

The Impact of External Shocks on Stock Market Prices in Sri Lanka: A Time Series Analysis

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Stock Exchange is one of the important components of the capital market. This is a systematized market of industrial and financial security purchases and sales, as per certain well-defined rules. The share market provides a convenient and secured platform for transactions of different securities such as shares, and debentures issued by the duly listed public companies, bonds, and debentures issued by the government. This study was carried out to check the impact of external shocks on the daily prices of Sri Lankan stock market's listed company shares. The specific objectives of this study were to examine the impact of economic and financial crisis on daily stock market prices of listed companies, to check the effect of exchange and inflation rates on the daily prices of listed companies and to find the shocks which have an impact on listing and delisting of companies. Daily data for 25 years, of 364 different voting and nonvoting stocks were taken into consideration. These stocks belong to 343 different listed companies which represent all 20 Colombo Stock Exchange business sectors within the considered time period. Lag models with autoregressive (1) term was used for the analysis. The sectorwise model evidences revealed that different exogenous factors affect the real daily share prices of different sectors. Most of the sectors were significantly affected by at least one or more of the exogenous shocks such as the Financial Stress Indicator, the Geopolitical Risk Index, inflation and the All Share Price Index. For instance, the real daily price of the Banking, Finance and Insurance sector was increased by 1.65 percent when the Financial Stress Indicator increased by one percent, and it decreased by 0.04 when the Geopolitical Risk Index was increased by one percent, and when the inflation increased by one unit the real daily price increased by 2.73 percent.

Key words: Colombo Stock Exchange, Lag Models, Prices, Share Market, Time Series Analysis