

## IMPACT OF MACRO-ECONOMIC VARIABLES ON STOCK PRICES: A STUDY ON LISTED COMPANIES IN SRI LANKA

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### ABSTRACT

This study investigates the relationship between stock market prices and macroeconomic variables in Sri Lanka by focusing on the Colombo Stock Exchange, which is crucial for economic growth. Previous research has shown inconsistent findings regarding the effects of inflation rates, interest rates, money supply, and exchange rates on stock prices, thus limiting investors' decision-making abilities. Given recent economic instabilities, this study uses updated data to clarify the impact of these macroeconomic factors on stock prices. This study was conducted to obtain the correct conclusion of the effect of macroeconomic variables on Stock Market Prices in listed companies in Sri Lanka, utilizing the most recent data enabled by past researchers, indicating varied conclusions depending on the different variables. This quantitative study analyzes the effects of macroeconomic variables on stock market prices in Sri Lanka, using secondary data from 160 randomly selected companies listed on the Colombo Stock Exchange. This study focuses on four hypotheses related to interest rates, inflation rates, exchange rates, and money supply, exploring the cause-and-effect relationships with stock prices measured through the All Share Price Index. Data were collected from annual reports and economic databases from March 2013 to April 2022. The analysis involved descriptive statistics, correlations, and multiple regression analyses using SPSS. This study revealed the varying impacts of macroeconomic variables on Stock Market Prices. The All Share Price Index served as the dependent variable. Interest rate data from the Central Bank of Sri Lanka indicate a negative correlation with stock prices, although the coefficient analysis shows no significant impact. By contrast, inflation has a positive and statistically significant relationship with stock prices. The exchange rate is also positively correlated, but the coefficient analysis reveals no significant impact. The money supply data indicate a positive and significant effect on stock prices. Overall, the model was statistically significant based on the ANOVA test. This study highlights the relationship between Sri Lanka's stock market price and macroeconomic variables. Key findings include substantial positive correlations between inflation and money supply with stock prices, whereas interest rates showed no impact. These insights are valuable for investors and policymakers to enhance risk management and investment decisions, and suggest further exploration of additional economic indicators.

**Keywords:** All share price index, exchange rate, inflation rate, interest rate, money supply