

IMPACT OF SRI LANKAN ECONOMIC CRISIS ON FINANCIAL INTEGRATION BETWEEN INDIA AND SRI LANKA: A PANEL ARDL APPROACH

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This study examines the financial integration between India and Sri Lanka amid the ongoing Sri Lankan economic crisis. For accomplishing this objective, daily data of the National Stock Exchange (NSE) and Colombo Stock Exchange (CSE) were taken for the past 10 years as a proxy for the economic barometers of both countries. The study applied the Panel ARDL approach intending to test the horizon of the relationship i.e., long run or short run relationship and the Ordinary Least Square (OLS) method for identifying the intensity of interdependence between the two stock indices. The study also tried to gauge the impact of the current economic crisis in the relationship between India and Sri Lanka. Results of the Panel ARDL approach indicated that no long-run cointegration exists between Indian and Sri Lankan stock markets. Results of OLS suggested that CSE accounts for 44% variation in NSE and this relationship further deteriorated during the crisis period.

Keywords: Economic crisis, financial integration, Ordinary Least Square, Panel ARDL approach