

# **The Intertemporal Dynamic Relationship between Workers' Remittances And Economic Growth Evidence from Sri Lanka:**

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## **Abstract**

Workers' remittance inflows are the second largest source of foreign exchange earnings in Sri Lanka. It has been one of the prominent features of the Sri Lankan economy for last few decades. With the introduction of Liberalization in 1977, foreign employment and labour migration have increased. Hence, workers' remittances gradually increased over time while economic growth also increased. Even though there exists an upward trend of these two variables, empirical literature shows mixed results. Hence, this study attempts to examine the intertemporal dynamic relationship between remittances and economic growth in Sri Lanka. To achieve the objective, we used annual time series data from 1975 to 2016. The variables Gross domestic product (GDP), remittances (REMI), labour force (LF), gross fixed capital accumulation (GFCA) and human capital index after removing cyclic part (HPTRENDHC) are used in this study. According to the ADF and PP unit root tests, the variables are non-stationary, I (1). Long run relationship between these variables is tested using ARDL bound test. The Bound test results ( $F = 7.92$ ) indicate that REMI does have significant impact on GDP in the long run. However, in the short run, REMI significantly influence GDP in the third year onwards. The estimated Error Correction Model shows that the coefficient of error correction term reveals that it has negative sign and is statistically significant. It indicates that the GDP moves towards long run equilibrium path. Further it shows there is a casual relationship between GDP and the other explanatory variables in the long run. Diagnostics tests show that findings are robust. As remittances influence GDP directly and indirectly, government need to plan and promote to utilize remittances in order to increase economic growth. The findings of this study could be useful to policy makers in formulating and implementing development plan.

**Keywords:** ARDL bound test, economic Growth, Workers' Remittances, Sri Lanka