

Fiscal policy

- Definition
- Theoretical framework
- Types and instruments
- Types of deficit
- Macro-economic frame work
- Limitations
- Contemporary issues
- India's experience

Definition

- Fiscal policy deals with the taxation and expenditure decision of the government.
- Theoretical background

$$Y = C + I + G$$

- Automatic vs Discretionary*
- Contractionary and Expansionary
- Multiplier

Types of deficit

- Fiscal deficit
- Revenue deficit
- Effective revenue deficit

Trends in India's Fiscal deficit

Year	1970	1980-81	1990	2000-01	2002-03	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2014-15
Fiscal	3.0	5.7	7-8	5.7	5.3	2.7	6.0	6.5	4.8	5.7	4.8	4.1

Instruments of Fiscal policy

- Taxes: Direct Taxes and Indirect Taxes
- Expenditures: Subsidies, waivers and Social Transfers(Pensions, health care)
- Government investment, Deficit Financing etc..

$$S+T=I+G$$

Limitations

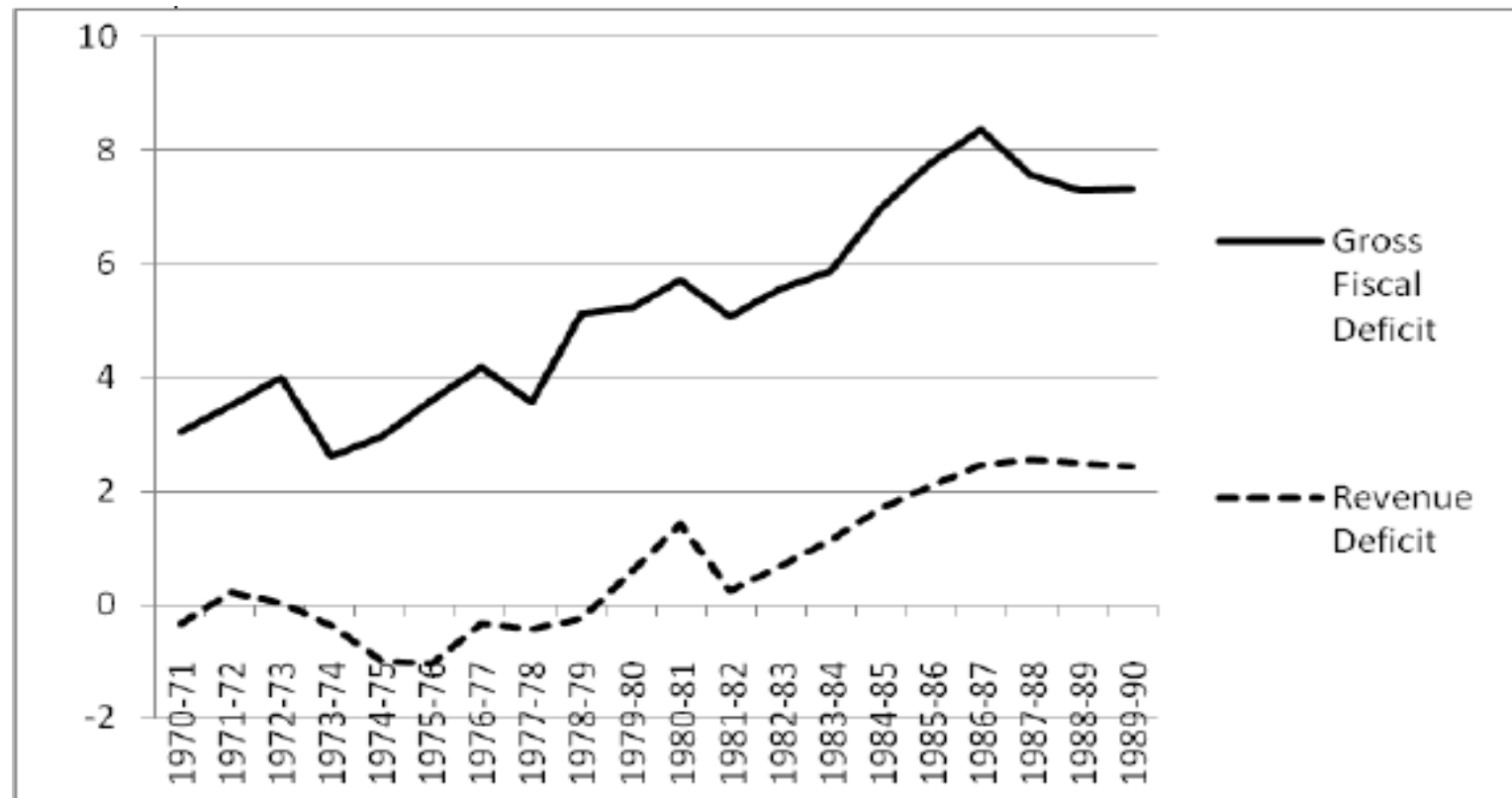
- Stagflation
- Lack of fiscal space
- Supply-side bottlenecks
- Inflationary impact
- Debt management
- Crowding-out

Contemporary Issues

- PIIGS case and Fiscal Policy
- Global Financial crisis(2007-08) and its impact on India.
- Tax Breaks in US to pump prime the economy.

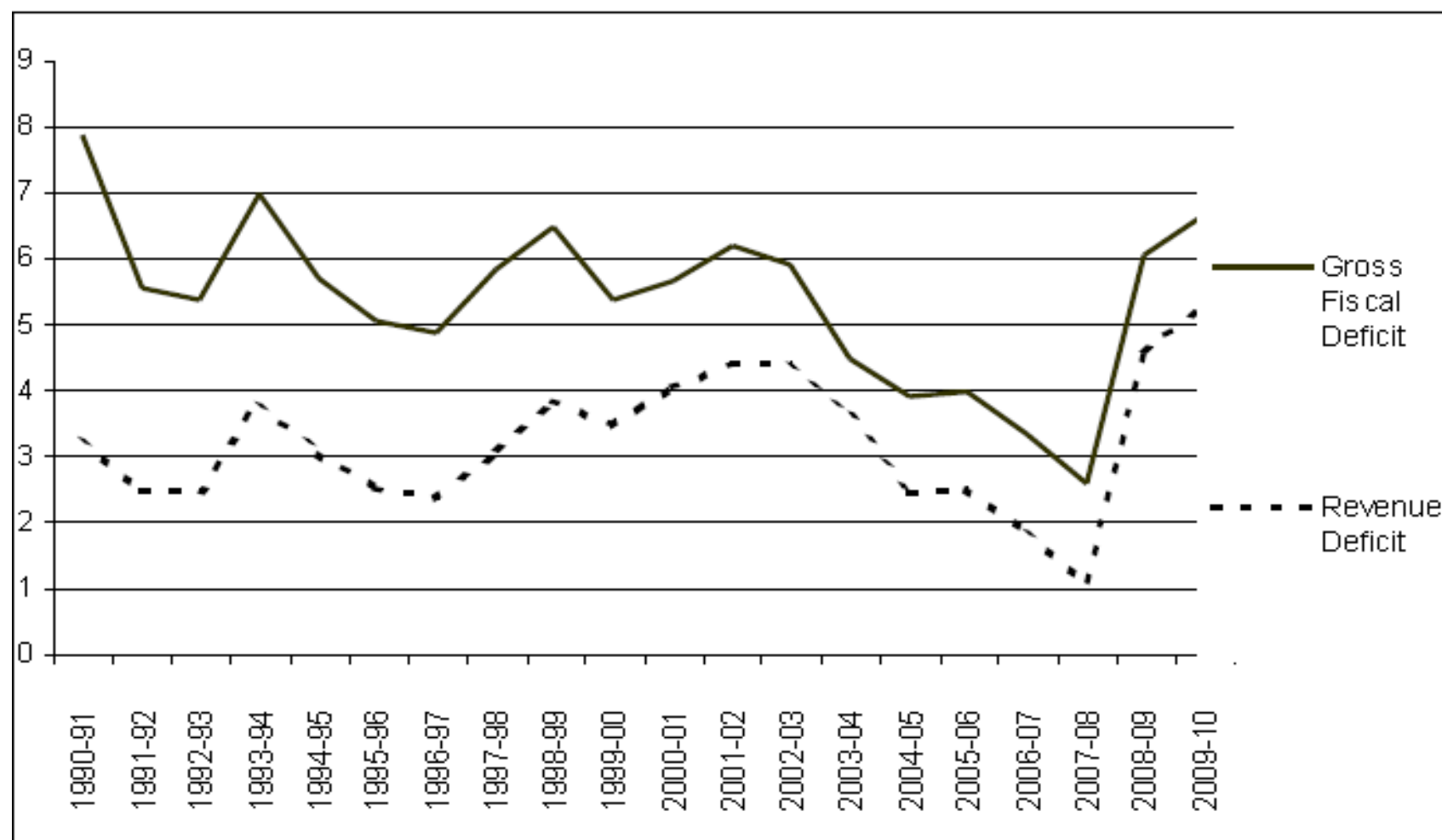
India's Experience

- 1970: restrained fiscal policy
- 1980: Focus more on fiscal policy
- 1990



Data source: Database on the Indian Economy, <http://dbie.rbi.org.in> (Reserve Bank of India, 2011)

- Post FRBM
- Post 2007



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Conclusion

- Fiscal policy has its relevance in developing economies.
- Challenge for a developing economy is to generate fiscal space.
- Fiscal policy is imperative however resource generation is also important.
- One of the middle path is tax reforms (GST and DTC) & rationalisation of Subsidies.