Effect of low and negative interest rates: Evidence from Indian and Sri Lankan economies

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Abstract:
Interest rates are critical to any economy. Usually the central bank of a country supervises and tries to control the interest rates but there is always an element of uncontrollable effects, local or international. A central bank adopts a monetary strategy to effect various macroeconomic parameters such as Inflation, Exchange rate, economic growth and many others. A country may decide to adopt Ultra Low Interest Rate Policy (ULIRP) or Negative Interest Rate Policy (NIRP) or a policy with moderate/high rate of interest. In today’s global business scenario economies are connected and influence one another. The US and UK economies have seen a very low and negative interest rates historically, at least in recent past. Indian and Sri Lankan economies are integrated with US and UK economies and thus are effected by their prevailing interest rates. The effect of low and zero interest rate policy of a country (USA and UK) on interest rates and economy of co-integrated economies (India and Sri Lanka) have been studied in this research. The objective of this study is to understand the implications of ULIRPs and NIRPs in context of Indian and Sri Lankan economies. Two significant conclusions of the research are that Indian and Sri Lankan economies are affected by US and UK policies and that they are affected at a lag of eight years.

Keywords: Low interest rates, negative interest rates, GDP, Inflation, macroeconomic variables

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