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THE IMPACT OF GOVERNMENT EXPENDITURE ON ECONOMIC GROWTH: A SRI LANKAN PERSPECTIVE

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Over the last twenty-five years, Sri Lanka has experienced a decreasing trend in government expenditure as a percentage of Gross Domestic Product. At the same time, the composition of expenditure too has changed in an erratic manner. It is the Keynesian view that government expenditure has the potential to drive economic growth. Thus, this study mainly focuses on the impact of government expenditure on economic growth with special emphasis on the different components of government expenditure in Sri Lanka. After thirty years of war and having a significant portion of government expenditure on defense, time has come to explore the real drivers of economic growth, especially which components of expenditure contributes more to growth. Annual data from 1983 to 2015 is used in the analysis which covers a period of 33 years and the Multiple regression model under the Ordinary Least Square Method is used to generate the model results. The study reveals that expenditure on education and transport and communication have a positive significant impact on economic growth and education expenditure has the highest positive impact. The results also reflect that increasing government expenditure on education in Sri Lanka, strongly contributes to economic growth. In addition to that, expenditure on health is not significant but it has a positive impact on economic growth while the defense expenditure has an insignificant negative impact on the growth. In conclusion, the study suggests that allocation of spending towards education is more critical for achieving and sustaining economic growth in Sri Lanka.

Keywords: *Government expenditure, economic growth, fiscal policy, Sri Lanka*