

Impact of Macroeconomic Factors on Going Public Decision in Sri Lanka

M.I.M. Riyath^{1*}, D.A.I. Dayaratne², and A. Jahfer³

¹*Department of Business and Management Studies, Faculty of Communication and Business Studies, Eastern University of Sri Lanka, Chenkalady, Sri Lanka*

²*Department of Accountancy and Finance, Faculty of Management Studies, Sabaragamuwa University of Sri Lanka, Belihuloya, Sri Lanka*

³*Department of Accountancy and Finance, Faculty of Management and Commerce, South Eastern University of Sri Lanka, Oluvil, Sri Lanka*

**riyathi@esn.ac.lk*

The decision on going public of private companies has taken more attention among researchers during the last thirty years. Studies reveal that the number of going public decision varied along with changes in nation's economic conditions. Theoretical and empirical literature revealed diverse views on the relationship between Initial Public Offering (IPO) activity and macroeconomic determinant. However, the empirical study on co-movement between IPO activity and macroeconomic condition is rare in literature. Therefore, this study intended to investigate the selected macroeconomic factors on going public decisions in the Sri Lankan context. This study collected firm-specific IPO activity data from the Data Library of Colombo Stock Exchange (CSE) and macroeconomics data from annual reports of the Central Bank of Sri Lanka during the period from 1990 to 2018 to examine the long and short-run dynamic impact of macroeconomic conditions on IPO using time-series econometric techniques. The unit-root tests for each of the variables were done to make sure their stationery, which revealed that most of the variables are stationary at level and few become stationary at 1st difference. This study used the Auto-Regressive Distributed Lag (ARDL) and Bounds testing procedure and ARDL Error Correction Regression since time series here integrated mix of both order zero and one. The lag selection of the variables was automatically selected using the Akaike information criterion (AIC). Analysis of the time series variable revealed that there are long-term equilibrium relationships that exist between IPO activity and selected macroeconomic variables such as Economic growth, interest rate, foreign direct investment, trade openness, and money supply. The more robust result can be obtained by engaging a large number of observations for long period and/or employing monthly / quarterly data rather than annual data.

Keywords: *ADRL, CSE, IPO, Going public Decision, Macroeconomic factors*