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An Analysis of Impact of Overall Balance of Budget, Foreign and Domestic Debts on Economic Growth: A Study of Post Liberalized Economy in Sri Lankan Context

A.A.M.Nufile
Senior Lecturer in Economics
Dept. of Economics& Statistics, Faculty of Arts and Culture
South Eastern University of Sri Lanka/

S.Nisthar
Visiting Academic
Dept. of Economics and Statistics, Faculty of Arts and Culture
South Eastern University of Sri Lanka.

Correspondence: nufile68@seu.ac.lk

Abstract

This study prominently investigates to find the relationship among the economic growth (Gross Domestic Product - GDP), Overall Balance of Budget, Foreign and Domestic Debts in Sri Lankan context using the quantitative approach. The time series data for the period of 1959 to 2014 are collected from the annual report of the central bank of Sri Lanka. Economic Growth (Gross Domestic Product - GDP) is the dependent variable and Overall Balance of Budget, Foreign and Domestic Debts, and Dummy (D) are the explanatory variables in this study. All the variables are stationary at its level form I(0) other than Overall Balance of Budget which is stationary at its first difference I(1). There is a two way relationship between Foreign Debts and Domestic Debts. Gross Domestic Product is caused by both variables such as Overall Balance of Budget and Foreign Debts. There is a decline of Gross Domestic Product by 0.21 units even after the trade liberalization from 1977 in Sri Lanka. There is a positive relationship between Economic Growth (Gross Domestic Product), Overall Balance of Budge (BDT) and Domestic Debts (DPD) whereas there is an inverse relationship between Economic Growth (Gross Domestic Product - GDP) and Foreign Debt (FPD). The percentage of the fitness of regression model is 99.7%. All the variables are having a long run relationship. By lowering Foreign Debts, Economic Growth (Gross Domestic Product - GDP) can be achieved. It is significant to boost the economic growth of Sri Lanka by increasing Domestic Debts.

Key Words: Budget, Foreign and Domestic Debts, Economic Growth and Liberalization

1. Introduction

The amount of public debt has been a critical issue in Sri Lanka for many decades which resulted in socio-economic and political implications. The share of public debt to GDP was 34% in 1960 and it shows an upward trend over the years. Particularly, Sri Lanka has experienced more than 100% debt share to GDP in 2001. However, it was decreased to 79.1% in 2012 (Central Bank of Sri Lanka, 2013).

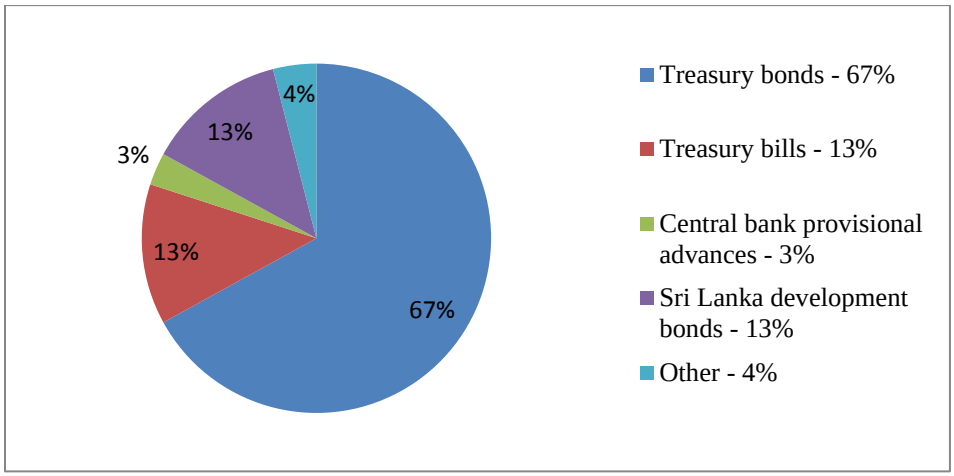
Steps were taken to maintain a proper mix of domestic and foreign debt and to reduce maturity mismatches in the debt portfolio. The interest payments on domestic debt increased by 20.2 per cent in 2015 to Rs. 394.3 billion from Rs. 327.9 billion in 2014,mainly due to increased outstanding domestic debt by 15.9 per cent to Rs. 4,959.2 billion as at end2015. Consequently, the share of interest payments on domestic debt in total interest payments increased to 77.4 per cent in 2015 compared to 75.1 per cent in the previous year. The domestic debt to GDP ratio increased to 44.3 per cent by end 2015 from 40.9per cent recorded as at end 2014, while the foreign debt to GDP ratio also increased to 31.7 per cent by end 2015 from 29.8 per cent in 2014. The outstanding domestic debt increased by15.9 per cent to Rs. 4,959.2 billion as at end 2015, reflecting greater reliance on domestic sources to finance the budget deficit during the year. The share of domestic debt in total government debt stood at 58.3 per cent at end 2015, registering a slight increase when compared to 57.9 per cent as at end December 2014. However, the share of short-term debt to total domestic debt declined to 18.4 percent at end 2015 from 22.0 per cent at end 2014, mainly due to the issuance of medium to long term debt instruments to replace the maturing Treasury. Accordingly, the share of Treasury bills in short-term domestic debt to total domestic debt declined to 13.3 per cent as at end 2015 from 16.2 per cent at the end of the previous year. In contrast, the share of medium to long term debt to total domestic debt stock increased to 81.6 per cent by end 2015 from78.0 per cent recorded at the end of the previous year (Central Bank of Sri Lanka, 2015).

Within this category, the share of treasury bonds, which dominated the outstanding domestic debt portfolio, declined to 81.7 per cent of the total medium to long term debt by end 2015 from85.2 per cent recorded at end 2014, whereas the share of SLDBs in total medium to long term debt category increased significantly to 16.5 per cent by end 2015 from 11.7 per cent at end 2014 reflecting increased reliance on this instrument to finance the budget deficit during the year. At the same time, the average time to maturity of the domestic debt stock increased to 6.28 years by end 2015 from 5.75 years in the previous year, indicating the higher issuance of medium and long term securities. Domestic debt held by the non-bank sector increased by 16.4 per cent to Rs. 3,035.2 billion at end 2015 from Rs. 2,607.9 billion as at end2014, mainly due to significant borrowings through Treasury bonds during the year.

However, the share of domestic debt held by then on-bank sector increased slightly to 61.2 per cent at end 2015 from 61.0 per cent as at end 2014. The Employees' Provident Fund (EPF) and the National Savings Bank (NSB) continued to be the major holders of the total government domestic debt held by the non-bank sector accounting for 53.2 per cent and 14.1 per cent, respectively. The outstanding government debt to the domestic banking sector increased by 15.2 percent to Rs. 1,924.0 billion at end 2015.However, the share of the banking sector debt in total domestic debt declined marginally to 38.8 per cent by end 2015 from 39.0 per cent at end 2014.

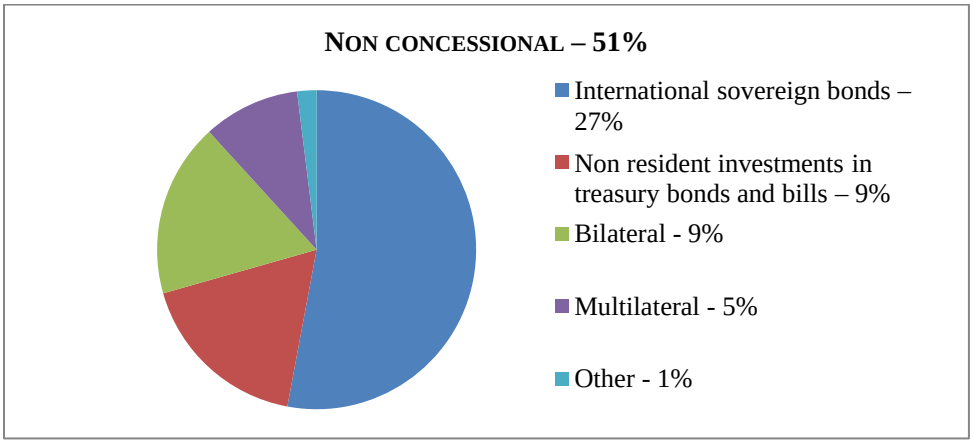
Foreign currency denominated domestic debt increased to Rs. 690.1 billion (US dollars 4,790.1 million) by end 2015 from Rs. 410.7billion (US dollars 3,134.3 million) at end 2014.Foreigncurrency denominated domestic debt consisted of outstanding borrowings from SLDBs amounting to Rs. 668.5 billion (US dollars 4,640.1 million) and OBUs amounting to Rs. 21.6 billion (US dollars150.0 million). Domestic debt of public nonfinancial corporations to domestic commercial banks increased by 17.2 per cent to Rs.523.0 billion, which accounts for 60.7 per cent of the total outstanding debt of major public nonfinancial corporations.

Composition of Outstanding Domestic Debt – 2015



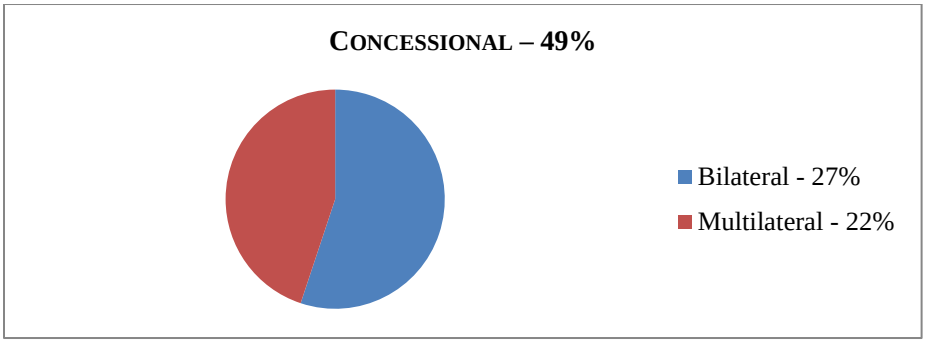
Source: Annual Report (2015), Central Bank of Sri Lanka

Composition of Outstanding Foreign Debt – 2015



Source: Annual Report (2015), Central Bank of Sri Lanka

Composition of Outstanding Foreign Debt – 2015



Source: Annual Report (2015), Central Bank of Sri Lanka

Meanwhile, interest payments on foreign debt increased by 6.4 per cent to Rs.115.4 billion in 2015 from Rs. 108.5 billion in 2014.This was a combined outcome of the increase in the foreign debt stock by 13.8 per cent as at end2015 and the decline in the average interest rate on foreign debt to 3.3 per cent in 2015 from 3.5 percent in 2014. Total outstanding foreign debt increased by 13.8 per cent to Rs. 3,544.1 billion at end 2015.In addition to the absolute increase in foreign debt stock, significant increase in rupee value of the foreign debt owing to the depreciation of the rupee against major foreign currencies contributed to increase in outstanding foreign debt. During the year, concessional debt is increased by 16.0 per cent to Rs. 1,729.9 billion, raising the share of concessional debt in the total foreign debt stock to 48.8 per cent at end 2015 from 47.9 per cent as at end December 2014.

Although non concessional debt increased by 11.8 per cent to Rs. 1,814.1billion, the share of non-concessional debt in the total foreign debt declined slightly to 51.2 per cent at end 2015 from 52.1 per cent at end 2014. Foreign debt increased by 14.1 per cent to Rs. 861.0 billion at end 2015, compared to the increase of 17.8 per cent in 2014.Domestic debt of public nonfinancial corporations to domestic commercial banks increased by 17.2 per cent to Rs.523.0 billion, which accounts for 60.7 per cent of the total outstanding debt of major public nonfinancial corporations. Project related foreign debt also increased by 9.5 per cent to Rs. 338.1 billion. The relative share of project related foreign debt to total outstanding debt of major public nonfinancial corporations was 39.3 per cent as at end 2015. As a percentage of GDP, outstanding debt of major public nonfinancial corporations amounted to 7.7per cent by end 2015, in comparison to 7.2 per cent in the previous year.

Sri Lanka recorded a Government Debt to GDP of 76 percent of the country's Gross Domestic Product in 2015. Government Debt to GDP in Sri Lanka averaged 88.70 percent from 1990 until 2015, reaching an all-time high of 103.20 percent in 2001 and a record low of 68.70 percent in 2012. Government Debt to GDP in Sri Lanka is reported by the Central Bank of Sri Lanka.

The growing public debt and its servicing costs are a severe burden on the economy. It has the detrimental impacts on macroeconomic fundamentals that have adverse effects on long term economic development. The large expenditure on debt servicing implies fewer resources for developmental expenditure.

Government borrowing from domestic banking sources to service the debt results in inflationary pressures that destabilize the economy. Increases in the costs of living impose hardships on fixed wage earners and pensioners and often lead to industrial unrest demanding higher wages that increase the costs of production and erodes the country's competitiveness. The debt servicing cost that is the highest expenditure of the government is itself a factor that increases the fiscal deficit and increases the public debt. The containment of the public debt and debt servicing costs are imperative to break the debt cycle (Nimal Sanderatne, 2011).

Overall balance of budget and domestic and foreign debts are also some of the instrumental factors which affect the economic growth of Sri Lanka (Gross Domestic Product - GDP). As such, it is significant to estimate the effects of the factors on the economic growth in Sri Lanka. In this context, the findings of this study definitely subsidizes and contributes to a debate by lighting up and making aware of the policy makers or the government, entrepreneurs, and general public of the country on what measures or policies in the overall balance of budget and foreign and domestic debts can be implemented so as to achieve economic growth in Sri Lanka.

2. Literature Review

Iftkhar Wakeeland Kafait Ullah (2013) tried to analyze the impacts of budget deficit on macroeconomic aspects of Pakistan using ADF test for stationary test, and 3-Stage Least-Square method for estimation by using STATA-10 software. The annual data for this study was the period from 1970 to 2010. Their study revealed that the output changes were positively related to BCP and Government expenditures but negatively with interest rate. Money supply was positively related to GBD, BCP and foreign reserves(R). So money supply increased whenever trying to finance budget deficit through Government, private or external borrowing. On the other hand, changes in Exports and Imports depended on changes in Exchange Rates and their relative prices respectively which are affected by money supply. But the changes in imports were bigger than changes in exports, pushing the balance of trade towards deficit. Their study also measured the negative relationship between Balance of Trade and Output. Finally they concluded that when government tried to use government expenditures to get higher output, deficit might come into existence and then financing the budget deficit resulted in inflation, trade deficit and afterwards affected output.

Chee-KeongChoong, et. al. (2010) examined the effect of different types of debts on the economic growth in Malaysia during the sample period 1970 – 2006 using co-integration test. They found that all components of debts had a negative effect on long-run economic growth. And also the Granger causality test revealed in their study the existence of a short-run causality relationship between all debt measures and economic growth in the short run. Finally they concluded that that an increase in foreign debt level adversely influenced economic performance, whereas the decline in the rate of economic growth weakened the ability of the country to service its debt.

Cristina Checherita and Philipp Rother (2010) investigated the average impact of government debt on per-capita GDP growth in twelve euro area countries (Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain) over a period of about 40 years starting in 1970 using either 2-SLS (two-stage least square) or GMM estimators. They found a non-linear impact of debt on growth with a turning point—beyond which the government debt-to-GDP ratio had a

deleterious impact on long-term growth—at about 90-100% of GDP. They suggested that the negative growth effect of high debt might start already from levels of around 70-80% of GDP. And also they concluded that the annual change of the public debt ratio and the budget deficit-to-GDP ratio were negatively and linearly associated with per-capita GDP growth.

Ramesh Durbarry, Norman Gemmell and David Greenaway (1998) assessed the impact of foreign aid on growth for a large sample of developing countries using an augmented Fischer-Easterly type model and estimated this using both cross-section and panel data techniques. They found from the results that foreign aid had some positive impact on growth, conditional on a stable macroeconomic policy environment. Finally they also found that these results varied according to income level, levels of aid allocation and geographical location.

Kene Ezemenari (2008) carried out a theoretical and empirical study to examine the inflow of large quantities of foreign aid into Rwanda since 1994. They developed a model of the theoretical part in which the recipient government decided on the optimal level of tax and optimally allocated total government revenue between current expenditure and public investment. They analyzed time series data on Rwanda with the econometric model to show a negative relationship between increased aid and the tax rate. They found that the magnitude of the effects was extremely small and in the case of Rwanda, reforms to the tax administration and expansion of the tax base had mitigating effects. Finally they concluded that as far as the effect on public investment, the overall effect was negative in the past.

Faraji Kasidi and A. Makame Said (2013) investigated the impact of external debt on economic growth of Tanzania for the period of 1990-2010. They used time series data on external debt and economic performance. It is assumed that external debt helps developing countries to meet developing needs. They study revealed from this study that there was significant impact of the external debt and debt service on GDP growth. The total external debt stock had a positive effect of about 0.36939 and debt service payment had a negative effect of about 28.517. They found that the co-integration test showed that there was no long run relationship of the external debt and GDP. Conclusively, they recommended a need for further research to identify the impact of external debt on foreign direct investments and the impact of external debt on domestic revenues.

3. Objective of this study

To find the impact of overall balance of budget and foreign and domestic debts on economic growth (Gross Domestic Product - GDP) in Sri Lanka

4. Methodology

This study is based on the quantitative approach with time series data collected for the Annual Report of Central Bank of Sri Lanka. The annual data of Gross Domestic Product, overall balance of budget, domestic debts and foreign debts for the period from 1959 to 2014 in Sri Lanka are used in this study. The Gross Domestic Product is the dependent variable and also the proxy variable representing the economic growth of Sri Lanka. Overall balance of budget, domestic debts and foreign debts and Dummy (D) are used as the independent variables. The dummy variable represented by binary 1 is used for trade liberalization and 0 for

non-trade liberalization. All the variables are transformed into the Natural Logarithms to measure the percentage changes in the model. Therefore, the following equation is estimated:

$$GDP = f(BDT, DPD, FPD, D) \quad \text{.....(1)}$$

$$lnGDP_t = \alpha_0 + \alpha_1 lnBDT_t + \alpha_2 lnDPD_t + \alpha_3 lnFPD_t + \alpha_4 DU + \varepsilon_t \quad \text{.....(2)}$$

Where,

*ln**GDP*** = Natural logarithm of Gross Domestic Product
*ln**BDT*** = Natural logarithm of Overall Balance of Budget
*ln**DPD*** = Natural logarithm of Domestic Debts
*ln**FPD*** = Natural logarithm of Foreign Debts
D = Dummy variable
ε = The error term with the conventional statistical properties
$\alpha 0, \alpha 1, \alpha 2, \alpha 3, \alpha 4,$ = Coefficients of the model

Augmented Dickey-Fuller (Damordar N. Gujarati (2005) is used to test the stationarity of the time series data used in this model. The existence of the long run relationship between the variables is tested using Co-integration Test. The short run relationship and causal relationship between the dependent and independent variables are identified by using Error correction mechanism and Granger Causality test. E-Views, Minitab and Excel statistical software are used to analyze the data and run the model.

5. Results and Discussion

5.1 Unit root tests (Phillips-Peron Test):

From the table – 01, the results of the Phillips-Peron test for the variables used in this study with intercept, trend and intercept and none are clearly shown. The null hypothesis of "non-stationary" (having unit root) cannot be rejected at 5% level at the level forms of the data of all the variables other than BDT (Overall balance of budget), but can be accepted. But the independent variable of Overall Balance of Budget (BDT) at its first difference is stationary because the null hypothesis of non-stationary is rejected at 5% level (PP-Test statistic value > Test critical value at 5% level). As a result, all three variables are integrated of same order I(0). It can be concluded that all the time series data are not suffering from the problem of spuriousness at the data level and the first difference. Therefore, most of the variables can be used in this model at the data level. It means the wrong conclusions and findings may be leading to meaningless and biased results due to the problem of spuriousness in this model.

Table – 01: Unit root tests (Phillips-Peron Test)

Variable	PP test	Intercept/ constant		Trend and Intercept		None/Neither intercept nor trend		Overall Decision
		PP-Test statistic value	Test Critical Value	PP-Test statistic value	Test Critical Value (5%)	PP-Test statistic value	Test Critical	

			(5%)				Value (5%)	
lnGDP	Level	30.55	2.91	19.44	3.49	35.75	1.94	Stationary
lnBDT	First Difference	5.70	2.91	6.93	3.49	5.14	1.94	Stationary
lnDPD	Level	38.38	2.91	30.62	3.49	39.88	1.94	Stationary
lnFPD	Level	10.99	2.91	5.74	3.49	13.53	1.94	Stationary

Source: E-View results by the authors

5.2 Pair wise Granger Causality Test (Vector Auto Regression Estimate)

The table below (Table - 02) shows the Pairwise Granger Causality Test which explains the causality of the relationship between the variables as per the results of E-Views. From Table – 02, the null hypothesis " FPD does not Granger Cause BDT" is rejected because the probability value is smaller than 5% at lag value of 02, rather the alternative hypothesis is accepted. Thus, foreign debt causes overall balance of budget. Likewise, the null hypothesis of "BDT does not Granger Cause GDP" is rejected because the probability value (0.0290) is smaller than 5% at lag value of 02 rather the alternative hypothesis of "BDT does Granger Cause GDP" is accepted. As a result, Overall Balance of Budget causes Gross Domestic Product in Sri Lanka. Further, FPD does cause DPD and DPD does cause FPD. There is a two way relationship between FPD and DPD. And also DPD does cause FPD and FPD does cause GDP. Accordingly, the dependent variable, GDP, is caused by both variables such as BDT and FPD.

Table – 02: Pair wise Granger Causality Test

Null Hypothesis	Obs	F-Statistic	Prob.
FPD does not Granger Cause BDT	54	9.54067	0.0003
BDT does not Granger Cause GDP		3.80903	0.0290
FPD does not Granger Cause DPD	54	9.20414	0.0004
DPD does not Granger Cause FPD		10.5585	0.0002
GDP does not Granger Cause DPD	54	10.7159	0.0001
FPD does not Granger Cause GDP		6.22771	0.0039

Source: E-View results by the authors

5.3 Regression result:

The regression results of the model using OLS method are shown in the table – 03. The significance of this model is higher because two variables (main independent variables) out of three variables are significant to

explain the relationship between the dependent variable and the independent variables. The value of R-squared is 0.997153 (99.7%). It means the fitness of the model is 99.7% or the data of the variables used in this model is appropriately fitted. Only less than 1% of outside factors (not used in this model) affect this model to explain the relationship between the variables. There is a positive relationship between GDP (Gross Domestic Product), BDT (Overall Balance of Budget) and DPD (Domestic Debts) whereas there is an inverse relationship between GDP (Gross Domestic Product) and FDP (Foreign Debts)

This model is instrumental because most of the variables (02 variables out of 03 variables other than Dummy variable) are significant to explain the relationship between the Gross Domestic Product (the dependent variable) and the overall balance of budget, foreign debts, and domestic debts (the dependent variables).

The estimated coefficient of BDT is around 0.22. It means that 1% change of increase in overall balance of budget causes the increase of the Gross Domestic Product by 0.22%. Likewise, the estimated coefficient of DPD is around 0.79. It means that 1% change of increase in domestic debts causes the increase of the Gross Domestic Product by 0.79%. As a result, those two variables are directly connected with the Gross Domestic Product. But, there is an inverse relationship between the foreign debts and the Gross Domestic Product. It means that when the foreign debts are absorbed more to Sri Lanka, the value Gross Domestic Product decreases. The coefficient of the Dummy is negative (-0.21) and also this variable is insignificant because the probability value is more than 5%. This coefficient value of Dummy says that if binary of 0 is represented by DU, no any changes in GDP can be found before 1977, but if the binary of 1 is represented by DU, there is a decline of GDP by 0.21 units even after the trade liberalization from 1977.In addition, the trade liberalization is statistically insignificant in this model. Next is the Probability value of corresponding F – Statistic (0.0000) which is less than 5%. It delineates that all the independent variables used in the model are jointly to influence the independent variable (Gross Demotic Product).

The value of R-squared is 0.997153 (99.7%) which is more than 60%. It indicates that the percentage of the fitness of this model is 99.7. At the same time, only 0.3 percent of outside factors (residuals/external influence) influence this model to explain the relationship between the dependent and independent variables. Hence, the external influence is very less in this model whereas the internal influence of the variables used in this model is very high.

Table – 03: OLS Regression results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.436956	0.146243	9.825784	0.0000
LOG(BDT)	0.218181	0.093184	2.341402	0.0232
LOG(DPD)	0.788320	0.104271	7.560273	0.0000
LOG(FPD)	-0.026776	0.058540	-0.457392	0.6493
DU	-0.021187	0.141523	-0.149710	0.8816

R-squared	0.997153	Mean dependent var	12.10614
Adjusted R-squared	0.996930	S.D. dependent var	2.357185
S.E. of regression	0.130605	Akaike info criterion	-1.148226
Sum squared resid	0.869947	Schwarz criterion	-0.967391

Log likelihood	37.15033	Hannan-Quinn criter.	-1.078117
F-statistic	4466.108	Durbin-Watson stat	0.694082
Prob.(F-statistic)	0.000000		

Source: E-View results by the authors

lnGDP = 1.44 + 0.22*lnBDT + 0.79*lnDPD – 0.026*lnFPD– 0.21DU

5.4 Co-integration Test: Trace Test

This technique is used to test the long run equilibrium relationship between the variables. To test this relationship, the Johansen Co-integration Test is used. The results of the test are as follows:

Table 04: Johansen Co-integration: Trace Test

Null Hypothesis No. of Co-integrated Equations	**Trace Statistic**	**Critical Value (0.05)**	**Prob.****
None *	174.1169	47.85613	0.0000
At most 1 *	69.66566	29.79707	0.0000
At most 2 *	24.83191	15.49471	0.0015
At most 3 *	9.320840	3.841466	0.0023

Trace test indicates 4 co-integrating equations at the 5% level
* denotes rejection of the hypothesis at the 5% level
**MacKinnon-Haug-Michelis (1999) p-values

Source: E-View results by the authors

From the table 04, it can be explained that the null hypothesis of "there is no long run relationship between the variables or the variables are not co-integrated or there is no co-integration between the variables" used in this model can be rejected because the corresponding Probability value is less than 5%. As a result, all the variables are having long run relationship or all the variables are finally moving together. And also, this relationship is ensured by another result that is the value of Trace Statistic (174.1169) is higher than Critical Value (47.85613). Thus, final result of this co-integration test in Johansen Co-integration Trace Test is that 04 co-integrating equations can be likely made using the variables used in this model and there are four errors terms in this system model/Johansen Co-integration model. It leads to run a model called VECM (running a number of equations at a time, consisting of number of independent variables).

5.5 Co-integration Test: Maximum Eigen value

The same results as in Table 04: Johansen Co-integration Trace Test are observed in the Table 05: Johansen Co-integration: Maximum Eigen value Test. Therefore, the two tests of Johansen Co-integration together confirm the validity of the long run relationship between the variables used in this model. As in the Co-

integration Test: Trace Test, four co-integrating equations can be possibility made using the variables in this model.

Table 05: Johansen Co-integration: Maximum Eigen value Test

Null Hypothesis No. of Co-integrated Equations	Max-Eigen Statistic	Critical Value (5%)	Prob.**
None *	104.4513	27.58434	0.0000
At most 1 *	44.83375	21.13162	0.0000
At most 2 *	15.51107	14.26460	0.0316
At most 3 *	9.320840	3.841466	0.0023

Max-Eigen value test indicates 4 co-integrating equations at the 5% level
* denotes rejection of the hypothesis at the 5% level
**MacKinnon-Haug-Michelis (1999) p-values

Source: E-View results by the authors

6. Findings and Conclusion

The relationship between the Gross Domestic Product and the Domestic Debts, Foreign Debts and Overall Balance of Budget of Sri Lanka are analyzed in this study. There is a positive relationship between GDP (Gross Domestic Product), BDT (Overall Balance of Budget) and DPD (Domestic Debts) whereas there is an inverse relationship between GDP (Gross Domestic Product) and FDP (Foreign Debts). The existing relationship between the dependent and explanatory variables is instrumental as the two main variables out of 03 explanatory variables used in this study are mostly significant in this model. The estimated coefficient of BDT is around 0.22. It means that 1% change of increase in overall balance of budget causes the increase of the Gross Domestic Product by 0.22%. Likewise, the estimated coefficient of DPD is around 0.79. It means that 1% change of increase in domestic debts causes the increase of the Gross Domestic Product by 0.79%. The trade liberalization is statistically insignificant in this model. There is a two way relationship between FPD and DPD. And also DPD does cause FPD and FPD does cause GDP. All the variables are having long run relationship or all the variables are finally moving together.

7. Recommendation

The policy makers of Sri Lanka especially the implementing agency of Fiscal Policy in Sri Lanka can be made aware of these empirical results like the effects of Domestic Debts, Foreign Debts, and Overall balance of budget on Economic Growth of Sri Lanka. It is recommended that by lowering the foreign debts, the Economic Growth can be achieved and by increasing the Domestic debts not depending on the foreign debts, it is significant to boost the economic growth of Sri Lanka. And also Economic Growth can be strengthened by increasing Overall Balance of Budget in Sri Lanka.

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