The impact of Sri Lanka's budgetary policy on inflation (2005 – 2007 budgets)

ARND Ramanayaka[1]

Many world economies operate in capitalist, socialist and combined economic policies. Government contribution however exists to some extent in all these economies. The government intervenes in local economies through various income and expenditure measures whilst it uses the fiscal policy to control the macro economy and to achieve the highest rate of economic growth.

The budget shows comprehensive details of the income and expenditure of a government. In this regard Sri Lanka's budget shows an increase in government expenditure, whilst government income methods develop relatively slowly. Each new budget shows various methods of generating income for the government; however this results in increasing the inflation rate in the country's economy. At the same time however the government needs to spend their income for various purposes. Recent trends in the local economy show that 80% of government income is generated through levying of taxes.

Hence the purpose of this study is to research the impact of government budgetary policy from 2005 – 2007 on the inflation rate of Sri Lanka's economy. The reason for choosing the time span 2005 – 2007 is due to the fact that government budgetary deficiency formed 8%- 9% of the total Gross Domestic Product of Sri Lanka, as well as the introduction of new government tax policies.

My research shows that the existing tax system in the country often leads to inflation in the price of goods and services. Hence it is necessary to enforce better tax management policies in the future.

Key words: Inflation, Budget deficit, Fiscal policy, Government income methods, Government expenditure

[1] Department of Sport Science and Physical Education, Faculty of Social Sciences, University of Kelaniya, Sri Lanka