

## **The impact of macroeconomic variables on the economic performance of SMEs in Malaysia: An analysis of SMEs in five major sectors**

### **ABSTRACT**

This study aims to examine the impact of macroeconomic variables on the economic performance of Malaysian SMEs from the year 2000 until 2018. The external issue reported that the continuous cost rising weighs down the performance and growth of SMEs expectedly. The internal deficiency and challenge used to determine the productivity and profitability of SMEs majorly, but limited studies to validate the performance of SMEs by using the macroeconomic variable. Thus, this study investigates the relationship between macroeconomic variables and SMEs performance. Macroeconomic data on the gross domestic product, inflation rate, interest rate, and government tax revenue were collected yearly from 2000 to 2018. The unemployment rate had taken into account as a control variable in this study. The analysis employed the Autoregressive Distributed Lag Model, Error Correction Model, Wald Test, and Keynesian Economic Theory. It is identified that in the long run, macroeconomic variables are collectively significant in influencing the performance of SMEs while the individual impact of macroeconomic variables is varied. The rise in the level of interest rate, inflation, and government tax revenue will result in a decline in the performance of agriculture, construction, mining and quarrying, and service sectors. It was found that all macroeconomic variables do not significantly influence manufacturing's performance. Of all sectors of SMEs analyzed, the construction sector is affected by all macroeconomic variables. In the short run, the individual impact of macroeconomic factors is varied and it is also identified that the mining and quarrying sector and construction sector examine the faster speed of adjustment among other sectors within 1.3 years and 1.2 years separately. It is advised for policymakers to consider lowering the tax rate or offer a tax exemption program to encourage more business activities among SMEs. In future research, it is suggested to explore the granger effect among SMEs themselves, investigate the broader perspective of this phenomenon for SMEs by panel analysis, and employ a mixed-method approach to focus the managerial strategies undertake by SMEs during the unexpected economic situation.