

SHORT-TERM INTEREST RATE AND MARKET RETURN: EVIDENCE FROM LISTED COMPANIES IN SRI LANKA

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ABSTRACT

Short term interest rate and market return are two crucial measurement for formulating current economic stability. This study has been conducted to find out the relationship and impact of short-term interest rate on stock market return. Monthly data has been collected from the period of January 2006 to January 2017. Three month Treasury bill rate was used as a tool for the short term interest rate and applied all share price index (ASPI) for stock market return. And also, inflation rate, money supply and exchange rate were employed as control variable. The data were analyzed and hypotheses were tested through descriptive statistics, correlation analysis and regression analysis. The finding revealed that, there is a negative significant impact of short-term interest rate on market return and also interest rate and exchange rate have negative impact except money supply on market return. These results have implications for investors, financial analyst, fund managers and policy makers.

Keywords: - Stock Market returns, Interest rate, Colombo stock exchange