

# Study of Defense Expenditure on Economic Growth in Sri Lanka

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**ABSTRACT.** Defense has been a major item on national expenditure in many developing countries. On 19th of May 2009 the President of Sri Lanka, Mahinda Rajapakse, declared that the conflict between the Government and the Liberation Tigers of Tamil Eelam (LTTE) was over and that the Government had prevailed. However, our past experiences indicate that the government devoted large resources to military buildup and the defense budget was one of the largest central government expenditures. In 1995 defense expenditure were 6.5 as a percentage of GDP and 21.2 as a percentage of total expenditure. In 2009, after the post war scenario it was declining to 3.9 as a percentage of GDP and 15.6 as a percentage of total expenditure. It is clear that defense expenditure is decreased after the domestic war.

The main objective of this study is to identify the impact of Defense Expenditure on Economic Growth in Sri Lanka. The specific objectives of this study are, identify the relationship between defense expenditure and economic growth, and influences of defense expenditure on financial resource and public spending on social programs in Sri Lanka. Data for this study was obtained from the secondary sources such annual report of Central Bank of Sri Lanka, publications of Sri Lanka peace foundation from 1982 to 2009. Log linear regression method and Engel Granger Causality test were employed to achieve the above objectives. ADF was used to test the stationary of variables. Eviews Statistical Software was used to analysis this data.

Findings of this study indicate that defense expenditure was significantly influence on government expenditure and there was a significant correlation between defense expenditure and economic growth in Sri Lanka. Increase of defense expenditure severely effect on saving, investment, export, tax income and public spending on social programs. Finally, in this post war scenario the government of Sri Lanka can minimize defense expenditure and utilize that to reconstruction and economic development of Sri Lanka.

**Key words:** Defence Expenditure, Economic Growth, Granger Causality Test, Log Linear Regression, ADF Test.

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