



CAUSALITY RELATIONSHIP OF BANKING SECTOR FINANCIAL PERFORMANCE ON ECONOMIC GROWTH IN SRI LANKA

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Abstract

The main objective of this study is to find out the causality relationship of banking sector financial performance on Srilankan economic growth. In order to reach this objective, in this research Grange causality test is used to examine the causality relationship between the variables. The GDP, return on equity, credit to private sector, money supply, trade balance and the FDI are the variables used in this research. The analysis was carried out secondary data for the period from 1998 to 2019 and the software of E-views 10 and Ms Excel are used to analyze the data. Granger causality test indicates that, there is a uni-directional causation between the banking sector and the economic growth of Sri Lanka. According to these results this research emphasizes that, the return on equity by banks should be increased to drive economic growth of Sri Lanka. Additionally, policy makers should encourage a competitive market environment in order to improve banking sector financial performance in Sri Lanka.

Keywords: Banking sector, Return on equity, Economic growth, Granger causality

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