UNIVERSITI TEKNOLOGI MARA

THE RELEVANCE OF MACROECONOMIC INDICATORS IN PREDICTING FINANCIAL DISTRESS OF PUBLIC LISTED FIRMS IN MALAYSIA

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AUTHOR'S DECLARATION

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ABSTRACT

Financial distress can be defined as an inability of companies to generate profit due to excessive debt. The company that suffers from financial distress will cause them to fail in many business operations that increase their probability of losing their capital from the investors. There is ongoing debate about the relationship of macroeconomic indicators toward financial distress. Concerning the various empirical findings, it has been argued that the ability of macroeconomic indicator can give impact or influence the companies to have financial distress problem or becoming bankrupt. Therefore, the purpose of this study is to determine the impact of macroeconomic indicators on the Z-score of financial distressed companies and to investigate whether the level of Z-score of non – financial distress companies and sectorial can be influenced by the macroeconomic indicators. This sample of this study consists of PN17 distress companies and non-distressed companies from Bursa Malaysia with the selected macroeconomic indicators such as gross domestic product, consumer price index, producer price index, real interest rate and money supply. The data analysis was conducted using data stretching from 2008 until 2017 and the analysis based on Static Panel Data Analysis. The general findings suggested that both companies were able to be influenced by the selected macroeconomic indicators for this study. The significance of the study suggests that money supply was the most crucial macroeconomic indicator as it able to influence all the sectors to have financial distress problems. Thus, the implication of the study may help the company to have a closer look into this macroeconomics indicators to sustain their existence in business while maintaining their performance and profitability. Meanwhile, the government may collaborate with the banking institution in controlling the money supply into our economy by implementing effective strategies for controlling well on the producer price index especially when the country is facing inflation.

Keywords: Financial Distress, Altman Z-Score Model, Macroeconomic Indicators, Practice Note 17 (PN17)

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