

## **The Impact of Macroeconomic Variables on Stock Market Performance of Sri Lanka**

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### **Abstract**

Smooth functioning of a stock market is paramount important to a healthy economy. Investigations of relationship between macro-economic factors and performance of stock markets at many emerging economies including Sri Lanka are relatively limited. This study aims to identify the impact of macroeconomic variables on the stock market performance of Sri Lanka. The dependent variable is the All Share Price Index of Colombo stock market (ASPI) and the explanatory variables are the Gross Domestic Product (GDP), Inflation proxy by wholesale price index (WPI), Interest rate (IR), Balance of payment (BP) and Exchange rate (ER) over the period of 2010 to 2017 in a quarterly basis. All the data were collected from the Central Bank Annual Reports and from the Colombo Stock Exchange. **Data were analyzed using VECM using E-Views.** The results revealed that the macroeconomic variables and the stock market index (All share price index) in Sri Lanka significantly related. Analysis further showed that stock market index significantly positively related to GDP, ER and IR while it is negatively related to the inflation proxies by wholesale price index of Sri Lanka. The other variable which is the Balance of payment is insignificant in determining the stock market performance.

**Keywords:** Macro-economic variables, Stock market, Colombo Stock Exchange, All share price index, Sri Lanka