**The Dynamic Interrelationship Between interest rate and Macroeconomic POLICY Objectives: CASE OF THE UNITED KINGDOM**

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**ABSTRACT**

The objective of this study is to provide empirical evidence on the short- and long-run relationships between the short-term interest rate, London interbank offered rate (LIBOR) and macroeconomic policy objectives, such as price stability, economic growth, and stability of the exchange rate market.

For this purpose, we deploy quarterly frequency data from the United Kingdom between 2000 and 2015 and adopt a multiple regression model. Furthermore, this study uses the Johansen, Stock-Watson cointegration test and the Granger Causality test in order to examine the dynamic short- and long-run relationships among LIBOR, the consumer price index as a proxy of price stability, the real gross domestic product as a proxy of economic growth, and the exchange rate as a proxy of exchange rate market stability. The results showed that all variables have the same order of integration and long-run equilibrium relationships exist between them.

The results show evidence of long-run equilibrium relationship between the variables with strong evidence of unidirectional granger causality flow from GDP, CPI and exchange rates to LIBOR.

The recommendations proposed in this study have important policy implications for the U.K. government. It is therefore recommended that policy makers and government authorities together with the Bank of England develop and pursue sensible fiscal and monetary policies that would aim at stabilizing both the micro- and macroeconomic indicators such as the inflation rate, interest rate, exchange rate, and money supply, to enhance the growth of the economy, especially for the period after the BREXIT decision.

**Keywords:** Macroeconomics, Interest Rate, Monetary Policy, London Interbank Offered Rate, United Kingdom.

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