

The Impact of Public Expenditure on Economic Growth in Sri Lanka

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The relationship between public expenditure has been one of the most searched issues in both developing and developed countries in the recent years. Public expenditure and policies related to public expenditure are important for a country and its macroeconomic stability. Hence, the objective of this study is to investigate the relationship between public expenditure and economic growth of Sri Lanka for the time period spanning from the year 1985 to 2015. A model developed by Ram (1986), as summarized by (Kweka & Morrissey, 1997) is used for the analysis. Total government expenditure is disaggregated in to three categories for the research purpose of this study as; government investment expenditure, government consumption expenditure and government human capital investment expenditure. Private investment was also added as an independent variable based on the econometric model employed for the study. All three categories of expenditure; government investment expenditure and government human capital expenditure were found to be insignificant in the regression, whereas private investment showed a positive and government consumption expenditure showed a negative significant relationship with regard to economic growth in Sri Lanka.

Keywords: Economic growth, Public expenditure, Government investment, Consumption, Human capital, Private investment