

MACRO ECONOMICS

PAPER 3

PART 2

Dr. Deepak Kumar Roy

What is Fiscal Policy in India?

Fiscal policy in India:- Fiscal policy is the guiding force that helps the government decide how much money it should spend to support the economic activity, and how much revenue it must earn from the system, to keep the wheels of the economy running smoothly



Fiscal policy in India is the guiding force that helps the government decide how much money it should spend to support the economic activity, and how much revenue it must earn from the system,

to keep the wheels of the economy running smoothly. In recent times, the importance of fiscal policy has been increasing to achieve economic growth swiftly, both in India and across the world. Attaining rapid economic growth is one of the key goals of fiscal policy formulated by the Government of India. Fiscal policy, along with monetary policy, plays a crucial role in managing a country's economy.

What is meant by Fiscal Policy in India? Example of Fiscal Policy in India:

Through the fiscal policy, the government of a country controls the flow of tax revenues and public expenditure to navigate the economy. If the government receives more revenue than it spends, it runs a surplus, while if it spends more than the tax and non-tax receipts, it runs a deficit. To meet additional expenditures, the government needs to borrow domestically or from overseas. Alternatively, the government may also choose to draw upon its foreign exchange reserves or print additional money.

For example, during an economic downturn, the government may decide to open up its coffers to spend more on building projects, welfare schemes, providing business incentives, etc. The aim is to help make more of productive money available to the people, free up some cash with the people so that they can spend it elsewhere, and encourage businesses to make investments. At the same time, the government may also decide to tax businesses and people a little less, thereby earning lesser revenue itself.

Main objectives of Fiscal Policy in India:

- **Economic growth:** Fiscal policy helps maintain the economy's growth rate so that certain economic goals can be achieved.
- **Price stability:** It controls the price level of the country so that when the inflation is too high, prices can be regulated.
- **Full employment:** It aims to achieve full employment, or near full employment, as a tool to recover from low economic activity.

What is the difference between fiscal policy and monetary policy?

The government uses both monetary and fiscal policy to meet the country's economic objectives. The central bank of a country mainly administers monetary policy. In India, the Monetary Policy is under the Reserve Bank of India or [RBI](#). Monetary policy majorly deals with money, currency, and interest rates. On the other hand, under the fiscal policy, the government deals with taxation and spending by the Centre.

Importance of Fiscal Policy in India:

- In a country like India, fiscal policy plays a key role in elevating the rate of capital formation both in the public and private sectors.
 - Through taxation, the fiscal policy helps mobilized considerable amount of resources for financing its numerous projects.
 - Fiscal policy also helps in providing stimulus to elevate the savings rate.
 - The fiscal policy gives adequate incentives to the private sector to expand its activities.
 - Fiscal policy aims to minimise the imbalance in the dispersal of income and wealth.
-