

**THE IMPACT OF INTEREST RATES FLUCTUATIONS ON
FINANCIAL PERFORMANCE OF FINANCIAL SECTOR IN SRI
LANKA**

By



**WIJESINGHE MUDIYANSELAGE WASANA SANDAMALI
JAYAWARDHANE**

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ABSTRACT

The purpose of this study is to examine The Impact of Interest Rates Fluctuations on Financial Performance of Financial Sector in Sri Lanka. Sixty five listed companies representing banking, insurance and finance industries were selected for a period of forty quarters starting from 2008 to 2017. Average Weighted Lending rate, Average Weighted Deposit Rate, Sri Lanka Inter Bank Offer Rate and Treasury Bill Rate are identified as independent variables and financial performance identified as dependent variable for this study. Interest rates were obtained using Central Bank records. This study employed industry average Return on Assets (ROA) and Return on Equity (ROE) to identify the financial performance in the companies in banking, insurance and finance industries representing the financial sector.

The findings indicated that a statistically significant positive relationship exists between three selected interest rates (Average weighted lending rate, Sri Lanka interbank offer rate, and Treasury bill rate) and financial performance which measured in ROA and ROE. The results of the study proved that a slightly significant impact of interest rate fluctuations on financial performance. It means Average weighted lending rate, Average weighted deposit rate and Treasury bill rate are significantly affecting the financial performance of the sector. Also it is identified that Financial Performance will not be totally depend on interest rates in the sector. This indicates that the nature of the interest rates affects to determine its direction and impact on the financial performance of the financial sector.

Keywords: Interest Rate Fluctuation, Financial Performance, Financial Sector, Return on Assets, Return on Equity, Average Weighted Lending Rate, Sri Lanka Interbank Offer Rate, And Treasury bill Rate

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