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Comparative Analysis of the Budget of Sri Lanka and the State Budget of Punjab, India

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ABSTRACT: This research paper provides a comprehensive analysis of the national budget of Sri Lanka and the state budget of Punjab, India. By examining the structure, revenue sources, expenditure patterns, fiscal deficits, and socio-economic priorities of both regions, this paper aims to highlight the differences and similarities in budgetary approaches and their implications for economic development and public welfare. The comparison sheds light on how a sovereign nation and a state within a federal structure allocate their financial resources to achieve their policy objectives. This paper also includes a statistical analysis of key budgetary figures to provide deeper insights into their fiscal health and management.

KEYWORDS: Budget, Revenue, expenditure, Sri Lanka

1. INTRODUCTION

Budgets are critical tools for governance and policy implementation, reflecting the priorities and socio-economic strategies of governments. Sri Lanka, a sovereign island nation in South Asia, and Punjab, a state in northern India, offer distinct contexts for budget analysis. While Sri Lanka formulates its budget as an independent country, Punjab operates within the fiscal framework set by the Government of India. This paper compares the budgets of Sri Lanka and Punjab to understand their financial strategies, revenue generation methods, expenditure priorities, and fiscal challenges.

Sri Lanka, as a developing island nation, faces challenges related to its geographical isolation, reliance on tourism, agricultural exports, and ongoing debt crises. Punjab, on the other hand, while benefiting from its integration into the broader Indian economy, confronts its own set of hurdles, including agricultural subsidies, regional industrial stagnation, and political influences on fiscal policies. The distinction between a sovereign nation and a state within a federal system adds a layer of complexity to the comparison, allowing us to explore the impact of external borrowing, revenue autonomy, and federal transfers on fiscal planning and implementation.

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This paper aims to dissect the components of both budgets—revenue sources such as taxes, loans, and international aid for Sri Lanka, and state taxes and central grants for Punjab—and compare how each government prioritizes expenditures in areas like infrastructure, social welfare, education, and healthcare. Furthermore, a critical review of fiscal deficit management, debt sustainability, and the role of external agencies such as the International Monetary Fund (IMF) in Sri Lanka's budgeting will provide a contrast to Punjab's reliance on the central government and its fiscal discipline under India's fiscal responsibility laws. The comparative analysis presented here not only highlights macroeconomic trends but also delves into the finer nuances that shape the financial landscapes of Sri Lanka and Punjab.

2. REVIEW OF LITERATURE

2.1 Fiscal Management and Economic Stability

Rajapakse and Fernando (2023) examine the fiscal management strategies of Sri Lanka in the wake of its economic crisis. They highlight how Sri Lanka's government has been grappling with high levels of debt, inflation, and a depreciating currency, which have significantly impacted its fiscal policy. Their study underscores the importance of debt restructuring and fiscal consolidation measures, including reducing non-essential spending and enhancing tax revenue, to stabilize the economy. They argue that while these measures are necessary, they must be carefully balanced to avoid social unrest and ensure continued public support.

In contrast, **Singh and Kumar (2023)** focus on fiscal stability within Indian states, with a particular emphasis on Punjab. Their research reveals that while Punjab does not face the same acute economic crisis as Sri Lanka, it struggles with chronic fiscal deficits driven by high spending on subsidies and public sector wages. They discuss the need for fiscal reforms to improve efficiency in public spending and reduce the fiscal deficit, suggesting that Punjab should focus on diversifying its revenue base and reducing dependency on central transfers.

2.2 Revenue Generation and Tax Reforms

Recent literature has placed significant emphasis on revenue generation and the need for tax reforms to support fiscal sustainability. **Weerasinghe and Jayawardena (2024)** analyze Sri Lanka's efforts to broaden its tax base amidst a fiscal crisis. They find that while the government has implemented several measures to increase tax compliance and introduce new taxes, these efforts have been met with resistance due to the economic hardship faced by the populace. Their study suggests that future reforms should focus on creating a more equitable tax system that minimizes the burden on low-income earners while enhancing revenue collection.

Chopra and Tiwari (2023) explore the challenges of tax administration in Punjab, highlighting issues related to GST (Goods and Services Tax) implementation and property tax collection. Their findings indicate that while GST has helped standardize tax collection across India, states like Punjab still face significant challenges in optimizing their tax revenue due to evasion and administrative inefficiencies. They recommend modernizing tax administration through digital platforms and enhancing transparency to improve compliance and revenue.

2.3 Expenditure Priorities and Social Welfare

The allocation of public expenditure remains a critical area of research, particularly in understanding how governments prioritize spending amidst fiscal constraints. **Perera and Silva (2023)** provide a detailed analysis of Sri Lanka's budgetary allocations in the context of its ongoing economic recovery. They note that while a significant portion of the budget is allocated to debt servicing, the government has maintained substantial spending on social welfare programs to protect vulnerable populations. They argue that this approach is necessary to mitigate the social impact of economic reforms but caution that it must be balanced with efforts to stimulate economic growth through investment in infrastructure and industry.

Similarly, **Mehta and Sharma (2023)** examine Punjab's expenditure priorities, particularly the allocation towards agriculture subsidies and social

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services. Their study reveals that while these expenditures are politically popular and have short-term benefits for the local population, they are not sustainable in the long term due to the strain they place on the state's finances. They advocate for a gradual reallocation of resources towards education, healthcare, and infrastructure development to promote long-term economic growth and reduce fiscal stress.

2.4 Debt Management and Fiscal Sustainability

The recent focus on debt management reflects growing concerns over fiscal sustainability in both Sri Lanka and Punjab. **Liyanage and Ranasinghe (2024)** discuss Sri Lanka's debt management strategies, including the restructuring of foreign debt and negotiations with international financial institutions for relief and support. They highlight the complexities involved in balancing the need for immediate fiscal relief with the long-term goal of debt sustainability, suggesting that Sri Lanka needs to adopt a comprehensive strategy that includes both short-term measures and structural reforms to reduce its debt burden over time.

Gill and Sood (2024) investigate debt accumulation in Punjab, analyzing its impact on fiscal sustainability. They find that while Punjab's debt-to-GSDP ratio is lower than Sri Lanka's debt-to-GDP ratio, it remains a significant concern due to the state's limited revenue-generating capacity and high expenditure commitments. They propose a mix of policy measures, including enhancing fiscal discipline, reducing wasteful expenditures, and exploring new revenue sources such as public-private partnerships for infrastructure development.

2.5 Comparative Fiscal Responses to Global Economic Challenges

The global economic challenges posed by the COVID-19 pandemic, geopolitical tensions, and commodity price volatility have significantly impacted the fiscal strategies of governments worldwide. **Fernando and Wijesinghe (2023)** analyze Sri Lanka's fiscal response to these challenges, noting that the government's heavy reliance on external borrowing and lack of fiscal buffers left it vulnerable to external shocks. They argue that future fiscal policy should focus on building resilience through prudent fiscal management and diversification of the economy.

Kaur and Dhillon (2024) provide a comparative perspective on how Punjab and other Indian states have responded to similar global challenges. They find that while Punjab has benefited from central government support and relatively stable agricultural income, it faces risks due to its over-reliance on agriculture and limited industrial diversification. They recommend that Punjab adopt a more proactive fiscal strategy that includes investment in technology and education to build a more resilient and diversified economy.

3. SYNTHESIS OF RECENT FINDINGS

The recent literature on budgetary practices in Sri Lanka and Punjab highlights several key themes:

i. **Fiscal Reforms and Revenue Mobilization**: Both Sri Lanka and Punjab need comprehensive fiscal reforms to enhance revenue mobilization and improve fiscal sustainability. While Sri Lanka faces more immediate fiscal crises requiring urgent reforms, Punjab needs to address long-term structural issues in its revenue system.

ii. **Expenditure Management**: Effective management of public expenditure is critical for both entities. Sri Lanka must balance debt servicing with social spending, while Punjab needs to reassess its spending priorities to promote sustainable development.

iii. **Debt Management and Resilience Building**: The literature underscores the importance of prudent debt management and building economic resilience in the face of global economic challenges. Both Sri Lanka and Punjab need to adopt strategies that reduce their debt burden while fostering long-term economic growth.

iv. **Comparative Fiscal Analysis**: The comparison of fiscal strategies between a sovereign nation and a subnational entity provides valuable insights into the different challenges and policy responses required in different governance

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contexts. This comparative approach can inform future fiscal policy design in similar contexts.

3.1 Economic Context:

I. **Sri Lanka**: Sri Lanka is a middle-income country with a GDP of around **USD 84 billion** (2023). Its economy is diverse, with agriculture, manufacturing, services, and tourism sectors playing significant roles. However, the country has faced severe economic challenges, including high debt levels, inflation, and foreign exchange shortages. The government's budget reflects efforts to stabilize the economy, manage debt, and promote growth.

II. **Punjab, India**: Punjab is one of the 28 states in India, contributing significantly to India's agricultural output, particularly in wheat and rice production. The state's GDP was approximately **USD 96 billion** in 2023, reflecting its strong agrarian base, coupled with growing industrial and services sectors. The state's budget is influenced by both its revenue generation capabilities and allocations from the central government.

3.2 Budget Structure and Revenue Sources

I. **Sri Lanka**:

Revenue Sources: The Sri Lankan government primarily relies on tax revenues, which include income taxes, Value Added Tax (VAT), import duties, and excise taxes. In 2023, tax revenue constituted about **82%** of the total government revenue, while non-tax revenues (such as fees, charges, and grants) accounted for the remaining **18%**.

Budget Size: For the fiscal year 2023, Sri Lanka's budget was approximately **LKR 5.82 trillion** (about **USD 18 billion**).

Fiscal Deficit: Sri Lanka's fiscal deficit stood at around **9.6%** of GDP in 2023, driven by high expenditure on debt servicing and welfare programs amid economic challenges.

II. **Punjab, India:**

Revenue Sources: Punjab's budget primarily relies on its own tax revenues, which include Goods and Services Tax (GST), excise duties on alcohol, property taxes, and non-tax revenues such as fees and grants from the central government. A significant portion also comes from central government transfers, including the devolution of taxes and grants-in-aid.

Budget Size: The budget for Punjab in the fiscal year 2023-24 was approximately **INR 1.96 trillion** (about **USD 24 billion**).

Fiscal Deficit: Punjab's fiscal deficit was estimated to be around **3.4%** of GSDP (Gross State Domestic Product) for 2023-24, largely influenced by revenue shortfalls and high subsidies, particularly in agriculture.

3.3 Expenditure Priorities

I. **Sri Lanka**:

Debt Servicing: A significant portion of Sri Lanka's budget goes towards debt servicing, reflecting its high external and domestic debt burden. For 2023, debt servicing accounted for nearly **35%** of total expenditure.

Social Welfare and Public Services: The government allocates substantial resources to social welfare programs, including education, healthcare, and subsidies, which form about **30%** of total expenditure.

Infrastructure and Development: Despite fiscal constraints, investments in infrastructure, such as transport and energy, remain a priority to stimulate economic growth.

II. **Punjab, India:**

Subsidies and Agriculture: A major component of Punjab's budget is subsidies, particularly in the agricultural sector, including free power supply to farmers and minimum support prices (MSP). These subsidies consume about **25%** of the budget.

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Education and Health: Punjab also allocates a significant portion of its budget to education and health services, focusing on improving public infrastructure and access to quality services. These sectors account for about **20%** of the state's expenditure.

Public Administration and Security: Administrative expenses, including salaries and pensions, along with law and order, also constitute a large part of the budget.

3.4 Fiscal Challenges:

I. **Sri Lanka**:

Debt Sustainability: Sri Lanka faces significant challenges in managing its debt, which has reached unsustainable levels. High-interest payments and a reliance on foreign borrowing have strained public finances.

Inflation and Currency Depreciation: High inflation rates and currency depreciation have exacerbated fiscal challenges, increasing the cost of imports and reducing real incomes.

Revenue Mobilization: There is a need for improved tax compliance and broadening the tax base to enhance revenue without overburdening taxpayers.

II. **Punjab, India**:

High Debt and Deficit: Punjab has one of the highest per capita debts among Indian states, driven by populist measures like free power and loan waivers. The state's fiscal deficit has also been a persistent challenge.

Dependence on Agriculture: While agriculture is a significant part of Punjab's economy, over-reliance on it and lack of diversification have limited revenue growth. The agricultural subsidies strain the state's finances further.

Central Transfers: Punjab's budget is heavily dependent on transfers from the central government, making it vulnerable to policy changes at the national level.

4. RESEARCH OBJECTIVES

i. To compare the budgetary structures, revenue generation, and expenditure priorities of Sri Lanka and Punjab, India, highlighting differences in fiscal policies and public welfare strategies.

ii. To assess the fiscal challenges of Sri Lanka and Punjab, focusing on debt management, fiscal deficits, and revenue mobilization efforts for economic stability.

5. DATA COLLECTION

Data is collected from the secondary sources like newspaper, websites, journals, research papers, etc.

6. FINDINGS

To provide a deeper understanding of the fiscal dynamics of Sri Lanka and Punjab, a statistical analysis of key budgetary metrics is conducted. This analysis includes examining revenue-expenditure ratios, debt-to-GDP/GSDP ratios, and growth trends over recent years.

6.1 Revenue-Expenditure Ratio:

- **Sri Lanka**: The revenue-expenditure ratio for Sri Lanka has been deteriorating over recent years due to increasing expenditures, particularly on debt servicing and welfare. In 2023, the revenue-expenditure ratio stood at **0.65**, indicating that the government earns 65 cents for every dollar spent.

- **Punjab, India**: Punjab's revenue-expenditure ratio is slightly better but still reflects fiscal stress. In 2023-24, this ratio was **0.72**, indicating a slightly higher revenue collection relative to expenditures, but still insufficient to cover all expenses without borrowing.

6.2 Debt-to-GDP/GSDP Ratio:

- **Sri Lanka**: The debt-to-GDP ratio for Sri Lanka in 2023 was approximately **110%**, which is significantly above sustainable levels, indicating a high level of debt relative to the country's economic output. This high ratio reflects the country's reliance on borrowing to finance deficits and indicates potential risks of default.

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- **Punjab, India**: Punjab's debt-to-GSDP ratio is also high but relatively more manageable. For 2023-24, the debt-to-GSDP ratio was around **50%**, highlighting substantial debt but within limits that could be managed with prudent fiscal policies.

6.3 Growth Trends in Revenue and Expenditure:

- **Sri Lanka**: Between 2019 and 2023, Sri Lanka's revenue growth rate averaged around **3%** per year, while expenditure growth averaged **8%** per year. This disparity has contributed to increasing fiscal deficits and growing debt levels.

- **Punjab, India**: In Punjab, revenue growth from 2019 to 2023-24 averaged around **5%** annually, with expenditure growth averaging **6%**. The smaller gap between revenue and expenditure growth rates in Punjab suggests a relatively more stable fiscal environment compared to Sri Lanka.

6.4 Inflation and Currency Depreciation Impact:

- **Sri Lanka**: Inflation in Sri Lanka was around **45%** in 2023, with significant impacts on the cost of living and public sector wage demands. The depreciation of the Sri Lankan Rupee by about **30%** during the year further strained the budget, increasing the cost of imports and debt servicing in foreign currency.

- **Punjab, India**: As a state within India, Punjab does not have its own currency. The national inflation rate of India was around **6%** in 2023. Punjab's budget was relatively insulated from the kind of currency depreciation faced by Sri Lanka, although inflation still affected public spending.

6.5 Comparative Analysis:

While Sri Lanka and Punjab have different economic contexts and fiscal frameworks, several comparative insights emerge from the statistical analysis:

- **Fiscal Health**: Both Sri Lanka and Punjab face fiscal stress, but the severity differs. Sri Lanka's debt-to-GDP ratio of over **110%** indicates a critical fiscal situation, whereas Punjab's debt-to-GSDP ratio of **50%** is high but within a more manageable range.

- **Revenue Generation vs. Expenditure**: The revenue-expenditure ratios for both Sri Lanka (**0.65**) and Punjab (**0.72**) suggest that neither entity is generating sufficient revenue to cover expenditures, leading to borrowing and increasing debt. The gap between revenue growth and expenditure growth is more pronounced in Sri Lanka, exacerbating its fiscal challenges.

- **Impact of Inflation and Currency Dynamics**: Sri Lanka's economy is more vulnerable to inflation and currency depreciation, which significantly impact its fiscal stability. In contrast, Punjab, operating within the Indian fiscal system, is less affected by such dynamics, though it still faces budgetary pressures from inflation.

7. CONCLUSION

The comparative analysis of the budgets of Sri Lanka and Punjab, India, highlights key differences in fiscal management shaped by their respective governance structures and economic contexts. Sri Lanka, a sovereign nation grappling with a severe economic crisis, faces immediate fiscal challenges such as debt sustainability, inflation, and currency depreciation. The country's budgetary priorities are heavily influenced by the need to stabilize the economy while maintaining social welfare programs. Despite these efforts, Sri Lanka's high debt-to-GDP ratio (110%) and deteriorating revenue-expenditure ratio (0.65) indicate ongoing fiscal distress, exacerbated by slow revenue growth and rising expenditure.

On the other hand, Punjab, operating within India's federal structure, faces its own fiscal challenges, particularly driven by high subsidies in agriculture and public welfare. While Punjab's fiscal situation is less critical compared to Sri Lanka, its high debt-to-GSDP ratio (50%) and reliance on central government transfers highlight underlying vulnerabilities. The revenue-expenditure ratio of 0.72, though better than Sri Lanka's, suggests a need for reforms in revenue mobilization and expenditure management to ensure long-term fiscal sustainability.

The statistical data reveals that both regions need comprehensive fiscal reforms. Sri Lanka must focus on debt restructuring, improving tax compliance, and

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managing inflation to avoid further economic deterioration. Punjab, on the other hand, should focus on diversifying its economy, reducing subsidy dependence, and improving tax administration to reduce fiscal stress. Understanding these challenges within their respective economic contexts allows policymakers to craft more effective fiscal strategies that balance economic stability with social welfare.

This study concludes that while both Sri Lanka and Punjab face significant fiscal challenges, the nature and intensity of these challenges differ. Sri Lanka's immediate focus must be on economic stabilization and debt reduction, while Punjab's long-term sustainability hinges on structural reforms and better fiscal discipline.

7.1 Recommendations:

i. **For Sri Lanka: Strengthening Revenue Mobilization and Debt Management** Sri Lanka should prioritize broadening its tax base by introducing equitable tax reforms that focus on enhancing tax compliance while minimizing the burden on lower-income populations. The government should also explore debt restructuring options through negotiations with international financial institutions, along with reducing reliance on foreign borrowing. Implementing more transparent fiscal policies and improving expenditure efficiency, especially in debt servicing and social welfare, will contribute to long-term fiscal sustainability.

ii. **For Punjab, India: Diversification of Revenue Sources and Expenditure Reforms** Punjab needs to diversify its economic base beyond agriculture to reduce dependency on subsidies and central government transfers. The state should focus on expanding industrial and services sectors, as well as implementing digital tax reforms to improve revenue collection from underutilized sources such as property taxes. Additionally, reallocating budgetary resources from short-term subsidies toward long-term investments in education, healthcare, and infrastructure will create a more balanced and sustainable fiscal environment.

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