

DO WORKERS' REMITTANCES PROMOTE ECONOMIC GROWTH IN SRI LANKA?

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A significant amount of economists agree that workers' remittances can be used as a kind of source for a countries' economic growth. The contribution of workers' remittances to economic growth in Sri Lanka shows a positive and an increasing trend. In 1975, workers' remittances contributed 0.2% to GDP in Sri Lanka which changed to 4.8% in 1985 and increased to 8.2% in 2017. However, the relationship between workers' remittances and economic growth has not yet been studied in-depth. The objective of this study is to investigate the relationship between workers' remittances and economic growth in Sri Lanka by employing the annual time series data for the period of between 1975-2017. This study employs the variables of per-capita gross domestic product, per-capita fixed capital formation, exchange rate, and workers' remittances. All data for the variables were collected from the Central Bank's annual reports published in various years. The data series of this study have been analyzed by using the autoregressive distributed lag (ARDL) bounds test and Granger causality techniques. The standard unit root tests of Augmented Dickey-Fuller (ADF) and Phillips – Perron (PP) indicate that the variables of per-capita gross domestic product, per-capita fixed capital formation, exchange rate, and workers' remittances are non-stationarity at level and they are I (1) variables. The Autoregressive Distributed Lag (ARDL) bounds test results show that workers' remittances have a positive long-run relationship with the economic growth in Sri Lanka. Further, the coefficient of error correction term reveals that approximately 44% of the disequilibrium error is corrected each year and economic growth moves towards the long-run equilibrium. In addition to that, the findings from Pairwise Granger's causality illustrate that workers' remittances in Sri Lanka Granger cause economic growth in the short-run. Furthermore, the coefficient of the error correction term also confirms that workers' remittances Granger causes economic growth in the long-run. Finally, this study concludes that workers' remittances in Sri Lanka have a significant impact on economic growth. Thus, policymakers in Sri Lanka should design programs to increase the inflow of workers' remittance more and more for getting sustainable economic growth.

Keywords: Workers 'remittances, Economic Growth, Sri Lanka ARDL technique