The Impact of Monetary Policy on Economic Growth in Sri Lanka

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Abstract

Economic Growth is an important concept in developed and developing countries and is an increase in the production of economic goods and services in a certain country, compared from one period to another. Some economic indicators are increasing standard of living, overcoming poverty, decreasing unemployment level, upholding per capita income, and attaining more foreign investments. The purpose of this investigation is to identify the relationship between Monetary Policy and Economic Growth (GDP) in a developing economy with the main focus on Sri Lanka. Monetary Policy is the macroeconomic policy laid down by the Central Bank and it is used by the government of a country to achieve macroeconomic objectives like inflation, consumption and growth etc. Meanwhile, Monetary Policy instruments (Interest Rate, Exchange Rate, and Money Supply) can be considered as a key player in Economic Growth in Sri Lanka. Accordingly, the findings of this investigation offer a better conclusion about the Relationship between Monetary Policy and Economic Growth in Sri Lanka. This study analyses the effects of Interest Rate, Money Growth and movements in nominal Exchange Rate on GDP and inflation in Sri Lanka for the period from 1995 to 2019. Unit roots, cointegration and error correction model will be used to analyze the data. The findings of this study can be made as policy instruments for Sri Lankan economic development. This investigation will define the contribution of monetary policy instruments for economic growth in Sri Lanka

Keywords: Economic Growth, Exchange Rate, Interest Rate, Monetary Policy, Money Supply, Sri Lanka, Vector Auto Regression.