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The Impact of Remittances on Economic Growth: Evidence from Sri Lanka

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ABSTRACT

Specifically focusing on Sri Lanka this research investigates the effects of remittances on important economic indices such as the Gross Domestic Product (GDP. The study is conducted by doing an analysis of secondary data that spans from Q1 2015 to Q4 2022 period using econometric methods of Regression analysis. The estimated results reveal substantial connections between remittance inflows and economic indicators within the Sri Lankan economy. The strong and positive association between remittances and the GDP, which indicates that remittances have a significant influence on economic expansion. Estimation confirms that 1 percent increase in remittances leads to increase the GDP by 0.9650 percent. The t statistics and the probability values are confirm that the impact of foreign remittances on GDP is very significant for the period under the consideration. This research highlights the relevance of remittances as a fuel for economic development in Sri Lanka, highlighting the need of specific policies to maximize the beneficial benefits that they have.

Key words: Remittance, Economic Growth, Sri Lanka

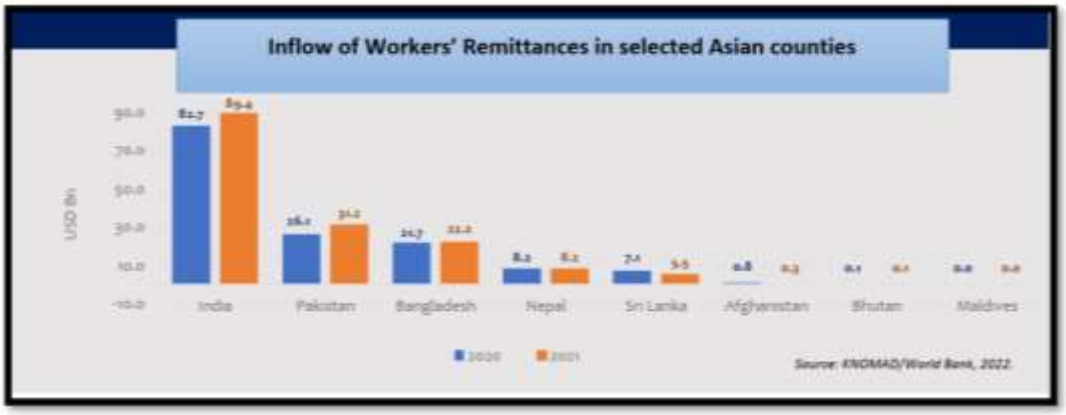
1. Introduction

Remittances has become one of the most important contributory variables for economic growth of many countries around the world. Remittances are the monies that are transmitted back to their home countries by persons who are working abroad (Abbas & Massod, 2017). In the context of Sri Lanka, remittances function as an essential component of the economy of the nation, making a substantial contribution to the expansion and stability of the economy. Remittances have a significant influence on economic growth within this particular national setting, and it is crucial for policymakers, economists, and stakeholders alike to have a solid understanding of this impact.

There is a significant component of Sri Lanka's labor force that is employed outside of the country, which is located in South Asia (Please provide any numerical figure to prove this) movement from Sri Lanka to a variety of nations, mostly in the Middle East, has seen a considerable growth over the course of the last several decades. This movement is primarily attributable to the economic possibilities and job prospects that are available (Ahamed & Ilyas, 2016). As a consequence of this, the accumulation of remittances has developed into a significant source of foreign currency revenues for the nation. Inflows of remittances were responsible for a significant portion of the GDP of Sri Lanka, as stated by the Central Bank of Sri Lanka, which is evidence of the economic importance of these kinds of transfers. Beyond the scope of simple monetary transactions, remittances have a significant influence on the economy as a whole (Azam, 2015). They often act as an essential lifeline for a great number of people, providing assistance for their household spending, investment, and general well-being. By supplying families with extra money, remittances assist to the reduction of poverty. This additional revenue may be utilized for a variety of purposes, including housing, education, and healthcare, which ultimately leads to an improvement in living standards throughout the nation (Dohtani, 2010).

The average workers' remittance inflows from Sri Lankan foreign employees amounted to around US dollars 7 billion over the last five years (2016-2020), being a major financing source in the trade deficit. As a percentage of the country's Gross Domestic Product (GDP), workers' remittance inflows, on average, accounted for about 8.4 per cent during the same period of 2016-2020. According the south Asian comparison given in figure 1, Sri Lanka 5th highest country in terms of worker remittances inflows.

Figure 1: Inflow of Worker's Remittances in Selected South Asian Countries 2020 & 2021



Date Source : Extracted from Quarterly Bulletin Q4, CBSL

However, despite the fact that remittances bring about significant advantages, it is necessary to conduct a thorough analysis of the influence that they have on the larger economic environment. A number of macroeconomic factors, including currency rates, inflation, and investment patterns, are intertwined with remittance inflows, and the dynamics between these two sets of variables are rather complicated (Ferdaous, 2016). As an example, the appreciation of the native currency that occurs as a consequence of large remittance inflows may have an effect on the competitiveness of exports, which may in turn have an effect on the balance of trade for the country. Furthermore, the substantial dependence on remittances as a source of income presents the economy with the possibility of being exposed to dangers (Hussain & Anjum, 2014). There is a possibility that fluctuations in global economic circumstances or policy changes in host nations might result in variances in remittance flows, which would then expose the local economy to external vulnerabilities. It is of the utmost importance to have an understanding of the resilience of the Sri Lankan economy in the face of such oscillations and to develop methods to manage the risks that are connected with them.

Previous studies (Karagoz, 2009) , (Oshota & Badejo, 2014) on the effect of remittances on economic development have produced a wide range of conclusions, some of which are in direct opposition to one another. Others emphasize possible negative effects, such as the phenomenon known as the "Dutch Disease," which occurs when a large dependence on one sector of the economy has a detrimental impact on other areas of the economy. While some studies imply that there is a favorable association between remittance inflows and economic growth, others highlight potential negative repercussions. As a result, the purpose of this research is to investigate the connection between remittances and the expansion of the economy in Sri Lanka in more depth. This study aims to give significant insights into the complex nature of this connection by applying strong empirical approaches and studying a wide range of economic indicators. The research was conducted with the intention of providing these insights. It is hoped that the results of this research would provide helpful assistance for policymakers in the process of devising strategies to capitalize on the beneficial effects of remittances while reducing the possible harmful effects that they may have on the economy of Sri Lanka.

An in-depth investigation is required since the influence of remittances on economic development in Sri Lanka is a complex and multi-faceted problem that requires more investigation. While remittances have emerged as an essential component of the economy of the nation, the implications that they have on the development and stability of the economy over the long term are still not well understood (Dohtani, 2010). Worries have been raised about the sustainability and resilience of the Sri Lankan economy in the face of external shocks and volatility in global economic circumstances. This is because the dependence on remittances as a substantial source of income raises these worries. One of the most significant issues is gaining a grasp of the precise processes that are responsible for the effect of remittances on business expansion (Wadood & Hoosain, 2015). Some studies imply that there is a favorable association between remittance inflows and economic growth, while others suggest that there may be possible harmful impacts. One of these potential adverse effects is the possibility of the phenomenon known as "Dutch Disease," which occurs when an infusion of foreign currency appreciation brings about difficulties for other areas of the economy. In order to formulate well-informed policies and plans, it is essential to have a better understanding of these intricate linkages and to pinpoint the causal connections that exist between remittances and the different macroeconomic indicators (Tolcha & Rao, 2016).

Another factor that presents a substantial threat to the stability of the Sri Lankan economy is the possibility of fluctuations in the amount of money that is sent back home. It is possible for fluctuations in global economic circumstances or policy changes in host nations to result in unforeseen variations in remittance inflows, which has the potential to destabilize local consumption patterns, investment dynamics, and overall economic stability (Shaikh, et al., 2016). In order to achieve sustainable economic development, it is vital to get an understanding of the resilience of the Sri Lankan economy to such external shocks and to devise methods to alleviate these vulnerabilities. Further, the influence of remittances goes beyond the monetary worth of the money that is sent back. For comprehensive policymaking, it is essential to have a solid understanding of how these inflows influence the social dynamics, income distribution, and poverty alleviation programs that are implemented inside Sri Lanka. The underlying topic that continues to be of concern is making certain that the benefits of remittances are dispersed fairly throughout society and that they help to the achievement of sustainable development objectives.

In order to effectively address these difficulties, it is necessary to have a complete and nuanced knowledge of the link between remittances and economic development according to the unique circumstances of Sri Lanka. This study aims to address this gap by applying rigorous empirical analyses and analyzing the complicated links between remittances and key economic indicators. The ultimate goal of this research is to give insights that can be used to influence effective policy design and support sustainable economic growth in Sri Lanka.

A number of different stakeholders, policymakers, and members of society as a whole have a substantial interest in gaining an understanding of the influence that remittances have on the expansion of the economy in Sri Lanka. The relevance of this research rests in the fact that it has the ability to provide essential insights that may be used to design policies, encourage sustainable growth, and significantly improve the overall economic landscape of the nation. To begin, remittances are a significant source of foreign currency profits for Sri Lanka, which is a country that largely depends on them. It is important for policymakers to investigate the link between remittance inflows and economic growth because it will provide them with empirical information that can be used to design policies that are geared at maximizing the beneficial consequences of these inflows. By guaranteeing sustainable economic development that is independent on remittances, it may assist in the diversification of the economy, the reduction of vulnerabilities, and the guarantee of economic growth. This research has several objectives as given below.

- To analyze the relationship between remittance inflows and economic growth in Sri Lanka using empirical data and econometric models.
- To examine the influence of remittance inflows on macroeconomic variables, including exchange rates, inflation, and investment patterns in Sri Lanka.
- To assess the social implications of remittances on poverty alleviation and income distribution within Sri Lanka.

The following empirical research questions will be answered using the appropriate model.

- What is the nature of the relationship between remittance inflows and economic growth in Sri Lanka?
- How do remittance inflows influence key macroeconomic variables, such as exchange rates, inflation, and investment patterns in Sri Lanka?
- What are the social and distributional impacts of remittances on poverty alleviation and income distribution in Sri Lanka?

The purpose of this study is to contribute to the sustainable development goal of Sri Lanka and to give useful lessons for countries that are comparable to Sri Lanka's. This will be accomplished by offering a complete knowledge of the intricate link between remittances and economic growth in Sri Lanka.

2. Literature Review

The complex correlation between remittances and economic development has been extensively studied in academic literature. This section provides a thorough examination of current theoretical frameworks and empirical investigations to clarify the many ways in which remittances affect economic development. Remittances, defined as financial transfers made by persons working in other nations to their home countries, have attracted significant attention because of their capacity to impact economic growth paths in different global settings. Theoretical underpinnings of remittances include several paradigms, such as the income-expenditure model, migration theories, and assumptions pertaining to resource allocation. The income-expenditure model suggests that remittances serve as additional income for recipient families, stimulating higher levels of consumption and investment. Theories on migration, particularly the new economics of labor migration (NELM), highlight the significant impact of remittances in enhancing living conditions and promoting economic progress in countries of origin. On the other hand, theoretical considerations like the resource curse theory advise against relying too much on remittances due to possible negative impacts on local sectors and macroeconomic stability.

Empirical research (Ahamed & Ilyas, 2016)investigating the influence of remittances on economic development provide a wide range of results. While several studies emphasize a favorable correlation between the influx of remittances and the development of the Gross Domestic Product (GDP), others bring attention to more intricate consequences, such as the possibility of inflationary pressures or limitations on the competitiveness of domestic sectors. Moreover, studies investigating the impact of remittances on macroeconomic factors, such as currency exchange rates, inflation, and investment trends, provide diverse findings, highlighting the intricate nature of these connections in various countries. Although there is a large amount of existing literature, there is a scarcity of study specifically focused on the setting of Sri Lanka. The previous studies lack comprehensive evaluations that take into account several macroeconomic variables simultaneously. Furthermore, there is a need for a more thorough examination of the social ramifications, as well as a nuanced knowledge of the country's ability to withstand changes in remittance inflows. This analysis establishes the importance of addressing these research gaps and providing detailed insights into the influence of remittances on economic development in the particular context of Sri Lanka.

2.1 Theoretical View

The theoretical foundations that surround the impact of remittances include a number of theories that shed light on the myriad of impacts that they have on the countries that receive them. The income-expenditure model, migration theories, and the resource curse hypothesis are the primary examples of these frameworks (Azam, 2015). These frameworks provide a variety of viewpoints on the consequences of remittance inflows.

Understanding the role that remittances play within the economy of recipient nations requires a basic framework, and the income-expenditure model provides such framework. According to this concept, remittances provide recipient families with an extra source of income, which in turn increases the buying power of those households (Hasuan & Shakur, 2017). As a consequence, remittances are a contributor to higher consumer expenditures, which in turn enables families to improve their quality of living by investing in things like education, healthcare, and long-lasting items (Azam, 2015). Further, these inflows often strengthen savings and investments, which in turn facilitates the production of capital and has the potential to stimulate future economic growth. The model of income and spending highlights the transformational power of remittances in terms of boosting local consumption and encouraging investment, which ultimately propels economic progress (Paul & Das, 2011).

Migration theories, in particular the new economics of labor migration (NELM), provide a complete framework that can be used to study the influence that remittances have on the welfare of households as well as the general dynamics of the economy (Ahamed & Ilyas, 2016). When it comes to enhancing the well-being of migrant-sending families, NELM places a strong emphasis on the primary function that remittances play (Ferdaous, 2016). Furthermore, remittances assist recipient families to lower poverty levels, moderate income instability, and improve access to key services such as education and healthcare. This is in addition to the monetary value received by the recipient households. Furthermore, these theories stress the social capital and knowledge transfer that is enabled by returning migrants, which contributes to the growth of human capital inside the home nation. The New Economic and Labor Market (NELM) highlights the wider beneficial implications of remittances in terms of improving human development indicators and enabling sustainable economic growth (Oshota & Badejo, 2014).

On the other hand, the resource curse concept raises grave worries about the dangers of placing an inordinate amount of dependence on remittances. It is possible that a phenomena known as "Dutch Disease" might occur as a result of significant reliance on remittances, which is comparable to the resource curse that is seen in countries that are reliant on natural resources. It is hypothesized under this hypothesis that an increase in the amount of remittances might lead to an appreciation of the currency, which would make non-remittance industries less competitive in international markets. (Pradhan, 2016) As a consequence of this, domestic sectors, especially those that are focused on exports, may suffer, which would ultimately result in an imbalance in the economy. With the resource curse hypothesis, concerns are raised regarding the possible adverse spillover effects that might result from a disproportionate reliance on remittances (Paul & Das, 2011). This theory encourages policymakers to diversify economic activity in order to reduce the risks associated with this situation.

In general, these theoretical frameworks provide useful insights into the complex character of remittances. They stress the potential of remittances as accelerators for economic progress, while also cautioning against overreliance and the vulnerabilities that are associated with it. It is essential to have a solid understanding of various theoretical viewpoints in order to accurately evaluate the complex effects of remittances and to devise policies that capitalize on the advantages of these remittances while also reducing the risks that may be incurred by recipient countries.

2.2 Empirical View

The empirical examinations that have been conducted into the connection between remittances and economic development have shown a wide variety of results. These findings often provide contradictory conclusions and bring to light the intricacy of this dynamic correlation (Hussain & Anjum, 2014). The GDP growth of recipient nations has been shown to have a positive link with the amount of remittances that are received, according to a number of studies. Based on these data, it seems that remittances have the potential to stimulate economic growth by supplying recipient families with extra financial resources, hence boosting consumption and enhancing investment (Ahamed & Ilyas, 2016). An increase in consumption, on the other hand, might make a contribution to aggregate demand, which in turn can further accelerate economic development. It should be noted, however, that this positive link is not consistently detected across all research, which indicates the existence of a variety of contextual influences (Karagoz, 2009).

In contrast, several empirical studies have brought to light concerns about the possible harmful impacts that are connected with a strong dependence on remittances received from outside. There is a significant cause for worry over the pressures of inflation. It is possible that the considerable influx of remittances will result in higher liquidity in the economies that are receiving them, which may result in a rise in the pricing of goods and services (Azam, 2015). This is especially true in the event that the local production capacity does not meet the increased demand. Furthermore, a number of studies have brought to light the prospect that remittances might result in currency appreciation, which would have a negative impact on the competitiveness of companies that are particularly focused on exports. This issue has the potential to bring about a reduction in the competitiveness of local products and services in foreign markets, which might possibly impede the development of industries that are not related to remittance distribution (Dohtani, 2010).

Furthermore, empirical examinations into the effect of remittances on macroeconomic variables such as currency rates and investment patterns bring forth a variety of different results. According to the findings of a number of studies, remittance inflows are associated with appreciations in the native currency, which results in changes to trade balances and may have an effect on a variety of economic sectors. There is also the question of whether or not remittances have an effect on the general patterns of national investment, despite the fact that they do contribute to greater household savings (Ahamed & Ilyas, 2016). While some studies point to a favorable association between remittances and investment, others emphasize the limited influence that remittances have on the overall dynamics of investment.

The fact that empirical results are so different from one another highlights the need of having a nuanced knowledge that is relevant to the context of Sri Lanka. In the current body of research, there is a vacuum that is represented by the limited number of empirical studies that concentrate specifically on Sri Lanka's economic environment and its dependence on remittances (Azam, 2015). For the purpose of formulating targeted policies that maximize the positive impacts of remittances while mitigating potential adverse effects, it is essential to have a comprehensive understanding of the distinctive socio-economic fabric of Sri Lanka and its susceptibility to various impacts of remittances. These impacts include the influence of remittances on inflation, exchange rates, and investment (Hasuan & Shakur, 2017).

There is a significant knowledge gap about the complex influence that remittances have on the economy of Sri Lanka, which is a significant gap within the vast panorama of research that is linked to remittances. Despite the fact that there is a substantial body of literature, there is still a lack of specificity and depth with relation to the setting of Sri Lanka. This void is especially noticeable in the small number of empirical research that investigate the complex interaction that exists between remittances and the one-of-a-kind economic and social environment of Sri Lanka.

The lack of comprehensive evaluations that concurrently take into consideration a variety of macroeconomic factors in relation to remittance inflows is a major gap that exists. Although there have been studies that have focused on certain areas, there is a lack of a comprehensive analysis that takes into account a variety of variables, including variations in GDP growth, inflation, currency rates, and investment patterns. In order to have a complete understanding of the many ways in which remittances impact the overall economic health of Sri Lanka, it is essential to have this all-encompassing viewpoint. Furthermore, there has been a lack of investigation on the societal repercussions that are a result of the remittances that are received inside Sri Lanka. Remittances, in addition to their influence on the economy, often have substantial social repercussions, which may have an effect on education, healthcare, and the allocation of economic resources within homes. There is, however, a paucity of empirical research that focuses on these essential social aspects; thus, it is necessary to conduct an in-depth investigation in order to comprehend the ways in which remittances influence social welfare and inequality in Sri Lanka.

3. Methodology

This chapter begins with an extensive overview of the painstakingly constructed technique intended to investigate and understand the connection between remittances and economic development in the particular context of Sri Lanka. Ensuring the validity and reliability of the study's conclusions requires a strong methodology. It establishes the framework in which the research issues are addressed in addition to dictating the methodology used for data gathering and analysis. This chapter presents a framework that takes into consideration the difficulties and subtleties involved in examining the effect of remittances on economic development in a nation with distinctive socio-economic dynamics by highlighting the need of a well-structured approach.

3.1 Research Design

Through the use of a secondary data strategy, the research design emphasizes a retrospective observational design with the intention of conducting an analysis of pre-existing datasets that are relevant to the aims of the study. In order to determine the nature of the connection that exists between remittances and economic expansion in Sri Lanka, this configuration encompasses the methodical investigation of historical data that is accessible from a variety of reliable sources. The study strategy that is being used here is essentially quantitative in nature, and it makes use of statistical and econometric techniques in order to investigate the connections that exist between remittance inflows and important economic indicators. The process entails doing a comprehensive evaluation and analysis of the datasets that are already available, covering a certain time period that is pertinent to the aims of the research. This approach allows for the investigation of trends, patterns, and potential correlations between remittances and economic factors across time. This is made possible via the exploration of historical data.

For the purpose of this analysis quarterly data was employed. Accordingly, remittance inflows, GDP, inflation as measured by Colombo Consumer Price Index (CCPI), and real exchange rate (USD/LKR). The analysis is mostly comprised of quantitative method of Ordinary Least Square (OLS) for the selected time-series data sample. The investigation of correlations, trends, and possible causal ties between remittances and economic indicators is made easier by the use of these tools.

3.2 Data Collection

The secondary data strategy utilizes a wide range of trusted sources to acquire data, providing a thorough and dependable basis for the research. Primary sources include official papers issued by the many ministries and departments of Sri Lanka, which provide comprehensive insights into economic trends, financial policies, and demographic information. Central bank publications provide vital information on the influx of remittances, foreign currency rates, and monetary policies, which are necessary for comprehending the intricacies of international financial operations. International databases, such as the World Bank, IMF, and UN databases, are very useful collections of macroeconomic data that provide comparative analysis, cross-country information, and worldwide economic trends. Peer-reviewed scholarly papers and academic publications provide nuanced insights and theoretical frameworks that enhance the depth of research by complementing empirical facts.

3.3 Data Analysis

The section details the analytical methods and tools employed in examining the secondary data. It includes discussions on statistical techniques, econometric models, or qualitative frameworks used to analyze the relationship between remittances and economic growth indicators. In this analysis, the dependent variable is Worker Remittances while the independent variables are GDP, CCPI and Exchange Rate. The mode to be estimated can be defined as follows;

$$\boldsymbol{GDP_t = \beta_0 + \beta_1 REM_t + \beta_2 ER_t + \beta_3 INF_t + u_t}$$

$GDP_t - Quarterly\ Gross\ Domestic\ Products\ at\ time\ t$

$REM_t - Quarterly\ Worker\ Remittances\ at\ time\ t$

$ER_t - Quarterly\ Real\ Exchage\ Rate\ (USD/\ LKR)$

$INF_t - Quarterly\ Inflation$

$u_t - Error\ term$

$\beta_1,\ \beta_2,\ \beta_3$ *– Coefficient Values for the above independents variables*

4. Empirical model analysis

This section lays the groundwork for the investigation of the complex link between remittances and Sri Lanka's economic development using regression analysis to reveal the complex relationships between these variables, the chapter also examines the link between remittances and important economic indices.

4.1 Descriptive Analysis

Figure 2 shows the foreign worker remittances inflows in each year from 2015 to 2020 is over USD 6bn being one of the major contributors financing the trade deficit of the country in external sector. According to the figure 2, workers' remittances inflow in 2016 stood around 6.9 bn. However, after 2016, the figure has marginally between 2016-2018. Although, the figure dropped 6USD 6.7 bn in 2019, workers' remittances recorded significantly large amount (USD 7.1 bn) in 2020. However, after 2020, workers' remittances inflow declined significantly reflecting the significant impact of COVID-19 pandemic. By 2022, worker remittances exhibit positive development throughout the period. Workers' remittances increased to USD 475.6 mn in December 2022 compared to previous year in the same period (CBSL 2022). This improvement of workers' remittances is associated with the highest number of receipts from Kuwait, Qatar and Saudi Arabia in the latter period of 2022.

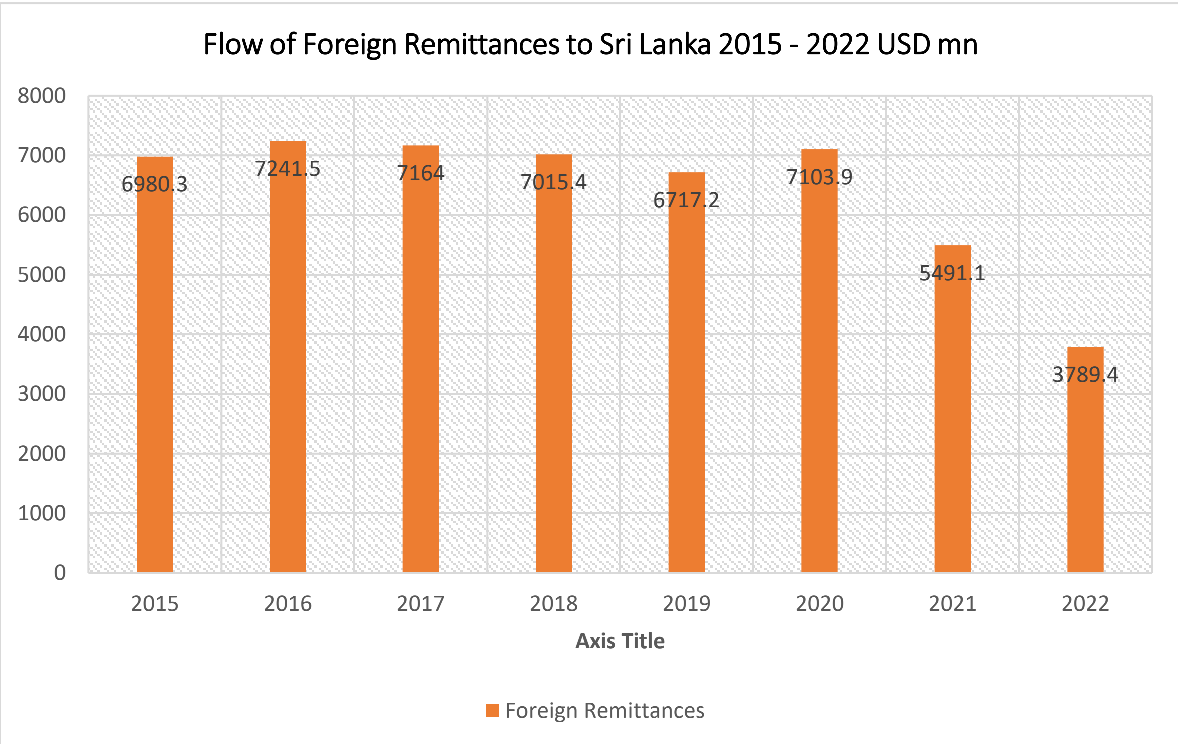


Figure 2 : Flow of Foreign Remittances to Sri Lanka

4.2 Descriptive Statistics

The descriptive statistics are obtained to describe and summarize the selected quarterly data sample in meaningful and efficient way. According to the summarized results given in the table 1, the average log GDP is around 15.12 wile the average log remittances is about 13.12. Both variables' volatility exhibit similar behaviour though exchange rate and inflation have significantly high volatility for the selected sample period.

Table 1 : Descriptive Statistics

	LOGGDP	**LOGREM**	**ER**	**INF**
Mean	15.12280	13.12395	185.3426	8.759375
Median	15.10768	13.21186	175.9143	4.900000
Maximum	15.70055	13.40329	363.2400	50.20000
Minimum	14.81170	12.43081	132.3989	2.900000
Std. Dev.	0.234477	0.256648	60.63286	12.38636
Skewness	0.942616	-1.540516	2.121645	2.722730
Kurtosis	3.457592	4.318873	6.631504	8.774623
Jarque-Bera	5.017989	14.97625	41.59111	83.99905
Probability	0.081350	0.000560	0.000000	0.000000
Sum	483.9296	419.9665	5930.964	280.3000
Sum Sq. Dev.	1.704365	2.041914	113966.7	4756.077
Observations	32	32	32	32

4.3 Correlation Analysis

A correlation matrix is obtained to report the correlation coefficients between variables and each cell in the table shows the correlation between two variables. According to the results given in the table 2, GDP and remittances have a positive correlation. The correlation coefficient figure between these two variables is around 0.7001 which represent significantly higher correlation.

Table 2: Correlation Metrics

	LOGGDP	LOGREM	INF	ER
LOGGDP	1	0.7001	0.7542	0.8973
LOGREM	0.7001	1	0.6432	0.7147
INF	0.7542	0.6432	1	0.9266
ER	0.8973	0.7147	0.9266	1

4.4 Analysing the estimated results

The analysis was performed using the regression analysis. Regression analysis is most common and widely used econometric analytical tool in many macroeconomic analysis. Therefore, for the purpose of this analysis, multiple regression analyses is considered to be most appropriate analytical methos. GDP and remittances are converted to log as the exhibit index values. Accordingly the estimated results for the selected model given the above is summarized as follows. Our model estimation confirms that 1 percent increase in remittances leads to increase the GDP by 0.9650 percent. The t statistics and the probability values are confirm that the impact of foreign remittances on GDP is very significant for the period under the consideration. Further, depreciation of exchange rate by 1 percent increase the GDP by 0.1069 reflecting the impact of higher export income associated with the depreciation of exchange rate. In contrast, impact of inflation on GDP shows the negative relationship.

Table 3 : Estimated output of Regression Analysis

Dependent Variable: LOGGDP				
Method: Least Squares				
Date: 12/13/23 Time: 14:14				
Sample: 2015Q1 2022Q4				
Included observations: 32				

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGREM	0.965081	0.320109	3.236355	0.0031
ER	0.106951	0.070800	4.694280	0.0000
INF	-0.101122	0.080700	-4.579832	0.0001
C	13.30820	0.293741	45.30597	0.0000
R-squared	0.889143	Mean dependent var		15.12280
Adjusted R-squared	0.877266	S.D. dependent var		0.234477
S.E. of regression	0.082145	Akaike info criterion		-2.044183
Sum squared resid	0.188940	Schwarz criterion		-1.860966
Log likelihood	36.70693	Hannan-Quinn criter.		-1.983452
F-statistic	74.85948	Durbin-Watson stat		2.103877
Prob(F-statistic)	0.000000			

5. Conclusion and Recommendations

5.1 Conclusion

Examining the complex link that exists between remittances and important economic indicators in Sri Lanka, section four's investigation produced some very interesting results. Remittances and economic growth have a strong and positive association, as shown by the empirical investigation's significant influence on GDP growth. Accordingly, the estimated results confirmed 1 percent increase in remittances leads to increase the GDP by 0.9650 percent. The t statistics and the probability values confirm that the impact of foreign remittances on GDP is very significant for the period under the consideration. Remittances are important because they act as a stimulus for economic development; the regression analysis demonstrated a strong correlation between a unit rise in remittances and a significant increase in GDP growth. The research also revealed complex relationships between remittances and other economic factors. The intricate interactions between remittances and many aspects of the Sri Lankan economy were highlighted by these complicated linkages.

These results are important for more than just empirical correlations; they have significant consequences for the creation of policies and for future research in academia. Recognizing the significant role remittances play in GDP development highlights the need of policies that efficiently enable and use these inflows. It asks for calculated steps to use remittances as a fuel for long-term, sustainable economic growth, either via financial inclusion programs or campaigns encouraging investment in profitable industries.

This research adds a great deal to the body of information already in existence by offering actual data unique to the Sri Lankan setting. Many studies examine how remittances affect economies throughout the world, but there aren't many in-depth examinations of Sri Lanka's distinct socioeconomic context, which created a significant vacuum in knowledge. By filling up this vacuum, this study advances our knowledge of Sri Lankan remittance dynamics and offers a sophisticated viewpoint to the larger conversation on remittances and economic development. In addition, the methodology of the study, which includes regression analysis, serial correlation evaluations, and unit root testing, provides a foundation for future research projects. It provides a methodological framework that is replicable or expandable in comparable research across many nations, enabling comparative evaluations and deepening our knowledge of how remittances affect economic metrics. To sum up, the results confirm that remittances have a big impact on how Sri Lanka's economy is shaped. They recognize the complexity and diversity of the effects on a range of economic indicators and emphasize the necessity for specialized strategies to successfully harness the potential of remittances. This study provides evidence for the critical role remittances play in promoting economic development and serves as a basis for further investigations aiming at elucidating the complex dynamics of this connection in comparable countries.

5.2 Recommendations

Several practical suggestions are made in light of the study's analytical conclusions about the connection between remittances and economic indicators in Sri Lanka. In order to maximize the beneficial effects of remittances on economic development, governments may want to think about launching programs that teach investors and financial literacy. Giving receivers financial literacy may help them direct remittance payments toward profitable ventures, which will promote economic expansion.

It may be crucial to implement strategic policies that encourage beneficiaries of remittances to make investments in industries that support sustainable growth and employment creation. Offering privileged credit programs or tax breaks for starting a business, for example, might promote the formation of small and medium-sized businesses (SMEs), which would increase employment and diversify the economy.

Furthermore, increasing the socio-economic advantages might come from creating an atmosphere that encourages remittance investment in infrastructure projects. Policies that encourage collaborations between beneficiaries of remittances and infrastructure development projects, including transportation networks or renewable energy projects, may have both immediate and long-term socioeconomic benefits.

Opening up channels for financial inclusion is essential to maximizing the impact of remittances on socioeconomic development. In order to promote long-term economic stability and development, beneficiaries may be able to save, invest, and obtain credit facilities via increased access to formal financial institutions like banking and microfinance.

Examining the social and cultural aspects of remittance consumption is still an uncharted territory for future study. For policymakers and scholars, knowing how family dynamics, cultural settings, and society norms affect remittance distribution and consumption might be very beneficial. Furthermore, examining the influence of remittances on environmental sustainability or studying novel fintech solutions to maximize remittance use are possible research directions that might enhance the comprehension of the wider socio-economic consequences of remittances.

All things considered, these suggestions support a multifaceted strategy that combines targeted investment incentives, financial education, and increased financial inclusion to optimize the transformative power of remittances in promoting sustainable economic growth and societal development in Sri Lanka.

5.3 Limitations

In spite of the fact that this research offers useful insights into the link between remittances and economic indicators in Sri Lanka, there are a number of limitations that should be taken into mind. These limitations might have had an impact on the results and conclusions that were offered.

In the first place, the use of secondary data sources is accompanied with inherent constraints. There is a possibility that the level of analysis and interpretation that was performed was limited due to the availability, quality, and consistency of the data. Discrepancies in recording procedures among various sources, possible delays in data availability, and variations in data reporting techniques might have all contributed to the introduction of biases or limits in the study, which could have had an effect on the robustness of the results.

In addition, the purpose of the research was to concentrate mostly on quantitative analysis, which may have resulted in the neglect of qualitative components and regionally specific subtleties. The lack of qualitative data, such as recipient behavior, cultural influences, or qualitative insights from homes who receive remittances, makes it difficult to get a thorough knowledge of how remittances are employed and the socio-cultural effect they have on communities. The use of qualitative techniques or field surveys has the potential to give more valuable insights into the lived experiences and perceptions that are associated with the usage of remittances.

An other problem is that the research only covered a limited amount of time. Due to the fact that the research was conducted during a certain period of time, it is possible that it did not effectively reflect long-term patterns or include wider economic cycles. It is possible that the economic circumstances and policy dynamics would change over lengthy periods of time, which might possibly affect the associations that were seen within the era that was investigated. In light of this, broadening the scope of the investigation to include a longer period of time might provide a more in-depth comprehension of the dynamics that exist between remittances and economic indicators.

In addition, the methodology of the research, despite the fact that it makes use of well-established econometric tools, may contain drawbacks that are inherent to regression statistical analysis. These models, despite the fact that they provide useful insights, are susceptible to assumptions like linearity, normalcy, and stationarity. These assumptions may not adequately reflect the complexity of the economic interactions that exist in the actual world.

Lastly, the generalizability of the research may be restricted since it primarily focuses on Sri Lanka's particular circumstances. It is possible that the distinct socio-economic features, regulatory contexts, and patterns of remittance use that are present in Sri Lanka do not immediately correlate with those that are present in other areas or locations. Because of this, extending these results to new settings or different economies should be done with caution. This is because the contextual differences that might greatly alter the correlations between remittances and economic indicators should be taken into consideration.

The acknowledgment of these limitations is very necessary in order to contextualize the results and consequences of the research. When these limitations are addressed in future research endeavors, such as by refining data collection methods, incorporating qualitative approaches, extending temporal analyses, and employing more comprehensive methodologies, it may be possible to improve the depth and breadth of understanding of the complex dynamics that exist between remittances and economic indicators in Sri Lanka and beyond.

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