Financial Sector Development and Economic Growth in Sri Lanka

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Abstract

The relationship between financial sector development and economic growth has been a major subject which have been discussed over years. Better financial development reduces transaction, information, and monitoring cost of financial businesses. A well performed financial market can facilitate higher savings and investment. This research investigates the relationship between financial sector development and economic growth in Sri Lanka. The general agreement is that a better performing financial sector enables an economy to allocate resources efficiently and increase the gross domestic production. Past researchers have found different types of relationships between these variables. This study offers a better understanding about the relationship between financial sector development and economic growth in Sri Lanka. The purpose of this research is to examine the relationship between financial development and economic growth in Sri Lanka using data from 1995 to 2020. GDP growth rate has been used in this research to capture Economic Growth while Domestic Credit provided by the Financial Sector (DCFS), Total Debt Services (TDS), Gross Domestic Savings (GDS), 'Broad Money' (BM), Trade Balance (NX). This study investigates the financial sector development and economic growth by employing the data from 1995 to 2020. Unit roots, cointegration and error correction model will be used to analyze the data. The finding of this study will provide useful insight to the economic regulatory bodies in evaluating impact of financial sector development toward economic growth in Sri Lanka. Further, the results will be of interest to economists, Researchers for the economic field, Economic policy makers and investors.

Keywords: Economic Growth, Financial Development, Gross Domestic Product, Sri Lanka.