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The Impact of Remittance on Economic Growth in Sri Lanka

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ABSTRACT

The relationship between remittances and economic growth has captured the attention of economists and policymakers in recent years. In many developing countries, remittances serve as a significant and much-needed source of funds. In Sri Lanka, remittances play a vital role in enhancing the well-being of family members left behind and contributing to the country's economic growth. Given the substantial contribution of foreign remittances to the Sri Lankan economy, there is a growing interest in understanding their impact on economic growth. However, despite the increasing significance of remittances, their impact on economic growth has not been extensively explored, particularly in the Sri Lankan context, within the broader landscape of international financial inflows. The study explores the impact of personal remittances on the economic growth of Sri Lanka from 1980 to 2021. The Autoregressive Distributed Lag (ARDL) technique was employed to analyse both the long-term and short-term effects of personal remittances on the country's economic growth. A range of econometric techniques for time series analysis, including unit root, cointegration, and error correction mechanisms, were utilized to investigate the enduring and immediate associations between the dependent and independent variables. The study findings revealed a positive and statistically significant influence of personal remittances on long-term economic growth. However, no short-term causal relationship between the two variables was observed. Furthermore, the study identified that outward labour migration does not have a significant impact on economic growth in both the long and short run, additionally, it was confirmed that gross fixed capital formation significantly and positively contributes to economic growth in both temporal dimensions. Further, it was found that foreign direct investment has a negative but statistically insignificant impact on long-term economic growth. Moreover, the study underscored the critical role of gross fixed capital formation as a determinant of economic growth, emphasizing its significance in both the long and short run. The study's implications highlight the importance of effectively leveraging remittances to foster the economic growth of the country. The intention is to provide valuable insights to the government and policymakers, aiding them in formulating domestic policies for the management of migration from Sri Lanka and the strategic utilization of remittances for the nation's benefit.

Keywords: *ARDL Bound Test, Economic Growth, Personal remittance, Sri Lanka*