

IMPACT OF COMMERCIAL BANKS' LENDING ON ECONOMIC GROWTH: EVIDENCE FROM SRI LANKA

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Banking is an essential part of every economy in the contemporary business world. More bank credit is thought to be beneficial to economic development. The effect of commercial bank lending on economic growth in Sri Lanka is investigated in this study. Changes in GDP were used to describe economic growth, with interest rates and inflation acting as control variables. Annual data from the Central Bank of Sri Lanka's annual reports were used in this analysis, which covered the years 1989 to 2018. Unit root analyses, correlation, and regression analysis were performed in this study. The findings indicate that bank lending has a positive impact on economic growth. According to the findings, policymakers should place a greater emphasis on the development of formal sector financing, adequate development of the modern banking sector, development of efficient financial markets and infrastructures, and establishment of an interest-sensitive investment climate to increase bank lending, which is significant to Sri Lanka's economic growth.

Keywords: *Bank Lending; Economic Growth; Inflation Rate; Interest Rate*
