Impact of Composition of Public Debt on Economic Growth of Sri Lanka

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ABSTRACT

Introduction: When current expenditure of the government exceeds its current tax revenue that is said to be a deficit in the budget. It is normally covered by market borrowing and in extraordinary situations, by deficit financing. Government debt can be categorized as internal debt and external debt. This study analyzes the relationship between composition of public debt and economic growth of Sri Lanka. Public debt is composed of three components, domestic debts, External (foreign) project loans, External non-project loans.
Design/ Methodology/ Approach: The study used the quantitative approach examine the relationships using secondary data set for the period 1995 to 2018. The data has collected from economic and social statistics reports and annual reports issued by the Central Bank of Sri Lanka, Ministry of Finance and world bank data base.
Findings: The study found that domestic loans has negative and significant impact on the economic growth rate while External project loan and External non-project loan have an insignificant impact on economic growth.
Conclusion: At the end, study has shown a negative and significant impact to economic growth rate from Domestic Debt while it shows the insignificant impact with other two variables. This indicates if country collects more and more Domestic debt it will lead to slow down the economic growth of the country.

Keywords: *GDP Growth Rate, Domestic Loans, External Project Loans, External Non-Project Loans*

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