The Relationship between Fiscal Policy and Economic Growth in Sri Lanka

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Abstract

Fiscal policy perform an important role to achieve macroeconomic objectives. Government revenue is mainly based on tax revenue. Capital Expenditure and Recurring expenditure are the parts of the Government Expenditure. The objective of the study is to identify the relationship between Fiscal Policy and Economic Growth in Sri Lanka for the period of 2000-2019. The dependent variable of the study is Economic Growth and it is determined by Fiscal policy components (Independent variables) such as government revenue (GR) and government expenditure (GE). Correlation and Regression analysis were used to identify the impact of fiscal policy on Economic Growth. The study results are showed that there is a strong positive relationship between Government expenditure and gross domestic product. Consequently, there is a strong negative relationship between Government revenue and gross domestic product. The study findings support the Keynesian theory.

Keywords: *Economic growth, Fiscal policy, Keynesian theory, Gross Domestic Product*

1. Introduction

1.1 Background of Study

When the government adjusts the monitoring and influencing process to make the economic consistency in the country, the Fiscal policy and its indicators play an important role. In the Sri Lankan perspective, fiscal policy is defined as the government's plans for spending on current and capital expenditure, for taxes, and for borrowing to finance the budget deficit. Further, the fiscal deficit is defined as the amount by which government spending exceeds tax revenues and non-tax revenues. After the war situation in Sri Lanka Government has played a major role in economic development. From the Sri Lankan perspective, Tax revenue becomes a major part of the total government revenue. Therefore, Research on fiscal policy in Sri Lanka has vital to policy implication. This