Impact of Macro Economic Variables on Corporate Capital Structure: Evidence from Colombo Stock Exchange

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ABSTRACT

Introduction: Capital structure decisions are very important for a firm because it helps to determine the value of a firm. This study focusing on analysing capital structure, aiming to identify how listed entities of Colombo stock exchange behave in terms of sensitivity to different types of macroeconomic factors in Sri Lanka.

Design/ Methodology/ Approach: Probability sampling method of quota sampling technique is used in drawing 50 companies from 5 non-financial subsectors including Consumer Durable & Apparels, Consumer Services, Healthcare & Equipment, Food & Beverage and Tobacco, and Material. Cross sectional data series for the period from 2010 to 2019 and Generalized Method of Moment Estimate is used to analyse the data. Independent variables are GDP growth Rate, Government Debt, Money Supply, Exchange Rate and Price Index. Tangibility is used as a control Variable. Debt Ratio represents the capital structure which is dependent variable in this research.

Findings: GDP growth Rate, Government Debt and Price index have significant positive impact on Debt Ratio and Money Supply and Exchange Rate have significant Negative Impact on Debt Ratio, GDP growth Rate, Government Debt and Price index have significant positive impact on Debt Ratio and Money Supply and Exchange Rate have significant negative impact on Debt Ratio.

Conclusion: Outcome of this study suggest that there is a significant impact of macro-economic factors on corporate capital structure. The findings of the study will help corporate managers in making financing decisions while considering the potential impact that these macroeconomic variables can have on their financing decisions as well as economic policy makers to manage fiscal and monetary policy in line with long term objectives.

Keywords: *Capital Structure, Gross Domestic Production, Government Debt, Money Supply, Exchange Rate*