

Impact of Monetary Policy on Balance of Payment in South Asian Countries

Sandarenu, M.M.I.K.¹ and Dissanayake, D.M.U.H.²

Department of Finance, University of Kelaniya, Sri Lanka^{1,2}

kavindiresha@gmail.com¹, uththarad@kln.ac.lk²

ABSTRACT

Purpose: This study was investigated the impact of monetary policy on balance of payment (BOP) in south Asian countries in addition investigate the balance of payment relationship with post and pre COVID-19 period.

Design/Methodology/Approach: In this study, the researcher used a quantitative approach. Data were gathered from 21 countries of south Asian countries from 2000 to 2021. Afghanistan, Bhutan, Nepal, India, Pakistan, Bangladesh, Maldives and Sri Lanka selected as sample. Descriptive statistics, Correlation analysis and panel data regression have been employed to identify the relationship between the predictor variables and dependent variable. Balance of payment (BOP) was used as dependent variable and Gross domestic product (GDP), official exchange rate (OER), Real interest rate (RIR), inflation (I) and net trade balance (NTB) were used as independent variables.

Findings: According to the overall panel regression model, GDP, OER, RIR, I, and NTB were recorded a significant negative relationship with BOP in south Asian countries. Furthermore, gross Domestic product, Official exchange rate and net trade balance were recorded significant positive relationship with BOP, but inflation and real interest rate was recorded a significant negative relationship with BOP in south Asian countries. Covid-19 was recorded insignificant positive relationship with BOP. Likewise, OER and NTB were recorded a significant relationship with COVID-19 in south Asian countries. And GDP, RIR and Inflation was shown an insignificant relationship with Covid-19. Furthermore, this study was investigated similarities and differences of Balance of payment implemented by pre covid-19 and post covid-19 periods in south Asian countries.

Originality: No prior study has been conducted to measure the impact of monetary policy on Balance of Payment in South Asian Countries during and pre COVID 19 period.

Keywords: *Balance of Payment, Gross Domestic Product, Official Exchange Rate, Inflation, Net Trade Balance, Covid-19*