-specific factors such as lending ratio (LR), capital adequacy ratio (CAR), default risk (DR), GDP per capital growth (GDPG), and inflation rate (INF).

The first objective of the research is to evaluate the current status of macroeconomic variables and the profitability of financial companies. The analysis reveals significant variability between minimum and maximum values, with notably high standard deviation based on mean values, indicating considerable data fluctuation.

The second objective aims to analyze the relationship between profitability and various factors. It identifies a positive and significant relationship between profitability and default risk (DR), whereas profitability demonstrates a negative and significant correlation with capital adequacy ratio (CAR). GDP per capital growth (GDPG)shows a negative relationship with profitability but lacks statistical significance, while the lending ratio (LR) exhibits a negative and insignificant relationship. Inflation rate (INF) displays a positive relationship with profitability but lacks statistical significance.

The third objective examines the impact of macroeconomic variables on financial performance. It finds a positive and significant impact of default risk (DR) on profitability (ROE). However, GDP per capital growth (GDPG) and lending ratio (LR) negatively impact profitability (ROE) without statistical significance. Capital adequacy ratio (CAR) positively and significantly affects the profitability (ROE) of financial companies.

In conclusion, the study identifies a positive impact of default risk (DR) and a negative impact of capital adequacy ratio (CAR) on profitability. However, the relationships between GDP per capital growth (GDPG) and lending ratio (LR) with profitability are inconclusive for the bank.

5.3 Implication

The study seeks to investigate the determinants impacting financial performance, particularly profitability, utilizing a model centered on macroeconomic variables. The findings offer significant insights for regulatory authorities and financial company managers in Nepal, presenting an evaluation of these firms' strengths and weaknesses through the lens of macroeconomic variables. Moreover, it underscores the relevance of this model for risk managers and other stakeholders interested in assessing the performance of financial institutions. The research holds implications across several domains, including:

i. Finances are one of the most important fiancial organizations of the country. So, finance should fulfil some social obligations by extending their resources to rural areas and promoting the development of poor and disadvantaged

group. In order to do so, they should open their branches in the remote areas with objectives of providing cheaper charge banking services.

ii. FianceCompany should avoid extending credit merely based on oral information presented at the credit interview. Fiance also should regularly follow the credit customers to confirm that whether the customers have utilized their credit for the same purpose committed at the time of taking credit from the bank.

iii. The financial institution can use this study to inform management choices about the variable. The finance's board of directors uses it as a tool for decision-making when making decisions on macroeconomy variables-related instruments. The other finance stakeholders will benefit from the work of this researcher. The management of other businesses of a similar type can use this study to guide their decisions. The fresh researcher and scholar may use it as a reference for their future work.

iv. The impact of these vaiables on profiablity can be interconnected and vary over the time. Additionally, other factors specific to individual finance company, such as management efficiency, risk management practices, and market competition, also play a significant role in determing profitability.

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APPENDIX-I

Year	Financial Banks	ROE	ROA	DR	CAR	GDPG	LR	INF
2013/14	GF	17.76	1.47	0.54	12.63	0.03	9.75	9.22
2014/15	GF	23.28	2.03	0.37	14.9	0.02	9.83	9.45
2015/16	GF	22.63	1.89	0.26	15.78	0.08	8.36	9.04
2016/17	GF	21.23	1.56	0.19	16.39	0.07	7.88	8.36
2017/18	GF	24.53	1.94	0.14	19.35	0.06	6.54	7.86
2018/19	GF	21.58	2.19	0.10	15.05	0.04	9.89	8.79
2019/20	GF	14.17	1.67	0.20	16.3	0.05	10.47	3.62
2020/21	GF	18.34	2.21	0.20	16.55	0.04	9.57	4.06
2021/22	GF	15.4	1.79	0.23	14.34	0.05	8.50	5.56
2022/23	GF	14.89	1.68	0.24	16.79	0.06	6.86	5.05
2013/14	GWF	15.02	2.1	2.09	18.26	0.03	9.75	9.22
2014/15	GWF	20.31	2.11	2.89	19.4	0.02	9.83	9.45
2015/16	GWF	22.85	2.39	1.96	19.84	0.08	8.36	9.04
2016/17	GWF	21.51	2.25	3.22	24.11	0.07	7.88	8.36
2017/18	GWF	22.16	1.84	1.23	26.83	0.06	6.54	7.86
2018/19	GWF	14.85	1.61	0.85	26.9	0.04	9.89	8.79
2019/20	GWF	15.81	1.72	1.40	23.416	0.05	10.47	3.62
2020/21	GWF	16.2	1.97	1.12	22.012	0.04	9.57	4.06
2021/22	GWF	10.44	1.94	1.01	21.56	0.05	8.50	5.56
2022/23	GWF	6.26	1.42	0.49	18.67	0.06	6.86	5.05
2013/14	NF	19.96	0.28	2.33	20.55	0.03	9.75	9.22
2014/15	NF	11.21	1.21	2.13	23.54	0.02	9.83	9.45
2015/16	NF	14.04	1.04	2.23	21.63	0.08	8.36	9.04
2016/17	NF	16.49	1.26	1.82	23.86	0.07	7.88	8.36
2017/18	NF	14	1.52	1.14	22.56	0.06	6.54	7.86
2018/19	NF	11.98	1.73	0.80	24.23	0.04	9.89	8.79
2019/20	NF	18.66	1.91	0.10	22.57	0.05	10.47	3.62
2020/21	NF	19.49	1.92	0.74	20.64	0.04	9.57	4.06

2021/22	NF	15.15	1.29	0.98	22.65	0.05	8.50	5.56
2022/23	NF	15.42	1.14	0.84	19.65	0.06	6.86	5.05
2013/14	ICFC	14.63	2.21	0.94	14.78	0.03	9.75	9.22
2014/15	ICFC	16.68	1.71	0.99	15.51	0.02	9.83	9.45
2015/16	ICFC	15.66	1.4	1.20	18.8	0.08	8.36	9.04
2016/17	ICFC	16.27	1.24	1.23	19.91	0.07	7.88	8.36
2017/18	ICFC	13.49	1.28	1.24	20.65	0.06	6.54	7.86
2018/19	ICFC	13.11	1.91	1.25	23.28	0.04	9.89	8.79
2019/20	ICFC	11.44	0.78	2.12	21.56	0.05	10.47	3.62
2020/21	ICFC	20.24	1.37	2.53	18.24	0.04	9.57	4.06
2021/22	ICFC	17.97	1.24	1.12	19.32	0.05	8.50	5.56
2022/23	ICFC	16.25	1.32	1.59	18.48	0.06	6.86	5.05
2013/14	RF	15.02	0.82	0.54	16.82	0.03	9.75	9.22
2014/15	RF	20.31	1.16	1.37	17.56	0.02	9.83	9.45
2015/16	RF	22.85	1.51	1.26	19.81	0.08	8.36	9.04
2016/17	RF	21.51	1.7	2.19	20.56	0.07	7.88	8.36
2017/18	RF	22.16	2	2.14	22.46	0.06	6.54	7.86
2018/19	RF	14.85	1.51	1.10	23.89	0.04	9.89	8.79
2019/20	RF	15.81	1.39	1.20	25.55	0.05	10.47	3.62
2020/21	RF	16.2	1.94	0.62	23.34	0.04	9.57	4.06
2021/22	RF	10.44	1.17	0.75	22.46	0.05	8.50	5.56
2022/23	RF	11.02	0.7	0.77	21.52	0.06	6.86	5.05

Where,

Financial companies

Gorkhas Finance (GF)

Goodwill Finance (GWF)

ICFC Finance (ICFC)

Nepal Finance (NF) and

Reliance Finance (RF)

Variables

Returnonequity (ROE)

Capitaladequacyratio (CAR)

Lending Ratio (LR)

Inflation (INF)

Default Risk (DR) and

GDP per Capital Growth (GDPG)

APPENDIX-II

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.767[a]	.534	.336	3.97712

a. Predictors: (Constant), NF, LR, CAR, DR, GDPG

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	108.154	5	21.631	1.368	.004[b]
	Residual	685.970	44	10.817		
	Total	794.124	49			

a. Dependent Variable: ROE

b. Predictors: (Constant), NF, LR, CAR, DR, GDPG

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	22.696	8.089		2.806	.007
	DR	5.744	.848	.142	4.877	.035
	CAR	-1.337	.230	-.282	-3.468	.049
	GDPG	0.024	0.156	0.063	0.261	0.068
	LR	-.186	.440	-.060	-.423	.074
	INF	.461	.288	.248	1.600	.117

a. Dependent Variable: ROE

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This study is conducted to analyze the Impact of Macroeconomic Variables on profitability of Finance Company in Nepal. The study variables used in this study are For this study Capital adequacy ratio (CAR), Lending Ratio (LR), Inflation (INF), Default Risk (DR), Operational Expenses to Total Loan (OETL), and Return on equity (ROE) is calculated. To analyze the data a combination of descriptive and casual comparative research design has been used in this study. This study considered only five finance company Gurkhas Finance, Goodwill Finance, Nepal Finance, ICFC Finance, Reliance Finance as a sample finance company. This study is totally based on secondary data which are collected from the annual reports of sample finance company from year 2013/14 to 2022/23 covering recent ten year's data. The relationship of Return on Equty of finance company in Nepal taking the independent variables in finance this study Capital adequacy ratio (CAR), Lending Ratio (LR), Inflation (INF), Default Risk (DR), Operational Expenses to Total