

The Relationship Between Macroeconomic Variables, Covid-19 Pandemic on Sri Lankan Stock Market Performance

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ABSTRACT

Purpose: The main objective of the study is to examine the relationship between All Share Price Index (ASPI), selected key macroeconomic variables and the Covid-19 pandemic that prevailed in the last two years in Sri Lanka.

Design / Methodology/ Approach: Monthly time series data for Gross Domestic Product (IPI consider as a proxy), Inflation rate (NCPI Index), Interest rate (T-Bill Rate) and Exchange rate (USD exchange rate) and Covid-19 pandemic were used from January 2017 to April 2022. Unit root tests, (ADF, PP and KPSS tests) Johansen Cointegration test and Ordinary Least Square Method are employed.

Findings: The result of this study indicated that in the long-run, that there was a significant but negative relationship between IPI and ASPI. The study has not found any significant relationship from Covid-19 neither on the ASPI nor the other macroeconomic variables. However, further analysis showed that even the IPI does not have any significant impact indicating that there is no long-run equilibrium in the model.

Originality: The result emphasizes that the relationship between selected macroeconomic variables and the Covid-19 impact towards to ASPI is not significant. During Covid-19 pandemic situation, the stock market activities witnessed negative trends. Some possible facts for these findings could be that due to high volatilities in the stock market in Sri Lanka which emanates from the prevailing economic uncertainty. Further, it has been observed that there were deliberate interferences in operations of a stock market.

Keywords: *All Share Price Index, Macroeconomic Variables, Covid-19 Pandemic, Stock Market Performance, Economy*