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EXTERNAL DEBT OF SRILANKA: GROWTH AND ECONOMIC GROWTH

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ABSTRACT

This study investigates the factors that determine and enhance economic growth. The factors to determine the economic growth of Sri Lanka is total debt, Long-term Debt, Public Debt, Private Debt, Short-term Debt, and Gross domestic Products. Simple Linear Regression model, Semi Log Linear Regression models, Correlation and Regression are applied to analyze the determinates of economic growth with the help of time series data for 29 years with annual frequency from 1981 to 2009. The economic growth may gain boost by the factors not only by these but also many others. In this study total debt, Long-term Debt, Public Debt, Private Debt, Short-term Debt relationship with economic growth are found positively associated with economic growth.

KEYWORDS

Economic growth, Total debt, Long-term Debt, Public Debt, Private Debt, Short-term Debt.

1. INTRODUCTION

Philip E. Taylor¹ defines public debt as, "The debt in the form of promises by the treasury to pay to the holders of these promises a principal sum and in most instances interest on that principal". External Debt or Foreign Debt is that part of the total Debt in a country that is owed to creditors outside the country. The debtors can be the government, corporations or private households. The debt includes money owed to private commercial banks, other Governments, or International Financial Institutions such as the International Monetary Fund (IMF) and World Bank.

Most of the under developed and developing countries suffer from a low level of income and consequently their saving and capital accumulation are also very low. When a country is facing a crunch in the capital market, to undertake activities generally it goes in for internal borrowing and when it is not enough, it resorts to external resources. Moreover, when there is less scope to receive foreign direct investment, NRI earnings, grants, aids and export most of the developing countries resort to external borrowing. A country borrows externally to augment its domestic resources with the knowledge that all the resources generated in the future will not be available for domestic purposes and a part of them will have to be transferred to external creditors.

An amount of money borrowed from one party to another. Many corporations and individuals use debt as a method for making large purchases that they could not afford under normal. Debt sustainability can be defined as the ability of a debtor to service its debt in the medium and long-run without re-negotiating, defaulting or compromising its long-term goals and objectives. Maintaining the sustainability of External Debt is vital for a sovereign debtor as the sovereigns have limited options to settle financial obligations in foreign currencies. There are various indicators to determine the sustainable level of External Debt. Each has its advantages and disadvantages, and there is no unanimity on adopting a sole indicator. These indicators are primarily in the nature of ratios, i.e., comparison between two relevant variables, and facilitate the policy makers in their External Debt management exercise.

The various kinds of External Debt and discuss the need for External Debt. External Debt may be broadly classified under eight kinds. These include multilateral, bilateral and commercial loans and cover both the Government and non-government sectors. These also comprise highly concessional loans as well as loans on market terms. Multilateral Debt refers to loans and credits extended by multilateral organizations to the Government or, in some cases, with Government guarantee, to Public and Private sector corporate bodies. Bilateral Loans refers to borrowing on varying degrees of concessionality, from other governments. Such loans are given to the government and in some cases to public sector organizations. The IMF debt assumed significance in the early 1980s, when India resorted to withdrawals under the Extended Fund Facility (EFF) and supplementary Financing Facility (SFF) to ease out the balance of payments difficulties. Export credits are comprises buyer's credit; supplier's and exports credit for defense purchases. Buyers' credit and suppliers' credit are treated as forms of commercial borrowing. Commercial borrowing includes market borrowings abroad by corporate entities and public sector undertakings and includes commercial bank loans, securitized borrowings (including India Development Bonds) and loans. Non Resident Deposits refers to various types of Non-Resident (NR) deposits and Foreign Currency (Banks & others) Deposits (FC (B&O) D) with maturities of over one year. Rupee Debt is denomination in rupees owed to Russia and paid through exports. Short term debt refers to debt with a maturity period of up to one year. This is usually trade related debt.

2. REVIEW OF LITERATURE**2.1 INTRODUCTION**

In this study an attempt is made to review some important works related to the present study. A survey of some available literature reveals the fact that studies undertaken in the area of External Debt of Sri Lanka are limited in number. Most of the available works on Sri Lanka's External Debt have been undertaken only in recent years which are very closely connected with the present study are reviewed.

Natia Kutivadze (2011) in his work "Public Debt, Domestic and External Financing, and Economic Growth", in this study analyzed distinguishes between the growth impact of domestic versus external public debt to examined the importance of domestic financing as compared to external financing. In particular, the regressions' outcome points clearly in the direction of a non-linear relationship between total public debt and growth in the subsets of middle and low-income countries, and not by the domestic component of it. Otherwise stated, it appears that high levels of external public debt are associated with low per capita GDP growth rates, but that high levels of domestic public debt are not necessarily associated with low growth. The author identify ranges of values for the optimal level of public debt (i.e. the level after which the marginal impact of further debt accumulation becomes harmful for growth) in middle and low-income countries. In a subset of high income countries, they did not find any support for a robust relationship between public debt and growth.

Jen-tehwang, Chien-ping chue, and chieh-hsuanwang (February 2010) in their work "Debt Overhang, Financial Sector Development and Economic Growth", in this paper used panel data of 20 high External Debt countries selected from Asia and Latin-America to investigate the financial sector development-debt-growth nexus within the framework of an endogenous growth and financial development mechanism. First, the External Debt-to-GDP ratio is significantly negatively correlated with economic growth rates, indicating that excessive debt is detrimental to the growth of an economy. Second, they introduced the simultaneous GMM equations between financial sector development and economic growth to evaluate the interaction effects among economic growth, External Debt, and financial sector development. In empirical results, researcher's find that the negative impact of high debt on growth appears to operate through a strong negative effect, and also finding a two-way relationship between financial sector development and economic growth.

Carmen M.Reinhart and Kenneth S.Rogoff (January 2010) in their study "growth in a time of debt", they analyzed economic growth and inflation at different levels of government and External Debt and also analyzed based on new data on forty-four countries spanning about two hundred years. The data set incorporates over 3,700 annual observations covering a wide range of political systems, institutions, exchange rate arrangements, and historic circumstances. In their study main findings are: the relationship between debt and real GDP growth is weak for debt and GDP ratios below a threshold of 90 per cent of GDP. Above 90 per cent, median growth rates fall by one per cent, and average growth falls considerably more. They find that the threshold for public debt is similar

in advanced and emerging economies. Emerging markets face lower thresholds for External Debt (public and private) which is usually denominated in a foreign currency. When External Debt reaches 60 per cent of GDP, annual growth declines by about two per cent; for higher levels, growth rates are roughly cut in half. There is no apparent contemporaneous link between inflation and public debt levels for the advanced countries as a group (some countries, such as the United States, have experienced higher inflation when debt and GDP is high.) the story is entirely different for emerging markets where inflation rises sharply as debt increases.

Ramesh Chantra Paudel and Nelson Perera (2009) in their study "Foreign Debt, Trade Openness, Labor Force and Economic Growth: Evidence from Sri Lanka" in this study examined the role of foreign debt, trade openness and labor force in the economic growth of Sri Lanka, by employing the Johansen maximum likelihood approach of co integration. They analyzed the data for the period, 1950-2006. This study finds that there is a co integration relationship between economic growth and foreign debt, trade openness and labor force. Further the results suggest that in the long run, labor force, trade openness and foreign debt have a positive impact on economic growth of Sri Lanka.

A.T. Fonseka (2008) in her study "Sustainability of Sri Lanka's Public Debt" this study shows that the accumulated debt of government over the years has reached very high proportions to the extent that debt servicing has become a major challenge to government. Sustainability of the public debt is an issue that involves macroeconomic variables and in finding a durable solution it is necessary to address the issue at the macro level. Any attempts to reduce the deficit by raising taxes to levels that are intolerable or cutting down on capital expenditure are ill- advised as this only jeopardizes future growth prospects of the economy. The primary thrust in the short term should be on curtailing government expenditure and eliminating waste while the long term focus should be on creating an environment conducive to high and sustained growth.

Catherine Pattillo, Helene Poirson, and Luca Riccil (2004) in their work "What Are the Channels Through Which External Debt Affects Growth?" in this paper investigated the channels through which debt affects growth, specifically whether debt affects growth through factor accumulation or total factor productivity growth. They used a large panel dataset of 61 developing countries over the period 1969–98. In this paper indicate that the negative impact of high debt on growth operates both through a strong negative effect on physical capital accumulation and on total factor productivity growth. In this study results are generally robust to the use of alternative estimators to control for biases associated with unobserved country-specific effects and the endogeneity of several regressors, particularly the debt variables.

Benedict Clements, Rina Bhattacharya, and Toan Quoc Nguyen (2003) in their work, "External Debt Public Investment and Growth in Low-Income Countries" in this paper examined the channels through which External Debt affects growth in low-income countries. In this study suggest that the substantial reduction in the stock of External Debt projected for highly indebted poor countries (HIPC) would directly increase per capita income growth through their effects on public investment. If half of all Debt-service relief were channeled for such purposes without increasing the budget deficit, then growth could accelerate in some HIPC by an additional 0.5 percentage point per annum.

Henrik Hansen (2002) in his study "The Impact of Aid and External Debt on Growth and Investment" his analysed based on the regressions his assessed the likely impact of debt relief with and without changes in the aid flows. The result is that one-for-one changes in debt service payments and official aid flows leave the growth rate unchanged, i.e., there seems to be no growth without additionally. When he Use a measure of effective aid developed by the World Bank staff he find that if decreases in debt service payments are accompanied by falling grant levels, there may even be a negative impact on growth.

Catherine Pattillo, Helene Poirson, and Luca Riccil (2002) in their work "External Debt and Growth" in this paper assessed the non-linear impact of External Debt on growth using a large panel data set of 93 developing countries over 1969-98. Their Results are generally robust across different econometric methodologies, regression specifications, and different debt indicators. Their findings also suggest that the average impact of debt becomes negative at about 160-170 per cent of exports or 35-40 per cent of GDP. The marginal impact of debt starts being negative at about half of these values. High debt appears to reduce growth mainly by lowering the efficiency of investment rather than its volume.

Manop Udomkermongkol, Holger and Oliver Morrissey in their study, "Domestic Investment, FDI and External Debt: An Empirical Investigation" in this paper is to make predictions on the relative importance of three different sources of financing, namely domestic capital self-financing (private investment); FDI financing; External Debt financing, for domestic investment under two types of political regime – politically unstable and stable regimes, based on a sample of low and middle-income countries over the period 1995-2001. FDI financing would be between foreign debt financing and domestic capital self-financing in unstable regime. Their Findings suggest that External Debt financing has no impact on domestic investment. By contrast, FDI and private investment crowd in the investment. In unstable regime, the effect of domestic capital self-financing is greater than FDI financing effect. Domestic capital self-financing, however, is of similar significance to FDI financing in stable regime.

Erdal karagol in his study "External Debt and Economic Growth Relationship are using the Simultaneous Equations" in this paper will examined the interaction among economic growth, External Debt service and capital inflow using time series data for Turkey and using a multi-equation model. His results show that the relationship between debt service and economic growth should be analyzed with a simultaneous equation model, because there is a two-way relationship between debt service and growth. The rise in the debt-servicing ratio adversely affects economic growth whereas the decrease in the rate of growth reduces the ability of an economy to service its debt. When Turkey is servicing its debt, debt servicing could impair economic growth.

Rolf Maier in his study "External Debt and Pro-Poor Growth" this paper explored empirically a linear and non-linear impact of External Debt on pro-poor growth in developing and transitional countries. To test the distribution effect of External Debt to GDP, External Debt to exports, and debt services to exports on the poorest 20 and 20 to 40 per cent in a cross country approach. In addition, they estimate the total effect, i.e. the distribution and growth effect, to analysed potential trade-offs between the impacts of unsustainable External Debt levels on poverty through overall economic growth and via distribution. The researcher to test the poverty effects, and collect an irregular and unbalanced panel of time-series cross-country data on the first and second quintile of 58 developing and transitional countries for the period 1970 – 1999. Author applies two econometric specifications, a growth equation and a system GMM estimation, to cover econometric issues, cross-country variation and dynamic aspects of within-country changes of the income of the poor.

Emilio Colombo and Enrico Longoni in their study "The Politics of External Debt in Developing Countries" they analysed the determinants of long term External Debt for a large sample of developing countries. The researchers find that, in addition to the standard economic variables, institutional and socio-political variables are a key factor in explaining the level of External Debt. Overall the results point to an interpretation based on the presence of binding credit constraints. Such constraints are relaxed in the presence of high quality of institutions and low political risk, while they are tightened when socio-political risk is higher.

3. GROWTH OF THE DIFFERENT COMPONENTS OF EXTERNAL DEBT

3.1 INTRODUCTION

The External Debt may be classified either on the basis of the time period maturity or on the basis of the sector in which the external assistance has been utilized. In this chapter, an attempt is made to study the growth of the different components of External Debt, during the period from 1981 to 1990 from 1991 to 2000 and from 2001 to 2009. For this purpose, the External Debt is classified initially into total Debt, long term debt, public debt, private debt, and short – term debt. The External Debts which have a maturity period of one year or less are grouped under short term debt. All categories of debt which have a maturity period of more than one year is grouped under long – term debt. Hence, in this study also, the same type of classification, (i) availability of data and (ii) to facilitate easy comprehension.

3.1.1. TOTAL EXTERNAL DEBT IN SRILANKA:

The table 3.1.1 shows that the data on total Debt in Srilanka. During the decade from 1981 to 1990. The total Debt has been increased from 2234.7 Millions of US Dollars in 1981 to 5207.3 Millions of US Dollars in 1988 and then it stated showing a declining trend. The highest index number was 262.38 in 1990. In this decade the highest annual growth rate was 18.27 per cent in 1985 and lowest growth rate was -0.50 per cent in 1989. In this decade the average value of total Debt and annual growth rate works out to 3936.35 Millions of US Dollars and 18.04 per cent per year respectively.

During the decade from 1991 to 2000, the Total debt has been slightly decreased from 6579.6 Millions of US Dollars in 1991 to 6456.5 Millions of US Dollars in 1992 and then it stated showing a increasing trend. The highest index number was 148.94 in 1999. In this decade the highest annual growth rate was 18.27 per cent in 1998 and lowest growth rate was -7.25 per cent in 2000. In this decade the average value of total Debt and annual growth rate works out to 7957.21 Millions of US Dollars and 4.24 per cent per year respectively.

During the period from 2001 to 2009 the total Debt has been increased from 8668.3 Millions of US Dollars in 2001 to 17208 Millions of US Dollars in 2009 and then it stated showing there is no declining trend. The highest index number was 198.52 in 2009. In this decade the highest annual growth rate was 20.87 per cent in 2007 and lowest growth rate was -4.63 per cent in 2001. In this decade the average value of total Debt and annual growth rate works out to 12250.10 Millions of US Dollars and 12.31 per cent per year respectively.

TABLE 3.1.1:- TOTAL EXTERNAL DEBT IN SRILANKA [Debt figure in Millions of US Dollars]

Year	Total Debt	Index no	Annual growth rate of percentage
1981	2234.7	100	
1982	2625.4	117.48	17.48
1983	2884.3	129.07	9.86
1984	2993.1	133.94	3.77
1985	3540	158.41	18.27
1986	4082.8	182.70	15.33
1987	4751.3	212.61	16.37
1988	5207.3	233.02	9.60
1989	5181.3	231.86	-0.50
1990	5863.3	262.38	13.16
average	3936.35		18.04
1991	6579.6	100.00	12.22
1992	6456.5	98.13	-1.87
1993	6853.7	104.17	6.15
1994	7887.8	119.88	15.09
1995	8231.3	125.10	4.35
1996	8002.8	121.63	-2.78
1997	7638.1	116.09	-4.56
1998	9033.2	137.29	18.27
1999	9799.7	148.94	8.49
2000	9089.4	138.15	-7.25
average	7957.21		4.24
2001	8668.3	100.00	-4.63
2002	9688.1	111.76	11.76
2003	10401.8	120.00	7.37
2004	11043.6	127.40	6.17
2005	11373.1	131.20	2.98
2006	11887.7	137.14	4.52
2007	14369.2	165.77	20.87
2008	15611.1	180.09	8.64
2009	17208	198.52	10.23
average	12250.10		12.31

Source: World Development Indicators and Global Development Finance.

3.2.1 LONG-TERM EXTERNAL DEBT

The table 3.2.1 shows that the data on long-term debt in Srilanka. During the decade from 1981 to 1990. The long-term debt has been increased from 1515.6 Millions of US Dollars in 1981 to 5048.6 Millions of US Dollars in 1990 and then it stated showing there is no declining trend. The highest index number was 333.11 in 1990. In this decade the highest annual growth rate was 23.20 per cent in 1982 and lowest growth rate was 1.56 per cent in 1988. In this decade the average value of long-term debt and annual growth rate works out to 3235.19 Millions of US Dollars and 25.90 per cent per year respectively.

During the decade from 1991 to 2000, the long-term debt has been increased from 5769.4 Millions of US Dollars in 1991 to 7100.7 Millions of US Dollars in 1995 and then it stated showing a declining trend. The highest index number was 149.27 in 1999. In this decade then highest annual growth rate was 22.62 per cent in 1998 and lowest growth rate was -4.27 per cent in 2000. In this decade the average value of long term debt and annual growth rate works out to 7014.85 Millions of US Dollars and 4.77 per cent per year respectively.

TABLE 3.2.1 LONG-TERM EXTERNAL DEBT [Debt figure in Millions of US Dollars]

Year	Long-term debt	Index no	Annual growth rate of percentage
1981	1515.6	100.00	
1982	1867.2	123.20	23.20
1983	2155.6	142.23	15.45
1984	2393.5	157.92	11.04
1985	2937.1	193.79	22.71
1986	3551.4	234.32	20.92
1987	4201.3	277.20	18.30
1988	4267	281.54	1.56
1989	4414.6	291.28	3.46
1990	5048.6	333.11	14.36
average	3235.19		25.90
1991	5769.4	100.00	14.28
1992	5742.2	99.53	-0.47
1993	6071.3	105.23	5.73
1994	6732.4	116.69	10.89
1995	7100.7	123.08	5.47
1996	6905.5	119.69	-2.75
1997	6724.9	116.56	-2.62
1998	8245.8	142.92	22.62
1999	8611.9	149.27	4.44
2000	8244.4	142.90	-4.27
average	7014.85		4.77
2001	7826.7	100.00	-5.07
2002	8677.5	110.87	10.87
2003	9387.8	119.95	8.19
2004	10101.8	129.07	7.61
2005	9999.8	127.77	-1.01
2006	10788.3	137.84	7.89
2007	12474.5	159.38	15.63
2008	13342.5	170.47	6.96
2009	14613.6	186.71	9.53
average	10801.39		10.84

Source: World Development Indicators and Global Development Finance.

During the period from 2001 to 2009 the long term debt has been increased from 7826.7 Millions of US Dollars in 2001 to 10101.8 Millions of US Dollars in 2004 and then it stated showing a declining trend. The highest index number was 186.71 in 2009. In this decade then highest annual growth rate was 15.63 per cent in 2007 and lowest growth rate was -5.07 per cent in 2001. In this decade the average value of long term debt and annual growth rate works out to 10801.39 Millions of US Dollars and 10.84 per cent per year respectively.

3.3.1 PUBLIC EXTERNAL DEBT

The table 3.3.1 shows that the data on public debt in Sri Lanka. During the decade from 1981 to 1990 the public debt has been increased from 1511.6 Millions of US Dollars in 1981 to 4946.8 Millions of US Dollars in 1990 and then it stated showing there is no declining trend. The highest index number was 327.26 in 1990. In this decade then highest annual growth rate was 23.36 per cent in 1982 and lowest growth rate was 1.69 per cent in 1988. In this decade the average value of public debt and annual growth rate works out to 3160.26 Millions of US Dollars and 25.25 per cent per year respectively.

During the decade from 1991 to 2000 the public debt has been increased from 5670.7 Millions of US Dollars in 1991 to 7011.1 Millions of US Dollars in 1995 and then it stated showing a declining trend. The highest index number was 148.12 in 1999. In this decade then highest annual growth rate was 21.23 per cent in 1998 and lowest growth rate was -6.23 per cent in 2000. In this decade the average value of public debt and annual growth rate works out to 6874.04 Millions of US Dollars and 4.32 per cent per year respectively.

TABLE 3.3.1 PUBLIC EXTERNAL DEBT [Debt figure in Millions of US Dollars]

Year	Public debt	Index no	Annual growth rate of percentage
1981	1511.6	100.00	
1982	1864.7	123.36	23.36
1983	2115.4	139.94	13.44
1984	2349.2	155.41	11.05
1985	2838.6	187.79	20.83
1986	3455.4	228.59	21.73
1987	4084.5	270.21	18.21
1988	4153.7	274.79	1.69
1989	4282.7	283.32	3.11
1990	4946.8	327.26	15.51
average	3160.26		25.25
1991	5670.7	100.00	14.63
1992	5642.8	99.51	-0.49
1993	5981.5	105.48	6.00
1994	6649.8	117.27	11.17
1995	7011.1	123.64	5.43
1996	6818	120.23	-2.75
1997	6640.5	117.10	-2.60
1998	8050.1	141.96	21.23
1999	8399.4	148.12	4.34
2000	7876.5	138.90	-6.23
average	6874.04		4.32
2001	7437.3	100.00	-5.58
2002	8348.8	112.26	12.26
2003	9119.4	122.62	9.23
2004	9805.9	131.85	7.53
2005	9611.9	129.24	-1.98
2006	10295.4	138.43	7.11
2007	11835.6	159.14	14.96
2008	12608.8	169.53	6.53
2009	13646.8	183.49	8.23
average	10301.10		10.44

Source: World Development Indicators and Global Development Finance.

During the period from 2001 to 2009 the public debt has been increased from 7437.3 Millions of US Dollars in 2001 to 9805.9 Millions of US Dollars in 2004 and then it started showing a declining trend. The highest index number was 183.49 in 2009. In this decade then highest annual growth rate was 14.96 per cent in 2007 and lowest growth rate was -5.58 per cent in 2001. In this decade the average value of public debt and annual growth rate works out to 10301.10 Millions of US Dollars and 10.44 per cent per year respectively.

3.4.1 PRIVATE EXTERNAL DEBT

The table 3.4.1 shows that the data on private debt in Sri Lanka. During the decade from 1981 to 1990. The private non-guaranteed debt has been slightly decreased from 4 Millions of US Dollars in 1981 to 2.5 Millions of US Dollars in 1982 and then it started showing a small declining trend. The highest index number was 3297.5 in 1989. In this decade the highest annual growth rate was 1508.00 per cent in 1983 and lowest growth rate was -37.50 per cent in 1982. In this decade the average value of private debt and annual growth rate works out to 74.93 Millions of US Dollars and 271.67 per cent per year respectively.

During the decade from 1991 to 2000. The private debt has been increased from 98.7 Millions of US Dollars in 1991 to 99.4 Millions of US Dollars in 1992 and then it started showing a declining trend. The highest index number was 372.75 in 2000. In this decade the highest annual growth rate was 131.99 per cent in 1998 and lowest growth rate was -8.02 per cent in 1994. In this decade the average value of private debt and annual growth rate works out to 140.83 Millions of US Dollars and 30.31 per cent per year respectively.

During the period from 2001 to 2009. The private debt has been decreased from 389.4 Millions of US Dollars in 2001 to 387.9 Millions of US Dollars in 2005 and then it started showing an increasing trend. The highest index number was 248.28 in 2009. In this period the highest annual growth rate was 31.77 per cent in 2009 and lowest growth rate was -18.32 per cent in 2003. In this decade the average value of private debt and annual growth rate works out to 500.28 Millions of US Dollars and 18.53 per cent per year respectively.

TABLE 3.4.1 PRIVATE EXTERNAL DEBT [Debt figure in Millions of US Dollars]

Year	Private debt	Index no	Annual growth rate of percentage
1981	4	100.00	
1982	2.5	62.50	-37.50
1983	40.2	1005.00	1508.00
1984	44.3	1107.50	10.20
1985	98.5	2462.50	122.35
1986	96	2400.00	-2.54
1987	116.8	2920.00	21.67
1988	113.3	2832.50	-3.00
1989	131.9	3297.50	16.42
1990	101.8	2545.00	-22.82
average	74.93		271.67
1991	98.7	100.00	-3.05
1992	99.4	100.71	0.71
1993	89.8	90.98	-9.66
1994	82.6	83.69	-8.02
1995	89.6	90.78	8.47
1996	87.5	88.65	-2.34
1997	84.4	85.51	-3.54
1998	195.8	198.38	131.99
1999	212.6	215.40	8.58
2000	367.9	372.75	73.05
average	140.83		30.31
2001	389.4	100.00	5.84
2002	328.6	84.39	-15.61
2003	268.4	68.93	-18.32
2004	295.9	75.99	10.25
2005	387.9	99.61	31.09
2006	492.9	126.58	27.07
2007	638.9	164.07	29.62
2008	733.7	188.42	14.84
2009	966.8	248.28	31.77
average	500.28		18.53

Source: World Development Indicators and Global Development Finance.

3.5.1 SHORT TERM EXTERNAL DEBT

The table 3.5.1 shows that the data on short term debt in Sri Lanka. During the decade from 1981 to 1990. The short term debt has been increased from 203.9 Millions of US Dollars in 1981 to 283.6 Millions of US Dollars in 1983 and then it stated showing a declining trend. The highest index number was 284.85 in 1988. In this decade the highest annual growth rate was 112.51 per cent in 1988 and lowest growth rate was -31.35 per cent in 1984. In this decade the average value of short term debt and annual growth rate works out to 300.89 Millions of US Dollars and 10.95 percent per year respectively.

During the decade from 1991 to 2000, the short term debt has been decreased from 409.5 Millions of US Dollars in 1991 to 538.3 Millions of US Dollars in 1994 and then it stated showing a declining trend. The highest index number was 227.01 in 1999. In this decade the highest annual growth rate was 121.28 per cent in 1999 and lowest growth rate was -39.00 per cent in 1992. In this decade the average value of short term debt and annual growth rate works out to 507.97 Millions of US Dollars and 7.46 percent per year respectively.

TABLE 3.5.1 SHORT TERM EXTERNAL DEBT [Debt figure in Millions of US Dollars]

Year	Short term debt	Index no	Annual growth rate
1981	203.9	100.00	
1982	275.9	135.31	35.31
1983	283.6	139.09	2.79
1984	194.7	95.49	-31.35
1985	206.3	101.18	5.96
1986	184.6	90.53	-10.52
1987	273.3	134.04	48.05
1988	580.8	284.85	112.51
1989	400.9	196.62	-30.97
1990	404.9	198.58	1.00
average	300.89		10.95
1991	409.5	100.00	1.14
1992	249.8	61.00	-39.00
1993	266.4	65.05	6.65
1994	538.3	131.45	102.06
1995	535.3	130.72	-0.56
1996	566.3	138.29	5.79
1997	479.8	117.17	-15.27
1998	420.1	102.59	-12.44
1999	929.6	227.01	121.28
2000	684.6	167.18	-26.36
average	507.97		7.46
2001	627.3	100.00	-8.37
2002	700.6	111.68	11.68
2003	620.8	98.96	-11.39
2004	647.8	103.27	4.35
2005	992	158.14	53.13
2006	855	136.30	-13.81
2007	1643.5	262.00	92.22
2008	2100	334.77	27.78
2009	1873.2	298.61	-10.80
average	1117.80		24.83

Source: World Development Indicators and Global Development Finance.

During the period from 2001 to 2009, the short term debt has been increased from 627.3 Millions of US Dollars in 2001 to 700.6 Millions of US Dollars in 2002 and then it stated showing a declining trend. The highest index number was 334.77 in 2008. In this period the highest annual growth rate was 92.22 per cent in 2007 and lowest growth rate was -13.81 per cent in 2006. In this decade the average value of short term debt and annual growth rate works out to 1117.80 Millions of US Dollars and 24.83 per cent per year respectively.

3.6 RESULTS OF TREND ANALYSIS FOR THE TOTAL DEBT

The table 3.6 shows that the results of the trend analysis reveal that the total Debt in Sri Lanka increased annually by 412.007 Millions of US Dollars in 1981-1990. The regression coefficient of the semi log linear model implies that the Total Debt increased at the compound growth rate of 28.5286 per cent per year. The regression coefficients in the both models are significant at one per cent level. The value of adjusted R² is high in the simple linear model and semi log linear model. It means that the total Debt in Sri Lanka had registered a linear trend in this period and 97 per cent of variations in the dependent variable are explained by the independent variable.

During the second period, the results of the trend analysis reveal that the Total Debt in Sri Lanka increased annually by 338.852 Millions of US Dollars in 1991-2000. The regression coefficient of the semi log linear model implies that the Total Debt increased at the compound growth rate of 10.4078 per cent per year. The regression coefficients in the both models are significant at one per cent level. The value of adjusted R² is high in the simple linear model and semi log linear model. It means that the Total Debt in Sri Lanka had registered a linear trend in this period and 81 per cent of variations in the dependent variable are explained by the independent variable.

During the third period, the results of the trend analysis reveal that the Total Debt in Sri Lanka increased annually by 1011.778 Millions of US Dollars in 2001-2009. The regression coefficient of the semi log linear model implies that the Total Debt increased at the compound growth rate of 20.7813 per cent per year. The regression coefficients in the both models are significant at one per cent level. The value of adjusted R² is high in the simple linear model and semi log linear model. It means that the Total Debt in Sri Lanka had registered a linear trend in this period and 92 per cent of variations in the dependent variable are explained by the independent variable.

Comparing the three periods, during the period from 1981 to 1990, from 1991-2000 and from 2001-2009, the Total Debt in Sri Lanka increased annually by the highest amount of 1011.778 Millions of US Dollars in 2001-2009. The highest compound growth rate of 28.5286 per cent was recorded only in 1981-1990.

TABLE 3.6: RESULTS OF TREND ANALYSIS FOR THE TOTAL DEBT INTO SRI LANKA

S.No	External Debt	Year	Model	a	b	SE _b	t-value	sig	R ²	AdjUSted R ²	CGR
1	Total Debt	1981-1990	simple linear	-814102.887	412.007	22.274	18.498	0	0.977	0.974	
			semi-log linear	-207.445	0.109	0.006	19.743	0	0.98	0.977	28.5286
1990-2000		simple linear	-668220.988	338.852	53.841	6.294	0	0.832	0.811		
		semi-log linear	-76.713	0.043	0.007	6.448	0	0.839	0.815	10.4078	
3		2000-2009	simple linear	-2016365.458	1011.778	98.94	10.226	0	0.937	0.928	
			semi-log linear	-154.149	0.082	0.006	14.009	0	0.966	0.961	20.7813
4	Long Term-Debt	1981-1990	simple linear	-793654.26	401.355	20.564	19.517	0	0.979	0.977	
			semi-log linear	-258.47	0.134	0.009	15.154	0	0.966	0.962	36.1444
1990-2000		simple linear	-634178.001	321.319	44.45	7.229	0	0.867	0.851		
		semi-log linear	-82.454	0.046	0.006	7.646	0	0.88	0.865	11.1731	
6		2000-2009	simple linear	-1593282.153	800.042	66.825	11.972	0	0.953	0.947	
			semi-log linear	-138.52	0.074	0.005	15.585	0	0.972	0.968	18.5768
7	Public Debt	1981-1990	simple linear	-765252.307	387.012	20.327	19.039	0	0.978	0.976	
			semi-log linear	-253.379	0.132	0.008	15.773	0	0.969	0.965	35.5189
1990-2000		simple linear	-588999.192	298.608	43.447	6.873	0	0.855	0.837		
		semi-log linear	-78.184	0.044	0.006	7.224	0	0.867	0.85	10.6623	
9		2000-2009	simple linear	-1444657.225	725.665	57.9	12.533	0	0.957	0.951	
			semi-log linear	-132.295	0.071	0.005	14.454	0	0.968	0.963	17.7605
10	Private Debt	1981-1990	simple linear	-28401.953	14.342	2.349	6.104	0	0.823	0.801	
			semi-log linear	-777.823	0.394	0.097	4.058	0.00	0.673	0.632	147.7422
1990-2000		simple linear	-45193.302	22.718	7.313	3.107	0.15	0.547	0.49		
		semi-log linear	-250.4	0.128	0.04	3.168	0.01	0.556	0.501	34.2764	
12		2000-2009	simple linear	-148634.964	74.382	16.137	4.609	0.00	0.752	0.717	
			semi-log linear	-270.97	0.138	0.031	4.529	0.00	0.746	0.709	37.4041

RESULTS OF TREND ANALYSIS FOR THE TOTAL DEBT INTO SRI LANKA

S.No	External Debt	Year	Model	a	b	SE _b	t-value	sig	R ²	AdjUSted R ²	CGR
13	Short Term Debt	1981-1990	simple linear	-52454.447	26.57	11.399	2.331	0.05	0.404	0.33	
			semi-log linear	-154.168	0.08	0.034	2.367	0.05	0.412	0.338	20.2264
14		1990-2000	simple linear	-94532.253	47.627	16.055	2.167	0.02	0.524	0.464	
			semi-log linear	-185.073	0.096	0.032	3.003	0.02	0.53	0.471	24.7383
15		2000-2009	simple linear	-380981.733	190.573	37.798	5.042	0.00	0.784	0.753	
			semi-log linear	-323.715	0.165	0.029	5.761	0.00	0.826	0.801	46.2177

The table 3.6 shows that the results of the trend analysis reveal that the Long-term Debt in Sri Lanka increased annually by 401.355 Millions of US Dollars in 1981-1990. The regression coefficient of the semi log linear model implies that the Long-term Debt increased at the compound growth rate of 36.1444 per cent per year. The regression coefficients in the both models are significant at one per cent level. The value of adjusted R² is high in the simple linear model and semi log linear model. It means that the Long-term Debt in Sri Lanka had registered a linear trend in this period and 97 per cent of variations in the dependent variable are explained by the independent variable.

During the second period, the results of the trend analysis reveal that the Long-term Debt in Sri Lanka increased annually by 321.319 Millions of US Dollars in 1991-2000. The regression coefficient of the semi log linear model implies that the Long-term debt increased at the compound growth rate of 11.1731 per cent per year. The regression coefficients in the both models are significant at one per cent level. The value of adjusted R² is high in the simple linear model and semi log linear model. It means that the Long-term Debt in Sri Lanka had registered a linear trend in this period and 86 per cent of variations in the dependent variable are explained by the independent variable.

During the third period, the results of the trend analysis reveal that the Long-term Debt in Sri Lanka increased annually by 800.042 Millions of US Dollars in 2001-2009. The regression coefficient of the semi log linear model implies that the Long-term Debt increased at the compound growth rate of 18.5768 per cent per year. The regression coefficients in the both models are significant at one per cent level. The value of adjusted R² is high in the simple linear model and semi log linear model. It means that the long term debt in Sri Lanka had registered a linear trend in this period and 94 per cent of variations in the dependent variable are explained by the independent variable.

Comparing the three periods, during the period from 1981 to 1990, from 1991-2000 and from 2001-2009, the Long-term debt in Sri Lanka increased annually by the highest amount of 800.042 Millions of US Dollar in 2001-2009. The highest compound growth rate of 36.1444 per cent was recorded only in 1981-1990.

3.7 RESULTS OF TREND ANALYSIS FOR THE PUBLIC DEBT

The 3.7 shows that the results of the trend analysis reveal that the Public Debt in Sri Lanka increased annually by 387.012 Millions of US Dollars in 1981-1990. The regression coefficient of the semi log linear model implies that the public debt increased at the compound growth rate of 35.5189 per cent per year. The regression coefficients in the both models are significant at one per cent level. The value of adjusted R² is high in the simple linear model and semi log linear model. It means that the Public Debt in Sri Lanka had registered a linear trend in this period and 97 per cent of variations in the dependent variable are explained by the independent variable.

During the second period, the results of the trend analysis reveal that the Public Debt in Sri Lanka increased annually by 298.608 Millions of US Dollars in 1991-2000. The regression coefficient of the semi log linear model implies that the public debt increased at the compound growth rate of 10.6623 per cent per year. The regression coefficients in the both models are significant at one per cent level. The value of adjusted R² is high in the simple linear model and semi log linear model. It means that the public debt in Sri Lanka had registered a linear trend in this period and 83 per cent of variations in the dependent variable are explained by the independent variable.

During the third period, the results of the trend analysis reveal that the Public Debt in Sri Lanka increased annually by 725.665 Millions of US Dollars in 2001-2009. The regression coefficient of the semi log linear model implies that the public debt increased at the compound growth rate of 17.7605 per cent per year. The regression coefficients in the both models are significant at one per cent level. The value of adjusted R² is high in the simple linear model and semi log linear model. It means that the Public Debt in Sri Lanka had registered a linear trend in this period and 92 per cent of variations in the dependent variable are explained by the independent variable.

Comparing the three periods, during the period from 1981 to 1990, from 1991-2000 and from 2001-2009, the Public Debt in Sri Lanka increased annually by the highest amount of 725.665 Millions of US Dollar in 2001-2009. The highest compound growth rate of 35.5189 per cent was recorded only in 1981-1990.

3.8 RESULTS OF TREND ANALYSIS FOR THE PRIVATE DEBT

The table 3.9 shows that the results of the trend analysis reveal that the Private Debt in Sri Lanka increased annually by 14.342 Millions of US Dollars in 1981-1990. The regression coefficient of the semi log linear model implies that the private debt increased at the compound growth rate of 147.7422 per cent per year. The regression coefficients in the both models are significant at one per cent level. The value of adjusted R² is high in the simple linear model and semi log linear model. It means that the Private Debt in Sri Lanka had registered a linear trend in this period and 80 per cent of variations in the dependent variable are explained by the independent variable.

During the second period, the results of the trend analysis reveal that the Private Debt in Sri Lanka increased annually by 22.718 Millions of US Dollars in 1991-2000. The regression coefficient of the semi log linear model implies that the Private Debt increased at the compound growth rate of 34.2764 per cent per year. The regression coefficients in the both models are significant at one per cent level. The value of adjusted R² is high in the simple linear model and semi log linear model. It means that the Private Debt in Sri Lanka had registered a linear trend in this period and 49 per cent of variations in the dependent variable are explained by the independent variable.

During the third period, the results of the trend analysis reveal that the Private Debt in Sri Lanka increased annually by 74.382 Millions of US Dollars in 2001-2009. The regression coefficient of the semi log linear model implies that the Private Debt increased at the compound growth rate of 37.4041 per cent per year. The regression coefficients in the both models are significant at one per cent level. The value of adjusted R² is high in the simple linear model and semi log linear model. It means that the Private Debt in Sri Lanka had registered a linear trend in this period and 71 per cent of variations in the dependent variable are explained by the independent variable.

Comparing the three periods, during the period from 1981 to 1990, from 1991-2000 and from 2001-2009, the Private Debt in Sri Lanka increased annually by the highest amount of 74.382 Millions of US Dollar in 2001-2009. The highest compound growth rate of 147.7422 per cent was recorded only in 1981-1990.

3.9 RESULTS OF TREND ANALYSIS FOR THE SHORT-TERM DEBT

The table 3.10 shows that the results of the trend analysis reveal that the Short-term Debt in Sri Lanka increased annually by 26.57 Millions of US Dollars in 1981-1990. The regression coefficient of the semi log linear model implies that the Short-term Debt increased at the compound growth rate of 20.2264 per cent per year. The regression coefficients in the both models are significant at one per cent level. The value of adjusted R² is high in the simple linear model and semi log linear model. It means that the Short-term Debt in Sri Lanka had registered a linear trend in this period and 33 per cent of variations in the dependent variable are explained by the independent variable.

During the second period, the results of the trend analysis reveal that the Short-term Debt in Sri Lanka increased annually by 47.627 Millions of US Dollars in 1991-2000. The regression coefficient of the semi log linear model implies that the Short-term Debt increased at the compound growth rate of 24.7383 per cent per year. The regression coefficients in the both models are significant at one per cent level. The value of adjusted R² is high in the simple linear model and semi log linear model. It means that the short term debt in Sri Lanka had registered a linear trend in this period and 47 per cent of variations in the dependent variable are explained by the independent variable.

During the third period, the results of the trend analysis reveal that the Short-term Debt in Sri Lanka increased annually by 190.573 Millions of US Dollars in 2001-2009. The regression coefficient of the semi log linear model implies that the Short-term Debt increased at the compound growth rate of 46.2177 per cent per year. The regression coefficients in the both models are significant at one per cent level. The value of adjusted R² is high in the simple linear model and semi log linear model. It means that the Short-term Debt in Sri Lanka had registered a linear trend in this period and 80 per cent of variations in the dependent variable are explained by the independent variable.

Comparing the three periods, during the period from 1981 to 1990, from 1991-2000 and from 2001-2009, the Short-term Debt in Sri Lanka increased annually by the highest amount of 190.573 Millions of US Dollar in 2001-2009. The highest compound growth rate of 46.2177 per cent was recorded only in 1981-1990.

4. EXTERNAL DEBT AND ECONOMIC GROWTH

4.1 INTRODUCTION

One of the advantages of External Debt is that it will stimulate growth process and help to achieve a higher rate of growth. However, External Debt does not guarantee growth uniformly in the country and at all points of time. Many factors influence the effect of External Debt on growth in an economy. Hence in this chapter an attempt is made to study the relationship between External Debt and Economic Growth through correlation and regression analysis.

4.2 CORRELATION ANALYSIS

Correlation analysis generally helps to study the degree and direction of relationship between two variables. If External Debt stimulates the Economic Growth process and a higher growth rate is achieved, there will be a strong positive correlation between External Debt and GDP. If the growth of External Debt does not yield adequate growth, the correlation will be low or insignificant.

To study the correlation between External Debt and GDP the time period taken for analysis is divided into three sub periods. The first period is up to 1981 to 1990 and the second period is 1991 to 2000 and the third period is 2001 to 2009. The Karl Pearson's correlation coefficient is calculated for these three periods, for Sri Lanka taken for analysis, depending on the availability of data.

TABLE 4.2: RESULTS OF THE CORRELATION ANALYSIS IN SRI LANKA

S.No	Variable	First Period	n	Second period	n	Third period	n
1	Total Debt and GDP	0.96** (0.00)	10	0.90** (0.00)	10	0.99** (.00)	9
2	Long term debt and GDP	0.95** (0.00)	10	0.93** (0.00)	10	0.99** (0.00)	9
3	Public debt and GDP	0.95** (0.00)	10	0.91** (0.00)	10	0.98** (0.00)	9
4	Private debt and GDP	0.80** (0.01)	10	0.86** (0.00)	10	0.95** (0.00)	9
5	Short term debt and GDP	0.61 (0.06)	10	0.78** (0.01)	10	0.95** (0.00)	9

Figures in Parentheses are Standard Errors

**Significant at one per cent level

* Significant at five per cent level

The correlation coefficient is tested in favour of the alternative hypothesis that their value is not equal to zero using the test a negative and insignificant correlation implies a high degree of association between External Debt and economic growth.

During the first period, the correlation coefficient between Total Debt and GDP is statistically significant at one per cent level during the period from 1981 to 1990. They do not indicate a statistically insignificant association between Total Debt and economic growth in this case.

In the second period, the correlation coefficient between Total Debt and GDP is statistically significant at one per cent level during the period from 1991 to 2000. Even though the actual values of correlation coefficient for these Total Debt, they do not indicate a statistically insignificant association between Total Debt and economic growth in this case.

During the third period, the correlation coefficient between Total Debt and GDP is statistically significant at one per cent level during the period from 2001 to 2009. Even though the actual values of correlation coefficient for these Total Debt, they do not indicate a statistically insignificant association between Total Debt and economic growth in this case.

The correlation coefficients are tested against the null hypothesis that their value is not equal to zero using the t test. A positive and significant correlation implies a high degree of association between Total Debt and Economic Growth.

Long-term Debt during the first period, the correlation coefficient between Long-term Debt and GDP is statistically significant at one per cent level during the period from 1981 to 1990. Even though the actual values of correlation coefficient for these Long-term Debt at one per cent, they do not indicate a statistically insignificant association between Long-term Debt and Economic Growth in this case.

In the second period, the correlation coefficient between Long-term Debt and GDP is statistically significant at one per cent level during the period from 1991 to 2000. Even though the actual values of correlation coefficient for these Long-term Debt, they do not indicate a statistically insignificant association between Long-term Debt and Economic Growth in this case.

During the third period, the correlation coefficient between Long-term Debt and GDP is statistically significant at one per cent level during the period from 2001 to 2009. Even though the actual values of correlation coefficient for these Long-term Debt, they do not indicate a statistically insignificant association between Long-term Debt and Economic Growth in this case.

The correlation coefficients are tested against the null hypothesis that their value is not equal to zero using the t test. A positive and significant correlation implies a high degree of association between Long-term Debt and Economic Growth.

Public Debt during the first period, the correlation coefficient between Public Debt and GDP is statistically significant at one per cent level during the period from 1981 to 1990. Even though the actual values of correlation coefficient for these Public Debt at one per cent, they do not indicate a statistically insignificant association between Public Debt and Economic Growth in this case.

In the second period, the correlation coefficient between Public Debt and GDP is statistically significant at one per cent level during the period from 1991 to 2000. Even though the actual values of correlation coefficient for these Public Debt, they do not indicate a statistically insignificant association between Public Debt and Economic Growth in this case.

During the third period, the correlation coefficient between Public Debt and GDP is statistically significant at one per cent level during the period from 2001 to 2009. Even though the actual values of correlation coefficient for these Public Debt, they do not indicate a statistically insignificant association between Public Debt and Economic Growth in this case.

The correlation coefficients are tested against the null hypothesis that their value is not equal to zero using the t test. A positive and significant correlation implies a high degree of association between Public Debt and Economic Growth.

Private Debt during the first period, the correlation coefficient between Private Debt and GDP is statistically significant at one per cent level during the period from 1981 to 1990. Even though the actual values of correlation coefficient for these Private Debt at one per cent, they do not indicate a statistically insignificant association between Private Debt and Economic Growth in this case.

In the second period, the correlation coefficient between Private Debt and GDP is statistically significant at one per cent level during the period from 1991 to 2000. Even though the actual values of correlation coefficient for these private debt, they do not indicate a statistically insignificant association between Private Debt and Economic Growth in this case.

During the third period, the correlation coefficient between Private Debt and GDP is statistically significant at one per cent level during the period from 2001 to 2009. Even though the actual values of correlation coefficient for these Private Debt, they do not indicate a statistically insignificant association between Private Debt and Economic Growth in this case.

The correlation coefficients are tested against the null hypothesis that their value is not equal to zero using the t test. A positive and significant correlation implies a high degree of association between Private Debt and Economic Growth.

Short-term Debt during the first period, the correlation coefficient between Short-term Debt and GDP is insignificant during the period from 1981 to 1990. Even though the actual values of correlation coefficient for these Short-term Debt at one per cent, they do not indicate a statistically insignificant association between Short-term Debt and Short-term Debt in this case.

In the second period, the correlation coefficient between Short-term Debt and GDP is statistically significant at one per cent level during the period from 1991 to 2000. Even though the actual values of correlation coefficient for these short term debt, they do not indicate a statistically insignificant association between Short-term Debt and Economic Growth in this case.

During the third period, the correlation coefficient between Short-term Debt and GDP is statistically significant at one per cent level during the period from 2001 to 2009. Even though the actual values of correlation coefficient for these short term debt, they do not indicate a statistically insignificant association between Short-term Debt and Economic Growth in this case.

4.3 RESULTS OF THE REGRESSION ANALYSIS IN SRI LANKA

To analyze the relationship between the External Debt and GDP, simple linear regression model is used by taking the External Debt as the independent variable and GDP as the dependent variable for the three sub periods separately. External Debt and GDP are measured in Millions of US Dollars. The regression coefficient in this case will measure the increase in GDP in Millions US Dollars if the External Debt is increased by one Millions of US Dollars. The regression coefficient is also tested for the null hypothesis that its value is zero. The coefficient of determination, R^2 will measure the ability of the independent variable, External Debt to explain the variations in GDP.

The table 4.3 shows that the regression coefficient in the first decade from 1981 to 1990 is 3.01 and it is significant at one per cent level of significance. GDP increased by 3.01 Million US Dollars, if Total Debt is increased by one Million US Dollars in Sri Lanka in the first decade. However, Total Debt high explanatory power. It is capable of explaining 90 per cent of variations in GDP. If Total Debt influences the GDP significantly in the first decade in Sri Lanka.

The regression coefficient in the second decade from 1991 to 2000 is 12.728 and it is significant at one per cent level of significance. GDP increased by 12.728 Million US Dollars, if total Debt is increased by one Million US Dollars in Sri Lanka in the second decade. However, Total Debt high explanatory power. It is capable of explaining 79 per cent of variations in GDP. If Total Debt influences the GDP significantly in the second decade in Sri Lanka.

The regression coefficient in the third period from 2001 to 2009 is 20.175 and it is significant at one per cent level of significance. GDP increased by 20.175 Million US Dollars, if Total Debt is increased by one Million US Dollars in Sri Lanka in the third period. However, Total Debt high explanatory power. It is capable of explaining 98 per cent of variations in GDP. If total Debt influences the GDP significantly in the third decade in Sri Lanka.

The table 4.3 shows that the Long-term Debt regression coefficient in the first decade from 1981 to 1990 is 3.075 and it is significant at one per cent level of significance. GDP increased by 3.075 Million US Dollars, if Long-term Debt is increased by one Millions US Dollars in Sri Lanka in the first decade. However, Long-term Debt high explanatory power. It is capable of explaining 89 per cent of variations in GDP. If Long-term Debt influences the GDP significantly in the first decade in Sri Lanka.

The Long-term Debt regression coefficient in the second decade from 1991 to 2000 is 14.09 and it is significant at one per cent level of significance. GDP increased by 14.09 Million US Dollars, if long term debt is increased by one Millions US Dollars in Sri Lanka in the second decade. However, Long-term Debt high explanatory power. It is capable of explaining 84 per cent of variations in GDP. If Long-term Debt influences the GDP significantly in the second decade in Sri Lanka.

The Long-term Debt regression coefficient in the third decade from 2001 to 2009 is 25.656 and it is significant at one per cent level of significance. GDP increased by 25.656 Million US Dollars, if Long-term Debt is increased by one Millions US Dollars in Sri Lanka in the third decade. However, Long-term Debt high explanatory power. It is capable of explaining 97 per cent of variations in GDP. If Long-term Debt influences the GDP significantly in the third decade in Sri Lanka.

The table 4.3 shows that the Public Debt regression coefficient in the first decade from 1981 to 1990 is 12.658 and it is significant at one per cent level of significance. GDP increased by 12.658 Million US Dollars, if Public Debt is increased by one Millions US Dollars in Sri Lanka in the first decade. However, Public

Debt high explanatory power. It is capable of explaining 88 per cent of variations in GDP. If Public Debt influences the GDP significantly in the first decade in Sri Lanka.

The Public Debt regression coefficient in the second decade from 1991 to 2000 is 14.762 and it is significant at one per cent level of significance. GDP increased by 14.762 Million US Dollars, if Public Debt is increased by one Millions US Dollars in Sri Lanka in the second decade. However, Public Debt high explanatory power. It is capable of explaining 80 per cent of variations in GDP. If Public Debt influences the GDP significantly in the second decade in Sri Lanka.

TABLE 4.3: RESULTS OF THE SIMPLE LINEAR REGRESSION ANALYSIS FOR EXTERNAL DEBT IN SRI LANKA

S.No	Variable	Year	a	b	SE _b	t-value	sig	R ²	AdjUsted R ²	F
1	Total Debt	1918-1990	-1044.424	3.01**	0.328	9.168	0.00	0.913	0.902	84.053
		1991-2000	-60767.097	12.728**	2.173	5.859	0.00	0.811	0.787	34.323
		2001-2009	-105937.514	20.175**	1.117	18.068	0.00	0.979	0.976	0.326
2	Long Term Debt	1918-1990	858.502	3.075**	0.359	8.57	0.00	0.902	0.889	73.444
		1991-2000	-58320.06	14.09**	2.033	6.929	0.00	0.857	0.839	48.017
		2001-2009	-135918.655	25.656**	1.611	15.93	0.00	0.973	0.969	253.777
3	Public Debt	1918-1990	514.303	12.658**	1.577	8.028	0.00	0.89	0.876	64.444
		1991-2000	-60959.723	14.762**	2.411	6.123	0.00	0.824	0.802	37.487
		2001-2009	-148975.802	28.17**	2.138	13.178	0.00	0.961	0.956	173.672
4	Private Debt	1918-1990	5827.552	66.439**	17.63	3.768	0.005	0.64	0.595	14.202
		1991-2000	19894.968	146.424**	31.164	4.698	0.002	0.734	0.701	22.075
		2001-2009	23621.825	235.033**	30.455	7.717	0.00	0.895	0.88	59.557
5	Short Term Debt	1918-1990	5033.72	19.183	8.802	2.179	0.061	0.373	0.294	4.75
		1991-2000	9007.619	62.028**	17.746	3.495	0.008	0.604	0.555	12.217
		2001-2009	36081.408	94.044**	11.705	8.034	0.00	0.902	0.888	.64552

The Public Debt regression coefficient in the third period from 2001 to 2009 is 28.17 and it is significant at one per cent level of significance. GDP increased by 28.17 Million US Dollars, if Public Debt is increased by one Millions US Dollars in Sri Lanka in the third period. However, Public Debt high explanatory power. It is capable of explaining 96 per cent of variations in GDP. If Public Debt influences the GDP significantly in the third decade in Sri Lanka.

The table 4.3 shows that the Private Debt regression coefficient in the first decade from 1981 to 1990 is 66.439 and it is significant at one per cent level of significance. GDP increased by 66.439 Million US Dollars, if Private Debt is increased by one Millions US Dollars in Sri Lanka in the first decade. However, Private Debt high explanatory power. It is capable of explaining 60 per cent of variations in GDP. If Private Debt influences the GDP significantly in the first decade in Sri Lanka.

The Private Debt regression coefficient in the second decade from 1991 to 2000 is 146.424 and it is significant at one per cent level of significance. GDP increased by 146.424 Million US Dollars, if Private Debt is increased by one Millions US Dollars in Sri Lanka in the second decade. However, Private Debt high explanatory power. It is capable of explaining 70 per cent of variations in GDP. If Private Debt influences the GDP significantly in the second decade in Sri Lanka.

The Private Debt regression coefficient in the third period from 2001 to 2009 is 235.035 and it is significant at one per cent level of significance. GDP increased by 235.035 Million US Dollars, if Private Debt is increased by one Millions US Dollars in Sri Lanka in the third period. However, Private Debt high explanatory power. It is capable of explaining 88 per cent of variations in GDP. If private debt influences the GDP significantly in the third decade in Sri Lanka.

The table 4.3 shows that the Short-term Debt regression coefficient in the first decade from 1981 to 1990 is 19.183 and it is insignificant. GDP increased by 19.183 Million US Dollars, if Short-term Debt is increased by one Millions US Dollars in Sri Lanka in the first decade. However, Short-term Debt high explanatory power. It is capable of explaining 29 per cent of variations in GDP. If Short-term Debt does not influences the GDP in the first decade in Sri Lanka.

The Short-term Debt regression coefficient in the second decade from 1991 to 2000 is 62.028 and it is significant at one per cent level of significance. GDP increased by 62.028 Million US Dollars, if Short-term Debt is increased by one Millions US Dollars in Sri Lanka in the second decade. However, Short-term Debt high explanatory power. It is capable of explaining 56 per cent of variations in GDP. If Short-term Debt influences the GDP significantly in the second decade in Sri Lanka.

The Short-term Debt regression coefficient in the third period from 2001 to 2009 is 94.044 and it is significant at one per cent level of significance. GDP increased by 94.044 Million US Dollars, if Short-term Debt is increased by one Millions US Dollars in Sri Lanka in the third decade. However, Short-term Debt high explanatory power. It is capable of explaining 89 per cent of variations in GDP. If Short-term Debt influences the GDP significantly in the third decade in Sri Lanka.

5. CONCLUSION

The External Debt of Sri Lanka: growth and economic growth are taken for investigation in this research work are in different stages of External Debt like Total Debt, Long term debt, Public debt, Private debt, and Short term debt. In this research work attempt to trend analysis, average, CGR etc., it helps to find out the economic growth which Use of External Debt and GDP. In this process identify relationship between External Debt and GDP.

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