

## **Impact of Macro- Economic Factors on Banking Sector Development in Sri Lanka**

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Bank plays a vital role in the economic development. Exposure to Macro-economic factors banks is a source of systematic risk that influences the performance of the banking sector. Several macro-economic variables such as interest rates, exchange rates, inflation, GDP are examined to reveal actual factors explaining the behavior of the development. Macro-economic factors will impact on developing countries and recently developing countries affected by adverse economic and financial conditions. This adverse economic condition applied for the Sri Lankan banking sector in some situations. Sri Lankan banking sector is still in an underdeveloped condition. Therefore, it is inherent to investigate the macro- economic factors that directly or indirectly affect the development of the banks. Even though many research studies have focus on this subject area to identify the performance determinants of commercial banks there are lack of studies have conduct on developing countries like Sri Lanka, since this study focus on to identify current and the reason trends macro-economic Environment and Banking Sector Development in Sri Lanka and further Investigate the Impact of macro-economic factors on banking sector Development. Here GDP, interest rate, inflation, money supply and exchange rate used as independent variables and Return on Equity, Net Interest Margin and Capital Adequacy Ratios used as dependent variables. Data of the research Apply 132 months from 2006 to 2016 to gather secondary data through Central Bank reports. Descriptive analysis and multiple regression analysis were used to evaluate the findings. The research findings reveal, banking sector development has significant impact with macro-economic variables. Banking sector development has significantly positive relationship with GDP, and Money Supply, significantly negative relationship with interest rate, insignificant positive relationship with exchange rate and insignificantly negative relationship with inflation.

*Keywords:* Banking Sector Development, Macro-Economic Variables, Return on Equity, Net Interest Margin, Capital Adequacy Ratio