

6.11 Determinants of Stock Market Development in Sri Lanka

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ABSTRACT

In the present situation it is frequently discussed about the movement in the Sri Lankan Stock Market and the stock market has recorded a trillion worth Market Capitalization in recent past. In October 2009 the Colombo Stock Exchange recorded as world best emerging stock market. Therefore it is very much important to examine the Macro Economic factors which influence the Stock Market Development. So this paper aims to examine how Macro Economic variables like Consolidated Broad Money Supply, National Savings, National Investment, Lending Interest Rate, Exchange Rate of Rupee with US \$,Inflation Rate and Gross Domestic Product (GDP) affect the Stock Market Development in Sri Lanka. Stock Market Development was measured using Market Capitalization and the research was carried out for a period of ten years starting from 1999 to 2008.

This paper adopts a quantitative approach based on secondary data collected through Central Bank Annual Reports and Pronouncements of Securities and Exchange Commission in Sri Lanka. Correlation, regression, t test and ANOVA are the statistical techniques selected for analyzing the data.

It is shown GDP, National Investment, National Savings and Consolidated Money Supply play a significant role in determining the Stock Market Capitalization and has a positive relationship. Exchange rate and Inflation rate have a marginal positive relationship with Stock Market Capitalization (SMC) and Interest rate resulted a marginal negative relationship with SMC. These Independent variables adequately explain the variation of the SMC. This research findings are justified since the increase in money supply will leads to increase in the national investments and market capitalization consequently. The same result will arise in the event of increase in the GDP.

Keywords: SMC, GDP, National Investment, National Savings, Inflation Rate, Exchange Rate, Interest Rate, Consolidated Money Supply.