

## **The Impact of the Global Financial Crisis on the Sri Lankan Economy**

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The main objective of this paper is to identify whether the recessionary hit has transmitted to Sri Lanka economy through a transmission mechanism. This study identifies three mechanisms that played a key role in spreading the consequences of the financial crisis to Sri Lanka; reduction in capital inflows in terms of Foreign Direct Investment, reduction in export revenue and changes in exchange rates. Moreover, it was investigated the effects due to transmission of financial crisis as high deficit in Balance of Payment, increasing rates of unemployment and decline of performance of local stock market. This study has provided some broad policies and recommendations at the national level which give an overview that the way it has to be counteracted to mitigate recessionary implications under the same conditions in the future. The recommendations have been discussed under seven criteria which are strengthening risk management, strengthening corporate governance, strengthening capital, and strengthening liquidity, consolidation of supervision, trade policy and other factors to be concerned.

**Key words:** Financial recession, Transmission mechanism, Macro Economy, Sri Lanka.