

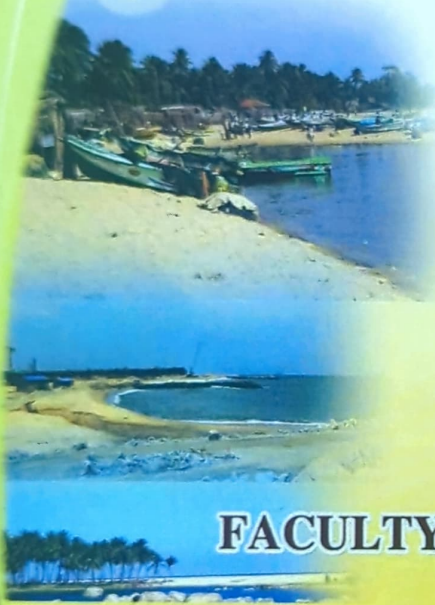


ABSTRACTS

South Eastern University of Sri Lanka

**National Conference on
Regional Development 2011**

10th & 11th Dec. 2011



FACULTY OF ARTS AND CULTURE



Causality between Public Expenditure and Economic Growth in Sri Lanka: A Disaggregated Analysis

Kesavarajah M¹ , Ravinthirakumaran N²

The causality between public expenditure and economic growth emerged as one of the most serious debate among policy makers and economists in both developed and developing countries. Despite a large number of studies in Sri Lanka have been examined the relationship between public expenditure and economic growth, most of the studies have focused on either aggregate public expenditure as one variable or only considering one type of public expenditure in their models. The major gaps noted here is that very few studies have attempted to link the potential impacts of public expenditure at the sector level on economic growth. Since the demand for different public expenditure sectors inevitably imposes a limit on the share of expenditure that can be allocated to each sector, it is important to analyze the relative contribution of various public expenditures to economic growth, as this will provides important implication to policy makers to improve efficiency of public spending by reallocation among sectors in future. In this context, this study analyzes the causality between public expenditure and economic growth in Sri Lanka over the period 1977-2009. For the purpose of the analysis this study employed a multivariate cointegration and error correction modeling technique by utilizing the time series annual data drawn from various annual reports of Central Bank of Sri Lanka. The empirical evidence from the study suggests, public expenditure on education, agriculture, health and transport and communication have positive and statistically significant effects on economic growth while defense expenditure shows a negative and statistically significant effect on economic growth. Granger causality analysis suggests the existence of unidirectional causality between education expenditure to economic growth, defense expenditure to economic growth, and agriculture expenditure to economic growth. Analysis also indicates the existence of bidirectional causality between economic growth and health expenditure, transport and communication expenditure and economic growth. These findings provide an important implication to policy makers to improve the efficiency of public expenditure via reallocating among sectors in a growth context.

Key words: Public expenditure, Economic Growth, and Causality

* To whom correspondence should be addressed: navaravi@econ.cmb.ac.lk, rmkesav@yahoo.com

¹ Assistant Lecturer, Department of Economics, University of Colombo.

² Senior Lecturer, Department of Economics, University of Colombo.