IMPACT OF MACROECONOMIC INDICATORS ON SHARE PRICES IN SRI LANKA: EVIDENCE FROM BANKING SECTOR IN COLOMBO STOCK EXCHANGE

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INTRODUCTION

Globally, stock markets have become the primary driving force behind national and international economies. The share price is crucial in investors' share market investing decisions. Because when it comes to investing in stocks, investors are primarily concerned with the share price. The banking industry is crucial to the Sri Lankan stock market. Because they are engaged in providing liquidity to the whole economy while altering asset risk characteristics, they also give payment services to all organizations in order for them to complete their financial transactions. As a result, many investors are eager to invest in firms in the banking industry because the risk of investing in the banking industry is much lower than in other industries. Furthermore, macroeconomic issues directly impact the financial market's development (Badullahewage, 2018). Changes in macroeconomic circumstances impact the share prices of banking sector businesses. In addition, corporations have little influence over macroeconomic issues. As a result, the impact of macroeconomic factors on stock prices may vary from one nation to the next (Lakmali & Madhusanka, 2015). As a result, the researcher chose five macroeconomic factors as study variables.

The primary objective of this study is to determine if macroeconomic conditions influence the share price of CSE banking sector businesses. There are numerous study studies on this issue all across the globe. Thus, in Sri Lanka, there are studies conducted on the internal factors that affect share price (Dissanayake & Biyiri, 2017), But there is a dearth of studies on macro-economic factors. Moreover, there is substantial mixed evidence between macroeconomic factors and share price. For example, Jayasundara et al. (2016) investigated the link between the exchange rate and share price. They concluded that the US Dollar exchange rate responded favorably to the share price. Lakmali and Madhusanka (2015), on the other hand, found that the exchange rate responded unfavorably to shear prices. On the other hand, other academics have discovered an insignificant link between macroeconomic indicators and share prices (Jayasundara et al., 2016). As a result, the existing research offers mixed evidence of the association between macroeconomic factors and share price. Furthermore, throughout the last several years, numerous crises in the Sri Lankan economy have considerably impacted macroeconomic indicators, such as way, boom burst, and the COVID-19 epidemic. The literature assessment reveals a scarcity of research on the influence of macroeconomic determinants on the share price in the post-COVID-19 setting, both locally and globally. As a result, the researcher attempted to close that gap by examining this study and "Is there a significant link between macroeconomic conditions and share price of listed banking sector businesses on the CSE?"

This research result is significant for all shareholders interested in the firm and other stakeholders, such as management, investors, the government, and economists, who may use it to make better decisions. Furthermore, policymakers must grasp the influence of these macroeconomic factors on share prices when crafting economic and monetary policy. As a result, it is intended that this research will contribute to the existing local and worldwide literature and address the gaps identified. The following section outlines the study's methodology.

METHODOLOGY

This section discusses the research approach, the population, the study sample, hypotheses, the operationalization of variables, and proposed analytical strategies. This study examines the significant impact of macroeconomic variables on the share prices of banking sector companies. The explanatory variables of the study are inflation (INF), money supply (MS), interest rate (INT), an exchange rate (ER), and Gross domestic product (GDP). Besides, the dependent variable is companies' share prices in the banking sector. The study gathered annual report data from 2012 to 2021. The researcher selected 11 licensed commercial banks as a sample for the study. Accordingly, the researcher used 110 observations and followed a deductive approach and quantitative research methodology to conduct this study (Varma & Bansal, 2021). Figure 1 indicates the conceptual diagram developed based on the comprehensive literature review performed.

Figure 1 Conceptual Diagram
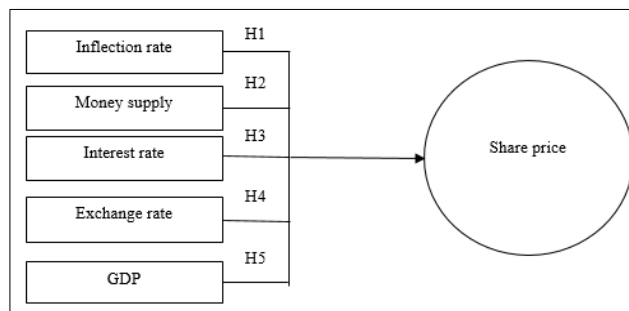
Based on the conceptualization, following hypotheses can be developed.

H_1: There is a significant impact of INF on the share prices in banking sector companies in CSE.

H_2: There is a significant impact of MS on the share prices in banking sector companies in CSE.

H_3: There is a significant impact of INT on the share prices in banking sector companies in CSE.

H_4: There is a significant impact of ER on the share prices in banking sector companies in CSE.

H_5: There is a significant impact of GDP on the share prices in banking sector companies in CSE.

To achieve the objectives of the study. Data cleaning and screening strategies were carried out before performing the descriptive and regression analyses. Variables with significant outliers were winterized to address the issue of outliers. Next, correlation and regression analyses were performed, and in performing these analyses, several assumptions were tested for normality, multicollinearity, and homoscedasticity, and no anomalies were found. The Hausman test was used to select the suitable model for data analysis, and the study found that the fixed effect model is more suitable.

RESULTS AND DISCUSSION

This section elaborates on the findings of the correlation and regression.

Table 1 Correlations Coefficients

	SP	**INF**	**MS**	**INT**	**ER**	**GDP**
SP	1.000					
INF	0.082	1.000				
MS	-0.175	-0.006	1.000			
INT	-0.013*	0.317**	-0.698**	1.000		
ER	-0.117	-0.150	0.910**	-0.556**	1.000	
GDP	0.088	0.011	-0.741**	0.609**	-0.711**	1.000

Dependent Variable is SP

Definition of these variables are indicated in Table 1.

*$p<0.05$;**$p<0.01$

Table 1 shows a negative systematic ($p<0.05$) association between the SP and INT, and other main variables do not show a significant association with the share price. However, indirect results show a significant ($p<0.01$) positive association between INF and INT. Furthermore, MS shows a negative significant ($p<0.01$) association between INT and GDP but a positive systematic ($p<0.01$) association between ER. Moreover, there is a negative systematic ($p<0.01$) association between the ER and INT and a systematic ($p<0.01$) negative association between ER and GDP.

Table 2 Regression Analysis

Variable	Coefficient.	Std. Err.	P value
INF	2.788	1.739	0.112
MS	-45.893	8.885	0.005
INT	-10.942	2.686	0.028
ER	-332.596	106.041	0.001
GDP	0.310	1.310	0.813
Contant	-366.165	178.586	0.043
Prob>chi2 = 0.034*			
R-sq.: = 0.0820			

Dependent Variable is SP

*$p<0.05$;**$p<0.01$

As per Table 2, the overall R-squared value is 0.08, and the study used a fixed effect model since the Chi-Square value was significant at 5%. The regression analysis (refer to table 2) presented a significant negative association between SP and the MS, INT, and ER. Thus, these

findings were consistent with those (Bhattarai, 2018; Verma & Bansal, 2021; Lakmali & Madhusanka, 2015). Besides, Oluseyi (2015) concluded that there has no significant relationship between money supply and share price. Moreover, Djazuli (2017) concluded that the interest rate has no significant impact on the share price. Furthermore, Pramod and Puja (2012) and Khan et al. (2013) are inconsistent with the current study findings. Since it revealed that the ER does not significantly impact the share price. Accordingly, H2 and H4 are supported by the above regression analysis results.

CONCLUSIONS AND IMPLICATIONS

The researcher investigates the influence of macroeconomic factors on the share price of CSE banking sector businesses in this study. The results found that the money supply, interest rate, and exchange rate significantly negatively influence share price. This research evaluated the relationship between macroeconomic factors and the share price of CSE-listed banking sector businesses. As a result, these results have real-world ramifications for banking and financial institutions, investors, legislators, prospective researchers, and stock market analysts. This research has several drawbacks. For this experiment, only five macroeconomic variables were considered. Several elements influence share price variations in addition to these five. Furthermore, this analysis focuses only on Colombo Stock Exchange-listed banking sector businesses. Another promising future study topic is to look for perspectives, attitudes, and motivations related to macroeconomic factors.

Keywords: Banking sector, macroeconomic variables, share prices

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