

Determinants of Stock Returns: Evidence from Listed Commercial Banks in Sri Lanka

Withanage, W. S.¹, Yashodha, K. A. D. H.² and Wijesinghe, M. R. P.³

This research study attempts to investigate the determinants of stock returns using evidences from listed commercial banks in Sri Lanka. Inflation rate, GDP growth rate and Interest rate are taken as the macroeconomic determinants for this study while earnings quality measured by accruals also considered as a paramount variable. The study was carried out by using quarterly data for the period from 2010 to 2015 under the regression model, granger causality test, Vector Error Correction Model and impulse response test. Results concluded that macroeconomic variables and earnings quality except GDP growth rate have insignificant effect on stock returns of selected Listed Licensed Commercial Banks in Sri Lanka. GDP growth rate has a significant negative impact on stock returns while inflation rate has insignificant positive impact on stock returns. Earnings quality and interest rate have insignificant negative relationship on stock returns. Moreover, results showed that there is a higher response from GDP growth rate to stock returns.

Keywords: *Earnings Quality, Granger Causality, Macroeconomic Factors, Stock Returns*

¹ Department of Finance, Faculty of Commerce and Management Studies, University of Kelaniya, Sri Lanka (sesika1990@gmail.com)

² Department of Finance, Faculty of Commerce and Management Studies, University of Kelaniya, Sri Lanka (kadyashodha@gmail.com)

³ Department of Finance, Faculty of Commerce and Management Studies, University of Kelaniya, Sri Lanka (ruwanmrp@kln.ac.lk)