

Estimating the services sector impact on economic growth: an econometric investigation for Sri Lanka

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This study attempts to investigate the impact of the services sector on the economic growth of Sri Lanka during the period of 1977-2017. The study uses the Gross Domestic Product (GDP) as an indicator of economic growth in Sri Lanka. The wholesale and retail trade sector, the transport and communication sector, education and health services are used as explanatory variables along with some other control variables. The study applies several econometric tools like *Unit Root test*, *Cointegration test*, *Granger causality test*, *ARDL Bound test* and *Error Correction Model (ECM)* to examine the causal relationship and the magnitude of the relationship between the services sector and real GDP. The results of the study reveal that the services sector has both a short-run and long-run relationship with the economic growth of Sri Lanka. Further, the result shows that 1% expansion in the service-related sector results in an increase of 0.47% GDP or economic growth in the short-run and 0.90 % of GDP in the long-run.

Keywords: *economic growth, GDP, services sector*