
Understanding Sri Lankan Business Cycles through an estimated DSGE Model

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Abstract

This study estimates a small open economy DSGE model for Sri Lanka to find out the driving forces of business cycles. The model replicates moments of actual data fairly well and it outperforms BVAR models estimated with the same data. The application of the estimated model reveals that domestic supply shocks and external shocks were the main drivers of business cycles in Sri Lanka. The oil price plays a key role in explaining the movements of inflation.