

EFFECT OF MAJOR ELECTIONS ON DOMESTIC AND EXTERNAL DEBT IN SRI LANKA

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The main focus of the paper is to study the effect of major elections on domestic debt and external debt in Sri Lanka. United National Party (UNP) and Sri Lanka Freedom Party (SLFP) dominant governments ruled the country since independence in 1948. Major elections comprise Parliament and Presidential elections and researchers considered these elections as the major elections because of the possibility to change the existing government depending on the result of these elections. The research issue of the study is an empirical gap of studying major election effect on debt in Sri Lanka. Researchers applied CHOW breakpoint test used in the event study methodology. After the elections, structural shift of domestic and external debt has been analyzed in the study. The study found that parliament elections held in 1952, 1956, 1977, 2001, 2010 and 2015 have influenced significantly on domestic debt while 1970, 2000 and 2004 has created only a marginal effect on the domestic debt. The presidential elections in 1988, 1994 2010 and 2015 have influenced significantly on domestic debt. These results indicate that parliament and presidential elections are influencing significantly on structural shift of the domestic debt. Parliament elections held in 1989, 1994, 2001 and 2010 have significantly influenced on external debt but the influence was minor from the election held in 1970. Precedential elections that have also created significant influence on external debt made a structural change in the post event window. The overall study indicated that there is an effect from major election on domestic debt and external debt. Findings indicated that economies never eradicated political risk and elections are having large impacts on the long-term interest rates over the years. The announcement of election results reduces interest rates and politics provide powerful explanations of variation in the impact of elections on borrowing rates. Close elections increase uncertainty. Due to these evidences, structural break has been created by major elections.

Keywords: *Domestic debt; External debt; Major elections; Structural shift*
