

NEXUS BETWEEN WORKERS' REMITTANCES AND ECONOMIC GROWTH IN SRI LANKA

Ahamed Lebbe Mohamed Aslam^{1,*} and Sellaiah Sivarajasingham²

¹PGIHS University of Peradeniya, Sri Lanka

²Department of Economics and Statistics, University of Peradeniya, Sri Lanka

In recent times, workers' remittances are emerging as a major source of international financial flows in developing countries. Thus, the workers' remittances are receiving increased attention because of their large contribution and influence on the economies of recipient countries. The impact of the traditional sources of economic growth such as physical capital, human capital, transfer of technological change, and flow of private capital have been well documented in economic literature. However, the role of increased portion of workers' remittances in the total international capital flows, and the relationship between the workers remittances and economic growth have not been investigated in depth in developing countries. This issue has received relatively little empirical attention in Sri Lanka. This study attempts to fill the gap in literature and provide an in- depth analysis on the topic. The aim of this study is to explore the long – run and short – run relationships between workers' remittances and economic growth in Sri Lanka over the period from 1975 to 2016. In this study, the auto–regressive distributed lag (ARDL) technique is employed to test the co-integration relationship between variables. Per Capita Gross Domestic Product (PCGDP), Fixed Capital Formation (FCF), Human Capital Index (HCI) and Workers' Remittances (WR) were used as variables. In order to test the stationarity of the variables, the ADF and PP tests are used and these tests show that all variables are integrated order one, $I(1)$. The estimated F – statistic (7.922601) and the lower bound value (3.74) and upper bound value (5.06) at 1% significant level show that there is co-integration relationship between the workers' remittances and economic growth in Sri Lanka during the study period. The speed of adjustment (-0.934) is negative and significant at 1% level, which implies that there is a long – run equilibrium between workers' remittances and economic growth. The results confirm that workers' remittances positively and significantly spur economic growth both in the short – run and the long – run. The findings of this study therefore are expected to guide the policy makers in formulating relevant policies related to workers' remittances in Sri Lanka.

Keywords: Workers' Remittances, Co-integration, ARDL Bounds Technique