

Macroeconomic Variables Impact on Share Indices in Colombo Stock Exchange

S. K. W. N. Perera

Department of Finance, University of Kelaniya, Sri Lanka

kishanisatharasinghe27@gmail.com

ABSTRACT

Introduction - When considering the Sri Lankan context many studies have been conducted on the field of examining the relationship between macroeconomic variables and stock Indices. The main purpose of this study is to find the relationship between both Share Indices in Sri Lanka (All Share Price Index and Standard and Poor's Sri Lanka20) and the macroeconomic variables.

Design/Methodology/Approach - Eight main macroeconomic variables have been considered, namely interest rates, exchange rates, inflation rates, and supply of money (M2), Colombo Consumer Price Index (CCPI), Factory Industry Production Index (FIPI), Net Foreign Investment and Treasury bill rate. Monthly data has been collected during the four years (2012 June - 2016 December). And analyzed to arrive at Conclusion, which includes a null hypothesis stating that above macroeconomic variables do not affect both share indices. There are more than one independent variables hence we used multiple regression models to analysis since the do some tests such as; Normality Test, Multicollinearity, Unit Root Test, Autocorrelation and LM Test. "E-views" software has been used for analysis and identifies the hidden relationships in the models.

Findings - At the end, this study reveals that the Exchange rate, FIPI, Exchange rate and Money Supply (M2) have a positive relationship with ASPI and S&P SL20 Index while CCPI, Inflation rate, Interest rate, Net Foreign Investment, and Treasury bill rate have a negative relationship with ASPI and S&P SL20.

Conclusion - The research concluded that, according to the results of the study, there is a highly positive impact on both share price indices from FIPI while a highly negative impact to both share indices from the Treasury bill rate.

Keywords: *ASPI, S&P SL20, Macroeconomic, Inflation, Exchange Rate, CCPI*