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The Impact of Monetary Policy on Economic Growth and Unemployment: Evidence from Sri Lanka

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ABSTRACT

Purpose: Economic growth and unemployment are some of the major macroeconomic problems in Sri Lanka for decades. In finding answers to these macroeconomic problems governments make use of fiscal policy and monetary policy. Therefore, the primary objective of this study is to examine the effects of monetary policy tools on economic growth and unemployment of Sri Lanka for the period of 1975 to 2021.

Design/ Methodology/ Approach: This study focuses on GDP, Unemployment, and monetary policy tools such as Interest Rate, Money Supply and Exchange Rate. Further trade balance, capital formation, labor force and wages are considered as control variables in the study. The annual time series data are collected from 1975 to 2021. Research uses descriptive statistics, correlation, and regression models to analyze the data.

Findings: The results show that the inflation rate, interest rate and money supply have a positive and exchange rate has a negative relationship with GDP. Inflation rate and money supply have positive with unemployment, but interest rate and exchange rate have negative relationship with unemployment. Inflation and exchange rates are significant but inflation rate and money supply insignificant with unemployment.

Originality: This study examines the impact of monetary policy on both economic growth and unemployment in Sri Lanka.

Keywords: *GDP, Unemployment, Monetary Policy Instruments, Inflation Rate, Interest rate, Money Supply, Exchange Rate*