

F-22: Stocks, bills and inflation in Sri Lanka

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This study examines the risk and return profile of common stocks, Treasury bills and Inflation in Sri Lanka over the 13-year period 1985-97. The evidence shows that, on average, common stocks earned nominal returns, without dividends, of 24.8 % with a standard deviation of about 49.6 %, a dividend yield of about 2.6 % with a standard deviation of 1.2 %. dividend-adjusted nominal returns of about 27.4 %, dividend-adjusted real return of about 16.1 %, and a dividend-adjusted risk premium of about 10.6%. Treasury bills provided an average yield of 16.9 % with a standard deviation of 3.3 %. The inflation rate averaged 11.3% with a standard deviation of 5%. The real risk-free rate in the Sri Lankan economy has averaged 5.6 % with a standard deviation of 5.4 %. There have been 7 major market trends, 4 bull markets and 3 bear markets. Five industries outperformed the market from a relative risk standpoint. They are Chemicals and Pharmaceuticals, Services, Bank Finance and Insurance, Beverages Food and Tobacco, and Oil Palms in the descending order of performance.