

## **THE IMPACT OF INTEREST RATE FLUCTUATIONS ON FINANCIAL PERFORMANCE; EVIDENCE FROM COMMERCIAL BANKS: A COMPARATIVE STUDY OF PRE AND POST COVID- 19**

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### **Abstract**

The objective of this study is to evaluate the impact of interest rate fluctuations on the Financial Performance of Commercial banks. Thus, annual data of ten years from 2012 to 2022 has been taken for 10 listed commercial banks operating in Sri Lanka. To make substantially noteworthy results study uses Correlation and Regression analysis in order to evaluate the impact of Average Weighted lending rate (AWLR), Average weighted fixed deposit rate (AWFDR), Statutory Requirement rate (SRR) over the Financial Performance indicators; return on assets (ROA), return on equity (ROE). The result shows that when the Average Weighted Fixed Deposit Rate (AWFDR ) increases the bank's return on equity and return on asset decreases as it decreases the profitability of the bank. Statutory reserve ratio is having a strong positive relationship with the return on asset and return on equity.

Thus the interest rate considerably affects the bank's interest income. These findings are proved through Pearson correlation technique. It means banks' income by interest is extremely related to interest rates that show the bank's profitability is dependent on the monetary policy tool known as interest rate. Particularly, when interest rate is high, usually the rise in lending rate is higher than the deposit rates which as a result increases the bank spread. But on the other side when interest rates are low then rise in deposit rate is higher than the lending rates. As compared to deposit rates, the rates of lending are adjusted more rapidly when interest rates increase. The target population in this study is all listed commercial banks operating in Sri Lanka. Data is collected from central banks Annual report and Publications of above Banks. The data collected was analyzed using E-views. Regression analysis was used to analyze the data and find out whether there exists a relationship between interest rate fluctuations and the performance of commercial banks in Sri Lanka during the period of pre and post Covid19.

**Keywords:** *Return On Assets, Return On Equity, Average Weighted Lending Interest Rate, Average Weighted Fixed Deposit Rate, Statutory Reserve Rate, Gross Domestic Product*