

**The Relationship between Short-term Interest Rate and Stock Market
Performance: Evidence from Sri Lanka**

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The issue on the relationship between stock market performance and the interest rate has been discussed by economist and researchers since both play important roles in influencing one nation's economic development. The aim of this paper is to examine the relationship between short-term interest rate and stock market performance for Sri Lankan stock market using the data from July 2005 to June 2015. We used three-month Treasury bill rate as the proxy for the short-term interest rate and All Share Price Index (ASPI) as the proxy for the stock market performance. In addition to the short-term interest rate, the regression model consists of other three important macroeconomic variables such as money supply, consumer price index and exchange rate in order to extract the effect of monetary policy, country's price level and foreign exchange rate on the stock market performance. The Multiple regression results in displays that the relationship between short-term interest rate and stock market performance exist as significantly negative. Further, the study found that the exchange rate and inflation rate have negative and money supply has a positive relationship with ASPI. The findings of the study hold practical implications for policy makers, stock market regulators, investors, and stock market analysts.

Keywords: All Share Price Index, Treasury bill rate, Money supply, Colombo Consumer Price Index, Exchange rate

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