Impact of Inflation on Stock Returns in Banks and Financial Services Sector in Egyptian Stock Exchange

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Abstract:

This research aim to study the effect of inflation on stock returns in banks and financial services sector in Egyptian Stock Exchange. The inflation is a macro variable which is taken under consideration, it is considered as a very important for the economy of any change among this variable affect the economy in various ways and the regulatory authority to take steps in order to make changes in their policies which can affect the economy in a positive way. Eleven years from (2007- 2017) is taken in consideration. Regression model is applied to the data and the result shows that there is a relationship among the independent variable (Inflation) and dependent variable (Stock Returns).

Key Words: Banks and Financial Services Sector, Inflation, Stock returns.

Jel Classification Codes: M 41 ,M43

ملخص :

يهدف هذا البحث إلى دراسة أثر التضخم على عائدات الاسهم في كل من البنوك وقطاع الخدمات المالية بالبورصة المصرية. يمثل التصخم المتغير الكلي الذي أخذ بعين الاعتبار، فهو أحد المتغيرات الاقتصادية المهمة لأي تغيير في مختلف الطرق والسلطة التنظيمية، بحيث تعتمد عليه كل خطوة تتخذ لإحداث تغييرات في السياسات المؤثرة ايجابيا على الاقتصاد. تم دراسة الفترة ما بين (2007–2017). كما تم الاعتماد على نموذج الانحدار في تحليل البيانات. وأظهرت النتائج وجود علاقة بين المتغير المستقل (التضخم) والمتغير التابع (عائدات الاسهم).

الكلمات المفتاحية: بنوك وقطاع الخدمات المالية، تضخم، عائدات الاسهم.

رموز تصنيفJEL : M 41 ، M43

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Introduction:

A rapid increase in inflation also affects negatively the performance of the stock market. Growing inflation considered as a bad news by the investors because it depicts bad economic conditions in the country and investors feel insecure about their investment in the stock market. Actions of monetary authorities have a significant impact on stock prices and fluctuation of interest rate signals good or bad information to investors (Lobo, 2000).

Egyptian has one stock exchange, the Tadawul, whose financial markets are regulated by the Capital Market Authority (Egyptian). The stock market capitalization of listed companies in Egyptian was valued at $646 billion in 2007 by the World Bank (worldbank.org./).

There are many macroeconomic variables affecting the performance of the financial markets. Inflation is very important among these variables. Investors do consider these variables while making decisions about their investments. Central Bank increases target fund rate to control the money supply (inflation) which affects to businesses. To test the impact of this variable empirically, inflation is selected as independent variable and stock return is dependent variable.

Chapter one :Research Methodology

1/1: Research problem

The problem can be formulated in the following question:

What is the impact of inflation on the returns on stocks in the banking and financial services sector in the Egyptian Stock Exchange?

1/2: The importance of research

The importance of the study stems from the novelty of its topic, which is to know the impact of inflation on the returns of shares in the banking and financial services sector in the Egyptian Stock Exchange.

- **Scientific significance: -** The importance of the study stems from the scientific point of view through the limited number of researches or specialized studies, within the limits of the

researcher's knowledge, which dealt with the subject of the study, where it did not receive sufficient attention in the accounting writings, especially in the Egyptian environment, which dealt with the impact of inflation on Dividends in the banking and financial services sector in the Egyptian stock exchange, in addition to the scarcity of studies on the link between inflation and dividends.

- **Practical importance: -** The importance of the study stems from the practical point of view by knowing the impact of inflation on the returns of stocks in the banking and financial services sector in the Egyptian Stock Exchange, and determine the extent of these returns affected by inflation.

1/3 : Research objectives

The objective of the study is to investigate the impact of inflation on stock returns of Banks and Financial Services Sector in Egyptian Stock Exchange.

1/4 : The hypotheses of research

In light of the research problem, the following hypothesis has been formulated:

a) **The first hypothesis**: - Inflation affects stock returns negatively .
b) **The second hypothesis**: - It is possible to develop a model to express the negative effect of inflation on stock returns.

1/ 5 : Methods of data and information collecting

The researcher depended the descriptive approach in the theoretical and applied aspects as follows:

- Theoretical side: - the researcher relied on what was published in books, master theses, doctoral theses, periodicals on Arab and foreign than the Internet .
- Applied Aspect: - The researcher relied in collecting data related to the current research subject on the data published in the Egyptian Stock Exchange from 2007 to 2017 for the banks of the study sample.

1/6 : Methodology:-

In this study, we are investigating the impact of inflation on stock returns of Banks and Financial Services Sector in Egyptian Stock Exchange. and in this study multiple regressions are used to test the hypothesis. Inflation is independent variable and stock returns are dependent variable. For inflation CPI is used. The annual data from 2007 to 2017 is selected for the analysis.

The performance of the stock market is very important to investors and they react to macroeconomic variables which may affect the performance of the stock market.

Inflation is the key macroeconomic variable which affect the market. Which will help in their decision-making. For this purpose annual data from 1st January, 2007 to December 31th 2017 is selected. Stock returns will be calculated by calculating the change of Banks and Financial Services Sector in Egyptian Stock Exchange points.

5-Research Plan :-

To achieve the objectives of the research and address the problem scientifically and logically and to test the validity of its basic hypotheses, the study was divided as follows:

- Chapter one :Research Methodology .
- Chapter Two : Previous studies
- Chapter Three :Practical side .
- Conclusions and recommendations .

Chapter Two : Previous studies

There is a lot of literature that analyze the relationship among inflation and stock returns.

2/1 :Blanchard (1999) study aim interest rate, exchange rate and inflation have some influence on the performance of the stock market .described the relationship of output, stock market and interest rates. He stated that higher stock money lowers interest rate which means lower cost of capital and in turn causes better stock market value. He

summarized that change in the policy causes changes in the stock market because of real interest rate and anticipated profits. The announcement of a policy leads to change in profits and discount rates, which in turn affect the performance of the stock market .He concluded that the flexible policies affect the nominal money, which leads to changes in the stock market.

2/2 : Kaul (2001) stated that there is an inverse relationship among stock returns and expected inflation and positive relationship among stock returns and real activity. He tests the hypothesis of that negative relationship by selecting data from 1980 through 1999. He summarized that this inverse relationship can be explained by understanding the equilibrium process in monetary sector depending on money demand and supply influence.

Empirically tested the sensitivity of bank stock returns to market, interest rates and exchange rate risks. They covered stocks of 48 US banks for the period of 1999 through 2001 and they found that exchange rate significantly negativity related to US bank stock returns.

2/3 :Lobo (2000) studied the effect of interest rate changes in stock prices. He examined the behavior of stock prices after Federal fund rate announcements and he found that before announcements of increase in the Federal fund rate the asymmetry in price adjustments gets narrow. He also found that stock market response quicker to the news of overpricing than news of a depressing .He finally concluded that target rate announcement has significant impact on stock prices and convey new information to the\ stock market. Inflation is very important among these macroeconomic variables which affect the performance of the stock market. Actions of monetary authorities have a *Impact of* ignificant impact on stock prices and fluctuation of interest rate signals good or bad information to investors.

2/4 :Rasheed (2002) conducted a study for South Asian countries i.e. Pakistan, India, Bangladesh and Sri Lanka, to find the impact of exchange rates on the stock returns.

The study examines this relation for all the countries in long and short run fluctuations in exchange rates. The study used a monthly data for six years. The study found no relation for both long and short run between stock returns and exchange rates in India and Pakistan, also the same results were found in Bangladesh and Sri Lanka. As there is a lack of relation between returns and exchange rates, there is no need of using information regarding taking advantage of stock return due to fluctuation in exchange rate from one market to predict behavior in the other market. The study made recommendations for further research in this particular area by using weekly or even daily information in order to find more concrete evidence about stock returns and fluctuations in exchange rates.

2/5 :Aydemir & Demirhan (2009) in their study analyzed the impact of macroeconomic variables on the stock market of Turkey. The data from the periods of 2001 to 2008 was selected to analyze. They described the traditional approach which based on the concept that the stock market leads exchange rate movements. The augmented dickey fuller test of their study indicated that the data was integrated order one and the causality test confirmed bidirectional causality between exchange rate and the stock prices of Turkey stock exchange. The results of the study indicated positive causality among exchange rate and technology indices.

2/6 :Khrawish, Siam & ,Jaradat (2010) in their study examined the market capitalization rate and interest rate for the market of Jordan named Amman Stock Exchange. Both variations are important to affect the country's economy .To examine the relationship sample from 1990 to 2008 was selected and the OLS regression method was applied to test the hypothesis. The results of the study demonstrated a significant positive relationship and the first hypothesis (A) of a negative relationship between interest rate and the market capitalization rate was rejected. They also found that there was a positive relationship between market development rate and market capitalization rate, so the B was

rejected .They finally concluded that the government plays an important role to intervene in the financial market of the Jorden.

2/7 : Rano & Bayero (2010) studied volatility of stock returns and the impact of inflation. The applied Generalized Heteroscedasticity Model to investigate the relationship for the market of Nigeria and Ghana. Test of the normality of data, descriptive statistics indicated average stock returns were positive, but more volatile for the markets of Nigeria and Ghana. It was found from the model's returns that the volatility for Nigeria's market were significant but insignificant for the market in Ghana .Market volatility was affected by inflation in both of the countries .A decrease in inflation caused an increase in market volatility, but it was insignificant in the market of Ghana.

2/8 : Arouri et al (2014) the nexus between stock return and inflation is assessed for Pakistan using the methodology of frequency based causality over a long period. the study finds stock returns and inflation to be in the phase (positively related) when consumers' price inflation is considered and independent when producers' price inflation is utilized. Overall results based on both the inflation measures indicate that, inflation does not erode the value of stocks in Pakistan and stocks could be used as hedge against inflation at least in the long-run.

Chapter Three :Practical side

This part includes a model explains the relationship between inflation as an independent variable and earnings Stock Returns as the dependent variable, and analysis of data using the correlation coefficient for the interpretation of the form.

3/1 : Multiple Regression Model

The study will employ linear regression analysis to test the hypotheses:

A) Inflation affects stock returns negatively

B) It is possible to develop a model to express the negative effect of inflation on stock returns.

The linear regression model is:

$$Sr = \alpha + \beta\ Inf$$

α = constant.

Sr = Stock Returns

β = The value of the dependent variable

Inf = Inflation (CPI is used)

Inflation can be measured by many indicators which are consumer price index, wholesale price index and the service price index. In Egyptian .

Stock returns will be calculated as :

$$Sr = (p1 - p0) - Ds/p0$$

p1 = Price at the beginning of the period.

p0 = Price at the end of the period.

Ds = Distributions during the period.

3/2 : Data Description:

- Inflation:

The following rates of inflation in Egyptian during the period (2007-2017). Table (1) Annual inflation rates in the Kingdom of Egyptian Arabia (2007 - 2017)

Year	inflation rate
2007	0.6
2008	0.4
2009	0.6
2010	2.3
2011	4.1
2012	9.9
2013	4.6
2014	4.7
2015	4.6
2016	4.6
2017	3.5

- Return on stocks:

The following account of return on stocks for the banking sector and financial services in the Egyptian Stock Exchange.

Table (2) Calculate the return on stocks for the banking sector and financial services (2007 - 2017)

Year	Banks											Banks sector
	1		3	4	5	6	7	8	9	10	11	
2007	2.63	0.89	0	1.16	1.05	0.70	0.74	0.84	1.58	0	0	0.89
2008	2.38	0.42	0	1.57	1.69	1.44	1.21	1.47	1.11	0	0	0.42
2009	1.79	1.01	0	1.15	0.95	0	0	0	0	0	0	1.01
2010	0.46	-0.35	0	-0.40	-0.25	-0.36	-0.36	-0.18	-0.36	-0.77	-0.26	-0.35
2011	0.36	0.25	0	0.31	0.45	0.01	0.08	0.63	0.01	0.01	0.35	0.25
2012	-0.50	-0.50	-0.34	-0.37	-0.58	-0.36	-0.67	-0.59	-0.69	-0.30	-0.56	-0.50
2013	0.28	0.19	0.13	0.04	0.22	-0.04	0.06	0.41	0.30	-0.26	0.01	0.19
2014	0.18	0.20	-0.17	-0.04	0.15	-0.88	0.22	-0.07	-0.14	-0.06	0.22	0.20
2015	-0.13	0.08	-0.11	0.03	-0.03	0.06	-0.06	-0.01	0.06	0.02	-0.22	0.08
2016	0.03	0.17	0.37	0.01	-0.09	0.16	0.18	0.01	0.53	0.44	-0.01	0.17
2017	0.13	0.36	0.15	0.50	0.21	0.58	0.63	0.19	0.46	0.64	0.14	0.36

Note from the tables (1) and (2) the fluctuation of each of inflation, and stock returns during the period (2007-2017).

3/3 : Data analysis:

This part of the study describes the data analysis and results of the study.

1- Commercial International Bank (Egypt)

Table (3) ANOVA

	Sum of Squares	df	Mean Square	F	Significance F
Regression	**7.962**	**1**	**7.962**	**21.745**	**.001(a)**
Residual	**3.295**	**9**	**.366**		
Total	**11.257**	**10**			

ANOVA shows that the overall model is significant with F value of 0.001 (F = 0.001 < 0.05). The result of ANOVA table confirmed that the predicted model is significant at 5% significance level. Table 4 shows the accuracy of coefficients.

Table (4) Estimates of model

	Unstandardized Coefficients		Standardized Coefficients		t	Significance F
	B	Std. Error	Beta			
(Constant)	1.881	.314			5.999	.000
inflation	-.328	.070	-.841		-4.663	.001
R = -841			R Square = 0.707			

Table 4 shows the intercept and the coefficients of the regression model. The coefficient of inflation is -3.28 which shows inflation has impact on stock returns and this result means that the relationship between inflation and stock returns are is negatively related. The value of the coefficient of determination (R square) equal to 0.707 and this means that the independent variable (inflation) explains the variance in the dependent variable (stock returns) in ratio 71%.

- The regression model can be configured as follows:

Sr = 1.881 - 0.328 Inf

2- Faisal Islamic Bank of Egypt - In US Dollars

Table (5) ANOVA

	Sum of Squares	df	Mean Square	F	Significance F
Regression	1.761	1	1.761	11.332	.008(a)
Residual	1.398	9	.155		
Total	3.159	10			

ANOVA shows that the overall model is significant with F value of 0.008 (F = 0.008 < 0.05). The result of ANOVA table confirmed that the predicted model is significant at 5% significance level. Table 6 shows the accuracy of coefficients.

Table (6) Estimates of model

	Unstandardized Coefficients		Standardized Coefficients		t	Significance F
	B	Std. Error	Beta			
(Constant)	.827	.204			4.051	.003
inflation	-.154	.046	-.747		-3.366	.008

R=.747	R Square=.557

Table 6 shows the intercept and the coefficients of the regression model. The coefficient of inflation is -0.154 which shows inflation has impact on stock returns and this result means that the relationship between inflation and stock returns are is negatively related. The value of the coefficient of determination (R square) equal to 0.557 and this means that the independent variable (inflation) explains the variance in the dependent variable (stock returns) in ratio 56%.

- The regression model can be configured as follows:

Sr = 0.827 - 0.154 Inf

3- Qatar National Bank Alahly

Table (7) ANOVA

	Sum of Squares	df	Mean Square	F	Significance F
Regression	**.052**	**1**	**.052**	**1.651**	**.231(a)**
Residual	**.281**	**9**	**.031**		
Total	**.333**	**10**			

ANOVA shows that the overall model is significant with F value of 0.231 (F = 0.231> 0.05). The result of ANOVA table confirmed that the predicted model is non-significant at 5% significance level. Table 8 shows the accuracy of coefficients.

Table (8) Estimates of model

	Unstandardized Coefficients		Standardized Coefficients		t	Significance F
	B	Std. Error	Beta			
(Constant)	**.098**	**.092**			**1.075**	**.310**
inflation	**-.026**	**.021**	**-.394**		**-1.285**	**.231**
R =.394			**R Square =.155**			

Table 8 shows inflation has no impact on stock returns and this result is non-significant because Significance F = 0.231> 0.05.

- The regression model can be configured as follows:

Sr = 0.098 - 0.026 Inf

4- Al Baraka Bank Egypt

Table (9) ANOVA

	Sum of Squares	df	Mean Square	F	Significance F
Regression	**2.545**	**1**	**2.545**	**12.662**	**.006(a)**
Residual	**1.809**	**9**	**.201**		
Total	**4.355**	**10**			

ANOVA shows that the overall model is significant with F value of 0.006 (F = 0.006 < 0.05). The result of ANOVA table confirmed that the predicted model is significant at 5% significance level. Table 10 shows the accuracy of coefficients.

Table (10) Estimates of model

	Unstandardized Coefficients		Standardized Coefficients		t	Significance F
	B	Std. Error	Beta			
(Constant)	**1.032**	**.232**			**4.444**	**.002**
inflation	**-.185**	**.052**	**-.765**		**-3.558**	**.006**
R=.765			**R Square =.585**			

Table 10 shows the intercept and the coefficients of the regression model. The coefficient of inflation is -0.185 which shows inflation has impact on stock returns and this result means that the relationship between inflation and stock returns are is negatively related. The value of the coefficient of determination (R square) equal to 0.585 and this means that the independent variable (inflation) explains the variance in the dependent variable (stock returns) in ratio 59%.

- The regression model can be configured as follows:

Sr = 1.032 - 0.185 Inf

5- Export Development Bank of Egypt (EDBE)

Table (11) ANOVA

	Sum of Squares	df	Mean Square	F	Significance F
Regression	**2.788**	**1**	**2.788**	**16.652**	**.003(a)**
Residual	**1.507**	**9**	**.167**		
Total	**4.294**	**10**			

ANOVA shows that the overall model is significant with F value of 0.003 (F = 0.003 < 0.05). The result of ANOVA table confirmed that the predicted model is significant at 5% significance level. Table 12 shows the accuracy of coefficients.

Table (12) Estimates of model

	Unstandardized Coefficients		Standardized Coefficients		t	Significance F
	B	Std. Error	Beta			
(Constant)	**1.046**	**.212**			**4.935**	**.001**
inflation	**-.194**	**.048**	**-.806**		**-4.081**	**.003**
R=.806			**R Square =.649**			

Table 12 shows the intercept and the coefficients of the regression model. The coefficient of inflation is -0.194 which shows inflation has impact on stock returns and this result means that the relationship between inflation and stock returns are is negatively related. The value of the coefficient of determination (R square) equal to 0.649 and this means that the independent variable (inflation) explains the variance in the dependent variable (stock returns) in ratio 65%.

- The regression model can be configured as follows:

Sr = 1.046 - 0.194 Inf

6- Suez Canal Bank

Table (13) ANOVA

	Sum of Squares	df	Mean Square	F	Significance F
Regression	**1.189**	**1**	**1.189**	**4.084**	**.074(a)**
Residual	**2.620**	**9**	**.291**		
Total	**3.808**	**10**			

ANOVA shows that the overall model is significant with F value of 0.074 (F = 0.074 > 0.05). The result of ANOVA table confirmed that the predicted model is non-significant at 5% significance level. Table 14 shows the accuracy of coefficients.

Table (14) Estimates of model

	Unstandardized Coefficients		Standardized Coefficients		t	Significance F
	B	Std. Error	Beta			
(Constant)	.579	.280			2.070	.068
inflation	-.127	.063	-.559		-2.021	.074
R =.559			R Square =.312			

Table 14 shows inflation has no impact on stock returns but this result is non-significant because Significance F = 0.074 > 0.05.

- The regression model can be configured as follows:

Sr = 0.579 - 0.127 Inf

7- Housing & Development Bank

Table (15) shows. That the F value equal to 7.369 degrees of freedom 1 and 9 and the level of significance of 0.024 a value of less than 0.05 This means that the regression model of a significant.

Table (15) ANOVA

	Sum of Squares	df	Mean Square	F	Significance F
Regression	1.219	1	1.219	7.369	.024(a)
Residual	1.488	9	.165		
Total	2.707	10			

ANOVA shows that the overall model is significant with F value of 0.0243 (F = 0.024 < 0.05). The result of ANOVA table confirmed that the predicted model is significant at 5% significance level. Table 16 shows the accuracy of coefficients.

Table (16) Estimates of model

	Unstandardized Coefficients		Standardized Coefficients		t	Significance F
	B	Std. Error	Beta			
(Constant)	.650	.211			3.084	.013
inflation	-.128	.047	-.671		-2.715	.024
R=.671			R Square =.450			

Table 16 shows the intercept and the coefficients of the regression model. The coefficient of inflation is -0.128 which shows inflation has impact on stock returns and this result means that the relationship between inflation and stock returns are is negatively related. The value of the coefficient of determination (R square) equal to 0.450 and this means that the independent variable (inflation) explains the variance in the dependent variable (stock returns) in ratio 45%.

- ***The regression model can be configured as follows:***

$$\underline{Sr = 0.650 - 0.128\ Inf}$$

Table (17) ANOVA

	Sum of Squares	df	Mean Square	F	Significance F
Regression	1.391	1	1.391	6.958	.027(a)
Residual	1.799	9	.200		
Total	3.190	10			

ANOVA shows that the overall model is significant with F value of 0.027 (F = 0.027 < 0.05). The result of ANOVA table confirmed that the predicted model is significant at 5% significance level. Table 18 shows the accuracy of coefficients.

Table (18) Estimates of model

	Unstandardized Coefficients		Standardized Coefficients		t	Significance F
	B	Std. Error	Beta			
(Constant)	.743	.232			3.205	.011
inflation	-.137	.052	-.660		-2.638	.027
R =.660			R Square =.436			

Table 18 shows the intercept and the coefficients of the regression model. The coefficient of inflation is -0.137 which shows inflation has impact on stock returns and this result means that the relationship between inflation and stock returns are is negatively related. The value of the coefficient of determination (R square) equal to 0.436 and this means that the independent variable (inflation) explains the variance in the dependent variable (stock returns) in ratio 44%.

- The regression model can be configured as follows:

Sr = 0.743 - 0.137 Inf

9- Abu Dhabi Islamic Bank- Egypt

Table (19) ANOVA

	Sum of Squares	df	Mean Square	F	Significance F
Regression	**1.802**	**1**	**1.802**	**6.773**	**.029(a)**
Residual	**2.394**	**9**	**.266**		
Total	**4.196**	**10**			

ANOVA shows that the overall model is significant with F value of 0.029 (F = 0.029 < 0.05). The result of ANOVA table confirmed that the predicted model is significant at 5% significance level. Table 20 shows the accuracy of coefficients.

Table (20) Estimates of model

	Unstandardized Coefficients		Standardized Coefficients		t	Significance F
	B	Std. Error	Beta			
(Constant)	**.826**	**.267**			**3.089**	**.013**
inflation	**-.156**	**.060**	**-.655**		**-2.603**	**.029**
R =.655			**R Square =.429**			

Table 20 shows the intercept and the coefficients of the regression model. The coefficient of inflation is -0.156 which shows inflation has impact on stock returns and this result means that the relationship between inflation and stock returns are is negatively related. The value of the coefficient of determination (R square) equal to 0.429 and this

means that the independent variable (inflation) explains the variance in the dependent variable (stock returns) in ratio 43%.

- ***The regression model can be configured as follows:***

Sr = 0.826 - 0.156 Inf

10- Egyptian Gulf Bank

Table (21) shows. That the F value equal to 0.059 degrees of freedom 1 and 9 and the level of significance of 0.814 a value of more than 0.05 This means that the regression model of a non-significant.

Table (21) ANOVA

	Sum of Squares	df	Mean Square	F	Significance F
Regression	**.009**	**1**	**.009**	**.059**	**.814(a)**
Residual	**1.342**	**9**	**.149**		
Total	**1.351**	**10**			

ANOVA shows that the overall model is significant with F value of 0.814 (F = 0.814 > 0.05). The result of ANOVA table confirmed that the predicted model is non-significant at 5% significance level. Table 22 shows the accuracy of coefficients.

Table (22) Estimates of model

	Unstandardized Coefficients		Standardized Coefficients		t	Significance F
	B	Std. Error	Beta			
(Constant)	**.014**	**.200**			**.070**	**.946**
inflation	**-.011**	**.045**	**-.081**		**-.243**	**.814**
R =.081			**R Square =.006**			

Table 22 shows inflation has no impact on stock returns but this result is non-significant because Significance F = 0.814> 0.05.

- ***The regression model can be configured as follows:***

Sr = 0.014 - 0.011 Inf.

11- National Bank Of Kuwait- Egypt- NBK

Table (23) ANOVA

	Sum of Squares	df	Mean Square	F	Significance F
Regression	**.121**	**1**	**.121**	**2.233**	**.169(a)**
Residual	**.489**	**9**	**.054**		
Total	**.610**	**10**			

ANOVA shows that the overall model is significant with F value of 0.169 (F = 0.169 > 0.05). The result of ANOVA table confirmed that the predicted model is non-significant at 5% significance level. Table 24 shows the accuracy of coefficients.

Table (24) Estimates of model

	Unstandardized Coefficients		Standardized Coefficients		t	Significance F
	B	Std. Error	Beta			
(Constant)	**.117**	**.121**			**.967**	**.359**
inflation	**-.040**	**.027**	**-.446**		**-1.494**	**.169**
R =.446			**R Square =.199**			

Table 24 shows inflation has no impact on stock returns but this result is non-significant because Significance F = 0.169> 0.05.

- The regression model can be configured as follows:

Sr = 0.117 - 0.040 Inf.

12 - Banks & Financial Services Sector:

Table (25) shows the analysis of variance of the model:

	Sum of Squares	df	Mean Square	F	Significance F
Regression	**1.354**	**1**	**1.354**	**15.074**	**.004(a)**
Residual	**.808**	**9**	**.090**		
Total	**2.162**	**10**			

ANOVA shows that the overall model is significant with F value of 0.004 (F = 0.004 < 0.05). The result of ANOVA table confirmed that the predicted model is significant at 5% significance level. Table 26 shows the accuracy of coefficients.

Table (26) shows the values of model Coefficients:

	Unstandardized Coefficients		Standardized Coefficients		t	Significance F
	B	Std. Error	Beta			
(Constant)	.710	.155			4.574	.001
inflation	-.135	.035	-.791		-3.882	.004
R =.791			R Square =.626			

Table 26 shows the intercept and the coefficients of the regression model. The coefficient of inflation is -0.135 which shows inflation has impact on stock returns and this result means that the relationship between inflation and stock returns are is negatively related. The value of the coefficient of determination (R square) equal to 0.626 and this means that the independent variable (inflation) explains the variance in the dependent variable (stock returns) in ratio 63%.

- ***The regression model can be configured as follows:***

Sr = 0.710 - 0.135 Inf.

- Summary:

The study has been allocated for this part to analyze the relationship between inflation and stock returns in the banking and financial services sector in Egyptian Stock Exchange market during the period 2007-2013.

Have shown through the correlation coefficient, the relationship between the two variables is strong overall. And therefore, the impact of inflation on stock returns for each of the ***Commercial International Bank (Egypt)*** ,***Faisal Islamic Bank of Egypt - In US Dollars*** , ***Qatar National Bank Alahly*** , ***Export Development Bank of Egypt (EDBE)*** strong negatively related influence during this period. While the impact of inflation on stock returns for each of the ***Abu Dhabi Islamic Bank-Egypt*** , ***Egyptian Gulf Bank*** , ***National Bank Of Kuwait- Egypt-NBK*** have a strong impact.

The effect of inflation on stock returns for each of the ***Al Baraka Bank Egypt*** and ***Credit Agricole Egypt*** , a moderate impact, while the impact

of inflation on stock returns for each of the ***- Egyptian Gulf Bank*** , ***National Bank Of Kuwait- Egypt- NBK*** is weak.

Results show that the relationship between inflation and stock returns between the banking sector and the financial services market, the financial Arabia is an inverse relationship, and therefore this sector cannot be a protection against the risk of devaluation of the real income resulting from higher rates of inflation.

Conclusions and recommendations .

- Results

- This study investigated the impact of inflation on the stock returns banking and financial Services sector. Results of the multiple regressions indicated strong variation in the dependent variable due to independent variable. Inflation has significant impact on stock returns in bank and financial Services sector.
- The study concluded to develop a model explains the relationship between inflation and stock returns in the banking and financial services sector. This model explained that the association between the two variables negative correlation. Investors expect lower stock returns when the inflation rate rises.

- Recommendations/Suggestions.

Suggestion for the investors is that they must closely analyze the inflation rate patterns before investing in banking and financial Services sector and based on those forecasted inflations rate they can maximize their profits The recommendations for the further research are that more variables can be taken in other researches in order to find out the impact of other variables on stock returns.

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