

Initial Public Offerings and Macroeconomics Variables: Evidence from Sri Lanka's Stock Market

S.K.U. Sirimewan^{1,*} and R.M.N.C. Swarnapali²

*Department of Accountancy and Finance, Faculty of Management Studies,
Rajarata University of Sri Lanka, Mihintale, Sri Lanka^{1,2}*

*Corresponding author: kaveeshasirimewan1@gmail.com

Abstract

This study investigates the relationship between initial public offerings (IPOs) and macroeconomic variables: evidence from Sri Lanka's stock market from 2005 to 2024. Accordingly, the required data were gathered over the last 20 years as time series data. It is interesting to note that this period encompasses both the economic crisis in Sri Lanka and the subsequent peaceful environment that followed the crisis. The primary goal is to address the lack of empirical research on IPO dynamics in Sri Lanka. Utilizing a quantitative approach, the study analyses secondary data extracted from the annual reports of the Colombo Stock Exchange and the Central Bank of Sri Lanka. The study uses the number of initial public offerings per year as the dependent variable and gross domestic product, inflation, the 91-day interest rate, and exchange rate as the macroeconomic variables. Methodologically, the research employs descriptive analysis to provide a basic understanding of the variables, Augmented Dickey-Fuller (ADF) tests for checking stationarity, Johansen's co-integration test for long-term relationships, Granger causality tests for causal relationships, and correlation analysis to explore the relationship among these variables. The findings of the current study reveal a significant relationship between the independent variables and the number of initial public offerings per year. There is a significant, strong positive relationship between gross domestic product and the number of initial public offerings, while inflation, exchange rate, and the 91-day interest rate exhibit significant, moderate negative relationships with initial public offerings. The results highlight the importance of macroeconomic stability in promoting initial public offerings activity and provide valuable implications for policymakers, investors, companies planning to go public, and academics. The study contributes to the limited empirical literature in the Sri Lankan context and suggests directions for further research in emerging markets.

Keywords: exchange rate, gross domestic product, interest rate, initial public offerings, inflation