

Extended Abstract- Effectiveness Of The Credit Channel For Curbing Inflation In Sri Lanka

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Abstract

This study mainly aims to investigate the viability and the effectiveness of credit channel of monetary policy transmission mechanism to maintain the price stability in Sri Lanka specially focusing on the bank lending channel. A VECM model preceded by a co-integration test has been developed to pursue this objective by using the annual data for the period from 1980 to 2012. The conclusion of the study reveals that the particular bank lending channel is effective in Sri Lanka during the period covered by the study and further found that a positive and statistically significant relationship exists between total credit to private sector and the general price level. Same as it has avowed that the effect of credit availability on the general price level is much stronger than that of interest rate and the exchange rate on the general price level.

Keywords: *Bank Lending Channel, Co-integration Test, Price level, Unit Root Test, Vector Error Correction*

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