

THE IMPACT OF CENTRAL BANK INTEREST
RATE CHANGES ON

GDP

GROWTH IN SRI LANKA

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AGENDA

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INTRODUCTION

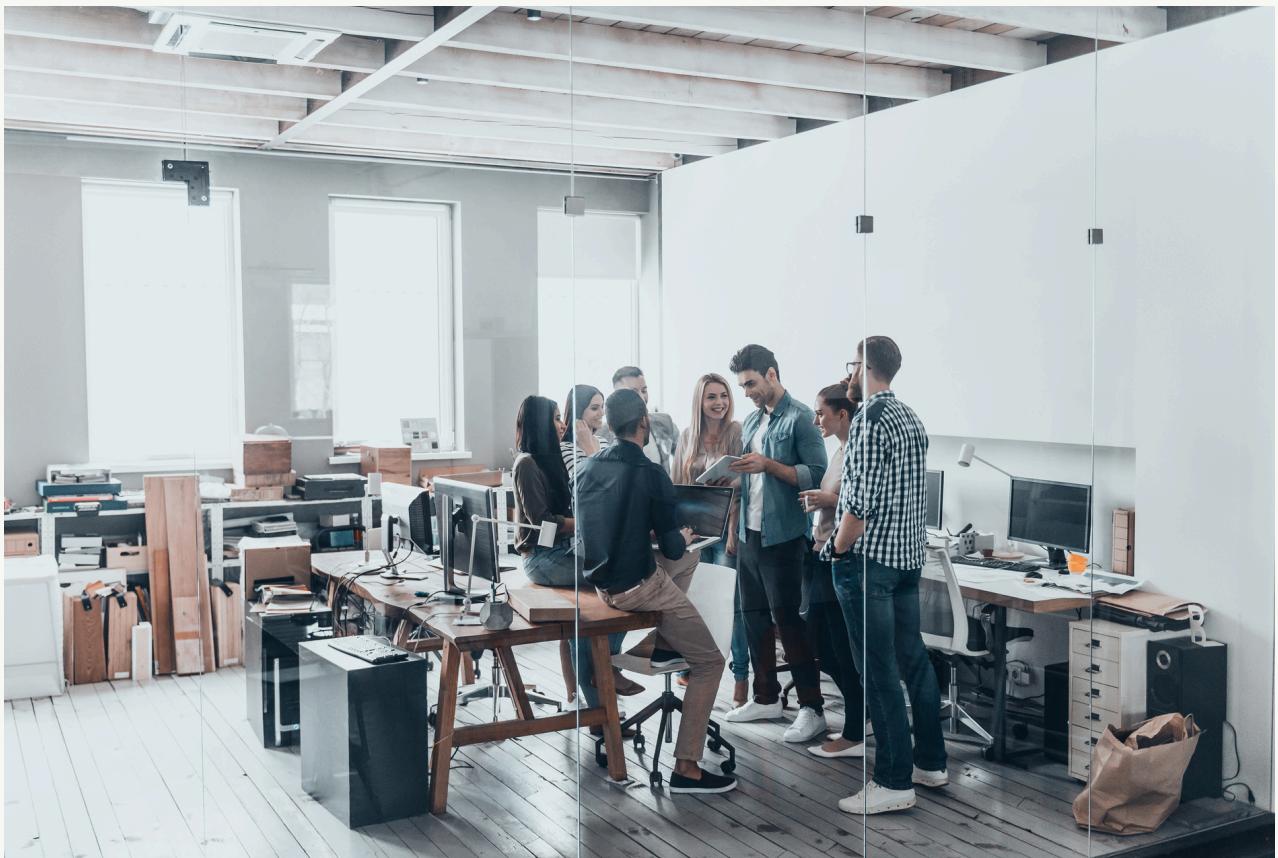
The management of an economy and the maintenance of financial stability are the fundamental reasons why central banks across the world use policy instruments such as the monetary policy. The Central Bank of Sri Lanka (CBSL) is, undoubtedly, the body that plays the most significant role in this regard in Sri Lanka, and is doing so through the adjustment of interest rates. The adjustments are intended to boost the investment, consumption, and overall GDP growth of the other sectors of the economy. Grasping the relationship between central bank interest rate changes and GDP growth is very significant in the way of creating economic expansion and stability which is sustainable and enough.

This investigation will focus on the connection in the framework of the Sri Lankan economy. In doing so, the main objectives of the study would be further developing patterns, correlations, and potential causal effects of the interest rate changes on the GDP growth by developing the past analytical data and the application of different statistical tools and econometric methods. The knowledge of this paper will be a useful tool for policy planners, economists, and also investors dealing with the status of the Lankan economy and the performance of its monetary policy.

The unique economic landscape of Sri Lanka, a developing market with different problems and possibilities, is what makes this study stand out. Not only will the results of this study deepen the knowledge of monetary policy's influence on economic growth in Sri Lanka, but also in the theory of economics as well by providing empirical evidence from an emerging market context.



PROBLEM STATEMENT



Even as the Central Bank of Sri Lanka continues to rely on interest rate changes, it has yet to be understood in some cases how transformations in the economy's structure affect the country's economic growth, which is found in the specific context of Sri Lanka itself. Some of the feature articles and studies are usually concentrating on the developed economies, with less emphasis on the emerging markets like Sri Lanka. It is this lack of knowledge that complicates the already tough task for the able planners of coming up with the suitable rate policies that can stimulate and at the same time stabilize the economy.

The key issues to address are:

1. Lack of Sufficient Reference:

The dearth of comprehensive research findings that really consider the relationship between changes in the interest rate and the GDP growth rate of Sri Lanka is simply amazing.

PROBLEM STATEMENT

2. Specific Economic Context:

Sri Lanka's economic situation, which is presented as an emerging market that has numerous and particular problems and opportunities, needs to be analyzed in detail, and not lumped together with the conclusions obtained from studies of other economies.

3. Policy Efficiency:

Sri Lanka's central bank, the CBSL, does not enable the application of monetary policy due to the lack of clear information intended to indicate the influence generated by an interest rate change on the GDP growth along with macroeconomic objective achievement.

Therefore, the purpose of this study is to bridge this knowledge omission by doing an in-depth analysis of the connection between the interest rate shifts of the central bank and the economic growth of GDP in Sri Lanka. It is the research design to find patterns, correlations, and perhaps even causal relationships which will eventually allow policymakers to devise better monetary policies specifically designed to the economics of Sri Lanka.

OBJECTIVES

The primary objective of this study is to analyze the relationship between central bank interest rate changes and GDP growth in Sri Lanka. This involves a comprehensive investigation to identify patterns, correlations, and potential causal effects specific to the Sri Lankan economy. The study aims to achieve the following specific objectives:

1. Examine Historical Trends:

In this case, the interest rates paid on government securities as well as the GDP growth in Sri Lanka over the last 30 years has been plotted in order to understand the main trends and shifts.

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3. Regression Analysis: To employ econometric models to establish the measure that shows the effects of change in interest rate on...GDP growth while having a place for controlling of the effects of other factors like inflation, government expenditure, foreign exchange rates and other conditions in the global economy.



OBJECTIVES

4. Granger Causality

Tests: To perform Granger causality tests to explore whether changes in interest rates can predict future changes in GDP growth, suggesting potential causality.

5. Policy Implications: *To derive insights that can inform CBSL on how to use interest rate policies more effectively for economic stabilization and growth.*

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In this respect, the study targets at achieving the following objectives: Therefore, it is the intention of this study to improve the knowledge of the interactive relation between monetary policy and economic growth in Sri Lanka and guide the policy makers with relevant recommendations that would be useful for future of the country's economy while contributing to the body of knowledge in the field of economics.

SIGNIFICANCE OF THE STUDY

Knowledge of how changes in the central bank's interest rate affect the growth in GDP is crucial for a number of reasons, especially for Sri Lanka. This study holds significant value for policymakers, economists, investors, and academic researchers due to the following reasons: This study holds significant value for policymakers, economists, investors, and academic researchers

following specific objectives:

1. Informed Policy Decisions:

The findings of this study will be beneficial to the CBSL, for it enable the identification of more appropriate interest rate policies. Thus, when understanding the impact of changes in interest rates on the GDP growth, the elements of monetary policy can be effectively adjusted for the achievement of the set goals of economic stability and growth.

2. Economic Stabilization:

Demystifying the interconnectedness of interest rates and GDP growth equips policymakers to formulate plans to stabilize the economy in volatile times. Specifically, this is a point of importance for an emerging market of the likes of Sri Lanka, which could be quite vulnerable to the ups and downs of the economy.

3. Investment and Business Planning:

Individuals and businesses that are both into investments and savings can leverage the changes in the interest rate to make better decisions. Their ability to work out the possibility of investment, enlargement as well as their fiscal strategies are improved when they have a good grasp of the economic environment on the macro level.

4. Academic Contribution:

The findings of this research will augur well with the existing literature as they will be the first empirical studies conducted in Sri Lanka – a literature that is still in its infancy. In light of this, it will enable the advancement of the existing information regarding monetary policy effect in emerging markets.

SIGNIFICANCE OF THE STUDY

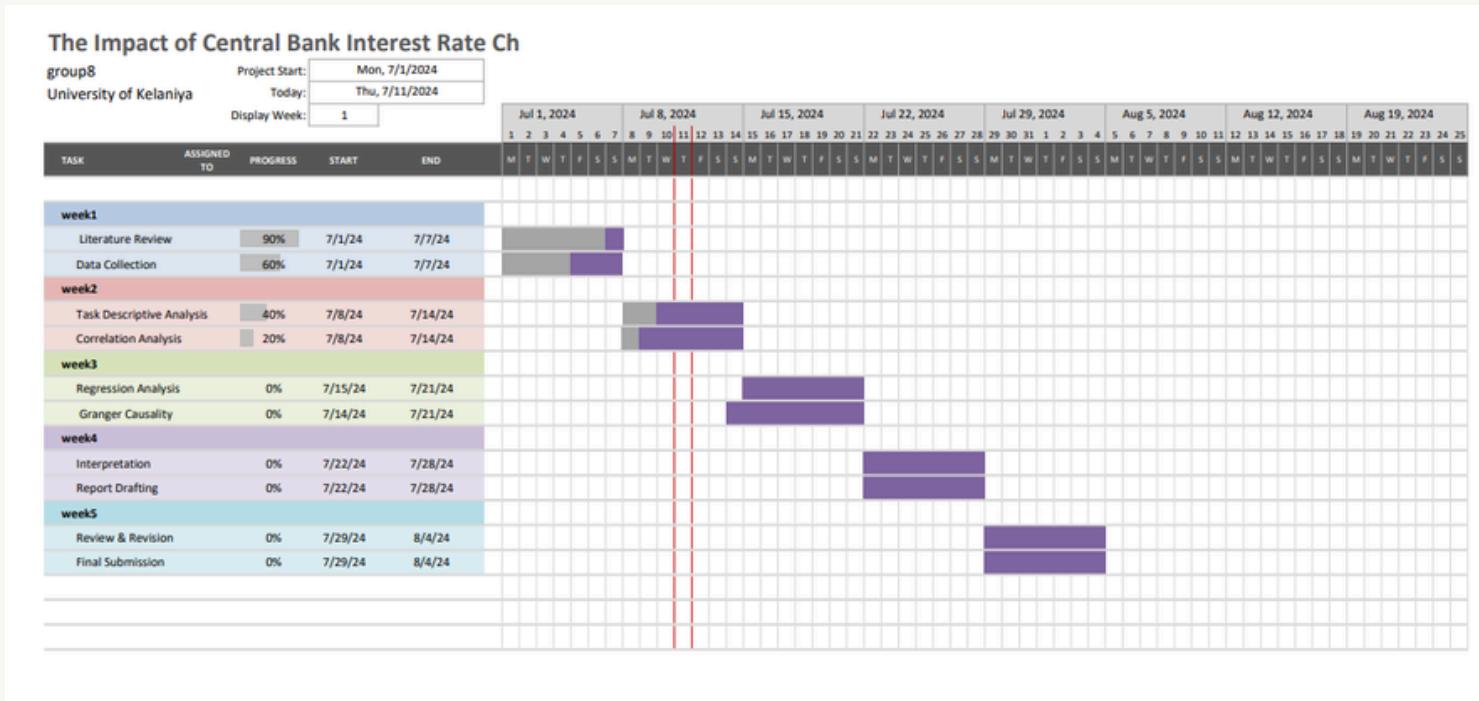
5. Long-term Economic Planning:

The findings from this study will enable long-run macroeconomic planning since it explains how MP can be utilized to foster sustainable economic growth. This is more so given the fact that midterm policy objectives like poverty reduction, employment creation and enhancement of living standards are long term objectives of almost all economies. .

In conclusion, future research in line with this study holds the possibility of improving the comprehension of the role played by the monetary policy in determining the economic conditions in Sri Lanka thus the improvement of the actualization of the economic management and sustainable development.



GANTT CHART



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