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ABSTRACTS

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Stock Market Performance and Macroeconomic Factors: Evidence from Sri Lanka

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This paper intended to identify the impact of macroeconomic variables on the performance of the stock market in Sri Lanka. The selected macroeconomic variables were real gross domestic production, inflation, money supply, exchange rate and interest rate, and All Share Price Index (ASPI) had been utilized as the proxy for the performance of the stock market in Sri Lanka. Data for the study had been collected from 2004-2016 on a quarterly basis. Johansen Co-integration test, vector error correction model (VECM), Granger causality test were the techniques utilized to identify the impact. All the selected macroeconomic variables and the ASPI were co-integrated in the long term. There was a significant long run causality from the selected macroeconomic variables to ASPI at 5% significance level, and the long run equilibrium could be reached at a speed of 17.700%. Significant short run causalities were evidenced between real gross domestic production and ASPI; inflation and ASPI; money supply and ASPI, and interest rate and ASPI at 5% significance level. Causality between money supply and ASPI and between inflation and ASPI were the observed bidirectional causalities. Unidirectional causality was running from macroeconomic variables real gross domestic production and interest rate to ASPI. Therefore it could be concluded that the performance of the stock market had been affected by macroeconomic variables during the observed period.

Key Words: *Granger Causality, Johansen Co-Integration Test, Macroeconomic Variables, Stock Market in Sri Lanka, Vector Error Correction Model*