

**F-20 Unorthodox relationship between public deficit and private investment in Sri Lanka
(1980 - 95)**

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This study attempts to investigate the crowding-out effect of public deficit on private investment in Sri Lanka, for the period from 1980 to 1995. The technique of simple regression analysis was used to understand this effect. The data collected from annual reports of Central Bank of Sri Lanka revealed that the relationship between public deficit and private investments has been statistically significant. The data however, are indicative that the investment in Sri Lanka is not sensitive to the change in the real interest rate. The wisdom of "crowding-out effect" therefore, is inadequate to explain the relationship between public deficit and private investment.

The study also found that the pattern of Sri Lanka's private investment is characterized by unorthodoxies such as lack of bank-financing, underdeveloped entrepreneurship in the private sector rather than unavailability of investment funds for the private sector. The results suggest that wasteful investments in politicisation of administration needs to be diverted to fruitful research towards the development of human resources in the private sector which could shed some light on right direction for entrepreneurship development.