Impact of Macroeconomic Variables on Stock Market Returns: A Case Study of Colombo Stock Exchange, Sri Lanka

Rathnayaka, R. M. K. T.[1] and Seneviratna, D. M. K. N.[2]

Unexpected circumstances with respect to the social and economic conditions, the stock market indices have been moving up and down with high volatility. This study examines the equilibrium relationships between the stock market indices and macro-economic factors in Sri Lankan during the period from January, 2009 to December 2016 to capture the linear inter-dependencies, by using Vector Autoregressive Regression and Vector Error Correlation Model,

Estimated co-integration rank test and Max-eigenvalue test suggested that there are two co-integration equations exist at the 0.05 level of significance. Furthermore, findings revealed that macroeconomic variables have direct effect on high volatility in Stock Market fluctuations. Moreover, the results concluded that Colombo Stock Exchange (CSE) is highly sensitive to the macroeconomic variables such as real gross domestic product and broad money supply.

Keywords: *Vector Autoregressive Regression, Vector Error Correlation Model, Max-eigenvalue Test and Colombo Stock Exchange*

[1] Faculty of Applied Sciences, Sabaragamuwa University of Sri Lanka (kapiar@appsc.sab.ac.lk)

[2] Department of Interdisciplinary Studies, Faculty of Engineering, University of Ruhuna, Sri Lanka (seneviratna@is.ruh.ac.lk)