

Impact of domestic debt on economic growth: an empirical investigation of Sri Lanka from 1960-2014

T. Selvamalai¹ and A.S.P Abhayaratne^{2*}

¹*Faculty of Economics, South Asian University, New Delhi, India,* ²*Department of Economics and Statistics, University of Peradeniya, Sri Lanka*

**aspaabhaya@gmail.com*

The main objective of the study is to identify the effects of domestic debt on economic growth in the short-run and the long-run in Sri Lanka. The study has used annual time series data for the period from 1960-2014 which were gathered from the Annual Report of the Central Bank of Sri Lanka, 2014. To analyze the data, the study used the time series econometric techniques of co-integration, distributed lag model, and Granger causality test. The study found that (i) there is no long-run equilibrium relationship between domestic debt and real value of GDP, (ii) in the short-run, domestic debt as a percentage of GDP has had a negative and significant effect on the economic growth(iii), in the long-run, domestic debt as a percentage of GDP does not have any significant impact on economic growth, (iv) there is no causal relationship between domestic debt as a percentage of GDP and economic growth in Sri Lanka between 1960 and 2014.