Accepted Manuscript

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PII: S1042-4431(16)30045-2
DOI: http://dx.doi.org/10.1016/j.intfin.2016.05.006
Reference: INTFIN 876

To appear in: *Journal of International Financial Markets, Institutions & Money*

Received Date: 13 September 2014
Accepted Date: 21 May 2016

Please cite this article as: A. Perera, J. Wickramanayake, Determinants of commercial bank retail interest rate adjustments: Evidence from a panel data model, *Journal of International Financial Markets, Institutions & Money* (2016), doi: http://dx.doi.org/10.1016/j.intfin.2016.05.006

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ACCEPTED MANUSCRIPT

Determinants of commercial bank retail interest rate adjustments: Evidence from a panel data model

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Abstract

This paper examines the determinants of commercial bank retail interest rate pass-through. While providing empirical evidence for interest rate pass-through across countries, based on a panel data model for 122 countries, we observe that retail interest rate adjustment is related to a number of macroeconomic, financial/banking as well as institutional/governance factors. Amongst these, the level of financial market development, banking sector market power and central bank transparency remain key factors. These results are robust for different sub-samples of countries accounting for cross-country heterogeneity and provide important policy implications for central banks in the conduct of monetary policy.

JEL classification: E43; E44; E52; E58; G28

Key words: Retail interest rates; Monetary policy transmission; Panel data; GMM estimates

This version: May 2016

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We are grateful to Robert Engle of New York University, Vidhura Tennekoon of Indiana University Purdue University Indianapolis (IUPUI) and Hemantha Ekanayake of Central Bank of Sri Lanka for the feedback on the modelling procedure of the study; Jonathan A. Batten, Editor of Journal of International Financial Markets, Institutions & Money and an anonymous referee for helpful comments; Deborah Ralston and Christine Brown of Monash University, Tony van Zijl of Victoria University of Wellington and for their constructive comments; the participants of the Financial Markets and Corporate Governance Conference 2013, Wellington and the Research Seminar at Monash University for the feedback on the earlier versions of the paper. We also like to acknowledge Axel Dreher of University of Heidelberg and Jakob de Haan of University of Groningen for providing their database on central bank independence; Kathy Avram of Monash University for editorial assistance and Erandi Liyanage, Nimali Abeysekara and Prashadi Abeywickrama of Central Bank of Sri Lanka for their support. As always, the remaining errors are ours.

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