THE IMPACT OF GOVERNMENT EXPENDITURE ON ECONOMIC GROWTH: A STUDY BASED ON SRI LANKA (1977-2020)

The government earns revenue through various activities. It spends such income to achieve various goals for the economy. Such expenditures are connected to the economy directly and indirectly. Accordingly, this study investigates the impact of government expenditure on the economic growth of Sri Lanka, incorporating annual data from 1977 to 2020. In this study, economic growth has been used as a dependent variable, and health expenditure, education expenditure, transport expenditure for imports, household, and nonprofit institutions serving households (NPISH) final consumption expenditure are used as independent variables. Data were collected through the annual report of the Central Bank of Sri Lanka, and World Bank. E-View 10 and Excel 2013 were used to analyze the data. This study found that there is a positive relationship between the transport expenditure for import, household, and NPISH final consumption and economic growth. Education expenditure has a negative relationship with economic growth in the long run. The error correction model discovered that import transportation expenditure has a short-run relationship with economic growth. Further, there is bidirectional causality between transport expenditure for imports and economic growth, according to the Granger causality test. Hence, based on the findings, it can be observed that government expenditures impact economic growth. Therefore, this study recommends that provide employment opportunities for individuals with the educational qualifications to control the negative impact of education expenditure on economic growth. Reduce the brain drain and improve the education standards in Sri Lanka in the long run.

Keywords: Government expenditure, Economic growth, Health expenditure, Education expenditure

NAME: M. VITHURSA
SUPERVISOR: Dr. AAM. NUFILE
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