



## **THE CAUSAL RELATIONSHIP BETWEEN MONEY SUPPLY AND BALANCE OF PAYMENT IN SRI LANKA (1977-2019)**

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### **Abstract**

This study examines the causal relationship between balance of payment and money supply in the context of Sri Lanka using annual data from Sri Lanka from 1977 to 2019. The data of balance of payment (BOP), money supply (MS), gross domestic product (GDP), inflation (INF), and government expenditure (GE) were collected from the world development indicator and annual reports of central bank of Sri Lanka. Granger causality test was adopted to examine the causality among variables. It reveals that uni-directional causality exists from MS to BOP. This conclusion emphasizes that to reduce the deficit of BOP in Sri Lanka and MS could be used as a policy instrument.

**Keywords:** Balance of payment, Money supply, Gross domestic product (GDP), Inflation (INF)

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