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Analyzing the Impact between Macroeconomic Variables on Economic Growth in Sri Lanka

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Abstract

Macroeconomic variables such as interest rates, inflation and exchange rates play a vital role in the economic performance of any country. This study sought to establish the relationship between macroeconomic variables and economic growth in Sri Lanka. The factors identified in the study are budget deficit, interest rate, inflation rate and money supply. This study attempts to find out the impact of macroeconomic variables on economic growth in Sri Lanka by using Regression Analysis, Correlation analysis and Hypothesis test are used for the period 1985 to 2019. Annual time series data were used in this study. Data on GDP growth rate, budget deficit, inflation, interest rate and Money supply growth were collected from annual report of central bank and world development indicators published by International Monetary Funds. The empirical results show that for Sri Lanka, for the period of 1985 to 2019, government budget deficit has significant impact on economic growth after auto regress the model. The effect of inflation rate, interest rate and money supply growth have no significant relationship on the GDP growth. Similarly, budget deficit has positive impact of economic growth as well as inflation rate and money supply have positive relationship on economic growth. But interest and economic growth has negative relationship. This study is focused to discuss the impact of macroeconomic variables on economic growth by using budget deficit, inflation, money supply growth, interest rate, Researchers can use many other variables such as private investment, government debt, foreign direct investment and government expenditure etc. for further research study.

Keywords: Budget Deficit, Gross Domestic Production, Inflation, Interest Rate, Money Supply