

THE IMPACT OF MACROECONOMIC FACTORS ON SHARE MARKET PERFORMANCE: EVIDENCE FROM SRI LANKAN CONTEXT

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Abstract

This research aims to understand the effect of macroeconomic factors on the performance of the share market, which would attract the attention of economic policymakers in terms of enhancing investments within Sri Lanka. The study followed positivism research philosophy and applied deductive research approach. Thereby we used quantitative data to reach conclusions. The study derived two macroeconomic factors based on the key macroeconomic variables by using Principal Component Factoring: Economic Growth Factor and Time Value of Money Factor for the analysis. Based on the monthly data collected for 213 months from January 2002 to September 2019, the study developed GARCH (1,1) model to understand the time-series impact of the macroeconomic factors on the All-Share Price Index. The results of the GARCH (1,1) model revealed that the All-Share Price Index of the previous month and the time value of money factor, which includes the inflation rate and treasury bill rate, are more deterministic when forecasting the following month All-Share Price Index. However, the economic growth factor showed an insignificant impact on the performance of the Colombo Stock Exchange. In conclusion, better share market performance of the previous month and time value of money factor together are significantly impacting to motivate investors in Sri Lankan stock exchange than other macroeconomic variables (*ceteris paribus*).

Keywords: Economic growth factor, GARCH (1,1), Macroeconomic factors, Share market performance, Time value of money factor