

THE RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE AND ECONOMIC GROWTH IN SRI LANKA

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Abstract

The government plays an important role in any country in many ways. A government represents the people living in a country; the government is selected by people in that country. So that government has a responsibility to serve its people living in the country government is important for a country to provide the goods and services that are not provided by the private sector of the country. Thus the government expenditure plays a vital role in the economy of a country.

The main objective of this study is to identify the relationship between government expenditure and economic growth of Sri Lanka for the period of 38 years running from the year 1977 to 2014. Under that firstly, examine whether there is a positive, negative or no relationship between the government expenditure and economic growth in Sri Lanka. Secondly, examine the trend of change of GDP based on the government expenditure. Finally, examine the ability of government expenditure to forecast Gross Domestic Product growth in Sri Lanka. This study is a co-relational study, multiple regression analysis is expected to use in association with SPSS (Statistical Package for Social Sciences) software to determine the relationship between public recurrent expenditure and economic growth. Time series data of annual private investment, annual population growth, and trade openness of the economy, total government recurrent expenditure and total government capital expenditure are expected to be used as independent variable while real gross domestic product (GDP) will be used as the dependent variable. Data will be collected from Central Bank of Sri Lanka and Ministry of Finance for the period running from the year 1977 to 2014.

Key words: government expenditure, growth rate in Sri Lanka