

Impact of Macroeconomic Variables on Corporate Capital Structure; A Case of Listed Manufacturing Firms in Sri Lanka

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ABSTRACT

Introduction - The purpose of this study is to examine the effects of macroeconomic conditions on capital structure decisions of manufacturing firms listed in the Colombo Stock Exchange.

Design/Methodology/Approach - A panel data covering a period of 05 years from 2014 to 2019 for 10 listed manufacturing firms in Colombo Stock Exchange used while random effects model is used to analyze the data.

Findings - The empirical results stated that, in overall macroeconomic conditions have significant effects in determining the capital structure decisions of the manufacturing firms listed in Sri Lanka. GDP growth rate, interest rate and profitability are significantly impact to the firms' leverage of manufacturing sector. Moreover, exchange rate, corporate tax rate and firm size are found to be insignificant in determining the capital structure choice of the Sri Lankan manufacturing firms.

Conclusion - There is an impact of macroeconomic variables on capital structure and there are some other factors which are affecting the leverage of firms rather than external variables.

Keywords: *Capital Structure, Leverage, Macroeconomic Variables, Manufacturing Firms, Colombo Stock Exchange*