

Private investment and macroeconomic environment: the case of Sri Lanka

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This study undertakes theoretical and empirical investigation of key macroeconomic factors affecting private investment in the post reform era in Sri Lanka. Sri Lanka has introduced series of policy reforms aiming to promote private sector to play leading role in the economy. But this would not be happened due to various obstacles in the macroeconomic environment. As such this study would undertake the rival paradigm that came to explain private investment in Sri Lanka during the period 1977-2005. The analysis of the study based on key macroeconomic factors affecting private investment using time series data and further, study focuses on to evaluate trends and level of private investment in Sri Lanka.

The study incorporates macro approach to capture the available empirical data. The analysis of the study will broadly carried out on the basis of deductive research methodology. The investigation will start with formulation of the relevant theoretical framework and match the theory with available information.

The study finds that interest rate, inflation, and broad money to GDP and budget deficit have significant co integration relationship with real private investment. And also the study confirms that political factors and human development variables are not important in determining private investment in Sri Lanka.

Key words: Investment, Private investment, Uncertainty, Macro environment, Stability

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