Short-term Interest Rates and Expected Stock Returns: Evidence from Sri Lanka

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Most of the studies examine the relationship between macro-economic variables and stock return. This study examines the relationship between short term interest rates, as measured by Treasury bill yields of 91 days, 182 days and 364 days Treasury bill rates and stock return in Sri Lanka. When consider the previous studies of short term interest rate and expected stock return in relating to the Sri Lanka, that results was different from the finding in most previous studies on foreign market. The results of prior studies relation to Sri Lanka were positive relationship among the short term interest rate and stock return. But according to the theories and prior foreign studies results were negative relationship among the variables. This study examines the relationship between short term interest rates, as measured by Treasury bill yields and stock return during the period of 2005 to 2015. This research has employed the secondary data from Colombo Stock Exchange, Central Bank of Sri Lanka and using the Bloomberg statistics. Regression analysis is employed to analyze the short term interest rate and stock return. It is employed on monthly, quarterly and annual time horizon. And stock return based on the all share price index (ASPI) and S&P SL 20 index. Treasury bill yields of 91 days, 182 days and 364 days get as the short term interest rates in this study. Furthermore analyze the periodically to identify the effect of after end the war in to the Sri Lankan economy in relating to the current research.

Keywords: Colombo Stock Exchange, Short Term Interest Rates, Treasury Bill Yields, Stock Return