

Stock Market Development and Economic Growth in Sri Lanka

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Abstract

Stock market plays an important role on economic development and it promotes the economic growth and prospects of the economy. The main objective of this research was to identify the impact of Stock Market Development on the Economic Growth in Sri Lanka. Using data for the period from 2000 to 2017, this study employed ECM for long run relationship and for the short run dynamics. Market capitalization, Stock total traded value and turnover ratio and inflation were taken as independent variables; stock market development was taken as the dependent variable. The annual time series data were employed for the Sri Lanka economy for the period of 2000 – 2017. These data were collected from website of Colombo stock Exchange annual reports of Central Bank of Sri Lanka, Department of Census and Statistics of Sri Lanka web site. Multiple regression model and correlation analysis were used to analyze the data using E-views software. The findings of this study suggest a positive relationship between efficient stock market and economic growth both in short run and long run. The results are consistent with the theoretical predictions.

Key Words: Stock Market development, Market Capitalization, Economic Growth, ECM, Sri Lanka