

## THE RELATIONSHIP BETWEEN HEALTH EXPENDITURE AND INFLATION IN SRILANKA (2000 - 2021)

MI. Aafrin Sahnas and R. Irshani

<sup>1&2</sup>Department of Economics and Statistics, Faculty of Arts and Culture, South Eastern University of Sri Lanka

Correspondence: athemlebbbeafrin@gmail.com

### Abstract

Health expenditure plays a crucial role in ensuring quality and accessible healthcare services. On the other hand, inflation erodes the real value of these expenditures, particularly in developing countries like Sri Lanka. This study examines the relationship between health expenditure and inflation in Sri Lanka from 2000 to 2021. The sub-objectives include analyzing both short-run and long-run relationships and proposing relevant policy recommendations. Data were collected from the Central Bank of Sri Lanka and the World Bank. Microsoft Excel and E-Views software were used for analysis, employing models such as ARDL (Autoregressive Distributed Lag) and the error correction model (ECM). The findings indicate that variables such as inflation and GDP per capita significantly influence health expenditure. The results reveal a strong long-run correlation between inflation and health expenditure, suggesting that the healthcare sector is persistently affected by economic inflation. In the short run, changes in health spending exhibit a moderate response to inflation fluctuations. Based on these findings, the study proposes policy recommendations to address gaps in Sri Lanka's healthcare financing system. These include increasing public funding, improving fiscal forecasting and planning, and implementing measures to control inflation to ensure equitable healthcare provision.

**Keywords:** health expenditure, inflation, GDP per capita, ARDL, e views