Public Revenue and Public Expenditure: Evidence from Sri Lanka

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Abstract

Objective – The objective of this study is to analyze the impact of public revenue on the public expenditure of Sri Lanka between 1990 and 2020.

Methodology – This study utilizes quantitative and secondary data from central bank publications, making the data more reliable. Tax revenue, non-tax revenue, and total revenue are independent variables, while public expenditure is the dependent variable. Descriptive and regression analyses were performed using SPSS software.

Results – Tax revenue is a significant contributor to Sri Lanka’s total revenue, while non-tax revenue makes up a smaller portion. Additionally, the study reveals that Sri Lanka’s total revenue is enough to cover nearly two-thirds of its total expenditure, with three-quarters of the country’s expenses being for recurrent activities. Furthermore, the statistical analyses reveal that tax revenue has a significant impact on both current and capital expenditure in Sri Lanka, while non-tax revenue does not.

Research Limitations/Implications – It is also observable that many non-tax revenue-generating activities in Sri Lanka have been generating significant losses for a prolonged period. As a result, policymakers must consider discontinuing such long-term loss-making non-tax revenue activities to promote the country’s economy by increasing tax revenue and gross domestic production.

Novelty/Originality – This study empirically deals with public revenue and expenditure with the consideration of more than thirty years of period in the Sri Lankan context.

Keywords: Tax revenue, non-tax revenue, re-current expenditure, capital expenditure, Sri Lanka

1. Introduction

1.1 Background of the study

In global economic management, government fiscal policy considers revenues (such as taxes), government spending, deficits, or surpluses, which are the basic elements of all state fiscal policies. Many discussions of macroeconomic policy see it as a tool for minimizing short-term fluctuations in production and employment (Aslam, 2016). Tax policy relies heavily on government spending allocations and revenue collection. Policymakers can avoid persistent government deficits if they understand the relationship between government spending and revenues. Therefore, the relationship between government revenue and expenditure is of considerable interest. The causal relationship between government spending and revenue is a well-studied topic in fiscal literature. Understanding the relationship between government spending and revenue is critical for policymakers, particularly in Asian countries with persistent budget deficits (Ravinthirakumaran, 2011).

Despite being an expanding economy, Sri Lanka is still classified as developing. The budget deficit has continued for a long time, and the budget deficit has increased rapidly in recent years. Whereas Sri Lanka faces major economic crises. At this crucial time, we should analyze whether Sri Lanka had any association between the
government Tax revenue and the government expenditure. Because Tax is the major component of government revenue.

In Sri Lanka, the responsibility for collecting tax payments falls on four different authorities: the Inland Revenue Department, Sri Lanka Customs, the Excise Department of Sri Lanka, and the Department of Provincial Revenue. These authorities operate by provisions laid out in the country’s constitution and parliament act. Tax revenue is a significant contributor to the country’s overall revenue, with indirect taxes making up the largest portion. Although income tax was first introduced in 1932, indirect taxes have become the primary source of tax revenue, with Value Added Tax (VAT) being the most important component since its introduction in 2002. Meanwhile, income tax remains the most important direct tax revenue stream. According to the Central Bank of Sri Lanka's 2020 report, the country had a total revenue of LKR 1,367,960 million, with tax revenue making up LKR 1,216,542 million of that amount. Direct tax revenue and indirect tax revenue contributed 78% and 22% respectively to the overall tax revenue. These figures indicate that tax revenue accounts for a significant portion of Sri Lanka's public revenue.

India collected Rs 9.45 lakh crore in direct tax and Rs 10.71 lakh crore indirect tax in 2021, according to this data, India’s direct and indirect tax contributions are 46.87/ 47 and 53.13/ 53 percent respectively to the total tax revenue of India. In India, direct tax accounts for more than twice the share of total tax revenue than in Sri Lanka. This is supported by data from the OECD’s sources of tax revenue report for 2020, which shows that consumption taxes, social insurance taxes, individual income taxes, corporate income taxes, property taxes, and other taxes made up 32.1%, 26.4%, 24%, 9.2%, 5.6%, and 2.7% respectively of total tax revenue in OECD countries. Compared to this average, Sri Lanka’s direct tax contribution to total tax revenue is 1.5 times lower.

Capital and recurrent expenditures are major classifications of public expenditure in Sri Lanka. Rehabilitation and improvement of capital assets, purchase of capital assets, capital transfers, capacity building, and other capital expenditures are major classifications under the capital expenditure of Sri Lanka, whereas personal emoluments, traveling expenses, supplies, maintenance expenditures, service, transfers, and other recurrent expenditures are major classifications under the recurrent expenditure of Sri Lanka. Sri Lanka had total public expenditure, recurrent expenditure, and capital & net lending LKR 3,040,996, 2,548,359, and 492,637 respectively. The above data highlights that 83.80/84 percent of Sri Lankan public expenditures are related to recurrent expenditures of Sri Lanka.

According to the total revenue and public expenditure of Sri Lanka, Sri Lankan total revenue was not enough to meet the recurrent expenditure of the country in 2020, only 53.6/54 percent of the recurrent expenditure of Sri Lanka can be financed through the total revenue of Sri Lanka.

1.2 Statement of the problem

Tax revenues are known as the driving force behind government spending in the global economy, but their links have not been econometrically examined in Sri Lanka. Sri Lanka, meanwhile, continues to have budget deficits. Over the past 60 years, one of Sri Lanka’s economic issues has been the budget imbalance. Knowing the association between public expenditure and tax revenue, which makes up the majority of the government's income, is crucial for developing future-proof policies. Sri Lanka’s tax and tax system are at a critical crossroads. Government spending has increased steadily over time, while government revenues have steadily declined, with repeated budget deficits with all the attendant consequences.

The budget deficit was LKR 2,057 billion in 2021 in Sri Lanka. The budget deficit of Sri Lanka is increased over the last few decades, it was LKR 25 billion in 1990 and it was LKR 1,668 billion in 2020. Revenue and expenditures are the major components of the budget deficit of any country. In comparison to non-tax revenue, tax revenue
makes up a larger portion of Sri Lanka's overall revenue. On the other hand, recurrent expenditures are a vital part of the total expenditures of Sri Lanka.

Generally, a country should do public expenditures according to the public revenue of the country. For example, all household expenditures are based on their revenue. Since Sri Lanka gained independence, there has been a significant increase in public expenditure, while the total revenue and tax revenue have also seen an increase, but not to a significant extent. Gunawardena (2017) researched the impact of public revenue and expenditure on the economy in Sri Lanka. The study discovered a positive correlation between public revenue and economic growth in the country. According to the findings, an increase in public revenue leads to higher investment in capital expenditures and social services, which in turn results in economic growth. Additionally, the research showed that public expenditure also has a positive effect on the economy. It was found that an increase in public spending leads to an increase in economic growth. This raises questions about whether public expenditure decisions are based on the country’s total revenue and tax revenue. To address these concerns, this study formulated and tested the following research questions:

RQ1: Does tax revenue have an impact on public expenditure in Sri Lanka?
RQ2: Does non-tax revenue have an impact on public expenditure in Sri Lanka?
RQ3: Does total revenue have an impact on public expenditure in Sri Lanka?

1.3 Research objectives

The study of Public Revenue and Public Expenditure is vital as it is a fundamental aspect of public finance management and has significant implications for the economic and social well-being of a country. While it is true that expenditure is dependent on revenue, understanding the relationship between revenue and expenditure is crucial for effective fiscal policy formulation and implementation. While it is evident that expenditure is only possible due to revenue, several reasons justify conducting research on this topic, particularly in the context of Sri Lanka.

A review of the state of the art of previous research directly related to the topic of Public Revenue and Public Expenditure in Sri Lanka reveals that there is limited empirical research in this area. While there have been studies on public finance and fiscal policies in Sri Lanka, there is a lack of comprehensive research that examines the relationship between revenue and expenditure, and their implications for the Sri Lankan economy. This research gap presents an opportunity to contribute to the existing literature by conducting a rigorous empirical analysis of the relationship between public revenue and expenditure in Sri Lanka.

One potential research gap in the context of Sri Lanka could be the need for updated empirical evidence on the dynamics of public revenue and expenditure, given the changing economic and social landscape of the country. Sri Lanka has undergone significant economic and policy reforms in recent years, and there may be unique factors at play that require further investigation. There is a clear research gap in the understanding of the dynamics and determinants of public revenue and expenditure in Sri Lanka. Existing studies may lack the most up-to-date data, may not have analyzed the topic with a specific focus on Sri Lanka, or may have focused on specific aspects of revenue and expenditure without considering their interplay. Thus, there is a need for a comprehensive and contemporary analysis of the relationship between revenue and expenditure in Sri Lanka, considering various factors such as government policies, macroeconomic conditions, and institutional factors. Additionally, there may be specific challenges and opportunities related to revenue mobilization and expenditure management in the Sri Lankan context that merit exploration.

The proposed research can contribute to the literature by bringing novelty in several ways. Firstly, it can provide an updated analysis of the trends and patterns of public revenue and expenditure in Sri Lanka, incorporating the most recent data available. Secondly, it can examine the determinants of revenue and expenditure in Sri
Lanka, considering factors such as government policies, economic growth, political dynamics, and institutional factors. Thirdly, the study can assess the impact of revenue and expenditure on key macroeconomic indicators, such as GDP growth, inflation, and public debt, in the Sri Lankan context. Lastly, the study can provide policy recommendations based on empirical findings, which can be valuable for policymakers in Sri Lanka and other countries facing similar challenges.

Despite the well-known relationship between revenue and expenditure, there are valid justifications for conducting research on Public Revenue and Public Expenditure in the specific context of Sri Lanka. The research gap in the existing literature, the need for updated analysis, and the potential novelty of the study provide significant justifications for conducting this research, which can contribute to the understanding of public finance and fiscal policies in Sri Lanka and beyond.

The main focus of this study is to analyze the influence of public revenue on the public expenditure of Sri Lanka during the period ranging from 1990 to 2020. In addition to this, the study aims to achieve the following secondary objectives:

- to analyze the influence of tax revenue on Sri Lanka's public re-current expenditure between 1990 and 2020.
- to investigate the effect of tax revenue on Sri Lanka's public capital expenditure from 1990 to 2020.
- to examine the impact of non-tax revenue on Sri Lanka's public re-current expenditure from 1990 to 2020.
- to determine the effect of non-tax revenue on Sri Lanka's public capital expenditure between 1990 and 2020.

2. Literature Review

2.1 Theoretical review

There has been a growing body of literature that assesses the impact of public revenue and expenditure on economic growth and poverty reduction in Sri Lanka. Research has shown that public revenue and expenditure can have both positive and negative impacts on economic growth and poverty reduction, depending on how resources are raised and used. For instance, the provision of subsidies and transfer payments can provide a safety net for the poor and reduce poverty, while excessive subsidies can lead to fiscal imbalances and harm economic growth.

The literature also highlights the importance of transparency and accountability in the management of public revenue and expenditure. In Sri Lanka, there have been instances of corruption and mismanagement of public resources, which have led to the erosion of public trust and reduced the effectiveness of government policies. The literature underscores the need for reforms to improve the efficiency and effectiveness of the tax system, increase transparency and accountability in the management of public resources, and ensure that public revenue and expenditure are allocated towards priority areas to achieve the best outcomes for citizens.

The literature on public revenue and expenditure provides a comprehensive understanding of the role of government in the economy and the impact of its policies on economic growth and poverty reduction. The studies conducted in the context of Sri Lanka highlight the importance of tax reform, transparency and accountability, and efficient allocation of public resources to achieve the best outcomes for citizens.

According to existing literature, three hypotheses describe the connection between public revenue and public expenditure. The first hypothesis, known as the tax spending hypothesis, suggests that changes in public revenue will lead to corresponding changes in public expenditure. This hypothesis was proposed by (Buchanan, 1977) who argued that higher taxes result in increased spending. The tax expenditure hypothesis holds when there is a one-way causal relationship between government revenues and government spending.

The second hypothesis, the spend-tax hypothesis, posits that changes in public spending led to changes in public revenue. (Peacock, 1979) argue that during times of
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VOL. 6(2)

crisis, expenditures rise and remain elevated even after the crisis has passed. They believe that a severe crisis that increases government spending rather than taxes has the potential to change public perceptions of the appropriate size of government. The central idea here is that the initial tax increases resulting from the crisis become a permanent feature of tax policies. The spend-tax hypothesis is true if there is unidirectional causality between government expenditures and government revenues.

2.2 Empirical review

The economy of a country depends on two significant factors, namely public revenue and public expenditure. These factors play a crucial role in determining the financial well-being of a country. Sri Lanka, being a developing nation, confronts various obstacles in managing its public revenue and expenditure effectively, which ultimately affects its economic growth. Thus, this literature review aims to present an empirical analysis of how public revenue and expenditure in Sri Lanka are interrelated and how they impact the country's economy.

The literature suggests that public revenue in Sri Lanka mainly comes from tax revenues, which account for more than 70% of the total public revenue. Other sources of revenue include non-tax revenues, grants, and loans. A study (Liyanage, 2018) found that tax revenue collection in Sri Lanka has been growing over the years, with the highest growth rate recorded in 2015. The study also found that the tax-to-GDP ratio in Sri Lanka was around 11% in 2015, which is lower than the average tax-to-GDP.

A more recent study (Pathirana, 2019) found that the tax revenue-to-GDP ratio in Sri Lanka has been declining, with the revenue collection being heavily dependent on indirect taxes. The study also found that the tax system in Sri Lanka is highly regressive, with the burden of taxes being borne primarily by low-income groups. The study suggested that tax policy reforms, including expanding the tax base and introducing progressive taxation, could help address these issues.

Public expenditure in Sri Lanka mainly consists of recurrent and capital expenditures. Recurrent expenditures are expenses incurred in the day-to-day running of government operations, while capital expenditures are investments in infrastructure, equipment, and other physical assets. A study by Wijeratne (2016) found that public expenditure in Sri Lanka is highly focused on recurrent expenditures, with most of the budget being allocated to social services and defense. The study also found that there is a need for greater investment in capital expenditure to boost economic growth in the country.

The literature also suggests that there is a need for greater fiscal discipline in Sri Lanka to ensure that public revenue and expenditure are managed effectively. A study (Gamage, 2019) found that there is a high level of public debt in Sri Lanka, which is affecting the country's ability to invest in capital expenditures and social services. The study also found that there is a need for greater fiscal discipline to reduce the levels of public debt and to improve the overall financial health of the country.

Considerable empirical research has been conducted on the above concept. Studies using various econometric techniques have reached various conclusions. In 2011, a study titled "The Relationship Between Government Revenue and Expenditure in Sri Lanka" concluded that government spending and revenue are interdependent, and Sri Lanka maintains a long-term balance between the two. Similarly, (Elyasi, 2012) conducted a study using cointegration to examine the connection between government spending and revenue in Iran. Their findings revealed a causal relationship between the two variables in both the short and long term.

(Obeng, 2015) studied the relationship between the public expenditure and revenue of Ghana. It looks at the correlation between increasing government spending and government revenue. The study also examines whether fluctuations in government spending and revenue affect each other. The findings indicate that there is a significant correlation between these variables in both the short and long term. Additionally, the
lag in the revenue variable in the second period highlights a potential conflict between public spending and revenue. 

(Narayan, 2005) assessed the relationship between government public revenue and spending in nine Asian countries, aiming to identify any correlation and causality. His research yielded empirical findings that showed a correlation between public revenue and spending in three of the nine countries. However, the direction of cause and effect was not consistent across all countries. Specifically, for Singapore, Indonesia, and Sri Lanka, Narayan found evidence of a short-term causal relationship, while in Nepal, the causal relationship was present in both the short and long term. For Indonesia and Sri Lanka, the causal relationship only emerged in the long term. In the remaining nations, Narayan's findings provided evidence of neutrality.

Government revenue and government spending have a cointegration relationship, as discovered (Mehrara, 2011) using the Kao panel cointegration test. The concept of fiscal synchronization is backed by the results of causality tests, indicating a two-way causal link between public spending and revenue in both the short and long terms. These results carry significant policy implications, suggesting that public expenditure and revenue are mutually reliant. The government makes spending and revenue decisions at the same time. The study suggests that to control these countries' budget deficits, their fiscal authorities should increase revenues while also cutting spending.

(Lojanica, 2015) examined the Republic of Serbia's government spending and revenue are related. The empirical findings from his research can be represented as follows. Government revenue and spending are not constant. Specifically, they are incompatible with the integration proposed. Further investigation has revealed that the variables are cointegrated. Furthermore, the analysis revealed that, over time, there is a one-way causality from spending to public revenue. The political ramifications of the empirical findings are that public spending should be reduced in the long run. The study also concluded that higher tax rates are necessary if government spending is to be increased, as well as higher government revenues. Given the difficulties in collecting tax revenues in Serbia, such a situation would worsen the macroeconomic environment even further.

In Nigeria, Abraham (2012) conducted a study that revealed a strong correlation between public revenue and expenditure, with revenue having a causal effect on expenditure. Their findings indicate that there is a significant long-term connection between these two factors, implying that government policies that focus on adjusting public revenues can rectify long-term expenditure imbalances.

(Aslam, 2016) researched to explore the correlation between tax revenue and public spending in Sri Lanka. The study employed a co-integration technique to investigate the long-term relationship between tax revenue and public spending, and an error correction mechanism was used to examine their short-term behavior. The results of the study indicate that tax revenue and public spending were found to be concentrated at level I, which implies that they had a strong association in both the long- and short-term.

(Gurdal, 2020) conducted a study on the correlation between tax revenue, government spending, and economic growth in the G7 countries, namely Germany, Canada, Italy, France, Japan, the United Kingdom, and the United States. Their research found that there is a one-way causality between tax revenue and public spending, while there is a two-way causality between economic growth and spending on the government. Furthermore, they discovered no association between tax revenue and economic growth. Their frequency domain causality tests revealed long-run causality between economic growth and government spending, as well as short- and long-run bidirectional causality between economic growth and tax revenue. The key takeaway is that taxation policies are potent financial tools that can support the desired economic outcomes in the G7 economic environment.
It seems that the analysis conducted on the threshold autoregression and momentum threshold autoregression models in the South African budgeting process did not reveal any significant asymmetries. This means that the adjustments made in the budgeting process were found to be similar across different thresholds or levels of momentum (Ahmad, 2016).

Vector Error Correction Model (VECM) has been applied to analyze the relationships between public debt, government expenditure, and tax revenue. The VECM indicates that approximately 36 percent of deviations from the long-run equilibrium in the public debt and government expenditure equations are corrected in the next period. In contrast, deviations in the tax revenue equation are corrected to a lesser extent, at around eight percent (Felix, 2019).

The study reveals that there is a correlation between government revenue and government expenditure, and this relationship aligns with the spend-and-revenue hypothesis. According to this hypothesis, government revenue is primarily influenced by previous changes in government expenditure. In the context of Nigeria, it suggests that the government should generate sufficient tax revenue to cover its expenses, especially since revenue from oil is declining (Emmanuel, 2020).

He conducted a study aimed at exploring the correlation between tax revenue and public spending in Sri Lanka. Their research showed that there is a lasting connection between these two variables. Additionally, they discovered a one-way causal relationship between public spending to tax revenue. The study's findings point to the need for wise policy choices regarding public spending and revenue to advance the Sri Lankan economy (Kirupakeny, 2021).

The results of the analysis indicate a divergence, particularly in terms of public expenditures since the onset of the European debt crisis. This suggests that there has been a deviation from the path of harmonization. The findings imply that policymakers in EU member states will need to exert further efforts to achieve a stronger harmonization path in the future (Athanasios, 2023). The following are the hypotheses of the study:

H1: The public expenditure of Sri Lanka is significantly affected by public revenue.
H2: Tax revenue significantly impacts the re-current public expenditure of Sri Lanka.
H3: The public re-current expenditure of Sri Lanka is significantly affected by non-tax revenue.
H4: The public capital expenditure of Sri Lanka is significantly impacted by tax revenue.
H5: Non-tax revenue significantly impacts the public capital expenditure of Sri Lanka.

3. Research Method
3.1 Conceptual framework
3.2 Period of the study

In this research, we considered thirty-one (31) years of data for the period of 1990 to 2020. The annual observations of government tax receipts and public spending from 1990 to 2020 make up the study period.

3.3 Data collection

The research conducted an extensive examination of various factors in Sri Lanka, which comprised tax revenue, non-tax revenue, total revenue, and public expenditure. The study focused on public expenditure as the dependent variable, while tax revenue, non-tax revenue, and total revenue were utilized as independent variables. The data utilized in this analysis were sourced from publications by the Central Bank of Sri Lanka, spanning the years 1990 to 2020.

3.4 Mode of analysis

To explore the relationship between public revenue and public expenditure in Sri Lanka, we utilized the cointegration approach to determine if there exists a long-term connection between these variables. To carry out that analysis we used SPSS’s latest version.

4. Empirical Results

4.1 Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>67,964.00</td>
<td>1,919,973</td>
<td>666,138.87</td>
<td>612,419.15</td>
</tr>
<tr>
<td>Tax Revenue</td>
<td>61,206.00</td>
<td>1,734,925</td>
<td>593,117.74</td>
<td>551,968.17</td>
</tr>
<tr>
<td>Non-tax Revenue</td>
<td>6,758.00</td>
<td>222,374</td>
<td>73,021.19</td>
<td>63,413.66</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>99,814.00</td>
<td>3,337,896</td>
<td>1,039,342.12</td>
<td>979,829.15</td>
</tr>
<tr>
<td>Recurrent Expenditure</td>
<td>71,771.00</td>
<td>2,548,359</td>
<td>784,406.90</td>
<td>746,924.49</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>28,043.00</td>
<td>913,314</td>
<td>254,935.25</td>
<td>241,205.75</td>
</tr>
</tbody>
</table>

According to Table 1 above, the average tax revenue and non-tax revenue were LKR 593,118 and LKR 73,021 million respectively during 1990-2020. Sri Lanka had a big percentage of contribution from tax revenue for the total revenue of the country, however, non-tax revenue only contributed around 11% of the total revenue of the country. Descriptive analysis shows that the total revenue of the country was enough to meet 2/3 of total expenditure in the above period. Therefore, Sri Lanka must find other sources of financing for 1/3 of the total expenditure of the country. Sri Lankan average recurrent and capital expenditures were LKR 784,407 and 254,935 million respectively in the above period. It shows that around ¾ of total expenses for recurrent activities in Sri Lanka.

4.2 Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.978a</td>
<td>.956</td>
<td>.954</td>
<td>210088.11756</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Total revenue

According to the above table, adjusted r square shows a 95.4% effect of total revenue on the total expenditure of Sri Lanka. It means that a significant portion of the public expenditure of the country depends on its public revenue of the country.
### Table 3. Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>-0.044</td>
</tr>
<tr>
<td>1 Total revenue</td>
<td>1.564</td>
<td>0.063</td>
<td>0.978</td>
<td>24.971</td>
</tr>
</tbody>
</table>

*a. Dependent Variable: Total expenditure*

Total revenue has a significant impact on the total expenditure of Sri Lanka. As per these results, Sri Lanka can manage its public expenditure based on the total public revenue of the country. It is great evidence that Sri Lanka can positively impact the public expenditure and budget deficit through the adequate collection of the public revenue of the country. Here, Sri Lanka must refer to the best economic policies of other similar viable economic nations for the best economic policies of the country. Especially, they need some best of policies to boost their public revenue and cut down their public expenditure. As per the significant value of the above table, hypothesis one is accepted in this study.

### Table 4. Model summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>.967*</td>
<td>.935</td>
<td>.930</td>
<td>197610.34963</td>
</tr>
</tbody>
</table>

*a. Predictors: (Constant), Tax revenue, Non-tax revenue*

According to Table 4.4, tax revenue and non-tax revenue have a 93.0 percent effect on the public current expenditure of Sri Lanka. It means tax revenue and non-tax revenue play a vital role in the decision of public current expenditure in Sri Lanka.

### Table 5. Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>.159</td>
</tr>
<tr>
<td>2 Non-tax revenue</td>
<td>-.030</td>
<td>1.788</td>
<td>-.003</td>
<td>-.017</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>1.312</td>
<td>.205</td>
<td>.969</td>
<td>6.384</td>
</tr>
</tbody>
</table>

*a. Dependent Variable: Recurrent expenditure*

The data presented in the table is quite clear and indicates that the non-tax revenue generated by Sri Lanka does not have a considerable effect on their public current expenditure. As a result, the third hypothesis put forth in this study is rejected. On the other hand, tax revenue significantly impacts public current expenditure in Sri Lanka, leading to the acceptance of the second hypothesis. The findings of this study suggest that Sri Lanka should prioritize improving tax collection as a means of managing public expenditure instead of relying on non-tax revenue. To achieve this, it would be wise to avoid non-tax revenue activities and consider transferring them to the private sector. Such an initiative could potentially increase the country's gross domestic production and tax revenue.
Table 6. Model summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>.982*</td>
<td>.964</td>
<td>.961</td>
<td>47380.47964</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Tax revenue, Non-tax revenue

According to the above table, tax revenue and non-tax revenue have an above 96 percent effect on public capital expenditure in Sri Lanka. It means below 4 percent of capital expenditure is decided by other economic variables, which variables did not study in this study. It is a piece of great evidence that public capital expenditure can be managed by the tax revenue and non-tax revenue of the country.

Table 7. Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>5140.294</td>
<td>13109.371</td>
<td>.392</td>
<td>.698</td>
</tr>
<tr>
<td>3</td>
<td>Non-tax revenue</td>
<td>-.526</td>
<td>.429</td>
<td>-.138</td>
</tr>
<tr>
<td></td>
<td>Tax revenue</td>
<td>.486</td>
<td>.049</td>
<td>1.112</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Capital expenditure

As per Table 7, the tax revenue of Sri Lanka has a significant impact on public capital expenditure. However, the non-tax revenue of Sri Lanka has no significant impact on public capital expenditure. It validates the previous table’s outcome; therefore, Sri Lanka must reform its public policies regarding non-tax revenue. Many non-tax revenue activities are generating huge amounts of losses for a long period in Sri Lanka. Therefore, Sri Lanka must find possible and viable privatize government-owned non-tax revenue activities to boost its positive economic conditions shortly. According to the significant values of the above table, hypothesis four is accepted and hypothesis five is rejected in this study.

Similarly, (Elyasi, 2012) found a causal relationship between the two variables in both the short and long term. (Obeng, 2015) revealed that there is a significant correlation between these variables in both the short and long term. Additionally, the lag in the revenue variable in the second period highlights a potential conflict between public spending and revenue.

In Nigeria, (Abraham K. O., 2012) found that there is a significant long-term connection between these two factors, implying that government policies that focus on adjusting public revenues can rectify long-term expenditure imbalances.

5. Conclusion

Public financial management is crucial in every country. It includes public revenue and public expenditure management. Some countries are very rich in public financial management, they have adequate money for their public expenditure. Sri Lanka has budget deficit for a long period, they are unable to manage their public expenditure due shortage of public revenue for a long period. The public expenditure of the country should be decided and correlated with the public revenue of the country. Based on the public revenue, they ought to decide their current and capital expenditure. The majority of current expenses are deemed necessary when compared to the country’s capital expenditures. A study's statistical findings indicate that Sri Lanka's tax revenue has a substantial effect on both current and capital expenditures. Conversely, the non-tax revenue of Sri Lanka has no significant impact on the country's current and capital expenditures. Also, many non-tax revenue-generating activities are generating a huge
amount of losses for a long period in Sri Lanka. Therefore, national economic policymakers ought to consider giving up long-run loss-making non-tax revenue activities to boost its economy by way of boosting tax revenue and the gross domestic production of the country. The following are the limitations of the study:

- This study considers only secondary data from one country.
- It covers only public revenue as the independent variable and public expenditure as the dependent variable of the study.
- There was a civil war in Sri Lanka during this study period.
- This study covers the period 1990 to 2020.

It is a highly needed research area, especially for developing countries to manage and improve their budget deficit. Therefore, there are many possibilities for further research. Future research may connect this same research idea with the comparative study among other similar countries. Also, they may consider other key economic variables to test their effect on the budget deficit/public debt of the country.

References


