Impact of Cryptocurrency on the Stock Market Performance in Sri Lanka: An Empirical Study Based on Ripple (Xrp)

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Abstract

Introduction: In the global financial markets, cryptocurrency has secured a distinct position, especially after its rapid growth and expansion. In recent times, numerous scholars have investigated the relationship between cryptocurrencies and the stock markets in different regions. Over the past three years, Sri Lanka's journey toward recovery from the global pandemic and economic crisis has opened the doors to cryptocurrency, with a growing trend of using it as an alternative investment. This study investigated the impact of cryptocurrency on the stock market performance in Sri Lanka, with a specific focus on XRP (Ripple).

Methodology: The analysis uses the data of XRP price returns, XRP volume, and ASPI returns, as well as S&P SL20 returns for the period 2013-2023. The analytical methods involve time series data regression techniques using E-Views software. The GARCH (1,1) model is employed methodology to evaluate the impact of cryptocurrency on stock market performance in Sri Lanka.

Findings: The results suggest that there is a weak positive relationship between XRP returns and both ASPI returns and S&P SL20 returns. Additionally, ASPI returns, and S&P SL20 returns are not statistically significant indicating that there is no impact of XRP on stock market performance in Sri Lanka.

Conclusion: The research serves as a basis for policy decisions for regulators, investors, and academics regarding the cryptocurrency market. Furthermore, future studies should consider a wider range of cryptocurrencies and explore the impact of Bitcoin Futures to gain a deeper understanding of the connections between cryptocurrencies and stock indices.

Keywords: Cryptocurrency, Ripple (XRP), GARCH, ASPI, S&P Sl20