

# HIGHER EARNINGS OF THE FINANCIAL INTERMEDIARIES & THEIR IMPACT OF SRI LANKAN GDP

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09/8503

Degree of Master of Science in Financial Mathematics



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## DECLARATION OF THE CANDIDATE

I hereby certify that this dissertation does not incorporate acknowledgement of any material previously submitted for a degree or Diploma in any University, and to the best of my knowledge and belief it does not contain any material previously published or written by another person or myself expect where due reference is made in the next text.

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## ABSTRACT

Financial intermediation is not an extra ordinary activity in modern day Business World. There are many factors to investigate in this particular activity. Many analysts have been conducting various types of analysis under various economic environments, based on various economic tools, and various methodologies. For this research data were collected from the Central bank of Sri Lanka. Central bank web site provides this information. Banking sector performance for the period of 1998 -2011 was investigated for this thesis. The selected data set covers the entire banking sector of Sri Lanka as well as more than 90% of financial intermediaries. Assets of the banking sector, Staff cost, Deposits, Net interest income, Non performing advances, Capital funds, Borrowing, Profit before tax & Gross domestic product were considered as variables. Johansen co-integration test, Granger causality test and Regression Analyze were used to identify the relationship between above mentioned variables with the country's GDP. Eviews software was used to get the statistical test outputs. The final regression model was confirmed via Breusch Godfrey Serial Correlation LM test, Breusch Pagan Godfrey Heteroscedasticity test and Jarque Bera test statistics. The profit of banking sector has increased by 844.47% for the last fourteen years of time period but during this period the country's Gross domestic product has increased only by 542.83%. It is clear that growth of profit is approximately 1.5 times when compared with the country's GDP. This uneven margin will be the borrowing cost of another sector like construction, industry etc. The regression model provides the negative consequence of the uneven growth of financial intermediaries. Then this higher performance will definitely disappoint other sectors. If the financial intermediaries reinvest their profits & excess money in the channels which do not contribute to the development of country, it will be a serious issue which has to be urgently addressed.




## Abbreviation

- ABS - Asset backed securities
- AST - Assets
- ATM - Automated teller machine
- BO - Borrowings
- CF - Capital Funds
- CPs - Commercial papers
- DE - Deposits
- FRAs - Forward rate agreements
- GDP - Gross domestic product
- IN - Investments
- IRS - Interest rate swaps
- NII - Net Interest Income
- NNPA - Net Non-performing Advances
- PBDA - Provision for Bad and Doubtful Advances
- S&Ls - Savings and loan associations
- SC - Staff Cost
- SPV - Special purpose vehicle



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