

Financial Constituency Instrument as a Market Economic Determinant: How Interest Rate Performs as a Market Economic Determinant in Monetary Policymaking

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ABSTRACT

Purpose: The purpose of this study is to examine the correlations of monetary policy and its market determinants in Sri Lanka. This is finalized by analyzing and evaluating the market economic determinants that are published in Central bank of Sri Lanka, and in World bank reports.

Design/ Methodology/ Approach: The research approach is based on empirical research, drawing from Central bank, IMF, and World bank reports for the period from 2019- 2022. OLS regression models used to analyze the relationship between monetary policy and the policy making determinants.

Findings: The finding revealed that there is a significant positive and negative relationship between the variables of monetary policy. Moreover, there is a significant positive relationship between policy rate and commercial bank deposit rate, interest rate and deposits, investment, and economic growth. However, there are significantly negative relationship between policy rates and interest rates, deposit rates and domestic savings, interest rate and investment, policy rate and inflation.

Originality: The results of this study suggest that financial constituency instruments positively as well as negatively correlated within the variables.

Keywords: *Gross Domestic Product, Standing Deposit Facility Rate, Average Weighted Deposit Rate, Short- Term Interest Rate, Long -Term Interest Rate*