

INFLUENCE OF MONETARY POLICY ON BANK PERFORMANCE IN SRI LANKA

Divanjana J.D.N.¹ and Abeywardhana D.K.Y.²

¹*divanjana98@gmail.com*; ²*dilyapa@kln.ac.lk*

Abstract

At present, Sri Lanka is suffering from the disease of economic decline. For that Sri Lankan Central Bank give a massive support to treat for the illness through correct monetary and physical policy to the blood of Sri Lanka. Under supervision of Central Bank monitoring banking sector also give nutrition to the economy. There for this study aim to determine the impact of monetary policy instruments on bank performance in Sri Lanka, and it could be an ideal suggestion to regulators for constructing monetary policy tools that fulfill the Sri Lankan economy's macroeconomic goal as healthy. Various arguments about the relationship between key factors in various countries may be found in the literature study. However, there is a few studies discuss with different monetary tools related this relationship in Sri Lanka. As a result, this study aims to fill a research gap in Sri Lankan monetary policy instruments and bank performance. Hence this study will mainly test the impact of monetary policy Interest Rate (IR) and Statutory Reserve Ratio (SRR) and performance of the banks to achieve this purpose. This research will use the Return on Equity (ROE) and Return on Asset (ROA) to measure the performance of the banks. In this study, descriptive analysis, Pearson correlation analysis, and regression analysis are used to analyze the data there is a strong relationship between monetary policy instruments and commercial bank profitability measures, implying that appropriate monetary and banking policies are important factors in the commercial banking industry's continued stability and profitability. This research has used all the Sri Lankan banks as the population, and 24 commercial banks were selected as the sample for the study. Data will be collected from annual reports for the period from 2016 to 2021. In here assists in making recommendations to the Central Bank, researchers, and financial institutions regarding financial performance and monetary policy rates, and the Central Bank can also focus on the country's macroeconomic situation.

Keywords: *Monetary policy, Return on Assets, Return on Equity, Interest Rate, Statutory Reserve Ratio.*