Impact of Financial Sector Development on Economic Growth of Sri Lanka

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Abstract

This study investigates the relationship between finance sector development and economic growth with the time series data for the period from 1990 to 2013. The study uses the endogenous components of financial intermediation such as Broad money supply, Credit to private sector and Credit provided by banks as explanatory variables to predict the outcome of our dependent variable Per capita GDP. Regression model is used to analyze the data. The findings of the study confirm the existence of a weak positive relationship between financial sector development and economic growth. It reveals the existence of the relationship between the dependent variable per capita GDP and the three independent variables; credit provided to private sector, credit provided by banks and broad money supply which implies that the financial development of Sri Lanka has a weak relationship with the economic growth of the country.

Keywords*: finance sector development***,** *economic growth***,** *financial intermediation, Broad money supply, Credit to private sector, Credit provided by banks, Per capita GDP*

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