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Relationship between Tourism and Economic Growth in Sri Lanka: An ARDL Bound Test Approach

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ABSTRACT

This study investigates the correlation between tourism and economic growth in Sri Lanka spanning from 1990 to 2021. The analysis incorporates annual data on gross domestic product (GDP) growth, tourism receipts, labour force participation rate, gross capital formation, and inflation, exploring both long-run and short-run dynamics. Tourism receipts, labour force participation rate, gross capital formation, and inflation was taken as the independent variables whereas GDP growth was taken as the dependent variable. The Autoregressive Distributed Lag (ARDL) model is employed to scrutinize the relationship, while the Augmented Dickey-Fuller (ADF) test ensures the stationary nature of time series variables, either at the level or first difference. For the long-run analysis, the Long-run Bounds Test is utilized to estimate relationships between variables, and the Error Correction Model (ECM) is employed to elucidate short-run dynamics. Diagnostic tests, including residual normality, heteroscedasticity, and serial correlation, are conducted, and the stability is verified through CUSUM and CUSUM of square Tests. The outcomes of the unit root tests revealing that all variables are stationary in their levels, except for labour force participation and gross capital formation. This justifies the use of the bounds test approach in our analysis. The bound test results indicate that the calculated F statistics 6.73 exceeded the upper bound critical value (4.37). It confirms that there is a long-term equilibrium among the considered variables. The long-run test statistics results indicate that the coefficient for tourism receipts, labour force participation rate and gross capital formation are positively impact on economic growth and statistically significant at 1 per cent level. The inflation has a negative impact on economic growth in Sri Lanka. In the short run, tourism shows no immediate link to economic growth, while labour force participation rate and cross capital formation demonstrate a positive and significant impact. Additionally, inflation has a positive but insignificant effect on economic growth in the short run. The short-run error correction coefficient is negative and significant at 1 per cent level confirming that the systems return to equilibrium at a rate of 97 per cent. Consequently, it is recommended that the government focuses on promoting the tourism sector, and policymakers in Sri Lanka should pay careful attention to both domestic and international tourism. Improving the infrastructure of various tourist attractions is crucial for fostering sustainable economic growth in the country.

Keywords: *Tourism, Economy Growth, Sri Lanka, ARDL Bound Test*