Macroeconomic Variables and Stock Market Returns in Sri Lanka

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Abstract

The stock market is one of the most energetic sectors that play an important role in contributing to the wealth of the economy. It plays a crucial role in the economic growth and development of an economy which would benefit industries, trade and commerce as a whole. The aim of this study is to investigate the impact of macroeconomic variables on stock market returns in Sri Lanka. Dependent variable of this study is stock market return measured by All Share Price Index (ASPI) and All Share Total Return Index (ASTRI) and independent variables are macroeconomic variables, such as Interest Rate (IR), Inflation Rate (INF), Exchange Rate (ER), Factory Industry Production Index (FIPI) and money supply (MS). The study targets all the companies listed and active in Colombo Stock Exchange (CSE) from 2006 to 2015. For analysis, secondary data was collected from annual reports of Central bank of Sri Lanka, Colombo Stock Exchange, Securities and Exchange Commission and Department of Census and Statistics. The results of the study reveal that the stock market returns is influenced by macroeconomic variables except money supply in Sri Lanka. Interest rate and factory industry production have negative influence on stock market return in Colombo Stock exchange while inflation rate and exchange rate have positive influence on stock market return. The findings of the study may be useful to public and economy especially stock market investors to focus the macroeconomic variables for making their effective decisions in order to enhance their stock market returns.

Keywords: Macroeconomic variables, Stock market return, All share price index and All share total return index.