AB140

Impact of inflation on growth: with reference to Sri Lanka

W.M.Semasinghe[1]

Inflation is one of the greatly discussed economic variables which make significant impact on many macroeconomic variables including growth, employment, import, export, investment, savings and money supply. Very high as well as very low rate of inflation are detrimental to economic performance. However, there is no consensus among economists over the precise rate of inflation which favorable to an economy. As literature reveals, the relationship between inflation and economic growth has been at the center of the macroeconomic policy debate since 1960s. Numerous empirical analysis have been documented on the relationship between these two variables and have arrived different conclusions.

The aim of this paper is to evaluate the impact of inflation on economic growth in Sri Lanka. During the past seven decades since independence, successive governments have adopted different policy instruments for the economic progress of the country. Hence, the present paper intended to examine the relationship between inflation and growth at the different policy regimes. The analysis mainly relied on quantitative approach and secondary data collected from the Department of Census and Statistics and Central Bank of Sri Lanka were employed. Multivariable regression analysis was used to examine the relationship between inflation and selected macroeconomic variables.

Based on the empirical results, the study concluded that there is a positive relationship between inflation and growth, but the relationship is not strong in the period covered by the analysis. Only during the seven year period from 1970-77 that has adopted closed economic policy framework has established a relatively high relationship between the two.

Key words: *Economic progress, Growth, Inflation, Macroeconomic variables, Public policies*.

[1] Department of Economics,University of Kelaniya, Sri Lanka,semasinghe-wanninayake@yahoo.com