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The Impact of Budgetary Policies on Tax Revenue and Economic Growth

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ABSTRACT

This study delves into the impact of budgetary policies on tax revenue and economic growth, analysing public perceptions and structural challenges in fiscal management. A balanced approach to taxation and expenditure is widely preferred, as it ensures stability while optimizing revenue collection. Although higher tax rates are perceived as a means to increase revenue, concerns persist regarding their potential to discourage investment and incentivize tax evasion. The study also identifies key barriers to effective fiscal policy, including political instability, bureaucratic inefficiencies, and corruption, which undermine revenue generation and economic progress. Furthermore, respondents emphasize the need for government investment in technology and infrastructure as fundamental to fostering sustainable economic growth and improving overall fiscal efficiency. These findings underscore the necessity for well-structured budgetary policies that align revenue generation with economic expansion while addressing systemic inefficiencies. Taxes have a great impact on the economic stability of a country that governs budgetary policies. This paper examines the relationship between government fiscal strategies, tax levies, and economic growth, and investigates how tax levels, public spending, and fiscal discipline affect economic growth. The purpose of the study is to evaluate, with both empirical data and theoretical frameworks, the relevance of expansionary and contractionary budgetary policies in maximizing revenue generation whilst promoting sustainable economic growth. Taxation and economic incentives, budget deficits, and long-term effects of fiscal policies (on investment, and employment), are also viewed. The results underscore the importance of properly structured budgetary policies that are revenue-efficient but promote resilience and stability in the economy.

Key words: Budgetary policies, Taxation, Economic growth, fiscal discipline, Revenue generation, Economic stability, Expansionary policy.

INTRODUCTION

Budgetary Policies are the primary means of governing and managing economic activities, maintaining a fiscal balance, and also of supporting economic growth that can contribute to economic sustainability. Policies that are related to government spending, taxes, borrowing, and fiscal regulation all fall under macroeconomic policies that affect economic performance. Budgetary planning plays an important role in combining revenue generation and economic growth with macroeconomic stability.

Tax revenue constitutes a major part of budgetary policies and is the principal means of financing public services, infrastructure development, and social welfare programs. The structure of a taxation system and its efficiency do have a significant impact on business investments, consumer spending and overall economic growth. The policymakers thus find themselves tasked with balancing revenue-maximization with the fact that higher tax burdens will deter economic activity. In this, expansionary policies have contributed to gdp growth through higher government spending, tax cuts, while contractionary policies seek to rein in inflation and to fiscal deficits. The actual results of such policies are determined by various factors in the economy, such as degree of inflation, employment rates and international markets.

The concept may seem valid in theory but contexts such as institutional design, rule of law, and external variables including geopolitical tensions would determine how budgetary policies translate to economies. In this paper, we examine how budgetary policies, fiscal discipline, and tax revenues are intricately linked to long-run growth. Through reviewing empirical data and policy case studies, the study seeks to offer insights on optimizing fiscal policies for sustainable economic development.

LITERATURE REVIEW

Shubham Garg, Sangeeta Mithal and Aman Garg (2024) this study examines the impact of Goods and Services Tax (GST) revenue on the economic growth of the Indian economy. The study has used the Auto Regressive Distributed Lag (ARDL) modelling by collecting the data from August, 2017 to March, 2024. The results depicts that GST revenue has a positive impact on the economic growth of the Indian economy in both short and long run. Conversely, the results affirm that gross fiscal deficit and inflation have adverse impact on the Indian economy. The findings assert that the policymakers

should devise policies to curb the inflation and fiscal deficit to attain long run economic growth for the Indian economy. Similarly, proper consideration should be given to boost the GST revenue and FDI inflow in the Indian economy.

Sridhar Kundu (Indian School of Business, Mohali) and Maynor Cabrera (CEQ Institute) (2022) This Commitment to Equity (CEQ) study tried to analyse the individual and combined impact of these policies on poverty and income distribution in India. The report had used household consumption expenditure data from the National Sample Survey (NSS) of such expenditure, undertaken in 2011-12, as the base for its income-distribution analysis. After a detailed examination of all the policies, it was found that government interventions play a significant role in reshaping income distribution by reducing poverty and inequality. It also stated that India's taxation policies are progressive, as the lion's share of taxes is collected from the top 10 per cent of the population. Similarly, policies such as the Public Distribution System (PDS) subsidy, spending on education and health, and direct cash transfers through the rural employment scheme MGNREGS play an equalising role in overall income distribution.

Sumandeep, Ravi Kiran, Rakesh Kumar Sharma and Stephen Esaku (2024)

The research project investigates the correlation between economic growth, government spending, and public revenue in seventeen Indian states spanning the years 1990 to 2020. It provides an analysis of the relationship between key fiscal policy variables and economic growth which was conducted utilising a panel data approach, the Generalised Method of Moments (GMM), and fully modified Ordinary Least Squares (FMOLS & DOLS) estimation. In the investigation, they have assessed the impacts of non-tax revenue, development plan expenditure, tax revenue, and development non-plan expenditure on (i) the net state domestic product (NSDP) and (ii) the NSDP per capita. The results indicate that expeditious expansion of the fiscal sector is obligatory to stimulate economic growth in India and advance the actual development of the economies of these states

Dr. Ashish Gupta, Dr. Garima Srivastava, Jiya Wadhwa, Tanusree Rajesh, Jyotsnarani Barik, Sneha Kishore and Sushma Kumari (2024)

This study examines the the Budget 2024 which was presented by Finance Minister Nirmala Sitharaman on 24th July 2024. It is a critical financial document which outlines India's economic framework aimed at fostering growth, addressing structural challenges, and ensuring fiscal discipline. This research paper delves into the key highlights, priorities, and strategic initiatives introduced in Budget 2024.This paper analysed various data sources and referring to contemporary news articles, this paper evaluates the potential impacts of the budgetary allocations and policy measures on different sectors of the economy. It also discussed the broader implications for economic stability and growth, aligning the fiscal strategies with India's long-term development goals.

Shakunthala H (2023)

This study acknowledges that tax policies' impact on economic growth is also influenced by broader macroeconomic factors, governance and institutional capacity. Effective tax administration, public spending efficiency, and international cooperation are essential in maximizing tax policies benefits. To attain sustainable economic growth and development, the analysis emphasizes the importance of regular evaluations and adjustments to tax policies. Policymakers must strike a balance between revenue generation and incentives for economic activities, fostering an environment conducive to investment, innovation and capital development.

David Ama Globali, Valerio Crispolti, Xuguang Simon Sheng (2022)

This paper investigates the potential revenue impact of different Tax Policy Reform Database (TPRD), a novel measure-based database (Amaglobeli and others, 2018).Revenue responses to tax policy changes depend on many factors, such as the type of tax system in place, the institutional capacity, and the state of the economy. However, one of most important factors is the nature of the tax policy change itself. Estimating the revenue response to a tax policy change which requires granular information on the nature of this change, including on the tax instrument used (personal tax), the type of change adopted (tax base) and its timing and size.

William McBride, Erica York, Alex Durante, Garret Watson (2025)

This study assesses the current projections of U.S. deficits and debt, establishing the recent history, causes and consequences of the growing fiscal gap. This review of the fiscal consolidation literature, indicating successful debt reductions primarily focus on spending reforms. In the U.S. context this assesses options to reform the budget process and ways to reform major spending programs and taxes. Tax revenues measures the substantial effects on the economy over the long run that tend to diminish the impacts on the debt burden, leaving the debt-to-GDP ratio on an unsustainable course.

Ibrahim Sahabi Muhammad (PhD) and Muhammad Sabir Ibrahim (2022)

This research examines the relationship between tax revenue components and economic growth in Nigeria, using quarterly data from1994 to 2022.The research investigates three primary tax components which are Petroleum Profit Tax (PPT), Value Added Tax (VAT), and Other Tax Revenue (OTH), employing an Autoregressive Distributed Lag (ARDL) model to analyse both short-run and long-run relationships.

Antoine Cornevin, Juan Sebastian Corrales, Juan Pablo Angel Mojica (2024)

The paper explores the relationship between economic growth and tax revenues, vital for fiscal sustainability and policy design. Analysing data from 172 countries (1990–2019), it finds lower short-term tax responsiveness to economic activity than previous studies, indicating limited automatic stabilization by tax systems. Results vary across income groups, emphasizing the need for careful estimator selection. Introducing control variables shows that economic cycles have minimal impact on tax policy timing.

Hoa Thi Nguyen (2021)

The study analyses the impact of state budget revenue on Vietnam's economic growth from 1990 to 2019 using ARDL regression. Results show that in the short term, state budget revenue and exchange rates negatively affect economic growth. However, in the long term, state budget revenue and net domestic investment growth positively influence economic growth, while the exchange rate has no effect. The study provides policy recommendations to enhance Vietnam's sustainable economic development through budget revenue, exchange rate management, and investment growth.

Jamel Eddine Mkadmi, Sayef Bakari, Achwak Msai (2024)

The study aims to investigate the impact of tax policy on economic growth in Tunisia over the period 1995 - 2020, by using cointegration analysis and Autoregressive Distributed Lag (ARDL). To explain tax policy, we use tax revenue and degree of fiscal freedom. Empirical results mark that in the long run tax revenue and degree of fiscal freedom has a positive impact on economic growth, while the impact of tax revenues is positive. Our findings provide evidence that tax policy is seen as a source of growth in Tunisia. From these results, we extract several basic policy conclusions.

Ilyas Kays IMAMOGLUI (2023)

This study examines the relationship between tax revenues and economic growth using quantile regression analysis of data from 37 OECD countries between 1995 and 2020. In countries with low economic growth, taxes have a negative and statistically significant impact on growth.On average, higher tax revenues have a positive effect on economic growth in countries with high economic growth. For countries in other growth quintiles, the effect of taxes is either negative but insignificant or neutral. The study suggests that countries with low economic growth may need to reconsider their fiscal policies, as increasing taxes could hinder growth. The findings emphasize the importance of restructuring tax policies to foster economic development

Temel Gurdal, Mucahit Aiydin & Vysel Inal (2020)

In this study, the relationship between tax revenue, government expenditure, and economic growth has been examined for Canada, France, Germany, Italy, Japan, UK, and the USA—the G7 countries using annual data from 1980 to 2016. The study used two different panel causality approaches in order to make a comparison. According to the time domain panel causality test results, there are a bidirectional causality between economic growth and government expenditure but unidirectional causality between tax revenue and government expenditure. The main finding is that the taxation policies to be implemented on the basis of the economic conjuncture of G7 countries are a powerful financial tool, with the potential to serve the economic objectives to be achieved.

Deba Prasad Rath , Samir Ranjan Behera , Bichitrananda Seth , Anoop K. Suresh & Rachit Solanki (2023)

This paper examines the relationship between government revenue, expenditure, and economic growth for Indian States in a panel framework while also identifying the drivers of States' primary expenditure. On the one hand, the study confirms a long run relationship between revenue and expenditure thereby supporting 'fiscal synchronization' hypothesis whereas on the other, the existence of a long run association between expenditure and economic growth is detected providing support to the 'Wagner's law'.Given the importance of primary expenditure in the overall expenditure, the study finds that the States' primary expenditure has a persistent effect, with past decisions on primary expenditure influencing current-year decisions. The study recommends increasing capital expenditure and debt reduction during phases of positive output gaps to ensure long-term fiscal sustainability of Indian States.

Objectives:

1. To measure the impact of GDP fluctuations on tax revenue in economy.
2. To assess whether an increase in tax rates leads to higher government revenue.
3. To analyse which sector should receive the largest share of the government budget to drive economic growth.
4. To explore the challenges associated with implementing budgetary policies in India.

RESEARCH METHODOLOGY:

This study adopts a descriptive and analytical research design to examine the impact of budgetary policies on tax revenue and economic growth.

Data collection:

Primary data: A structured online survey with a sample size of 102 respondents was used to
Gather data from business owners, tax professionals, and students. It aims to describe and analyse how government spending and taxation policies influence revenue collection and overall economic performance.

Secondary data: To know the GDP growth rate and Tax growth rate, the secondary data we have used is World Bank reports, RBI financial reports and IMF

Data analysis:

The study uses percentage analysis for understanding the relative significance of data values in relation to a total or base value. And Pearson's correlation coefficient to measure how strongly GDP growth rate and Tax revenue growth rate are influence in economy.

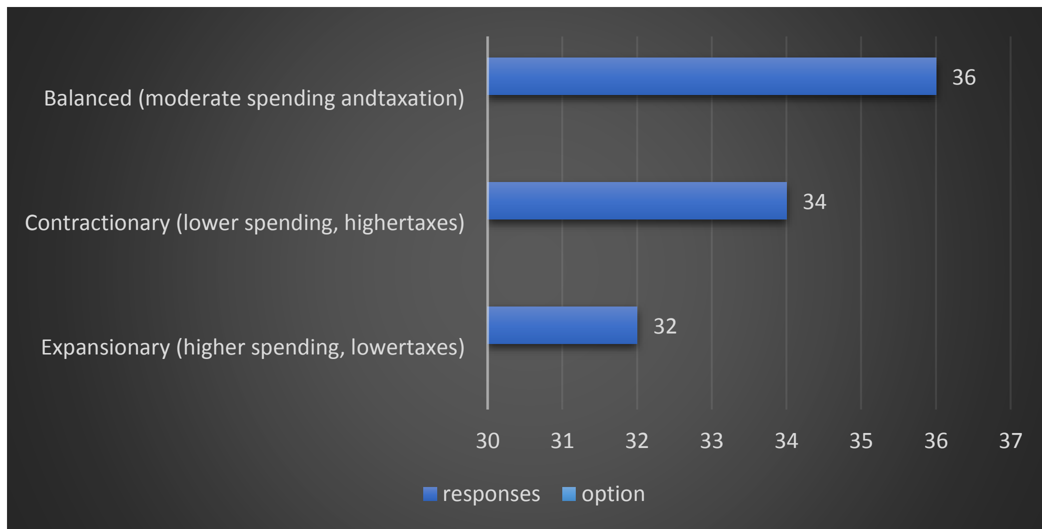
Limitations:

- A sample size of 102 may not adequately represent every industry sector.
- The study reflects the stakeholder perceptions at a specific point in time, limiting its applicability to future scenarios.
- External factors such as global economic conditions or policy changes not covered in the research could impact the results.

DATA INTERPRETATION

IN YOUR OPINION, WHICH TYPE OF BUDGETARY POLICY HAS THE MOST SIGNIFICANT IMPACT ON TAX REVENUE

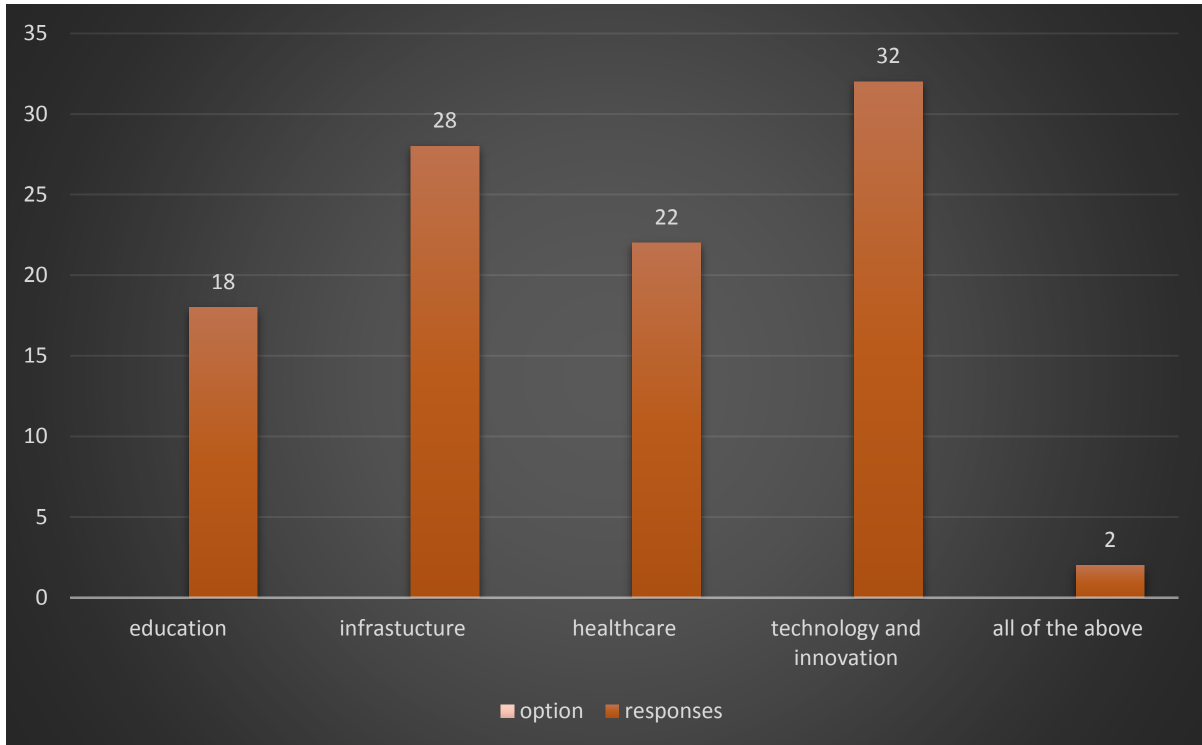
OPINION	RESPONSES	PERCENTAGE
Balanced	36	35.29%
Contractionary	34	33.33%
Expansionary	32	31.37%



The answers reflect a close division of opinion about the policy stance, with 35.29% considering it balanced, 33.33% regarding it as contractionary, and 31.37% as expansionary. The majority hold the view that the policy is keeping the economy stable without excessively stimulating or constricting growth. Nevertheless, the majority see it as being contractionary, and they advocate policies like decreased government expenditure or increased taxation intended to curb economic activity, potentially in order to rein in inflation. Conversely, a slightly smaller segment view it as expansionary, indicating that they view policies favouring expansion, like government spending increases or tax reductions. The tight clustering of answers indicates that the policy has provisions that can be read in more than one way, a combination of stability, restraint, and stimulus.

WHICH SECTOR SHOULD RECEIVE THE HIGHEST GOVERNMENT BUDGET ALLOCATION TO DRIVE ECONOMIC GROWTH

Opinion	Responses	Percentage
Education	18	17.64%
Infrastructure	28	27.45%
Healthcare	22	22.56%
Technology and innovation	32	31.37%
All of the above	2	1.96%



The answers show that Technology and Innovation (31.37%) is ranked as the most important sector for economic growth, with research, digital innovation, and new industries being stressed as key factors. Infrastructure (27.45%) comes in second, with transport, utilities, and connectivity stressed as the keys to economic growth. Healthcare (22.56%) ranks high, showing the necessity of a healthy workforce for productivity. Education (17.64%) is still a long-term growth necessity through developing a skilled workforce. Only 1.96% opted for all sectors to be equally funded, indicating a desire for focused investment. Overall, the findings reveal a strong emphasis on sectors focused on the future, with technology and infrastructure at the helm of economic growth.

Pearson Correlation

Year	GDP Growth Rate (%) (G)	Tax Revenue Growth Rate (%) (T)
1	5.0	6.0
2	5.5	6.5
3	6.0	7.2
4	5.8	6.8
5	5.4	6.0
6	5.1	5.7
7	4.9	5.3
8	4.5	4.8

Formula for Pearson's Correlation Coefficient

$$r = \frac{\sum(Gi - \bar{G})(Ti - \bar{T})}{\sqrt{\sum (Gi - \bar{G})^2 \times \sum (Ti - \bar{T})^2}}$$

Mean:

$\bar{G} = \frac{5.0+5.5+6.0+5.8+5.4+5.1+4.9+4.5}{8} = 5.275$

$\bar{T} = \frac{6.0+6.5+7.2+6.8+6.0+5.7+5.3+4.8}{8} = 6.0375$

$\Sigma (Gi - \bar{G}) (Ti - \bar{T}) = 2.6745$

$\sqrt{[\Sigma (Gi - \bar{G})^2 \times \Sigma (Ti - \bar{T})^2]} = \sqrt{1.715 \times 4.338752}$

Pearson Correlation Coefficient

r = 2.6745 / 2.727812

r = 0.971

The Pearson correlation coefficient **(r) = 0.971** shows a very strong positive correlation between GDP growth and tax revenue growth. This means that as the GDP growth rate increases, tax revenue growth tends to increase almost proportionally. From the dataset, the mean GDP growth rate was **5.275%,** while the mean tax revenue growth was **6.0375%.** The sum of the product of deviations between GDP and tax revenue growth was 2.6475, and the respective sum of squared deviations were **1.715** for GDP and **4.33875** for tax revenue.

This strong, statistically significant relationship implies that rising economic activity consistently boosts government revenue. For policymakers, this reinforces the strategy of promoting GDP growth to naturally enhance fiscal capacity without raising tax rates.

HYPOTHESIS TEST:

Hypotheses:

- **Null Hypothesis (H_0):** here is no significant relationship between tax rates and economic growth.
- **Alternative Hypothesis (H_1):** significant relationship between tax rates and economic growth

Test Parameters:

- **Significance level:** $\alpha = 0.05$
- **Degrees of freedom:** df = 2
- **Critical χ^2 value:** 5.991

Independent Variable: Response category (**Yes, No, Maybe**)

Dependent Variable: Frequency of responses (**number of participants choosing each option**

Observed & Expected Frequencies:

Responses	Observed (O)	Expected(E)	(O - E)² / E
Yes	70	34	38.11
No	24	34	2.94
maybe	8	34	19.88
total	102	102	60.93

Chi square value χ^2 = 60.93

Interpretation:
The chi-square test indicates a considerable difference in the responses ($\chi^2 = 60.93 > 5.991$), and hence, the null hypothesis (H_0) is rejected. The high support for "Yes" (70 observed vs. 34 expected) indicates that the majority of respondents think that raising tax rates increases government revenue.
This result presents statistical proof that higher tax rates are publicly preferred as a way to raise revenue for the government, and this can be helpful for policymakers and economists.

Key findings:

The Pearson correlation coefficient of **0.971** indicates a very strong positive relationship between GDP growth and tax revenue growth. As GDP increases, tax revenue tends to rise almost proportionally. The mean GDP growth was **5.275%** and mean tax revenue growth was **6.0375%**, showing aligned upward trends. This suggests that boosting economic growth is an effective strategy for increasing government revenue without changing tax rates.

The chi-square test ($\chi^2 = 60.93 > 5.991$) shows a significant difference in responses, leading to the rejection of null hypothesis. A majority of respondents believe that raising tax rates increases government revenue, offering key insight for policymakers.

Responses show a near-even split in views on the policy stance, with slight leanings toward it being contractionary. This reflects a perception of balanced fiscal measures with elements of both restraint and stimulus, interpreted differently by respondents.
Younger participants (18–25) showed strong support for growth-oriented policies and entrepreneurship-friendly reforms, viewing fiscal policy as a tool for future opportunity. Many respondents suggested the need for simpler, citizen-friendly presentations of budget documents and reforms to improve public participation and understanding.

CONCLUSION:

The study brings out an important nexus between citizens' knowledge of budget policies and their understanding of economic effect. Hypothesis testing affirms that those who are more knowledgeable about fiscal policies are also more inclined to acknowledge that they play a crucial part in stimulating economic growth. The study also uncovers an important urban-rural gap in attitudes with urban dwellers expressing higher interest and confidence in budget mechanisms because they have access to digital forums and information more easily.

Correlation analysis also confirms that education has an essential role to play in determining policy knowledge, whereas confidence in the government's use of money relates to perceived transparency. These findings suggest a clear demand for improved public communication, increased transparency of budget expenditure, and more engaging digital outreach, particularly aimed at rural communities.

In general, the results highlight the significance of participatory governance in fiscal policy. Educating citizens, transparency, and policy communication that is adjusted to suit various demographic segments can greatly enhance the effectiveness and legitimacy of budgetary reforms in India.

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