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**A STUDY ON THE RELATIONSHIP BETWEEN
INFLATION AND ECONOMIC GROWTH
IN SRI LANKA**

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ABSTRACT

A STUDY ON THE RELATIONSHIP BETWEEN INFLATION AND ECONOMIC GROWTH IN SRI LANKA

This paper examines the relationship between inflation and economic growth in Sri Lanka. The research problem is expressed as "To what extent does the inflation effects on economic growth in Sri Lanka?". The main objective of the study is to investigate the causal relationship between inflation and economic growth in Sri Lanka. Specific objectives are to find the impact of inflation and economic growth, to look at the relationship between inflation and selected macro-economic variables at a glance and to state the policy on the economy of Sri Lanka. This study is mainly based on secondary data. In identifying the impact of inflation on growth, data is collected from published data in the Annual Reports of Central Bank of Sri Lanka. The time period selected is from 1959 to 2013. Three models have been employed to identify the relationship between inflation and economic growth. The first model is for an aggregate economy i.e.1959 to 2013, the second model is for closed economic economy i.e.1959 to 1976 and the third model is for an open economy i.e.1977 to 2013. Linear regression model is used to analyze the relationship between these two variables. Findings of the study according to three models confirm a positive relationship between inflation and economic growth in Sri Lanka. There are also significant positive relationship between economic growth and savings rate, population growth rate, and broad money supply rate. These results have important policy implications.

Key words: Inflation, Growth, Savings, Money Supply, Linear Regression