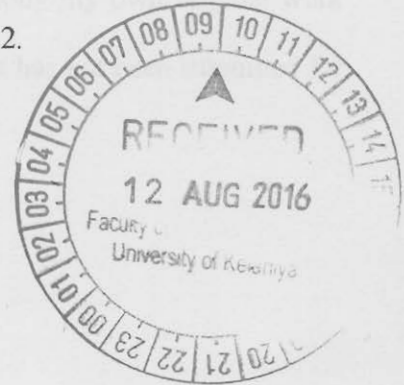


DISSERTATION

THE IMPACT OF FINANCIAL LIBERALIZATION ON THE SRI

LANKAN ECONOMY: 1977-2012.



Submitted by

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ABSTRACT

Financial liberalization in Sri Lanka introduced in 1977 with the specific aim of developing the economy. This study examines the impact of financial liberalization on the Sri Lankan economy over the time series annual data from 1977 to 2012. The researcher tried to examine the impact of financial liberalization on selected economic variables namely: domestic investment, savings, narrow and broad money and economic growth in Sri Lanka economy. The Ordinary Least Square (OLS) method based Vector Auto Regression (VAR) model and the Granger Causality test were conducted to find out the long run relationship among the variables concerned in the equations developed to test the hypotheses.

The test results on economic growth equation confirmed that there is a significant and positive long run relationship between financial liberalization and economic growth in Sri Lankan economy. In term of a long run relationship, the study established that financial liberalization has significant and positive impact on national savings in Sri Lanka during the study period. Financial liberalization has a positive relationship with domestic investment but it is insignificant and it does not support our hypothesis on domestic investments. From the findings of the study, financial liberalization was found to have positively impacted on broad money and negatively impacted on narrow money in Sri Lanka.

The study makes significant contributions in the area of the impact evaluation of financial liberalization in Sri Lanka. In terms of policy implications, the researcher suggests that the efficiency of the financial sector should be improved, as most part of the financial sector in Sri Lanka has been liberalized by now. Policy makers need to focus on long term economic policies on financial liberalization to enhance economic growth. In this effort government must play a leading role as a facilitator by providing appropriate legislation in order to strengthening the financial system, developing institutional setup, strengthening bank supervision allowing market forces to operate in the financial market.

Key Words: Financial liberalization, Domestic investment, Savings, Money demand, Economic growth.