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(AIJBES)**www.gaexcellence.com/aijbis**THE IMPACT OF MACROECONOMIC FACTORS ON
FIRMS' FINANCIAL PERFORMANCE IN MALAYSIA**

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Abstract:

This study examines the effects of inflation, interest rates, and gross domestic product (GDP) growth on the financial performance of large listed firms in Malaysia from 2015 to 2024. Secondary data were obtained from the audited annual reports of the top 50 large Bursa Malaysia-listed companies selected based on market capitalisation and macroeconomic data from DataStream. Financial performance was measured using return on assets (ROA), while inflation was proxied by the Consumer Price Index and interest rates by the Overnight Policy Rate. Using a panel dataset of 500 firm-year observations, the study employed descriptive statistics, correlation analysis, and a random-effects regression model with robust standard errors. The results indicate that inflation and interest rates have no statistically significant relationship with ROA during the study period. GDP growth shows a positive but marginally significant relationship with ROA, providing limited evidence that economic expansion may be associated with improved firm profitability. Firm size and leverage, included as control variables, have significant negative relationships with ROA. The findings suggest that firm-specific financial characteristics may be more closely associated with the performance of large Malaysian firms than

the selected macroeconomic variables. The study extends prior Malaysian evidence by examining large Bursa Malaysia-listed firms across industries over a ten-year period, using ROA and incorporating both macroeconomic and firm-specific factors. The findings may also assist managers, policymakers, and investors in evaluating the factors associated with firm profitability.

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GDP Growth, Inflation, Interest Rate, Macroeconomic Factors, Malaysia, Random Effects Model, Return on Assets



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Introduction

Well-performing and financially healthy firms are essential for economic stability and growth, yet firm outcomes do not depend solely on internal management decisions (Beck, Demirgüç-Kunt, & Levine, 2008). In emerging economies such as Malaysia, macroeconomic forces particularly inflation, interest rates, and GDP growth exert heterogeneous influences on corporate performance (Shaharudin et al., 2019). Monetary policy actions by Bank Negara Malaysia and fluctuations in price levels influence firms' cost structures, demand conditions, and access to finance (Bank Negara Malaysia, 2020). Understanding how these aggregate variables transmit to firm-level profitability is therefore important for managers, investors, and policymakers seeking to mitigate risk and strengthen corporate resilience (Chang & Shazali, 2005). Although effective working-capital and liquidity management can improve firms operating efficiency and profitability, these internal actions do not eliminate their exposure to macroeconomic conditions beyond managerial control (Bashir et al., 2024).

In addition, macroeconomic conditions outside firm control also shape performance. Macroeconomic instability increases default risk in leveraged firms (Zeitun et al., 2007). Inflation, interest-rate changes, and GDP influence corporate failure risk and performance (Wadhwani, 1986; Tirapat & Nittayagasetwat, 1999; Liu, 2004). Within the Malaysian capital market, inflation has also been found to exert a significant negative effect on stock market performance during crisis periods, demonstrating another channel through which changing price levels may influence firms and investors (George & Md Yusof, 2023). Monetary policy further affects firms through its influence on debt costs and liquidity conditions, which are particularly important for firms reliant on external financing.

The association between corporate performance and macroeconomic conditions varies by economy type and industry. In Jordan, manufacturing output positively influences firm performance, while unanticipated interest-rate changes negatively affect return on assets (ROA) (Zeitun et al.). This underscores the need to test advanced-economy theories empirically in emerging markets like Malaysia. In Malaysia, Roslan et al. (2024) studied 72 ACE Market firms on Bursa Malaysia (2018–2022) and found that GDP growth and interest rates have significant negative relationships with return on equity (ROE). Rapid economic growth may raise operational costs or intensify competition, straining smaller firms, highlighting differential vulnerabilities among firms of different sizes.

These mixed findings highlight an important gap in the Malaysian literature, as limited evidence examines the direction and significance of the relationships between inflation, interest rates, GDP growth and Return on Assets (ROA), particularly among large listed firms. Accordingly, this study investigates these relationships to provide evidence that may support corporate decision-making and the formulation of macroeconomic policy (Roslan et al., 2024). The relationship between macroeconomic conditions and corporate financial performance has long been recognized, yet the way these factors influence firm profitability in Malaysia remains unclear. Existing Malaysian evidence is fragmented and produces mixed findings. Conventional economic theory suggests that GDP growth should improve firm performance, but recent Malaysian evidence challenges this assumption. For example, Roslan et al. (2024) found that GDP growth and interest rates have a significant negative relationship with firm profitability among ACE Market firms. In addition, many Malaysian studies have focused mainly on financial distress, banking firms, or mixed-sector samples. For instance, Alifiah and Tahir (2018) demonstrated that macroeconomic variables are important predictors of financial distress among Malaysian firms. However, such studies do not fully explain how inflation, interest rates, and GDP growth jointly affect the ongoing profitability of healthy listed firms.

The study also aligns with Sustainable Development Goal 8, which emphasises sustained economic growth and improvements in economic productivity. By examining how inflation, interest rates, and GDP growth affect the profitability of large Malaysian listed firms, the study provides firm-level evidence on the transmission of macroeconomic conditions to corporate performance. This evidence may assist policymakers and corporate decision-makers in strengthening firm resilience and sustaining economic activity under changing macroeconomic conditions.

More specifically, the present study differs from prior Malaysian research in terms of research outcome, sample coverage, performance measurement, and study period. Alifiah and Tahir (2018) examined financial distress among Malaysian manufacturing and non-manufacturing firms using financial ratios and macroeconomic variables, with financial distress treated as the outcome variable. Roslan et al. (2024), in contrast, investigated 72 firms from the consumer products and services sector of the ACE Market between 2018 and 2022, using ROE as the measure of financial performance and incorporating corporate governance variables. The present study extends this literature by examining the top 50 Bursa Malaysia-listed firms by market capitalisation across industries over a longer period from 2015 to 2024. It also uses ROA to assess asset-based profitability and jointly evaluates inflation, the Overnight Policy Rate, and GDP growth while controlling for firm size and leverage. This distinction provides evidence on whether large and established Malaysian listed firms respond differently to macroeconomic conditions compared with financially distressed firms and smaller ACE Market firms.

This issue is particularly important for capital-intensive firms in Malaysia, as changes in these macroeconomic factors may directly affect firms' Return on Assets (ROA). Despite this relevance, empirical evidence on large, listed firms remain limited. Therefore, this study aims to examine the combined impact of inflation rate, interest rate, and GDP growth on the financial performance of 50 large Bursa Malaysia-listed firms selected based on market capitalisation. Focusing on these firms is important because they represent large, influential companies across different industries, providing broader evidence on how macroeconomic conditions affect corporate profitability. By examining their ROA, this study provides insights for managers in managing macroeconomic risks and offers evidence-based implications for policymakers. This focus further responds to the argument by Alifiah and Tahir (2018) that the effects of macroeconomic factors are not uniform across industries, thereby highlighting the need for firm level performance analysis.

This study contributes to the Malaysian literature by extending prior research from financial-distress models and smaller ACE Market firms to a balanced panel of 500 firm-year observations involving large Bursa Malaysia-listed firms across industries. It also offers practical insights for managers in managing macroeconomic risks, for investors in evaluating firm performance, and for policymakers in understanding how broader economic conditions affect corporate profitability. Accordingly, this study aims to examine the impact of macroeconomic factors, namely inflation rate, interest rate, and GDP growth, on the financial performance of listed firms in Malaysia, measured by Return on Assets (ROA).

Literature Review

Financial performance is the dependent variable in this study and is measured using Return on Assets (ROA), calculated as net income divided by total assets and expressed as a percentage. ROA reflects a firm's profitability and operational efficiency by indicating how effectively management utilises its asset base to generate earnings (Zeitun et al., 2007). Compared with Return on Equity (ROE), ROA is less directly influenced by differences in capital structure and is therefore more appropriate for examining the relationship between external macroeconomic conditions and firm performance (Platt & Platt, 1994). This distinction is particularly relevant because Malaysian listed firms operate across different industries and financing structures. Firm performance may also be shaped by both macroeconomic conditions and firm-level characteristics (Roslan et al., 2024). Accordingly, ROA provides a suitable measure for assessing asset-based profitability and examining the relationships of inflation, interest rates, and GDP growth with the financial performance of Malaysian listed firms.

Although the present study focuses on external macroeconomic factors, firm performance may also be influenced by internal governance and reporting mechanisms. Izwan et al. (2024) found that board members financial literacy, corporate environmental disclosure, and financial reporting quality are closely connected. This evidence illustrates the broader importance of internal firm-level mechanisms in shaping corporate reporting and decision-making. However, governance variables are outside the empirical scope of the present study and therefore do not constitute its primary theoretical foundation.

Theoretical Framework and Hypothesis Development

The credit channel of monetary policy transmission provides the primary theoretical foundation for this study. The theory proposes that monetary policy affects firms not only through changes

in interest rates but also through credit-market frictions that influence the cost and availability of external finance. Information asymmetry between borrowers and lenders may create an external finance premium, causing changes in monetary conditions to affect firms' borrowing capacity, investment decisions, cash flows, and financial performance (Bernanke & Gertler, 1995).

The study variables are aligned with this theoretical mechanism. The Overnight Policy Rate represents the monetary policy stance, while leverage reflects firms' exposure to external financing. Firm size is included to control for differences in access to finance because the response to monetary tightening may vary between smaller and larger firms (Gertler & Gilchrist, 1994). Inflation and GDP growth represent broader macroeconomic conditions that may affect operating cash flows, demand, and firms' balance-sheet strength. The financial accelerator mechanism suggests that changes in balance-sheet conditions and credit availability may amplify the effects of macroeconomic fluctuations on firm activity and performance (Bernanke et al., 1999). ROA therefore represents the firm-level performance outcome examined in this study.

Inflation rate may influence ROA through several channels, particularly input costs, wage expenses, consumer purchasing power, and pricing decisions. Higher inflation can increase production and operating costs, thereby reducing profit margins when firms are unable to transfer these cost increases to consumers. Inflation may also create uncertainty in business planning and weaken real purchasing power, which can affect demand and firm profitability. Previous studies have shown that inflation and macroeconomic instability may increase corporate risk and reduce firm performance, especially among firms with weaker financial positions (Wadhwani, 1986; Tirapat & Nittayagasetwat, 1999; Zeitun et al., 2007). However, the relationship between inflation and ROA may not be uniformly negative. Firms with strong pricing power, stable demand, and effective cost management may be able to absorb inflationary pressures or pass higher costs to customers. This suggests that the effect of inflation on financial performance depends on firm characteristics, market structure, and the broader economic environment.

Higher inflation may reduce profitability by increasing operating costs and weakening internally generated cash flows, particularly when firms are unable to transfer higher costs to customers. Accordingly, the following hypothesis is proposed:

H1: Inflation rate has a negative relationship with ROA.

Interest rate is another important macroeconomic factor that may affect ROA through borrowing costs, investment decisions, and liquidity conditions. In Malaysia, the Overnight Policy Rate (OPR) set by Bank Negara Malaysia influences lending rates and the cost of external financing. When interest rates increase, firms that rely heavily on debt financing may experience higher interest expenses, which can reduce net income and weaken ROA. This is consistent with the view that tighter monetary conditions can restrict investment, reduce cash flows, and increase financial pressure on firms (Wadhwani, 1986; Zeitun et al., 2007). In the Malaysian context, Roslan et al. (2024) found that interest rates had a significant negative relationship with firm profitability among ACE Market firms, indicating that monetary policy changes may influence firm outcomes. Nevertheless, the impact of interest rates may differ across firm types. Larger listed firms may have stronger cash flows, better access to financing, and greater ability to manage debt obligations, making them less sensitive to interest rate

movements than smaller firms. Thus, the relationship between interest rate and ROA remains an empirical issue that requires further investigation.

Consistent with the credit channel, an increase in the policy interest rate may raise external financing costs, constrain borrowing and investment, and weaken firm profitability. Accordingly, the following hypothesis is proposed:

H2: Interest rate has a negative relationship with ROA.

Gross Domestic Product (GDP) growth reflects the overall level of economic activity and is generally expected to support firm financial performance. During periods of economic expansion, firms may benefit from stronger consumer demand, higher sales revenue, improved investment opportunities, and greater business confidence. These conditions can enhance profitability and improve ROA. Prior studies suggest that favourable macroeconomic conditions can strengthen corporate performance by improving cash flows and reducing financial risk (Tirapat & Nittayagasetwat, 1999; Zeitun et al., 2007). However, the effect of GDP growth on firm performance may not always be positive. Rapid economic growth may also increase competition, labour costs, input prices, and operational pressures, particularly for firms that lack sufficient resources or pricing power. Roslan et al. (2024) found that GDP growth had a significant negative relationship with profitability among ACE Market firms in Malaysia, suggesting that economic expansion may not benefit all firms equally. This indicates that the effect of GDP growth on ROA may vary according to firm size, industry exposure, and market position.

Economic expansion may strengthen market demand, operating cash flows, and firms balance-sheet positions, thereby supporting access to external finance and improving profitability. Accordingly, the following hypothesis is proposed:

H3: GDP growth has a positive relationship with ROA.

Overall, the mixed findings in prior studies may be explained by differences in firm size, sectoral composition, sample period, and performance measurement. Firm size may influence firms responses to macroeconomic and financing conditions because access to finance and the effects of financial development are not uniform across small and large firms (Beck et al., 2008). This may explain why findings based on smaller, emerging ACE Market firms differ from those involving large and established listed firms. Sectoral composition may also affect the results because industries differ in their cost structures, financing needs, and exposure to changes in demand. Alifiah and Tahir (2018) found that the significant predictors of financial distress differed between manufacturing and non-manufacturing firms, while Zeitun et al. (2007) indicated that the relationship between macroeconomic conditions and corporate performance depends on the industries through which economic changes are transmitted.

Differences in sample periods and performance measures provide further explanations. Roslan et al. (2024) examined the 2018–2022 period, which included Malaysia's economic contraction in 2020 and strong recovery in 2022, whereas the present study covers the broader 2015–2024 period. Malaysia's GDP contracted by 5.6% in 2020 before recording growth of 8.7% in 2022, indicating substantial changes in economic conditions during the shorter period (Department of Statistics Malaysia, 2021, 2023). In addition, Roslan et al. (2024) measured performance using ROE, Alifiah and Tahir (2018) examined financial distress, while the present study uses ROA. ROE measures profitability relative to shareholders' equity and is influenced by financial leverage, whereas ROA evaluates profitability relative to the firm's total asset base (Nissim &

Penman, 2003). Therefore, differences in firm characteristics, sector coverage, economic conditions, and outcome measurement may explain the inconsistent direction and significance of macroeconomic effects reported in previous studies.

Methodology

Research Design

This research investigates the impact of macroeconomic factors on the financial performance of listed firms in Malaysia using a longitudinal panel research design. The study adopts a quantitative and explanatory approach to provide empirical evidence on the relationship between inflation rate, interest rate, gross domestic product (GDP) growth, and firm financial performance. A panel research design is appropriate because it allows the study to observe variations across firms and over time. By examining the financial performance of several companies across multiple years, the research enhances statistical robustness, controls for firm-level differences, and captures changes in the relationships between the variables during the study period.

The dependent variable in this study is firm financial performance, measured by Return on Assets (ROA). The independent variables are inflation rate, interest rate, and GDP growth, while firm size and leverage are included as control variables. The regression model used in this study is specified as follows:

$$ROA_{it} = \beta_0 + \beta_1 INFL_{it} + \beta_2 INTR_{it} + \beta_3 GDP_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \varepsilon_{it}$$

Where ROA_{it} represents the Return on Assets of firm i in year t , $INFL_{it}$ represents the inflation rate, $INTR_{it}$ represents the interest rate, GDP_{it} represents gross domestic product growth, $SIZE_{it}$ represents firm size, LEV_{it} represents leverage, β_0 is the constant term, β_1 to β_5 are the estimated coefficients, and ε_{it} is the error term.

The three hypotheses relate to the main explanatory variables: inflation rate, interest rate, and GDP growth. Firm size and leverage are included as control variables to account for differences in access to external finance and exposure to financing risk; therefore, separate hypotheses are not developed for these variables.

Population and Sample

The population of this study consists of companies listed on Bursa Malaysia. The sample comprises 50 large listed firms selected based on their market-capitalisation ranking in DataStream as at 14 April 2026. These firms were selected to represent large and established companies in the Malaysian corporate sector. The 50 firms listed firms initially selected, six were excluded because they were either listed after 2015 or had incomplete financial data for one or more years during the 2015-2024 period. Each excluded firm was replaced sequentially with the next highest-ranked company by market capitalisation that satisfied both eligibility criteria: listing by 2015 and complete data availability throughout the study period. This replacement procedure preserved the market-capitalisation-based sampling approach and resulted in a balanced panel of 50 firms, comprising 500 firm-year observations.

Discussion of Findings

Descriptive Analysis

Table 1 presents the descriptive statistics for the variables used in this study, based on the results generated from STATA. The analysis provides an overview of the mean values, variability, and distributional characteristics of the variables examined in this study.

Table 1 Descriptive Analysis

Variables	N	Mean	Minimum	Maximum	Skewness	Kurtosis
ROA	500	4.7769	-16.0821	29.6957	1.4696	7.2643
CPI	500	1.8800	-1.1000	3.9000	0.6677	3.0403
OPR	500	2.7630	1.7500	3.2500	-0.8853	2.1395
GDP	500	3.9900	-5.5000	9.000	-1.6771	5.8241
SIZE	500	23.7855	17.9395	27.7036	0.1696	3.3505
LEV	500	0.2385	0.0009	0.7470	0.4001	2.2888

Notes: ROA is measured by Net Income divided by Total Assets; CPI is measured using the Consumer Price Index as a proxy for inflation rate; OPR is measured using the Overnight Policy Rate as a proxy for interest rate; GDP is measured using real GDP growth; SIZE is measured by the Natural Logarithm of Total Assets; and LEV is measured using the Debt-to-Asset Ratio.

Table 1 reports the descriptive statistics for the study variables. ROA has a mean of 4.7769%, ranging from -16.0821% to 29.6957%. The negative minimum indicates that some firm-year observations recorded losses, while the wide range reflects considerable variation in profitability across firms and years. The positive skewness of 1.4696 suggests that a relatively small number of observations reported comparatively high ROA values.

Inflation, measured using the Consumer Price Index, has a mean of 1.8800%, with values ranging from -1.1000% to 3.9000%. The negative minimum indicates that the study period included a year of declining consumer prices. The Overnight Policy Rate averages 2.7630% and ranges from 1.7500% to 3.2500%, indicating relatively limited variation in the monetary policy rate. GDP growth has a mean of 3.9900%, with values ranging from -5.5000% to 9.0000%, showing that the sample period includes both economic contraction and strong expansion.

Firm size, measured as the natural logarithm of total assets, has a mean of 23.7855 and ranges from 17.9395 to 27.7036. Its low skewness value of 0.1696 indicates a relatively symmetrical distribution. Leverage has a mean of 0.2385, suggesting that debt represents approximately 23.85% of total assets on average. Its values range from 0.0009 to 0.7470, indicating substantial differences in financing structures across the sampled firms. Overall, the descriptive statistics reveal meaningful cross-sectional variation in firm-level characteristics and temporal variation in macroeconomic conditions over the study period.

Pearson Correlation

Table 2 Pearson Correlation Matrix

Variables	ROA	CPI	OPR	GDP	SIZE	LEV
ROA	1.0000					
CPI	0.0579	1.0000				
OPR	0.0202	0.041	1.0000			
GDP	0.0786	0.7935***	0.3124**	1.0000		
SIZE	-0.5066***	0.0046	0.0362	0.0046	1.0000	
LEV	-0.0477	-0.0317	-0.0038	-0.0331	-0.1703*	1.0000

Notes: *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

ROA is measured by Net Income divided by Total Assets; CPI is measured using the Consumer Price Index as a proxy for inflation rate; OPR is measured using the Overnight Policy Rate as a proxy for interest rate; GDP is measured using real GDP growth; SIZE is measured by the Natural Logarithm of Total Assets; and LEV is measured using the Debt-to-Asset Ratio.

Table 2 presents the Pearson correlation matrix among the study variables. Firm performance (ROA) is negatively correlated with firm size (SIZE, $r = -0.5066$, $p < 0.01$) and weakly negatively correlated with leverage (LEV, $r = -0.0477$), while demonstrating weak positive correlations with CPI inflation ($r = 0.0579$), OPR interest rate ($r = 0.0202$), and GDP growth ($r = 0.0786$). These results suggest that larger firms tend to generate lower returns on assets, whereas macroeconomic variables exhibit negligible linear relationships with firm performance.

In addition, the correlation matrix serves as an initial diagnostic for multicollinearity examining the relationships among independent variables. The highest intercorrelation is observed between CPI and GDP at 0.7935 ($p < 0.01$), followed by OPR and GDP at 0.3124 ($p < 0.05$). Although the CPI–GDP correlation approaches the conventional threshold of 0.80, it remains below the critical level, indicating that severe multicollinearity is unlikely. This conclusion is further supported by the variance inflation factor (VIF) results, which show a mean VIF of 1.67, well below the threshold of 10, confirming the stability and reliability of the subsequent regression estimates.

Regression – Random-Effects Regression

Prior to estimating the regression model, multicollinearity was assessed using the Variance Inflation Factor (VIF). The highest VIF values were recorded for GDP growth (3.43) and inflation (3.10), while the mean VIF was 1.96. As these values remain below the commonly applied thresholds of 5 and 10, multicollinearity is not considered a serious concern. The Breusch–Pagan test conducted on the initial pooled ordinary least squares model rejected the null hypothesis of homoskedasticity ($\chi^2 = 197.95$, $p < 0.001$), confirming the presence of heteroskedasticity. The Hausman specification test did not reject the null hypothesis that the random-effects estimator is consistent ($\chi^2(5) = 6.55$, $p = 0.2565$). Accordingly, the random-effects model was selected, and cluster-robust standard errors were employed to provide inference that is robust to heteroskedasticity and within-firm error correlation.

Table 3 Random-Effects Regression with Firm-Clustered Robust Standard Errors

Variables	ROA
CPI	-0.0471 (0.1562)
OPR	0.1127 (0.3222)
GDP	0.1145* (0.0593)
SIZE	-1.3243** (0.5581)
LEV	-7.9491** (3.2322)
Constant	37.4915*** (13.3775)

Notes: *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively. ROA is measured by Net Income divided by Total Assets; CPI is measured using the Consumer Price Index as a proxy for inflation rate; OPR is measured using the Overnight Policy Rate as a proxy for interest rate; GDP is measured using real GDP growth; SIZE is measured by the Natural Logarithm of Total Assets; and LEV is measured using the Debt-to-Asset Ratio.

The random-effects regression results in Table 3 above show that inflation has a negative but statistically insignificant relationship with ROA ($\beta = -0.0471$, $p = 0.763$). The OPR also has no statistically significant relationship with ROA, although its coefficient is positive ($\beta = 0.1127$, $p = 0.726$). GDP growth has a positive coefficient of 0.1145 and is marginally significant at the 10% level ($p = 0.054$), providing limited evidence that economic expansion may be associated with improved ROA. Firm size has a significant negative relationship with ROA ($\beta = -1.3243$, $p = 0.018$), while leverage is also negatively and significantly associated with ROA ($\beta = -7.9491$, $p = 0.014$). The overall R-squared of 0.2403 indicates that the model explains approximately 24.03% of the variation in ROA across firms and years.

Based on the regression results, H1 is not supported because inflation has a negative but statistically insignificant relationship with ROA. H2 is also not supported because the OPR has a positive and statistically insignificant relationship with ROA. H3 receives limited support because GDP growth has a positive relationship with ROA but is significant only at the 10% level. Therefore, the GDP result represents marginal rather than conclusive evidence.

From the perspective of the credit channel, the insignificant OPR result may indicate that large listed firms are less sensitive to policy-rate changes because of their broader access to financing. However, this interpretation remains tentative because the study does not directly measure credit availability or the external finance premium.

Firm size and leverage appear to be more strongly associated with ROA than the selected macroeconomic variables because they capture firm-specific differences in asset utilisation and financing structure. In contrast, inflation, the OPR, and GDP growth take the same annual value for all firms and therefore explain changes across years rather than differences among firms. The negative relationship between firm size and ROA does not necessarily indicate that expansion is harmful. Since ROA measures earnings relative to total assets, a larger asset base may result in lower ROA when earnings do not increase proportionately. Similarly, higher

leverage may weaken ROA through greater financing costs and debt-servicing commitments, which reduce net income and asset efficiency. For large Malaysian listed firms, broader access to financing may reduce sensitivity to short-term macroeconomic changes, while asset deployment and debt management remain more directly associated with profitability (Bernanke & Gertler, 1995; Nissim & Penman, 2003).

Conclusion

This study examined the impact of macroeconomic factors on the financial performance of listed firms in Malaysia, measured by Return on Assets (ROA). Specifically, the study investigated the effects of inflation rate, interest rate, and GDP growth on the top 50 large Bursa Malaysia-listed firms selected based on market capitalisation over the period 2015 to 2024, with firm size (LOG) and leverage (LEV) included as control variables.

The findings show that inflation rate and interest rate have no statistically significant effect on ROA. The findings show that inflation and interest rates have no statistically significant relationship with ROA during the study period. Therefore, the results do not provide sufficient evidence that changes in price levels or the OPR were directly associated with the profitability of the sampled firms. In contrast, GDP growth has a positive and marginally significant effect on ROA, indicating that economic expansion may modestly improve firm profitability. However, as the relationship is only significant at the 10% level, the result should be interpreted with caution.

The significant negative relationships of firm size and leverage with ROA indicate that profitability differences among large Malaysian listed firms are more closely associated with asset utilisation and financing structure than with short-term macroeconomic movements during the study period. A larger asset base does not necessarily improve ROA unless earnings increase proportionately, while higher leverage may place additional pressure on net income through financing commitments. These findings highlight the importance of productive asset deployment and prudent debt management among large listed firms.

Overall, this study contributes to the Malaysian literature by providing evidence on the effects of inflation, interest rates and GDP growth on the ROA of large Bursa Malaysia-listed firms over the 2015–2024 period. The findings imply that managers should ensure that asset expansion generates proportionate earnings and maintain prudent debt levels, while investors should evaluate asset productivity and financing structure alongside macroeconomic conditions. For policymakers, the results suggest that macroeconomic policy changes may have limited direct effects on the profitability of large listed firms. Future studies may extend this research by examining smaller firms, sector-specific samples, longer time periods, or alternative performance measures such as Return on Equity and Tobin's Q.

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