The Effect of Inflation on the Profitability of Openness and Member Banks Tehran Stock Exchange

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ABSTRACT  
Tehran Stock Exchange member banks, as one of the most important elements of the monetary market, a very important and significant role to play in the economy. The factors affecting the profitability of banks, stock certainly could be economic development. Given that the external factors affecting the performance of the banks to the economic and political conditions prevailing in the country depends on the other hand this is not under the control of the management agents and depends on the country's political and economic situation, therefore, in the present study, an attempt has been the effect of openness on the economy and inflation, the profitability of banks accepted in Tehran stock exchange, be investigated. For this purpose, the data exchange member banks and regression was used during 1383 to 1392. The results showed that inflation and the size of the bank has an opposite effect on the banks' performance criteria and economic openness does not affect its performance criteria.

KEYWORDS  
Inflation, profitability, member banks Tehran stock exchange, size of the Bank

INTRODUCTION  
Books are offering banking services to customers, earn money to attract deposits through that people with low interest rates and the granting of facilities with higher interest rates and the outcome of the dispute of the two rates, the Bank's earning is that profit margins, and it is said,. So, no matter how the bank can use the economies of scale, the profits of this operation will be higher. But the profitability of banks influenced by the bank's management and internal control factors and economic conditions of the country and environmental factors that affect it, is. Therefore, to avoid any diversion, the factors affecting the profitability of the main groups ' determinants ' are divided into internal and external. The internal factors, management control of the Bank and they are basically a reflection of differences in the policies of the Bank's management and decision-making in regard to resources and the use of the asset and debt portfolio management, capital adequacy and liquidity management and costs. The motivation of top management in making improvements in the profitability of banks is effective things that can be done by reviewing the balance sheet and profit and loss accounts are reviewed and analyzed. Items on the balance sheet and represents the bank's management decisions and policies associated with the composition and sources of funds are used. As well as management efficiency in generating income and control costs in the profit and loss accounts reflected. From other, external determinants beyond the management of the banks that are two factors that are more dependent on Bank features such as the ownership of the Bank and scale factors that depend on the economic conditions prevailing in the country, such as inflation, money supply, the openness of economy, regulatory requirements and policies of the Central Bank, and the rate of GDP growth have been segregated (Bagheri, 2007).

Multinational organizations such as the World Bank, the International Monetary Fund, the World Trade Organization. Financial system loads, the sponsor of the developing countries are to sign a new, paved the way for competitors to be (foreign financial institutions) and as such, costs and reduce credits and rates the financial system of the countries are strengthening. Predictable is that under the terms of a completely open economy, the financial sector of developing countries which, against the international standards are poor in terms of capital, against a flood of foreign capital are overwhelmed. This is as strong banks that developing countries can take advantage of openness of the economy to increase their profitability (Scott and Ovuefeyen, 2014).

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On the other hand, the relationship between inflation and profitability in a way that cannot easily conclude about it. Empirical studies on the relationship between inflation and profitability were mixed, and the results are in conflict with each other. While some studies have reported a direct impact on the profitability of inflation, other studies have shown that this relationship is reversed, while others found no significant relationship.

Considering the above explanation with regard to the current political and economic situation of the country and the possibility of sanctions, the study examines the role of economic openness and inflation on the profitability of banks will be in Tehran Stock Exchange.

BACKGROUND RESEARCH

Prasad and Harler (1997) study, "test the role of IT in the retail banking industry productivity and profitability of the United States", tried to explain the role of new technologies in increasing the profitability of the banks to pay. The results of their study showed that investment in IT systems, the efficiency of banks has not been effective, but the cost of labor information systems, the Bank has a positive impact on productivity.

Coppin et al (2003) study entitled "Use of ATM and efficiency in the banking industry Barbadyan, performed. The analysis of their review showed that employing the ATM at first because of the cost of personnel training and information programs to customers, the bank reduced the efficiency but then that this technology fully and effectively used, the efficiency of 3% to 17%.

Joshua (2007), using the Panel regression model with a sample of small and medium business units in Ghana and South Africa, indicated that the level of the total debt and long-term debt with the performance of the organization that had been measured by Tobin Q, are inversely correlated. As a result, the authentication of this topic is to reduce the conflict of interest between managers and shareholders, the possible organization of a higher debt ratio instead of a right to use the surface as a result of the high debt ratio leads to the creation of the performance will be low.

Bagheri (1386) in a study entitled "Analysis of factors affecting the profitability of commercial banks", concluded that the efficient management of the distribution cost of one node is meaningful for the profitability of banks. In addition, sound asset and liability management also have a significant impact on profitability. Among the external factors, economic growth has a positive effect on bank profitability with a significantly lower rate of inflation on the other hand has the opposite effect on profitability.

Goudarzi and Zabidi (1387) a study titled 'the effect of the expansion of electronic banking on the profitability of commercial banks' execution in Iran. The results of their review showed that increasing the number of any Bank ATM machines, have a positive impact on the profitability of the Bank that the Bank after join impact network acceleration, has increased, and on this basis, it can be concluded that the expansion of electronic banking, the positive impact and substantially affect the profitability of commercial banks in Iran.

Pedram et al. (1393) to examine the effects of inflation on the price momentum stocks asymmetric in the Tehran stock exchange. For this review, the quarterly data over the period 1991-2011. The results of this study suggest that inflation has the effect of asymmetrical on the Tehran Stock Exchange’s stock price, so that the negative effects resulting from the increase in the rate of inflation on a stock's price is far more than the positive effects that impact on the reduction of the rate of inflation is happening.

RESEARCH HYPOTHESIS

In the present study attempted to answer these questions is that (1) the openness of the economy is affecting the profitability of Melli Bank? And (2) whether inflation Melli Bank effective on profitability? And in order to answer the questions posed and also on the basis of explanation, the following hypotheses are proposed:

1. openness of the economy on the profitability of the Bank accepted in Tehran stock exchange effective.
2. Swelling on the profitability of the Bank accepted in Tehran stock exchange effective.

STATISTICAL SAMPLE

The population of this study includes data from banks, two banks Tehran Stock Exchange from 1383 to 1392 and actually study the case and, thus, sampling was not.

RESEARCH METHOD

Since the results of this study can be used in decisions, managers, investors, analysts and activists have used money and capital market, the aim of the research is applied research. As well as the aspect of how to deduce hypotheses regarding research, descriptive research group solidarity, because in order to explore the relationship between research variables, regression and correlation techniques that will be used in this way, in terms of the argument, the argument is inductive. Also, since the test data available, we will conclude, this study will be positive in theory.

To test this hypothesis by investigating first and second respectively, the following model is used:

\[ TSEROA_{i,t} = \beta_0 + \beta_1 INFT + \beta_2 TOMP + \beta_3 SIZE_{i,t} + \epsilon_{i,t} \]

\[ TSEROE_{i,t} = \beta_0 + \beta_1 INFT + \beta_2 TOMP + \beta_3 SIZE_{i,t} + \epsilon_{i,t} \]

In which:

The dependent variables:

TSEROAi,t: The Bank's return on assets is that i, in year t is equal to the ratio of net income to total assets of the Bank i:

\[ \text{Return on Asset (ROA)} = \frac{\text{Profit after Tax (PAT)}}{\text{Total Assets}} \times 100\% \]

In which:
Profit after Tax (PAT) = Profit after tax = will be equal to net profit;
Total Assets = Total assets;
Return of Assets (ROA) = Return on assets
TSEROE i,t = The Bank’s return on equity is in i, t is equal to the ratio of net income to total equity (asset return similar calculation).

**Independent variables:**
INFt = The inflation rate in year t is the price index for consumer goods and services announced by the Central Bank in the year t.
TOPNt = The openness of the economy in t is used to measure the following criteria:

\[
\text{Trade Openness (TOPN)} = \frac{\text{Export} + \text{Import}}{\text{GDP}} \times 100\%
\]

In which:
Export of total exports; Import total imports and total GDP of the country’s GDP.

**Control variable:**
SIZE i,t = The Bank's size i, in year t that is equal to the logarithm of the total bank assets i.

**RESEARCH FINDINGS**
Descriptive statistics variables are presented in table 1:

<table>
<thead>
<tr>
<th>Variables</th>
<th>Standard deviation</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Middle</th>
<th>Average</th>
<th>ROA Return on assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.011</td>
<td>0.001</td>
<td>0.044</td>
<td>0.019</td>
<td>0.02</td>
<td>0.011</td>
</tr>
<tr>
<td></td>
<td>0.1</td>
<td>0.015</td>
<td>0.512</td>
<td>0.257</td>
<td>0.257</td>
<td>0.069</td>
</tr>
<tr>
<td></td>
<td>0.069</td>
<td>0.179</td>
<td>0.442</td>
<td>0.221</td>
<td>0.245</td>
<td>0.069</td>
</tr>
<tr>
<td></td>
<td>8/261</td>
<td>10/4</td>
<td>34/7</td>
<td>16/8</td>
<td>19/12</td>
<td>0.011</td>
</tr>
<tr>
<td></td>
<td>8/281</td>
<td>12/18</td>
<td>9/136</td>
<td>8/089</td>
<td>8/095</td>
<td>0.059</td>
</tr>
</tbody>
</table>

On average, most original and most important is the central index, which reflects the equilibrium point the center of gravity is distributed. As can be seen in Table 1, the mean value of the variable return on assets for the Melli Bank, is 002/0. Central point that divides a sample into two equal parts. In other words, 50% of observations before and after they are 50% of the observations. As shown in Table 1, the mean value of the variable return on assets for the Melli Bank, is 004/0.

In general, measures of dispersion, measures the dispersion around the average check and compare their observations. One of the most important measures of dispersion, standard deviation. According to the above table, the benchmark for variable return on assets for the Melli Bank, is 002/0. The highest value for the Melli Bank's return on assets equal to 009/0, the lowest value is equal to 0009/0. Other variables used descriptive statistics also can be seen in Table 1.

In order to test hypotheses and estimation models, the first to determine the method of using the combined data, and its homogeneous or heterogeneous detection Chow test and the test is F Limer used. The statistical hypothesis testing as follows:

H0=Pooled Data
H1=Panel Data

Assuming H0, based on non-personal non-works is visible and the assumption of the existence of individual works on the basis of non-H1 visible. If H0 is accepted, it means that the model lacks the personal works of non-visible, therefore, may be through integrated estimation of regression model, but if H1 is accepted, this will be a significant individual in the non-visible model works there.

If the results of this test, the data are based on the use of panel data, you need to estimate the model from a fixed effects model (FEM) or random effects (REM) is used. To select one of these two models should Hausman test run.

H0=Random Effect
H1=Fixed Effect

Hausman null hypothesis that the suitability of the random effects model to estimate the panel data regression models.

The results of tests first and second paper that "openness on the profitability of banks listed on the Tehran Stock Exchange effective" and "inflation profitability of banks listed on the Tehran Stock Exchange effective", using the the two measures of return on assets and return on equity as dependent variables are presented in table 2.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Significance level</th>
<th>Coefficients</th>
<th>Significance level</th>
<th>Coefficients</th>
<th>Symbol</th>
<th>Explanatory variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Equity</td>
<td>0.000</td>
<td>0.997</td>
<td>0.001</td>
<td>0.08</td>
<td>β0</td>
<td>Constant</td>
</tr>
<tr>
<td>Return on assets</td>
<td>0.022</td>
<td>-0.001</td>
<td>0.043</td>
<td>-0.001</td>
<td>INF</td>
<td>Inflation</td>
</tr>
<tr>
<td>The dependent variable</td>
<td>0.607</td>
<td>0.062</td>
<td>0.181</td>
<td>0.005</td>
<td>TOPN</td>
<td>Openness of the economy</td>
</tr>
<tr>
<td>The size of the Bank</td>
<td>0.008</td>
<td>-0.072</td>
<td>0.007</td>
<td>-0.007</td>
<td>SIZE</td>
<td>The size of the Bank</td>
</tr>
</tbody>
</table>

The dependent variable: return on assets....
banks do not, therefore, limited literature exists on the subject. Of course Asongu (2012) In a study conducted in African countries, came to the conclusion that the openness of financial and transactional income countries which are weak, their performance is weakened.

On the other hand, empirical studies on the relationship between inflation and profitability has been mixed and inconsistent results with each other. While some studies have reported a direct impact on the profitability of inflation, other studies have shown that this relationship is reversed.

In this study, the research hypotheses based on data collected from member banks Tehran Stock Exchange during 1383 to 1392 were analyzed using regression analysis. The descriptive statistics for the dependent variables were independent and control. Then raised two main hypotheses were tested. Test results of the regression equation based on significant coefficients fitted, briefly stating this was the openness of the economy on the Bank's performance criteria, a member of the TSE does not impact inflation and the size of the Bank on the Bank's performance criteria, a member of the Tehran stock exchange has the reverse effect.

Inflation adversely affect the profitability of private banks (listed in the Tehran Stock Exchange) that can detect vulnerabilities in the face of rising inflation show the banks. Increased demand for the facilities in the space already and the granting of facilities regardless of compliance requirements, including the use of resources, proper attention to the terms of the loan applicants (capacity, capacity, etc.), getting a reputable and reliable collateral of receipt of such items that increase the rate of claims pending in the space already. On the other hand these banks have not been able to improve the country's economic space in order to increase the profitability of their operation. But anyway this thread a little bunch of reducing their profitability is not virtue that can be accepted by the Bank does not pay attention in Tehran Stock Exchange to macroeconomic indicators.

**Offers**

1. with regard to the impact of the Bank's stock is not possible for a member of openness of the economy, it is recommended to the appropriate deployment strategies with the managers of the banks in response to a change in the economic space and an increase in international transactions, the practical measures and your profitability with the opportunity to use the establishment of branches in countries, cities and regions, currency requirements, boost.

2. According to the reverse impact of inflation on the profitability of private banks accepted in TSE executives mentioned banks, it is recommended to maintain the profitability of banks in terms of an increase in inflation, and the necessary monitoring measures in the context of granting the facility with the necessary lending principles.

3. The Bank's shares to investors as well as the above mentioned it is recommended that when the
transaction and buy and sell shares of these banks, the impact on the profitability of low inflation that have sufficient attention to its maximum efficiency of the investment.

REFERENCES


