



DO WORKERS' REMITTANCES MATTER FOR FINANCIAL DEVELOPMENT? EVIDENCE FROM SRI LANKA

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Abstract

Previous literature using single country data had reported that workers' remittances promote the financial sector development of a country. However, this relationship in Sri Lanka was not documented by using the Econometrics technique, yet. Therefore, this study attempts to fill this gap. The objective of this study is to investigate the relationship between workers' remittances and financial development in Sri Lanka over the period of 1975 - 2017. This study uses the annual time series for the following variables: Workers' remittances, Inflation Rate, and Gross Domestic Product. All data for the variables are collected from the annual reports of the Central Bank of Sri Lanka, published in various years. The standard unit root tests (ADF and PP) confirm that the variables using in this study are in mixed order either $I(0)$ or $I(1)$. The Autoregressive Distributed Lag (ARDL) bounds test cointegration technique is recommended to identify the long-run relationship between workers' remittances and financial development as the variables are being in mixed order. The test results of the ARDL technique indicate that the workers' remittances have a positive long-run relationship with the financial development in Sri Lanka. The test result of the error correction term indicates that 5.6 % of error is corrected each year and the response variable of the financial development moves towards the long-run equilibrium path. The Pairwise Granger causality test results, further, indicate that workers' remittances in Sri Lanka Granger cause financial development at 5% significance level. The impulse response analysis shows that a positive shock to workers' remittances has an immediate significant positive impact on the development of the financial sector in Sri Lanka for longer periods. Based on the findings of this study, this study recommends the financial development policymakers that they should contemplate the findings of this study when they reform the financial development policies in the future.

Keywords: Financial Development, Inflation Rate, Workers' Remittances, Gross Domestic Product, Sri Lanka

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