

Interest Rate Changes and Profitability of Licensed Commercial Bank in Sri Lanka

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Abstract

Interest rate change is very critical issue for the corporate world today. Dramatic interest rates fluctuations are more frequent due to diverse events such as COVID 19 pandemic situation during past period. Previous studies evident that such events ultimately affect the bank's performance in recent years. Therefore, interest rate changes may have a potential impact on commercial bank profitability.

This study specially examines the impact of interest rate (fixed deposit rate, lending rate, deposit rate) changes on performance of licensed commercial banks in Sri Lanka due to the pandemic situation. Three types of interest rates are taken into consideration such as Lending rate, Deposit rate and Fixed Deposit rate. Performance is dependent variable, and it is measured in terms of return on assets, return on equity, & earning per share. The sample consist of randomly selected 14 licensed commercial banks out of 24 in Sri Lanka. Using quantitative secondary data collected from annual reports of sample banks for the period of 2016-2020, a comparative analysis is performed to determine the impact of interest change fluctuations of bank performance during the pandemic. The findings may have implications for numerous decisions of bankers.

Key words: *lending rate, deposit rate, fixed deposit rate, return on equity, return on asset, Earning Per Share*