DOES FINANCIAL DEVELOPMENT ENHANCE THE IMPACT OF REMITTANCES ON ECONOMIC GROWTH? EMPIRICAL EVIDENCE FROM SRI LANKA

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An efficient financial development facilitates better credit access for businesses and individuals as well as effectively channeled into productive investments of remittances which in turn promote the economic expansion of the nation. Sri Lanka depends on remittances, for its economic growth since it is independent like many developing countries. Despite a substantial body of empirical literature on the subject, there remains a need for a more profound understanding of how remittance inflows affect Sri Lanka's economic growth by financial development. Investigating the relationship between financial development, remittances, and economic growth in Sri Lanka, this study utilizes annual data from 1980 to 2022 by considering economic growth as the dependent variable and financial development, remittances, gross capital formation and trade openness as independent variables. The EViews ARDL findings suggest that financial development has a strong negative impact on economic development in the long term, while remittance has a significant positive relationship with economic growth. This empirical evidence highlights the composite relationship between financial development, remittances and economic growth. While financial development is usually regarded as a catalyst for economic growth, this study shows a notable significant impact, potentially due to inefficiencies and financial instability within the financial sector. Conversely, remittances reliably boost economic growth by offering salient financial aid to households and small enterprises. The findings of this study elaborate that inefficiency and instability can lead to a negative correlation between financial development and economic growth. This study emphasizes the importance of customized policy interventions in leveraging the benefits of remittances and addressing the drawbacks of a flawed financial sector. Further, these findings indicate the necessity for nuances policy measures that tackle financial sector inefficiencies and optimize the positive impact of remittances on development.

Keywords: ARDL approach, Error correction term, Financial development, Economic growth, Remittances