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RESEARCH ARTICLE

Economic Uncertainty and Financial Reporting Readability

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ABSTRACT

Economic policy uncertainty stands as a formidable challenge in the realm of financial reporting, wielding a profound influence over the presentation of crucial financial information. Thus, it becomes imperative to incorporate the effects of this uncertainty into the models that explore the factors shaping the readability of financial reports. This research aims to illuminate the relationship between economic policy uncertainty and the readability of financial reporting among companies listed on the Tehran Stock Exchange over a decade, spanning from 2013 to 2022, by employing a robust panel data regression approach. The findings reveal that uncertainty related to exchange rates and inflation exerts a significant negative impact on the clarity of financial reports. In contrast, fluctuations in economic growth and variations in the effective tax rate positively and significantly enhance reporting readability. Interestingly, the study found no noteworthy connection between interest rate uncertainty and the readability of financial reporting. These insights serve not only to enlighten policymakers but also to inspire deeper commitment to making financial reports more accessible and comprehensible to all stakeholders.

Introduction

Despite the growing awareness and understanding of financial statements among users, a significant issue remains: there is a strong reliance on these reports for making investment decisions (Seyedin Borojeni & Panahian, 2016). Financial analysts express concerns about the complexity of financial reporting systems when performing their reviews and making judgments. When the market does not adequately respond to ambiguous, complex, or lengthy information in companies' annual reports, managers may be motivated to present their reports in similarly convoluted ways during bad conditions.

One key factor that can improve the presentation of financial statements is their readability, as clear reports enhance users' understanding of management's assertions (Vafaei Poor et al., 2022). A low level of readability in financial reporting poses a significant drawback for an organization, as investors may struggle to find the necessary information amid the complexity and ambiguity of the reports. Consequently, they might resort to seeking information from external sources or decide against investing altogether. In summary, investors tend to trust and make decisions more easily when they encounter readable financial statements; in contrast, non-readable statements can diminish investors' trust and confidence in their decision-making (Bai et al., 2019).

In recent years, economic shocks and fluctuations have led to a lack of discipline in government economic policies, increasing uncertainty in these policies. Economic policy uncertainty refers to the difficulty of accurately predicting changes in government economic policies based on various economic factors. The macroeconomic environment is crucial for companies, and frequent changes to economic policies create a complex, unstable, and unpredictable operational landscape. Ultimately, these changes can influence the risk-taking behavior of companies (Akhgar et al., 2021; Gulen & Ion, 2016; Zhang et al., 2021). Research by Ghasemi et al. (2021) and Nagar et al. (2019) indicates that as economic uncertainty increases, so does information asymmetry. Economic policy uncertainty tends to reduce stock price responses, prompting managers to increase discretionary disclosure in response to this uncertainty (Nagar et al., 2019). Conversely, such uncertainty might also lead managers to suppress information, as proprietary costs allow other market participants to exploit disclosed information for their own advantage (Bova et al., 2015). Competitors may utilize this information to adjust their production strategies. For instance, research by Tabatabai Nesab & Shah Moradi (2021) on the Iranian capital market has shown that economic policy uncertainty negatively influences the quality of profit information.

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On the other hand, under conditions of uncertainty, disclosed information may benefit certain companies, and competitors may benefit from this information for their own purposes (Bova et al., 2015). Many studies (for example, Baker et al., 2016; Julio & Yook, 2012; Bloom et al., 2018) have shown that policy uncertainty has been shown to impact business cycles, capital inflows, and economic recoveries. At the firm level, policy uncertainty shapes corporate investment decisions (Jens, 2017), mergers and acquisitions (Bonaime et al., 2018), cash holdings (Julio & Yook, 2012), and whether to raise equity (Çolak et al., 2017; Chen et al., 2018). Extant research implies that managers respond to policy/political uncertainty, dampening firm investment and capital raising by more frequently issuing management guidance to improve firm transparency (Nagar et al., 2019; Bonsall & Miller, 2017).

The main priorities of economic policymakers are achieving sustainable economic stability and making the economy resistant to the adverse effects of positive and negative shocks. Given that such conditions can affect financial decisions and reporting quality (Akhgar et al., 2021), it is important to examine the consequences of economic uncertainty on companies' financial reports. Therefore, it is necessary to include the variable of economic policy uncertainty in models that examine the factors affecting financial reporting readability. We extend recent research by using a set of comprehensive data from the Tehran Stock Exchange, including mandatory and voluntary disclosures, to analyze how economic policy uncertainty shapes the readability of financial reporting text, i.e., uncertainty surrounding inflation rates, exchange rates, government spending, and monetary and regulatory policies.

In Iran, a developing country experiencing significant fluctuations in economic variables and ongoing uncertainty in economic policy, the private sector has shown limited willingness to engage in economic activities. Key factors contributing to this uncertainty include the political structure, oil prices, and instability in economic policymaking. When fluctuations in economic variables impact profitability and investment costs, leading to uncertainty about investment outcomes, risk-averse firms tend to reduce their investment levels. On the other hand, risk-tolerant firms may pull back on irreversible investments (Heidari et al., 2022). While managers may hold the belief that economic policy uncertainty will soon be resolved, investor concerns about a company's value can lead to the need for private information gathering by investors and voluntary disclosures by managers. Enhancing transparency and certainty regarding the country's economic policies is essential for improving investor decision-making and achieving expected profits. A lack of information and uncertainty surrounding economic policies can increase transaction costs and investor risk. Consequently, the absence of transparency and uncertainty in economic policies has been identified as a significant factor in recent market failures and negative investor reactions (Ghasemi et al., 2021).

A lack of information and uncertainty surrounding economic policies can increase transaction costs and investor risk. As a result, the absence of transparency and uncertainty in economic policies has been identified as a significant factor contributing to recent market failures and negative investor reactions (Ghasemi et al., 2021). Previous literature (such as Jiang & Liu, 2020; Akhgar et al., 2021; Qiu et al., 2023; Ozili, 2021) suggests that economic uncertainty complicates a company's business processes, leading to more complex annual reports and ultimately decreasing their readability. Annual reports serve as a tool for companies to communicate their performance, but many are written in complex language, making them difficult for the average reader to understand (Alcaide-Ruiza & Bravo-Urquiza, 2022).

Given the importance of this issue, it is essential to understand how economic policy uncertainty affects reporting readability. There is a notable lack of research in Iran on the relationship between economic uncertainty and financial reporting readability. Additionally, the readability of financial reports has gained attention due to its impact on public trust in accounting information. Therefore, the main research question is whether economic uncertainty weakens the readability of financial reports.

The structure of this paper is as follows: the next section provides an overview of the theoretical framework and formulates the main hypotheses. Section 3 describes the sample, the variables, and the methods used in the empirical analysis. Sections 4 and 5 present the main results, followed by a discussion of these findings, conclusions, and suggestions.

Theoretical Framework and Hypothesis Development

Readability

Readability, as defined by Chall (1958), encompasses a variety of factors that influence a reader's interest, legibility, and ease of understanding. Sun et al. (2014) describe readability as the level of difficulty associated with reading an article. Readable articles tend to engage readers, and the reverse is also true. In addition to the use of text analysis methods in corporate finance, recent empirical studies have utilized large sample data to explore the economic implications of readability in annual reports (Loughran & McDonald, 2016). Annual reports serve as a primary means by which companies communicate with external stakeholders, making readability a crucial aspect. In recent years, many scholars have investigated the potential factors that affect the readability of annual reports.

Economic Policy Uncertainty

Economic policy uncertainty refers to the unpredictability surrounding current and future economic policies, including monetary, fiscal, and regulatory policies (Drobetz et al., 2018; Ng et al., 2020). This uncertainty primarily arises from questions about whether existing economic policies will change in the near future and the potential impact of new economic policies on the private sector (Baker et al., 2016). There are various sources of economic policy uncertainty. It can stem from factors such as inflation uncertainty, recessionary pressures, lending cuts, rising unemployment rates, sudden currency devaluations, increasing fiscal deficits, changes in government, uncertain tax policies, heightened political polarization, budget deficits, election outcomes leading to government changes, and trade wars (Hassett & Metcalf, 1999; Bordo et al., 2016; Talavera et al., 2012; Danisman et al., 2021; Ozili, 2021). In theory, economic policy uncertainty can impact firms' production, financing, and investment decisions. Firms and other economic agents tend to adjust their strategies in response to high levels of economic policy uncertainty. When faced with significant uncertainty, companies are likely to postpone investment decisions and limit cash outflows as a precautionary measure. This occurs as managers become unsure whether regulatory, fiscal, or monetary policies will change in the near future and whether such changes will put their firms at a competitive advantage or disadvantage (Ozili, 2021).

In this study, fluctuations in exchange rates, interest rates, inflation rates, and growth rates are used as indicators of economic uncertainty. A research theory matrix was developed by examining the variables used in previous studies, which is illustrated in Table 1.

Table 1. Research Theory Matrix

Variables	Dimensions	Measurements
Economic uncertainty	Fiscal policy	**Government expenditures (Mirzaei & Sheikh, 2019; Akhgar et al., 2021; Moradi et al., 2022; Ghasemi et al., 2021)**
		Tax revenues (Mirzaei & Sheikh, 2019; Akhgar et al., 2021; Nagar et al., 2019; Moradi et al., 2022; Ghasemi et al., 2021)
		Oil revenues (Moradi et al., 2022)
		Credit limit (Ghasemi et al., 2021)
	Monetary policy	**Liquidity volume (Akhgar et al., 2021; Brogaard & Detzel, 2015)**
		Interest rate changes (Alaei et al., 2019; Mahboubi et al., 2023; Nagar et al., 2019; Stein & Wang, 2016)
		Real interest rate on bank deposits (Amiri & Pirdadeh Biranvand, 2020; Moradi et al., 2022; Brogaard & Detzel, 2015)
		Liquidity volume, interest rate (Derakhshan Mehr et al., 2022; Mirzaei & Sheikh, 2019; Moradi et al., 2022)
		Output gap (Alaei et al., 2019)
		Inflation rate (Stein & Wang, 2016; Derakhshan Mehr et al., 2022; Heidari et al., 2022; Alaei et al., 2019)
		Economic growth rate (Derakhshan Mehr et al., 2022)
		GDP per capita (Mahboubi et al., 2023)
		Exchange rate and foreign trade (Ghasemi et al., 2021)
	Currency policy	**Unofficial exchange rate (Akhgar et al., 2021)**
		Foreign investment (Mahboubi et al., 2023)
		Oil price (Amiri & Pirdadeh Biranvand, 2020)
		Exchange rate changes (Derakhshan Mehr et al., 2022; Amiri & Pirdadeh Biranvand, 2020; Alaei et al., 2019; Tabatabai Nasab & Shah Moradi, 2021)
		Exchange rate margin (Mirzaei & Sheikh, 2019)
		Difference between official and free exchange rates (Moradi et al., 2022)

(Source: Research Theoretical Foundations)

Hypothesis Development

There are several reasons to believe that political uncertainty may decrease the readability of financial statements (e.g., Qiu et al., 2023; Jiang & Liu, 2020; Julio & Yook, 2012; Çolak et al., 2017). During periods of political uncertainty, corporations are uncertain about who the new government leaders will be. Different leaders may have varying ideologies or policy preferences, which means corporations might wait until the political landscape stabilizes before making significant business decisions to enhance the efficiency of those actions. Investment efficiency is positively associated with the quality of financial reporting (Biddle et al., 2009). When political uncertainty is high, investment efficiency tends to be low, which may lead to a decrease in the readability of financial statements. If managers do not disclose information about firm investment decisions and operations amid economic policy uncertainty, investors are likely to respond negatively to the firm's situation. Increased economic policy uncertainty can exacerbate information asymmetry among investors, resulting in lower stock liquidity and diminished firm value (Nagar et al., 2019). A lower level of financial statement readability may not only be a natural consequence of operational uncertainty due to political factors, but also the result of active reporting management by corporations. Since financial statements provide useful information about current and future performance to external parties, decreasing readability can help companies obscure important information (Li, 2008). Consequently, in an environment of political uncertainty, companies may intentionally make financial statements less clear to avoid adverse political repercussions. In particular, Chen et al. (2018) found that corporations use discretionary accruals to lower reported earnings as a way to minimize political costs. Additionally, companies are often found to hold less cash during times of political uncertainty (Xu et al., 2016). Because firms that engage in earnings management have a greater incentive to obfuscate information (e.g., Ajina et al., 2016; Lo et al., 2017), it is likely that they will actively engage in practices that reduce financial statement readability in response to political pressure. Overall, it is reasonable to expect that political uncertainty is negatively associated with the readability of financial statements.

The readability of financial statements also has important implications for the effective communication of valuation-relevant information between firms and the market (Loughran & McDonald, 2016). For example, files that exhibit poor readability represent a manifestation of structural complexity and poor information quality, and vice versa. Under the strategic-information-revelation view, to fully disclose the complex situation, managers will likely have to rely on lengthy and complicated words to explain the difficulties they face. In other words, while the length increases in their text, the disclosure may become less readable as a result.

Meanwhile, political uncertainty can also lead to an increase in information asymmetry between investors and corporates (e.g., Nagar et al., 2019) and investor anxiety (Goodell et al., 2020). Since it will be difficult for investors to predict future cash flows and assess the future prospects of corporates, investors' beliefs will become more dispersed when political uncertainty is higher (Choi, 2019). With highly dispersed beliefs, information becomes particularly useful for decision making, and investors may thus demand more information from corporates. So, it is likely that corporates will increase financial statement readability to convey more useful information to investors to reduce information asymmetry with the goal to boost investor confidence (Loh & Stulz, 2018). Furthermore, prior studies suggest that more

readable financial statements are associated with both lower cost of debt (Bonsall & Miller, 2017) and lower cost of equity (Rjiba et al., 2021), which can be particularly valuable when information asymmetry is high.

The above arguments suggest that the relation between economic policy uncertainty and disclosure readability is ambiguous. In outlining their plans under economic policy uncertainty, managers may encounter heightened pressure, given that the policy uncertainty brings considerable unforeseen risk relating to their decisions. It follows that this naturally induces managers to use an uncertain and negative tone in the textual filings. In contrast, policy uncertainty may also provide countervailing incentives that motivate managers to intentionally or strategically disclose positive news. If expected policy outcomes are unfavorable for the firm, greater stock price volatility and decreased liquidity, and investors' reaction to an earnings announcement may culminate in a stock price crash (Pastor & Veronesi, 2010; Baker et al., 2016; Nagar et al., 2019). Managers may be hesitant to issue ''bad news'' guidance (e.g., Beyer et al., 2010) and may have counter-incentives to disclose the bad news vaguely to boost market confidence.

In sum, a low level of financial statement readability can be viewed as a double-edged sword under political uncertainty, as it may help reduce political cost, but it may also increase financing cost at the same time. Given the countervailing effects of readability, we formulate our hypotheses in the form below:
H1: Exchange rate changes affect the financial statements' readability.
H2: Inflation rate changes affect the financial statements' readability.
H3: Interest rate changes affect the financial statements' readability.
H4: Effective tax rate changes affect the financial statements' readability.
H5: Economic growth changes affect the financial statements' readability.

Experimental Background

This section provides an overview of the literature examining how economic events and factors impact the readability of financial statements. The aim is to gain insights into how economic policy uncertainty (EPU) might influence financial reporting.

Qian et al. (2025) found that increased EPU leads to greater information transparency in the following year. They identified asymmetric effects of EPU on information production: firms tend to respond to high EPU by increasing the intensity of their disclosures and adopting a more optimistic tone; however, the coverage by analysts and media significantly decreases. Li and Yang (2024) explored the relationship between readability and negative earnings surprises. They discovered that less clear reports can predict unexpected negative earnings, and this relationship remains significant even when considering deviations greater than 50%. Qiu et al. (2023) observed that the readability of financial statements declines in periods of heightened political uncertainty. The negative relationship between political uncertainty and financial statement readability is particularly pronounced for companies with lower capital market concerns, no political connections, and under weaker external reporting scrutiny. Ramazan Ahmadi et al. (2022) emphasized that the auditor's style and the readability of financial reporting—measured by the Fog index and text length index—significantly and positively affect stock price awareness. Jiang & Liu (2020) investigated how political and economic uncertainty influenced textual disclosures in the United States from 1996 to 2015. They found that uncertainty led firms to provide more disclosures, although these were less readable. The tone of uncertainty and negativity in these disclosures has increased. Firms with strong external monitoring experience a reduced negative impact on readability. Ozili (2021) shows that economic policy uncertainty leads to less new information being transmitted to firms, motivating managers to influence accounting figures to achieve their desired financial reporting outcomes. Del Gaudio et al. (2020) found that the annual reports of venture capital (VC)-backed IPOs are much more readable compared to those of their peers. This suggests that VCs enhance clarity in financial reporting to improve market reactions and create value, which also benefits their reputation. In contrast, the Sarbanes-Oxley Act compels firms to produce longer 10-K reports, which aligns with the reform's goal (Title IV) to improve financial disclosures. However, this results in a negative impact on readability. Akhgar et al. (2021) concluded that economic policy uncertainty positively affects earnings management. Malaquias and Júnior (2021) demonstrated that a positive tone in managers' reporting does not necessarily lead to reduced future stock return volatility. Ghasemi et al. (2021) argued that economic policy uncertainty significantly influences investor information asymmetry and voluntary disclosures. Tabatabai Nesab and Shah Moradi (2021) discovered that currency crises adversely affect the relationship between earnings quality and returns. Nagar et al. (2019) explored the impact of economic policy uncertainty on investor information asymmetry and voluntary disclosure, revealing that such uncertainty is linked to increased bid-ask spreads and diminished stock price responses to earnings surprises. In response, managers tend to increase their voluntary disclosures, but these disclosures only partially mitigate the increase in bid-ask spreads. Jiang & Liu (2020) examined the nonlinear effects of economic policy uncertainty shocks on credit scale in China using a Smooth Transition VAR (STVAR) model. They found that economic growth during prosperous periods is more susceptible to these shocks, resulting in significant declines. Specifically, the adverse impact of economic policy uncertainty shocks on the credit scale is more pronounced during expansions than during recessions.

Based on the findings, it can be inferred that as the challenges associated with a company's business processes, taxes, and monetary and fiscal policies increase, the complexity of the annual report also escalates, resulting in a decreased level of readability. Although the primary purpose of an annual report is to provide a clear overview of the company's annual performance, many reports utilize complex language that can be difficult to comprehend.

The innovation of this research lies in the practical model presented for improving the readability of financial reporting in Iran's capital market. This study aims to achieve three significant objectives. First, it enhances our understanding of the impact of economic policy uncertainty on the readability of financial reports. Second, the study identifies representatives for each type of monetary policy (interest rates, inflation rates, and gross domestic product), fiscal policy (effective tax rates), and foreign exchange policy (exchange rates), examining the impact of each on the readability of financial reporting separately. Finally, it expands the theoretical literature on financial reporting readability and contributes to domestic research on additional factors that influence this readability.

Data and Empirical Methods

Sample and Sampling Technique

To examine how economic policy uncertainty affects the readability of companies' financial reporting, a large sample of publicly traded companies listed on the Tehran Stock Exchange during the period 2013-2022 is selected and analyzed. To standardize the data, we exclude the following companies from the sample:

1) Their fiscal year does not end on March 20. 2) Banks, financial institutions, and financial investments. 3) Companies that changed their fiscal year during the research period. 4) Companies for which the required information was not available during the research period. The final sample consists of 1290 year-firm observations related to the 129 companies in the period 2013 to 2022.

Data Collection

Data about financial reporting readability (readability index) were hand-collected by examining the financial reporting of 129 companies published on the *Kodal.ir* and *TSETMC.com* databases. Economic data extracted from the *Iran Central Bank website* and the *Statistical Center of Iran* database.

Statistical Techniques

The multivariate regression analysis technique was employed to calculate the coefficients of the variables being studied. To test the formulated hypotheses, we utilized a fixed-effects panel data estimation model for the regression analysis. In this model, the readability of management reports, which serves as the dependent variable, is analyzed in relation to explanatory and control variables. Additionally, the Hausman test was conducted to determine the most suitable estimation method—either fixed effects or random effects.

Research Model

We employ the following regression model to examine the influence of political uncertainty on financial reporting readability:

$$Readability_{i.t} = \beta_0 + \beta_1 EPU_{i.t} + \beta_2 Size_{i.t} + \beta_3 ROA_{i.t} + \beta_4 Lev_{i.t} + \beta_5 MTB_{i.t} + \beta_6 InstOwn_{i.t} + \beta_7 Age_{i.t} + \beta_8 IND_{i.t} + \beta_9 AQ_{i.t} + \beta_{10} Intang_{i.t} + \beta_{11} VOLROA_{i.t} + \varepsilon$$

Dependent variable

The main dependent variable in this study is readability, which is measured using the Fog Index. This index has been widely employed in recent research within the management and finance literature (Ajina et al., 2016; Lo et al., 2017). The Fog Index evaluates the linguistic complexity of a text by considering the average sentence length and the proportion of complex words—defined as those containing three or more syllables—per sentence. The index is calculated using the following formula:

Fog Index = 0.4 ×(average words per sentence + percentage of "complex words")

Assuming that the text is well-written and logical, research generally considers that the Fog Index captures text complexity (Ajina et al., 2016), and the higher the value, the lower the readability. The index establishes several different categories for the analysis of the readability levels, and to make them comparable with other readability indices the recent literature (Li, 2008) suggests the interpretation of the index scores as follows: Fog values higher than 18 mean that the text is very difficult to read; scores between 14 and 18 imply that the text is difficult to read; between 12 and 14 would be ideal; between 10 and 12 acceptable; and between 8 and 10 childish.

Independent variable

The primary independent variable in this study is economic political uncertainty (EPU). To measure EPU, the following variables have been utilized:
1. Exchange Rate Uncertainty (Exch): This is measured as the standard deviation of the exchange rate over the past five years, serving as a proxy for exchange policy.
2. Inflation Rate Uncertainty (Infl): This variable represents monetary policy and is measured as the standard deviation of inflation rates over the past five years.
3. Interest Rate Uncertainty (lnte): Chosen as another monetary policy proxy, this is measured as the standard deviation of interest rates over the past five years.
4. Economic Growth Rate (GDP): Also serving as a monetary policy proxy, this variable is measured as the standard deviation of the gross domestic product over the past five years.
5. Effective Tax Rate (Etax): This fiscal policy proxy is measured as the tax expense divided by the net profit before tax.

Note: The statistics for the variables above (excluding the effective tax rate) are presented in constant prices based on the base year of 1997. They were collected from the Central Bank of the Islamic Republic of Iran and the Statistical Center of Iran as annual time series data covering the period from 2013 to 2023.

Control variables

Following prior studies (e.g., Li, 2008; Loughran & McDonald, 2016; Lo et al., 2017), we incorporate several control variables that may influence the readability of financial statements. To account for the size effect, we include "Size," which is measured as the natural logarithm of total assets. We also use "Lev," defined as the ratio of total liabilities to total assets at the end of the fiscal year, to control for the potential impact of leverage on management's discretion in financial reporting. Additionally, we include "ROA" to account for firm-specific performance. To address the potential influence of firm growth on readability, we include the market-to-book equity ratio (MTB), as growing firms may have greater discretion over accrual management, which could negatively affect the readability of financial statements. Furthermore, we consider corporate governance factors by incorporating the following variables: "InBoard", which is measured as the ratio of independent directors on the board, and "InsOwn", representing investors who hold more than 5% of the company's shares. Other control variables include "Firm Age", measured as the natural logarithm of the number of years since the initial public offering (IPO), the "Intangible Assets Ratio", which is the ratio of intangible assets to total assets, and "Profitability Volatility", measured as the five-year standard deviation of asset returns. Detailed definitions of all variables can be found in Table 2.

Table 2. Definition of Variables

Variables	*Definition*
Dependent Variable	
Readability	Gunning Fog Index
Explanatory Variables	
Exch	Standard deviation of the last 5 years on the exchange rate
Infl	Standard deviation of the last 5 years on the inflation rate
Inte	Standard deviation of the last 5 years on interest rate
GDP	Standard deviation of the last 5 years on GDP rate
Etax	Standard deviation of the last 5 years on the effective tax rate
Control Variables	
Size	Logarithm of the total assets
Lev	Ratio of total debt to assets
RoA	Return on assets
MTB	Market-to-book equity ratio
InBoard	Percentage of non-executive board members
InsOwn	Percentage of institutional investors
Firm Age	Natural logarithm of the number of years since IPO
Int Assets Ratio	Intangible assets ratio to total assets
ProfVol	Five-year standard deviation on asset returns

Empirical Results

Descriptive Statistics

Table 3 presents the key descriptive statistics for our variables. Regarding the primary measure of readability for financial restatements, the average Fog Index value is -15.966. This indicates that financial reports are quite challenging to read due to their high complexity. This finding is consistent with the results of other studies examining the readability of financial restatements in different countries (Ajina et al., 2016).

Table 3. Descriptive Statistics

Variable	Number	Meam	S.D.	MIN	MAX
Readebility	۱۲۹۰	-۱۵/۹۶۶	۱/۶۲۹	-۲۱/۹۰۸	-۱۳/۸۴۶
Inflation	۱۲۹۰	۰/۱۶۵	۰/۶۱۲	-۰/۵۵۰۴	۱/۸۰۲
Inter	۱۲۹۰	۰/۰۳۱	۰/۱۷۶	-۰/۲۵	۰/۴
EXCH	۱۲۹۰	۰/۳۹۲	۰/۴۹۲	۰/۰۲۶	۱/۶۳۱
GDP	۱۲۹۰	۰/۲۲۵	۰/۴۰۶	-۰/۰۶۸	۱/۳۹۱
Etax	۱۲۹۰	۰/۱۰۴	۰/۰۷۹	۰	۰/۲۲۵
Size	۱۲۹۰	۱۴/۹۳۱	۱/۵۸۹	۱۱/۰۳۵	۲۱/۵۷۱
ROA	۱۲۹۰	۰/۱۵۰۲	۰/۱۵۷	-۰/۵۶۳	۰/۶۰۷
Lev	۱۲۹۰	۰/۵۴۷	۰/۲۱۴	۰/۰۳۱	۱/۸۲۴
Market-to-Book	۱۲۹۰	۳/۳۸۵	۲/۶۴۸	۰/۶۲	۱۴/۴۱
InsOwn	۱۲۹۰	۰/۶۸۳	۰/۱۹۰۷	۰/۰۵۹	۰/۹۵۴
Firm Age	۱۲۹۰	۳/۶۴۹	۰/۳۵۲	۲/۵۶۴	۴/۲۶۲
InBoard	۱۲۹۰	۰/۶۱۹	۰/۱۹۳	۰/۲	۱
Int Assets Ratio	۱۲۹۰	۰/۰۰۴	۰/۰۰۷	۰/۰۰۰۱	۰/۰۹۰۵
ProfVol	۱۲۹۰	۰/۰۷۸	۰/۰۵۳	۰/۰۰۰۴	۰/۳۱۴

Hypothesis Testing

Before testing the hypotheses, the Chow and Hausman tests were conducted to determine the appropriate type of data and regression model. The outcomes of the Hausman and Chow tests at a 5% significance level supported the use of the random effects panel method. Additionally, the results from the heteroscedasticity test indicated that all models were significant (at p-value<0.05), highlighting the presence of variance heterogeneity in the disturbance terms. This issue was addressed in the final estimation of the research model by applying the Generalized Least Squares (GLS) method. Furthermore, the results of the Wooldridge test revealed a significance level of less than 5%, indicating the existence of serial autocorrelation in all models.

Model 1. *Effect of Exchange Rate Changes on Financial Statements Readability*

Table 4. First Model Test

$$Read_{i,t} = \beta_0 + \beta_1 EXCH_{i,t} + \beta_2 Size_{i,t} + \beta_3 ROA_{i,t} + \beta_4 Lev_{i,t} + \beta_5 MTB_{i,t} + \beta_6 InstOwn_{i,t} + \beta_7 Age_{i,t} + \beta_8 IND_{i,t} + \beta_9 AQ_{i,t} + \beta_{10} Intang_{i,t} + \beta_{11} VOLROA_{i,t} + \varepsilon$$

Variables	Coefficients	SD	Z- statistic	p-value	Colinear
EXCH	-۰,۰۰۱	۰,۰۰۰۵	-۳,۰۰	۰,۰۰۳	۱,۳۵
Size	۰,۰۰۰۲	۰,۰۰۰۱	۲,٤۰	۰,۰۱٦	۱,۱۷
ROA	۰,۰۰۱	۰,۰۰۱	۱,۱۵	۰,۲٤۹	۲,۰۹
Lev	۰,۰۰۱	۰,۰۰۰۸	۱,۵۲	۰,۱۲۸	۱,۷۲
MTB	۰,۰۰۰۰٦	۰,۰۰۰۰۵	۱,۱۹	۰,۲۳۳	۱,۳۸
InstOwn	۰,۰۰۰۰۵	۰,۰۰۰۸	۰,۰۷	۰,۹٤٦	۱,۱۸
Age	-۰,۰۰۰۸	۰,۰۰۰٤	-۲,۱۱	۰,۰۳۵	۱,۰۵
IND	۰,۰۰۰۳	۰,۰۰۰۷	۰,٤۸	۰,٦۲۹	۱,۰٤
Intang	-۰,۰۲۳	۰,۰۲٤	-۰,۹۸	۰,۳۲۵	۱,۰۳
VOLROA	-۰,۰۰۱	۰,۰۰۲	-۰,۵۲	۰,٦۰۲	۱,۱٦
Constant.	-۰,۰۱۷	۰,۰۰۰۲	-۸,۰۵	۰,۰۰۰	……..
R-squared			۰,۲۱۱۹		

Table 4 illustrates the impact of exchange rate fluctuations on the readability of financial statements. The data indicate a significant negative relationship between exchange rate changes and the readability of these statements (at p-value<0.05). This finding suggests that fluctuations in exchange rates adversely affect the clarity of financial statements. Additionally, the control variable of firm size shows a positive and significant relationship with the dependent variable (at p-value<0.05). In contrast, the variable of company age has a negative coefficient (at p-value<0.05), indicating that it inversely affects the readability of the financial statement.

Model 2. *Effect of Inflation Rate Changes on Financial Statements Readability*

Table 5. Second Model Test

$$\boldsymbol{Read_{i,t} = \beta_0 + \beta_1 Inflation_{i,t} + \beta_2 Size_{i,t} + \beta_3 ROA_{i,t} + \beta_4 Lev_{i,t} + \beta_5 MTB_{i,t} + \beta_6 InstOwn_{i,t} + \beta_7 Age_{i,t} + \beta_8 IND_{i,t} + \beta_9 AQ_{i,t} + \beta_{10} Intang_{i,t} + \beta_{11} VOLROA_{i,t} + \varepsilon}$$

VARIABLES	Coefficients	SD	Z- statistic	p-value	Colinear
INFLA	-۰/۰۱۱	۰/۰۰۵	-۲/۲۱	۰/۰۲۷	۱/۲۷
SIZE	۰/۰۰۰۳	۰/۰۰۰۰۸	۳/۹۷	۰/۰۰۰	۱/۱۵
ROA	۰/۰۰۲	۰/۰۰۱	۲/۱۹	۰/۰۲۹	۲/۰۶
LEV	۰/۰۰۲	۰/۰۰۰۸	۲/۹۶	۰/۰۰۳	۱/۷۲
MTB	۰/۰۰۰۰۳	۰/۰۰۰۰۷	۰/۴۴	۰/۶۶۰	۱/۴۲
INSTOWN	-۰/۰۰۰۸	۰/۰۰۰۷	-۱/۱۴	۰/۲۵۳	۱/۱۸
AGE	-۰/۰۰۰۷	۰/۰۰۰۳	-۲/۰۷	۰/۰۳۸	۱/۰۵
IND	۰/۰۰۱	۰/۰۰۰۶	۲/۳۸	۰/۰۱۷	۱/۰۴
INTANG	-۰/۰۲۳	۰/۰۱۶	-۱/۳۷	۰/۱۷۲	۱/۰۳
VOLROA	۰/۰۰۰۷	۰/۰۰۲	۰/۳۰	۰/۷۶۱	۱/۱۵
CONSTANT.	-۰/۰۱۹	۰/۰۰۲	-۹/۳۶	۰/۰۰۰	---
R-SQUARED			۰/۲۲۶۱		

Table 5 presents the impact of changes in the inflation rate on the readability of financial statements. The data indicate a statistically significant negative relationship between inflation rate changes and the readability of financial statements (at p-value<0.05). This suggests that fluctuations in inflation rates adversely affect the readability of these documents. In contrast, the control variables return on assets (ROA) and leverage (LEV) show positive coefficients (at p-value<0.05), indicating a direct and significant relationship with the dependent variable. However, the control variable for firm age has a negative coefficient (at p-value<0.05), which means it negatively influences the readability of the financial statements.

Model 3. *Effect of Interest Rate Changes on Financial Statements Readability*

Table 6. Third Model Test

$$Read_{i.t} = \beta_0 + \beta_1 Inter_{i.t} + \beta_2 Size_{i.t} + \beta_3 ROA_{i.t} + \beta_4 Lev_{i.t} + \beta_5 MTB_{i.t} + \beta_6 InstOwn_{i.t} + \beta_7 Age_{i.t} + \beta_8 IND_{i.t} + \beta_9 AQ_{i.t} + \beta_{10} Intang_{i.t} + \beta_{11} VOLROA_{i.t} + \varepsilon$$

VARIABLES	Coefficients	SD	Z-statistic	p-value	Colinear
Inter	-۱/۵۵۶	۱۰/۴۴۵	-۰/۱۵	۰/۸۸۲	۱/۱۳
SIZE	-۰/۰۷۱	۰/۰۶۰	-۱/۱۷	۰/۲۴۲	۱/۲۰
ROA	-۰/۸۷۷	۰/۳۵۸	-۲/۴۴	۰/۰۱۵	۲/۰۶
LEV	-۰/۶۷۶	۰/۲۴۸	-۲/۷۲	۰/۰۰۶	۱/۷۳
MTB	۰/۰۰۶	۰/۰۲۳	۰/۲۸۸	۰/۷۷۸	۱/۱۹
INSTOWN	۰/۱۳۷	۰/۳۷۸	۰/۳۶	۰/۷۱۶	۱/۱۸
AGE	-۰/۰۲۲	۰/۱۶۵	-۰/۱۴	۰/۸۹۱	۱/۰۵
IND	-۰/۱۳۰	۰/۱۹۸	-۰/۶۶	۰/۵۰۹	۱/۰۶
INTANG	۸/۲۰۵	۹/۲۹۲	۰/۸۸	۰/۳۷۷	۱/۰۳
VOLROA	۱/۳۷۶	۰/۸۷۵	۱/۵۷	۰/۱۱۶	۱/۱۶
CONSTANT.	-۱۴/۴۵۱	۰/۹۴۶	-۱۵/۲۸	۰/۰۰۰	---
R-SQUARED			۰/۲۲۷۸		

Table 6 presents the impact of interest rate changes on the readability of financial statements. The results indicate that the significance level of the interest rate variable exceeds 5%. Consequently, changes in interest rates do not influence the readability of financial statements. In contrast, the control variables of ROA (Return on Assets) and LEV (Leverage) exhibit negative coefficients (at p-value<0.05), indicating that they have a significant adverse relationship with the dependent variable.

Model 4. *Effect of Effective Tax Rate Changes on Financial Statements Readability*

Table 7. Fourth Model Test

$$Read_{i.t} = \beta_0 + \beta_1 ETax_{i.t} + \beta_2 Size_{i.t} + \beta_3 ROA_{i.t} + \beta_4 Lev_{i.t} + \beta_5 MTB_{i.t} + \beta_6 InstOwn_{i.t} + \beta_7 Age_{i.t} + \beta_8 IND_{i.t} + \beta_9 AQ_{i.t} + \beta_{10} Intang_{i.t} + \beta_{11} VOLROA_{i.t} + \varepsilon$$

Variables	Coefficients	SD	Z-statistic	p-value	Colinear
Etax	-۱,۰۲٤	۰,۵۱۳	-۲,۰۰	۰,۰٤٦	۱,۰۹
Size	۰,۱۱۲	۰,۰۳۵	۳,۱٤	۰,۰۰۲	۱,۱٤
ROA	۱,۱٦۱	۰,۳٤٤	۳,۳۷	۰,۰۰۱	۲,۱٤
Lev	۰,۸۸۷	۰,۲۳۹	۳,۷۰	۰,۰۰۰	۱,۷۲
MTB	-۰,۰۰۲	۰,۰۱۷	-۰,۱۵	۰,۸۷۹	۱,۱۹
InstOwn	-۰,۰۸۳	۰,۲۷٤	-۰,۳۰	۰,۷٦۲	۱,۱۸
Age	-۰,۱۲۸	۰,۱۵۹	-۰,۸۱	۰,٤۱۸	۱,۰۵
IND	۰,۱۸۷	۰,۱۸۸	۰,۹۹	۰,۳۲۰	۱,۰٤
Intang	-۱,۸۸۵	۵,۸٤٤	-۰,۳۲	۰,۷٤۷	۱,۰۳
VOLROA	-۰,۹۱۵	۰,۸۹۵	-۱,۰۲	۰,۳۰۷	۱,۲۰
Constant.	۱٤,۱۹۵	۰,۸۳٦	۱٦,۹٦	۰,۰۰۰	---
R-squared			۰,۲۲۱۱		

Table 7 shows the impact of changes in the effective tax rate on the readability of financial statements. The table indicates a significant negative relationship between changes in the effective tax rate and the readability of financial statements (at p-value<0.05). This suggests that changes in the effective tax rate adversely affect the readability of financial statements. Additionally, the control variables, Return on Assets (ROA) and Leverage (LEV), have positive coefficients (at p-value<0.05), indicating a direct and significant relationship with the dependent variable.

Model 5. *Effect of GDP Rate Changes on Financial Statements Readability*

Table 8. Fifth Model Test

$$Read_{i.t} = \beta_0 + \beta_1 GDP_{i.t} + \beta_2 Size_{i.t} + \beta_3 ROA_{i.t} + \beta_4 Lev_{i.t} + \beta_5 MTB_{i.t} + \beta_6 InstOwn_{i.t} + \beta_7 Age_{i.t} + \beta_8 IND_{i.t} + \beta_9 AQ_{i.t} + \beta_{10} Intang_{i.t} + \beta_{11} VOLROA_{i.t} + \varepsilon$$

Variables	Coefficients	SD	Z-statistic	p-value	Colinear
GDP	-۳,٦۱۱	۱,۱۹۰	-۳,۰۳	۰,۰۰۲	۱,۲۸
Size	۰,۱۳٤	۰,۰٦۳	۲,۱۱	۰,۰۳۵	۱,۱۷
ROA	۱,۲۹۲	۰,۳٤۰	۳,۸۰	۰,۰۰۰	۲,۰۸
Lev	۰,۸۷۵	۰,۱۸۷	٤,٦۸	۰,۰۰۰	۱,۷۲
MTB	۰,۰۱۷	۰,۰۲۱	۰,۸۳	۰,٤۰۵	۱,۲۹
InstOwn	-۰,۲۵۲	۰,۳۳۷	-۰,۷۵	۰,٤۵٤	۱,۱۸
Age	-۰,۱۹۲	۰,۱۷۷	-۱,۰۸	۰,۲۷۸	۱,۰۵
IND	۰,۱۷٦	۰,۱۸٤	۰,۹٦	۰,۳۳۷	۱,۰٤
Intang	-۱,٤۲۲	۱۰,۰۰۸	-۰,۱٤	۰,۸۸۷	۱,۰۳
VOLROA	۰,۳٦۹	۰,٦۹٦	۰,۵۳	۰,۵۹٦	۱,۱۸
Constant.	۱٤,۸۹۲	۰,۸۹۰	۱٦,۷۳	۰,۰۰۰	---

R-squared	۰,۲۲۸٤

Table 8 illustrates the impact of changes in GDP rates on the readability of financial statements. The data indicate a significant negative relationship between GDP rate changes and the readability of financial statements (at p-value<0.05). This suggests that fluctuations in GDP rates adversely affect how easily financial statements can be understood. Additionally, the control variables of Return on Assets (ROA) and Leverage (LEV) exhibit positive coefficients (at p-value<0.05). This implies that both ROA and LEV have a direct and significant relationship with the readability of the financial statement.

Conclusion & Recommendation

In recent years, economic shocks and fluctuations have led to inconsistencies in government economic policies, resulting in increased uncertainty surrounding these policies. Research indicates that economic policy uncertainty impacts the quality of financial reporting and influences investment decisions. Consequently, this uncertainty can make financial reports more difficult to understand, affecting investment choices and the overall transparency of the financial environment.

The primary objective of this study is to examine the effect of economic policy uncertainty on the readability of financial reporting in companies listed on the Tehran Stock Exchange over a 10-year period, from 2013 to 2022, by utilizing a panel data regression approach.

Research indicates that both inflation and exchange rate uncertainty negatively affect the readability of financial reports. This finding suggests that businesses operating in volatile currency environments may struggle to accurately assess their financial performance compared to others. Fluctuating exchange rates introduce risk and unpredictability, which can obscure a company's true economic performance. As a result, stakeholders may find it challenging to make informed decisions based on financial reports, potentially impacting investment and operational strategies. Specifically, the results show that uncertainty related to inflation diminishes the effectiveness of financial reports, making them harder to understand. When inflation rises, the cost of detecting misinformation also increases due to the decline in individuals' real wealth. Therefore, economic agents in high-inflation countries should allocate more resources toward creating accurate inflation forecasts. In this scenario, managers may have an incentive to make financial statements more difficult to understand. The research further suggests that the negative impact of inflation can be mitigated by providing more readable financial reports.

The findings indicate that uncertainty regarding GDP negatively impacts readability. Severe fluctuations in economic growth significantly affect financial markets. One consequence of an economic growth crisis within the capital market is a notable increase in company debt levels. As a result, company managers may have incentives to conceal or obscure information. This suggests that during periods of GDP uncertainty, companies might mislead shareholders about their actual economic performance by providing unclear reports.

The results indicate that readability is negatively impacted by changes in the effective tax rate. This implies that how a company manages its taxes—and the resulting effective tax rate—can affect the clarity of its financial reports. The extent of this impact may also differ based on the accounting standards used to calculate the effective tax rate. Since the effective tax rate serves as a criterion for measuring tax avoidance, managers who utilize tax avoidance strategies may be motivated to present information in a vague and complex manner. This could lead to inconsistencies in tax strategies following the audit of financial statements. Moreover, the effective tax rate, due to its effect on net income, can drive corporate managers to obscure financial reporting. These findings align with previous research, including studies by Jiang & Liu (2020), Qiu et al. (2023), Nagar et al. (2019), and Ozili (2021). Specifically, Jiang & Liu (2020) and Qiu et al. (2023) noted that economic uncertainty leads to an increase in disclosures by firms, but these disclosures are often less readable. Furthermore, Qian et al. (2025) found that heightened economic policy uncertainty is associated with increased information disclosure in the following year. Nagar et al. (2019) also reported that managers tend to respond to uncertainty by increasing their voluntary disclosures, although this can reduce readability. Additionally, Ozili (2021) discovered that high economic policy uncertainty results in fewer new insights for firms, which can encourage managers to manipulate accounting figures to achieve desired financial reporting outcomes.

We also found that changes in interest rates do not impact the readability of financial statements. The primary factor driving an increase in real interest rates is the heightened risk associated with price uncertainty and fluctuations in exchange rates. When investors face greater uncertainty regarding expected returns on investments, risk-averse individuals demand higher interest rates to compensate for this increased risk.

It appears that some managers may intentionally make financial statements difficult to read and understand in order to lower investors' expectations and deter them from withdrawing their investments. However, this study found no significant relationship between changes in interest rates and the readability of financial statements.

This research reveals significant findings regarding economic uncertainty in Iran. Economic uncertainties—such as fluctuations in exchange rates, inflation, tax rates, and GDP—have a considerable impact on the readability of financial reporting. This indicates that policy uncertainty has risen in recent years, potentially harming macroeconomic performance in Iran's capital market. Such factors can introduce volatility, making it challenging to predict future performance. To mitigate these risks, it is recommended that managers adopt effective management strategies, which include implementing strong risk management practices, diversifying operations to minimize exposure to specific economic variables, and ensuring transparent and accurate disclosures in financial reports. Additionally, companies should conduct sensitivity analyses to evaluate the potential impact of different economic scenarios on their financial statements. This approach enables stakeholders to better understand the risks and make informed decisions. Addressing these uncertainties necessitates proactive measures and clear communication to maintain the readability of reports.

Overall, this paper illustrates how the macroeconomic environment can influence corporate accounting and disclosure behaviors. It is suggested that future research explore the effects of economic policy uncertainty on investment decisions. Furthermore, it should examine the importance of understanding how economic uncertainty affects the readability of financial reporting and its implications for investment and market behavior. The findings indicate that further investigation is needed to analyze the specific mechanisms and broader effects of

economic uncertainty. To effectively assess the causal role of uncertainty in Iran's macroeconomic performance, a robust identification strategy must be developed.

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