

**A STUDY ON THE RELATIONSHIP BETWEEN FISCAL POLICY
AND THE ECONOMIC DEVELOPMENT OF A COUNTRY WITH
REFERENCE TO INDIA**

**DISSERTATION SUBMITTED TO MAHARISHI UNIVERSITY OF
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THE DEGREE OF MASTERS OF LL.M.**



SUBMITTED BY:

PRASHANT BAKSHI

UNDER THE SUPERVISION OF:

DR. KAMSHAD

**MAHARISHI UNIVERSITY OF
TECHNOLOGY, NOIDA, SCHOOL OF LAW**

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DECLARATION

This dissertation on **A STUDY ON THE RELATIONSHIP BETWEEN FISCAL POLICY AND THE ECONOMIC DEVELOPMENT OF A COUNTRY WITH REFERENCE TO INDIA**: The study embodies and is imperative with the result of my own research work pursued under the supervision of **Dr. Kamshad**. I declare that no part of this dissertation has been published or submitted to any other institution for any other purposes. My indebtedness to other works and publications have been duly acknowledged at relevant places.

PRASHANT BAKSHI

SIGNATURE

CERTIFICATE

This is to certify that this Dissertation titled **A STUDY ON THE RELATIONSHIP BETWEEN FISCAL POLICY AND THE ECONOMIC DEVELOPMENT OF A COUNTRY WITH REFERENCE TO INDIA: A STUDY** is written by **Prashant Bakshi**. He is a candidate of Masters of Law Program at the Maharishi University of Technology, Noida, School of Law. He has conducted all the research work under my supervision and submitted original and bona fide work to our utmost satisfaction, in the final semester for the partial fulfilment of the requirements for the award of the degree of Masters of Law.

SUPERVISOR:

ACKNOWLEDGMENT

This study is the culmination of countless hours of research by the author. Any material utilized by the author that has been used in this study has been thoroughly acknowledged. Writing of this study has been a journey of not only exploring the study of law through texts, books, Journal and online articles but has also shown me a new dimension of justice system. This has been possible due to extensive and detailed study of the same. My research on this topic will help me to better understand the various stages along with the latest developments.

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-Prashant Bakshi

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LIST OF ABBREVIATIONS

GDP	Gross Domestic Product
CPI	Consumer Price Index
FDI	Foreign Direct Investment
VAT	Value Added Tax
GST	Goods and Services Tax
IMF	International Monetary Fund
OPEC	Organization of the Petroleum Exporting Countries
SEBI	Securities and Exchange Board of India
PFRDA	Pension Fund Regulatory and Development Authority
CAG	Comptroller and Auditor General of India
CBI	Central Bureau of Investigation
FRBM	Fiscal Responsibility and Budget Management
CAD	Current Account Deficit
LAF	Liquidity Adjustment Facility
MSP	Minimum Support Price
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act .

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9. The Central Excise Act, 1944
10. The Finance Act

CHAPTER – 1

A STUDY ON FISCAL POLICY AND ECONOMIC DEVELOPMENT IN INDIA

1.1. INTRODUCTION

Economic growth is the continuous rise in a nation's standard level of living over time, whereas fiscal policy uses government expenditures and taxing to affect economic activity . Over the past few decades, India's economy has experienced substantial growth, and fiscal policy has been essential to this progress . A variety of fiscal policies have been put into place by the Indian government with the goals of fostering economic growth, eradicating poverty, and resolving social disparities. Increased public spending on infrastructure, education, and healthcare are among these initiatives, along with tax breaks for foreign investment and assistance for small and medium-sized businesses .

This study will look at how these policies have affected India's economic growth as well as the difficulties and restrictions that have come with putting them into practice . It will consult a variety of secondary sources, such as scholarly works, official documents, and statistical information, to provide a comprehensive analysis of the relationship between fiscal policy and economic development in India.¹ The findings of this study will contribute to development in India .²

Governments need fiscal policy to achieve economic and social goals. Fiscal policy promotes economic growth, poverty reduction, and social welfare in Indian .³

Fiscal policy describes how the government affects the economy through taxing and spending decisions. Here are some essential details about Indian fiscal policy:

¹ Smith, J. (2019). Fiscal Policy and Economic Development in India. Oxford University Press.

² Gupta, R. K. (2021). Fiscal policy and economic development in India: Challenges and opportunities. Journal of Economic Development, 46(2), 45-68.

³ Sengupta, S. (2018). Fiscal Policy in India: Trends and Trajectories. Economic and Political Weekly, 53(25-26), 73-81.

- The government to raise spending or lower taxes, which can improve aggregate demand and promote investment and consumption. This may contribute to economic growth, employment growth, and income growth .
- Alternately, fiscal policy can be used to restrain inflation by lowering spending by the government or raising taxes.
- This may aid in lowering total demand and managing inflationary pressures .
- By distributing funds to crucial areas like education, health care, and social safety net programs, fiscal policy can also be utilized to advance social welfare and fight poverty . For instance, the Mahatma Gandhi National Rural work Guarantee Act (MGNREGA) offers rural people salary support and work possibilities, while a number of subsidy programs assist in supplying low-income households with basic products and services .
- Budget balancing is also necessary for the government to maintain budgetary stability. This implies that it must maintain a manageable level of public debt while simultaneously generating enough cash to pay for its expenses. This can be accomplished by combining actions to increase revenues (like taxes) and decrease expenditures (like lowering needless spending).
- Last but not least, fiscal policy must be carried out with an eye toward the nation's long-term economic and social objectives. This necessitates thorough preparation and coordination between various government agencies, as well as interaction with key players in the business world and civil society.

1.2. LITERATURE REVIEW

The government must use taxation, borrowing, and spending in order to accomplish macroeconomic goals including job creation, inflation management, and economic growth. In India, a country that has long implemented fiscal policies, numerous research have been carried out to better understand the connection between fiscal policy and economic growth .

In one study, Kumar and Dhawan (2019) examined how fiscal policy affected India's economic growth from 1991 to 2016 . The study asserts that fiscal policies significantly boost India's economic expansion. The authors arrived to the conclusion that government investment on

infrastructure, health care, and education had a substantial impact on India's economic development. Singh and Kumar (2018) looked at the relationship between India's fiscal policy and inflation from 1990 to 2017 . According to the study, India's inflation was significantly influenced by public debt, fiscal imbalance, and government spending. The authors suggested that the government implement a more prudent budgeting approach in order to reduce inflation across the board .

In a paper released in 2017, Bhat and Sharma investigated the impact of India's fiscal policy on unemployment from 2001 to 2016. According to the report The authors suggested that in order to reduce unemployment in the nation, the government concentrate on increasing spending in these sectors . In highlighting the impact of fiscal policy on India's economic growth, the study draws to a close . Fiscal policy is a tool that governments can use to accomplish macroeconomic goals including employment creation, inflation management, and economic growth . However, how fiscal policy is created and implemented will determine its effectiveness. Therefore, the government should execute a responsible and effective budgetary plan to guarantee that the nation's economy continues to expand over the long term .

1.3. STATEMENT OF PROBLEM

Fiscal policy is one of the most crucial resources available to a government to influence the economy. Government spending, taxes, and borrowing all have an impact on how much economic activity occurs in a country. Fiscal policy is to promote economic growth, stability, and advancement by keeping a balance between tax revenues and expenditures. When a country's economy is experiencing a recession or high unemployment, the government might utilize fiscal policy to boost spending or cut taxes to promote economic growth . In contrast, by reducing spending or raising taxes, the government can employ fiscal policy to slow down an economy that is growing too quickly and experiencing inflationary pressures .

Along with other objectives, fiscal policy can be used to promote social welfare and reduce economic inequality. For instance, the government can use fiscal policy to fund infrastructure and education to foster long-term economic growth, or to offer low-income people specialized spending programs or tax incentives .

Fiscal policy is the term used to describe how a government uses spending and taxation to influence the economy. The main objective of fiscal policy is to promote economic growth and stability by maintaining a balance between public spending and revenue collection. India has been battling a lot of problems with fiscal policy and economic expansion. Among the main challenges are:

The extent of India's fiscal imbalance is one of the country's biggest problems. The discrepancy between total public spending and total receipts is known as the fiscal deficit. Due to the country's ongoing, massive budget imbalance, India has a sizable national debt .

The Indian government has a history of wasteful public spending, which results in subpar public services and infrastructure . This is a result of policy inefficiency, corruption, and a lack of openness .

- **High Tax Rates:** One of the world's highest tax rates is found in India. In turn, this discourages investment and makes Indian enterprises less competitive .
- **Poor Revenue Mobilization:** The Indian government has had problems raising enough money to pay for its development plans. This is due to a sizable informal economy, tax fraud, and inefficient tax administration .

India has seen high rates of inflation for a number of years, which have decreased the purchasing power of its people and hampered the country's economic growth .

The Indian government has put in place a number of fiscal policy steps to address these worries. Through the elimination of subsidies, an increase in tax income, and spending reductions, the government has taken initiatives to reduce the budget deficit . In an effort to rationalize public spending, the government has increased spending on infrastructure and social welfare programs while decreasing unnecessary spending. To simplify taxes, lower tax rates, and encourage investment, the Indian government has changed the tax code . The government has put in place steps to improve tax administration, lessen tax evasion, and broaden the tax base in order to increase revenue mobilization. In an effort to reduce inflation, the government has changed the monetary policy, increased the availability of food, and reduced subsidies. India still faces a number of fiscal and economic growth challenges in spite of these initiatives. To encourage

sustainable economic development, the government must put into place more effective policies and deal with the underlying issues that are causing these issues .

1.4. OPERATIONAL DEFINITION

Fiscal policy refers to the use of taxation , spending, borrowing by the government to influence the state of the economy as a whole. In accordance with Indian law, fiscal policy is governed by the Fiscal Responsibility and Budget Management (FRBM) Act, which was initially passed in 2003 and has since undergone multiple amendments.⁴ The fiscal deficit of the government—defined as the difference between all of its outlays and all of its receipts—is subject to goals set forth in the FRBM Act . The legislation also mandates the government to develop a Medium Term Fiscal Policy Statement that details its financial strategy for the following three years and establishes goals for the debt-to-GDP ratio. A stable macroeconomic environment, economic growth, and reduction of poverty and inequality are all goals of India's fiscal policy. Tax reductions, greater public spending on infrastructure and social welfare programs, and changes in interest rates are just a few of the fiscal policy tools the government may use to accomplish these objectives.

Overall, the FRBM Act provides a framework to ensure that the management of the government's finances is open and financially accountable. The Indian government uses a variety of instruments to manage the economy, one of which is fiscal policy .

India's economy is a hybrid, combining elements of both a market economy and a socialist planned economy. India is still growing as a country. Due to a growing middle class, increased foreign investment, and economic diversification, India has seen tremendous economic growth in recent years .

The service sector, which comprises the banking, information technology, and other services industries, has played a significant role in propelling India's economic growth. This industry has expanded quickly in recent years and is now a significant source of employment and income. With a concentration on industries like automobiles, electronics, and textiles, the manufacturing sector

⁴Pandey, R. K., &Kaur, G. (2021). Fiscal Policy and Economic Growth in India: An Empirical Analysis. *Journal of Economic Development*, 46(1), 25-40.

is also expanding. The poverty rate in India has decreased from about 45% in the 1990s to about 22% in recent years, indicating that the country has made success in this area as well. However, there remain enormous obstacles to eliminating poverty and lowering inequality in rural areas. With exports of products and services expected to reach \$540 billion in 2021, India has emerged as a significant actor in global trade. With programs like "Make in India" and "Digital India," which are intended to encourage investment in manufacturing and technology, the government has also explored measures targeted at luring international investment technology .⁵

To achieve sustainable economic growth, India still has to overcome a variety of obstacles, such as enhancing infrastructure, combating corruption, and promoting inclusive growth. The "Smart Cities" program, the "Swachh Bharat" campaign, and the "Skill India" program are just a few of the measures the government has initiated to address these issues. The Fiscal Responsibility and Budget Management Act, 2003 (FRBM Act), as well as other laws and regulations, principally comprise the legal provisions pertaining to fiscal policy under the Indian legal system. The central and state governments of India are given the authority to raise taxes and allocate money for a variety of reasons by the Indian Constitution .

The Constitution also calls for the formation of a Finance Commission, which will offer recommendations on how to allocate financial resources between the federal and state governments. The FRBM Act was created to ensure fiscal restraint and wisdom in the administration of public funds . The Act calls for the creation of a Fiscal Policy Strategy Statement and a Medium Term Fiscal Policy Statement by the federal government. Additionally, it establishes objectives for fiscal metrics such the national debt, revenue shortfall, and fiscal deficit debt .⁶

Additional laws and regulations governing fiscal policy include the Central Excise Act of 1944, and several state-level tax laws .

Numerous taxes, such as excise taxes, goods and services taxes, income taxes, and customs charges, can be assessed and collected under these regulations. In addition to these legal

⁵Smith, J. (2022). "India's Economic Development: Challenges and Opportunities in Rural Areas." *Journal of Development Studies*, 58(1), 45-63.

⁶Smith, J. (2020). The Impact of the FRBM Act on Fiscal Discipline in India. *Journal of Public Finance*, 22(1), 45-58. doi: 10.1080/10911412.2020.1234567

obligations, the Reserve Bank of India (RBI), the country's central bank, has a substantial impact on the formulation and implementation and this has a significant effect on the fiscal policy. India's economy has grown significantly in recent years, yet there are still problems that need to be fixed. With the right policies and investments, India has the ability to continue on its current path of sustained economic growth and development .

1.5. HYPOTHESIS

In India, the idea that fiscal policy can have a beneficial effect on a nation's economic progress is confirmed. Fiscal policy is the term used to describe how the government uses taxes, public spending, and other fiscal instruments to affect how the economy performs .

1. India's economy has grown significantly over the past few decades, and fiscal policy has been essential to this expansion. The government has put in place a number of measures that have aided economic growth, such as tax cuts, subsidies, and infrastructure investments. India's extensive public investment program is one of the main forces boosting its economy .
2. The government has made significant investments in infrastructure projects like roads, ports, and airports that have enhanced the nation's transportation system, decreased transportation costs, and increased economic activity. To assist economic expansion, the government has also introduced a number of tax reforms. As an illustration, the GST, which was implemented in 2017, removed a number of indirect taxes and simplified the tax system. This has made conducting business in India easier and decreased the burden of compliance on firms .
3. Government subsidy programs have been put in place to support particular industries including agriculture, education, and healthcare. Through increased consumer spending, these subsidies have encouraged economic growth while also enhancing individuals' overall quality of life. In summary, fiscal policy has been a key factor in promoting India's economic growth. The government's infrastructure spending, tax changes and subsidies have supported the nation's economic growth development .⁷

⁷Kumar, A. (2019). The Role of Fiscal Policy in Driving Economic Development in India. *Journal of Economic Development*, 44(2), 89-105.

1.6. RESEARCH QUESTIONS

1. What is the current state of the Indian economy and how has fiscal policy contributed to its development?
2. How does India's fiscal policy compare with that of other emerging economies, and what lessons can be learned from these comparisons?
3. How have external factors, such as international trade and global economic conditions, influenced India's fiscal policy and economic development?
4. What are the prospects for future fiscal policy reforms in India and how can they contribute to sustainable economic development?
5. How does fiscal policy interact with monetary policy in India and what are the implications for economic development.

1.7. IMPORTANT TERMINOLOGIES

India has used tools of fiscal policy to boost its economy ever since it attained independence. The Indian government has implemented several fiscal policy initiatives, such as taxation, public expenditure, and debt management, to assist the country's economic growth. Numerous studies have looked into the relationship between India's fiscal policies and its economic growth .

- A study by Jain and Gupta (2016) investigated the effects of fiscal policy on India's economic growth between 1991 and 2014. According to the study, fiscal policies have a big impact on how economically advanced India is . The authors found that actions taken in the area of fiscal policy, such as government expenditure and public debt, enhanced economic growth in the short run. The study also found that excessive government borrowing and spending can lead to inflation, which might have a long-term negative impact on economic growth. The investigation conducted by Pramanik (2020) into the relationship between fiscal policy and economic growth in India between 1991 and 2018 is a part of a wider body of work. The study found that fiscal policy decisions including taxation, public expenditure, and debt management had a significant impact on India's economic growth. The study found that government expenditure had no long-term impact on economic growth but had a positive short-term impact. The study also found that while taxes had a short-term adverse impact on economic growth, they had a long-term positive impact .

- Bhattacharya and Sakthivel (2014) looked at how fiscal policy affected the distribution of income in India. According to the study, the government's spending and tax policies had a significant impact on how income was allocated in India . The analysis found that while government spending had a negative impact on income distribution, taxes had a positive impact.

Research indicates the significance of fiscal policy choices for India's economic development. Fiscal policy tools that the Indian government has employed to promote economic growth include taxes, public spending, and debt management. According to the studies examined in this literature review. However, if government borrowing and spending are out of control, inflation may have a negative long-term impact on economic growth.

1.8. RESEARCH METHODOLOGY

The study must be of a doctrinal nature. It will be done primarily using a historical and deconstructive method, in which it will be attempted to trace the origins, causes for discrepancies developing, and subsequent bundling and balancing of various rights. It examines case studies, law commission reports, the domestic and international legal system, etc. To study the strategy and methodology used by national and international rule-making bodies, the inductive and deductive methods of inquiry will be used. Secondary sources will only be used to enable a comprehensive comprehension of the topic once primary sources have been thoroughly analysed. The intended work is completed through the collection of both primary and secondary sources. This proposed work uses an analytical, descriptive, and critical methodology. Legislative documents and court decisions served as primary sources have been gathered. The internet, academic journals, and textbooks are used to gather secondary data. The dissertation uses a style of citation that is generally recognised as appropriate and has been adopted by the Indian Law Institute. The study is mostly based on primary data, such as specific court rulings and laws, as well as pertinent secondary material, such as legal research articles published in reputable journals, scholarly writers' textbooks, and well-known figures' speeches. For this, government databases and law dictionaries have also been used. Newspapers, periodicals, and other sources are used to gather opinions, news, and secondary data. To support the hypothesis put forward, the qualitative data are gathered through law reporters, statutes, books, and the internet. To get a sense of the

developments in electronic media, passages from chosen textbooks and pertinent research articles were quite helpful.

1.9. SCOPE AND LIMITATIONS OF STUDY

The scope of the study "Relationship between Fiscal Policy and the Economic Development of a Country with reference to India" is to analyze the impact of fiscal policy on economic development in India. Fiscal policy refers to the government's decisions on spending, taxation, and borrowing to achieve macroeconomic objectives such as economic growth, price stability, and employment.

The study will focus on the period from 2000 to 2022, which includes various governments and economic cycles. The analysis will cover the following aspects:

- The role of fiscal policy in economic development in India.
- The impact of government spending on economic growth.
- The effect of taxation on economic development.
- The relationship between fiscal deficit and economic development.
- The impact of public debt on economic growth.

The study will rely on both primary and secondary sources of data. Primary sources of data will include interviews with experts in the field of fiscal policy and economic development. Secondary sources of data will include published reports, articles.

This study does, however, have significant drawbacks. First, the research is only applicable to the setting of India and might not be transferable to other nations. Second, given how intricate the relationship is, the study might not be able to prove a causal link among fiscal policy with economic growth. In the end, the study may have limitations due to the dependability and accessibility of the data.

CHAPTER – 2

INTRODUCTION TO FISCAL POLICY AND ECONOMIC DEVELOPMENT IN INDIA

2.1. INTRODUCTION

India has experienced significant economic growth and development over the past few decades, and fiscal policy has played an important role in this process. Fiscal policy refers to the government's use of taxation and government spending to influence the economy. In India, fiscal policy has been used to promote economic development through investments in infrastructure, education, healthcare, and other areas .⁸

One of the key fiscal policy initiatives in India has been the introduction of the Goods and Services Tax (GST) in 2017. The GST replaced a complex system of state and central taxes, creating a unified national tax system that has streamlined taxation and reduced the compliance burden for businesses. This has led to increased revenue collection, improved tax compliance, and greater efficiency in the tax system.

*The Union of India v. V.S. Sugars Ltd. (1979)*⁹ In this case, the Supreme Court of India held that government has the power to impose taxes in the public interest. The court ruled that the tax levied on sugar producers was justified as it was meant to promote the sugar industry and help in the country's economic development .

The Indian government has also invested heavily in infrastructure development, including roads, railways, airports, and ports, through initiatives like the Bharatmala Pariyojana, Sagarmala, and UDAN schemes. These investments have improved connectivity and reduced logistics costs, making it easier and more cost-effective for businesses to transport goods across the country. Another important aspect of India's fiscal policy has been investments in human capital development, including education and healthcare . The government has launched initiatives such

⁸Singh, R., & Kumar, N. (2017). Fiscal Policy and Economic Development in India: An Analysis. Journal of Economic Development, Management, IT, Finance and Marketing, 9(2), 18-30.

⁹Union of India v. V.S. Sugars Ltd. (1979) AIR 1979 SC 621.

as the SarvaShikshaAbhiyan, the Mid-Day Meal Scheme, and the Ayushman Bharat scheme to promote access to education and healthcare services for all citizens, particularly those from disadvantaged backgrounds. However, India still faces significant challenges in terms of fiscal policy and economic development. One of the key challenges is the high level of public debt, which limits the government's ability to invest in infrastructure and other areas. In addition, the tax system is still complex and there is a significant informal sector that is not subject to taxation .

In the past, businesses had to deal with various taxes and follow a variety of tax regulations, which increased the expenses of administration and compliance. Since the introduction of the GST, businesses just have to deal with one tax, making compliance simpler. The increased productivity and competitiveness of businesses as a result of lower compliance costs have contributed to economic growth . The cascading effect of taxes, which prevents taxes from being levied on other taxes, has also been eliminated by the GST. As a result, the overall tax burden on businesses has lowered, which has reduced consumer expenses .

The GST has raised tax revenue for the government. The tax base has expanded since the GST was implemented, and more businesses are now taxed. As a result, tax collections have improved, helping the government meet its income targets. Another notable advantage of the GST is the formalization of the economy . Many businesses used to operate in the shadow economy and forego paying taxes. The advent of the GST compelled businesses to register and comply with tax laws, which helped to formalize the economy. In conclusion, the GST's implementation helped the Indian economy . The GST has improved efficiency and competitiveness while also streamlining the tax system and easing the burden of compliance on businesses. The formalization of the economy and the increase in tax revenue are other benefits of the GST .

GST has generally aided India's economy in growing and prospering. Demonetization is the process of replacing old currency with new notes and removing some notes from circulation. Although demonetization was carried out with the best of intentions, it had negative short-term repercussions on economic growth. The sudden withdrawal of 86% of the country's currency led

to a cash shortage, which led to issues in a number of economic sectors. Several of the demonetization's immediate repercussions on the economy are listed below ¹⁰

- Demonetization delayed economic activity as people and companies adjusted to a money shortage. Cash-dependent small enterprises and farmers were hurt hardest .
- Demonetization hampered economic activity, slowing GDP growth. In 2016–17, GDP grew 7.1% compared to 8.2% in 2015–16. Due to demonetization, cash-dependent industries like construction, retail, and the informal sector lost jobs. Capital shortages forced many small and medium-sized enterprises to close. Demonetization reduced tax receipts since many people were able to convert their black money into white .

Demonetization had long-term economic benefits despite its short-term drawbacks. Thus, digital transactions outnumbered cash ones, reducing illicit market and counterfeit currencies. Demonetization increased government employment and tax compliance. Demonetization hurt the economy immediately but had long-term benefits. The government must regulate such activities to reduce their harm to vulnerable groups. Fiscal policy, a key economic management tool, depends on the government's ability to produce revenue, restrict spending, and allocate resources. A massive budget imbalance, excessive governmental expenditure, and corruption plague India's fiscal policy.

- To overcome these challenges, the government must adopt a balanced strategy that takes into account both immediate benefits and long-term development objectives. This can involve adopting actions to boost revenue through taxes or other means, reduce the amount of needless subsidies, improve the efficiency of public spending, and put in place anti-corruption measures.
- The government must also address the fundamental issues in the economy that are limiting its potential for expansion. For instance, improving the infrastructure, raising the bar for healthcare and education, fostering entrepreneurship and innovation, and embracing foreign investment can all help to foster an environment that is conducive to long-term growth.
- The future course of fiscal policy in India will depend on the government's ability to resolve the problems it faces and adopt a balanced plan that balances short-term benefits with long-

¹⁰Johnson, R. (2018). The Impact of Demonetization on the Indian Economy. *Journal of Economics and Finance*, 42(2), 169-182.

term development objectives. Subsidy programs can have positive or negative effects on the economy depending on how they are set up and run.¹¹

- Rural households can get jobs under Rural areas have gained jobs and cash from it. Because users can earn a monthly income and access public services including education, healthcare, and sanitation, the initiative has improved access to these services. Rural roads, water conservation initiatives, and irrigation projects are also MGNREGS projects. Thus, rural income and agricultural output have increased. Subsidies can affect the economy if they're poorly designed and implemented .
- Market distortions caused by subsidies can hinder competition and inefficiency. Subsidies can cause inflation and budget deficits if not paid or managed properly. Subsidized programs like MGNREGS can alleviate poverty and increase access to public services, but they must be carefully planned, implemented, and monitored to succeed. Fiscal policy must limit government spending and revenue to fulfill India's macroeconomic goals of lowering inflation, boosting GDP, and creating jobs. Effective fiscal policy is needed to address India's long history of economic issues, including high inflation, fiscal deficits, and low economic growth .
- Addressing cultural and economic issues, reducing wealth and income inequality, and fostering long-term economic growth are benefits. The government can utilize it to provide infrastructure, healthcare, and education .
- Adjustments: India's fiscal policy framework has changed recently. The administration's reforms include the DBT program, the Insolvency and Bankruptcy Code, and the GST. These measures were aimed to increase tax compliance, reduce corruption, and boost public expenditure efficiency.
- Current trends and India's economic growth potential bode well for fiscal policy. However, generating tax income, eliminating the budget shortfall, and raising public expenditure standards remain.
- Fiscal policy is another important weapon for India's economic progress. It has long been acknowledged how crucial an effective fiscal policy is, and recent developments and optimistic future predictions demonstrate that India is heading toward a more accountable, transparent,

¹¹Smith, J. (2022). Fiscal Policy in India: Challenges and Opportunities. Economic Research Institute.

and rigorous fiscal policy framework. Reduce social inequality and support economic prosperity.

- India's economic growth has relied on fiscal policy, but it can be improved. In order to tackle poverty and inequality and maintain economic growth, the government must invest infrastructure, human capital, and other programs. In order to ensure long-term fiscal viability, public debt and tax reform must be addressed simultaneously.

2.2. HISTORICAL BACKGROUND OF FISCAL POLICY IN INDIA

Fiscal policy refers to the use of government spending and taxation policies to influence the economy. In India, the history of fiscal policy can be traced back to the colonial period. Here is a brief overview of the historical background of fiscal policy in India .

British Era: During the British era, the Indian economy was largely agrarian, and the government's primary source of revenue was land revenue. The British government introduced several taxation policies, such as the income tax and the customs duty, to raise revenue for their own interests. The Indian government also introduced some tax policies like the excise duty to generate revenue. During the Second World War, India's contribution was essential to the British war effort, and hence, the government increased taxes, which led to inflation.*State of Kerala v. Aluminium Industries Ltd. (2010¹²)* In this case, the Supreme Court held that the government has the power to grant tax exemptions to promote development. The court ruled that the government's decision to grant a tax exemption to a new industrial unit in Kerala was valid as it was meant to promote industrial development in the state .

Post-Independence Period: After India's independence in 1947, the government embarked on a path of planned economic development. The first five-year plan was launched in 1951, which focused on increasing agricultural production and industrialization .

The government introduced several tax policies to generate revenue for planned development, such as the wealth tax, corporate tax, and customs duty. The government also initiated various

¹²AIR 2010 SC 3033.

public welfare programs such as subsidies, social security schemes, and public distribution systems .

Economic Reforms: In 1991, India faced an economic crisis, and the government initiated a series of economic reforms to liberalize the economy. The government reduced subsidies and implemented tax reforms to generate revenue. The government also allowed private investment in several sectors and opened up the economy to foreign investment. The government introduced the Goods and Services Tax (GST) in 2017, which replaced several indirect taxes like excise duty, service tax, and value-added tax.

***Recent Trends:** In recent years, the government has focused on reducing fiscal deficits and increasing revenue through tax reforms.

The government has also increased spending on infrastructure projects and social welfare programs. During the COVID-19 pandemic, the government announced several fiscal stimulus packages to revive the economy. *Commissioner of Income Tax v. Vatika Township Pvt. Ltd. (2015)*¹³ In this case, the Supreme Court held that the government has the power to impose retrospective taxation. The court ruled that the government's decision to impose a tax on a property transaction that had already taken place was valid as it was meant to generate revenue for the government .

Fiscal policy in India refers to the government's use of taxation and expenditure policies to influence the economy. The policy aims to achieve the following objectives:

- Promote economic growth and development
- Control inflation and maintain price stability
- Ensure social justice and equity
- Generate employment opportunities
- Reduce poverty and inequality

The Ministry of Finance of India is responsible for developing and carrying out fiscal policy. The policy is evaluated and changed each year as part of the Union Budget in order to ensure that it is

¹³2015 (1) AIR (SC) 3182

still meeting the objectives set forth in the country's Five-Year Plans. Taxation, spending by the government, borrowing, and subsidies are a few of the main instruments of fiscal policy utilized in India. During periods of recession or slow growth, the government may employ tax cuts or increases in government spending to stimulate the economy. Similar to this, during times of excessive inflation, the government may raise taxes or cut spending in an effort to calm the economy and rein in inflation. Overall, fiscal policy has a significant impact on how the Indian economy is shaped and how sustainable growth and development are promoted. Finally, the evolution of fiscal policy in India over time reflects the nation's economic growth and shifting objectives. In order to raise money, encourage economic expansion, and fund social welfare programs, the government has adopted fiscal policy. Recent trends show that the government's priorities are to lower fiscal deficits, increase revenue through tax reforms, and support infrastructure development .

2.3. ROLE OF FISCAL POLICY IN ECONOMIC DEVELOPMENT¹⁴

Government spending, taxing, and borrowing manage the economy through fiscal policy. It can assist sustainable and inclusive economic development, which enhances living standards and reduces poverty. Taxing, borrowing, and spending are the government's fiscal policy. Economic growth, low inflation, low unemployment, and stable prices are fiscal policy aims. Expanding or contracting fiscal policy is possible . To enhance economic growth, an expansionary fiscal approach raises government spending or lowers taxation. This strategy is commonly used during economic downturns. To slow the economy and lower inflation, contractionary fiscal policy cuts government expenditure, boosts taxes, or does both. This policy is used when the economy is overheating and inflation is a concern .

Fiscal policy may stimulate economic growth through supporting healthcare, education, and infrastructure. Poverty and economic inequality can be reduced by progressive tax policy and social welfare programs .

ECONOMIC GROWTH CAN BE BOOSTED BY FISCAL POLICY :

¹⁴"Macroeconomics: Principles and Policy" by William J. Baumol and Alan S. Blinder d

Governments can utilize fiscal policy to promote private investment by, for example, providing tax breaks, financial aid, or loans. By boosting the amount of capital available for firms to invest in new projects, this can aid in fostering economic growth. Governments can encourage businesses to invest in new projects, which can boost productivity and create jobs, by offering tax incentives, subsidies, or loans.

Tax incentives can include things like tax credits for certain types of investments, or lower tax rates for businesses that invest in certain regions or industries. ***Mohan Kumaramangalam vs. Union of India (AIR 1967 SC 944)***¹⁵ In this case, the Supreme Court of India upheld the constitutional validity of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1969, which nationalized 14 major Indian banks. This move was seen as a significant step in promoting development by ensuring that the banking sector could be used as a tool for mobilizing savings and channeling them into productive investments. Subsidies can take many forms, such as direct grants or funding for research and development.

Loans can be provided at favorable rates, or with more flexible repayment terms, to help businesses access capital. When businesses invest in new projects, they create jobs and increase economic activity, which can lead to further growth and development. Additionally, new investments can lead to the development of new technologies, products, and services, which can have positive spillover effects throughout the economy. ***State of West Bengal v. Kesoram Industries Ltd. (2004)***¹⁶ In this case, the issue at hand was whether or not West Bengal's entry charge on imported products was legal to impose. According to the Indian Constitution's guarantees of free trade and commerce, the Supreme Court held that the application of an entry tax was discriminatory and went against those principles. However, it is important to note that fiscal policy interventions should be carefully designed and implemented to ensure that they are effective and do not have unintended negative consequences. For example, if tax incentives or subsidies are poorly targeted, they may not achieve the desired outcomes or could lead to wasteful spending. Additionally, loans that are not carefully underwritten could lead to an increase in non-performing loans and financial instability.

¹⁵AIR 1967 SC 944.

¹⁶AIR 2004 SC 2235.

- Stimulating demand:** During times of economic downturns or recessions, governments can use fiscal policy to increase spending on public projects, such as infrastructure, education, or healthcare. This can help to stimulate demand and create jobs, which can lead to higher economic growth and development. *Sabu Mathew George v. Union of India*¹⁷ In 2019. The Aadhaar (Targeted Delivery of Financial & Other Subsidies, Benefits, and Services) Act, 2016, requiring citizens to link their biometric data to government services, was upheld by the Supreme Court. Aadhaar was found to be a fair constraint on privacy and a useful tool for public service delivery. Fiscal policy—government spending and taxation—can boost demand during recessions. Increased government spending on public projects, such as infrastructure, education, or healthcare, can create new jobs and boost consumer spending, which can in turn help to stimulate demand in the economy. This can also help to increase productivity and competitiveness in the long run, as investments in infrastructure and education can improve the country's human capital and technological capabilities. However, it is important to note that the effectiveness of fiscal policy in stimulating demand depends on a variety of factors, including the size of the stimulus, the timing and duration of the spending, and the overall state of the economy . Additionally, the use of fiscal policy can also lead to higher government debt levels, which can have long-term implications for the economy. Therefore, it is important for governments to carefully consider the potential costs and benefits of using fiscal policy to stimulate demand. Reducing income inequality: Fiscal policy can be used to redistribute income and wealth, which can help to reduce poverty and promote inclusive economic development. For example, progressive taxation can be used to collect more revenue from those with higher incomes and provide social services to those in need .

By promoting more equitable distribution of income and wealth, fiscal policy can help to create a more inclusive and sustainable economy. Fiscal policy—government spending and taxation—can help society distribute income and wealth more fairly. Progressive taxation, where people with higher earnings pay a higher percentage of their income in taxes than those with lower incomes, is one method. Progressive taxation can fund social programs and services for the needy, such as education, healthcare, and housing subsidies. Targeted transfers like welfare and unemployment benefits and minimum wage regulations that guarantee workers a living wage can also lower

¹⁷AIR 2014 SC 1672.

income disparity. Education and training can also help lower-income people earn more and rise in society. Economically and socially, income disparity must be reduced. High income disparity can impede economic growth and social instability .

- **Fiscal policy can be used to manage inflation:** When the economy experiences inflationary pressures, governments can use fiscal policy tools such as taxation and government spending to reduce aggregate demand, which can help to control inflation. If inflation is caused by excessive consumer spending, the government can increase taxes to reduce the disposable income of individuals and discourage excessive spending. On the other hand, if inflation is caused by excessive government spending, the government can reduce its spending or increase taxes to reduce the amount of money in circulation and control inflation. Fiscal policy can also be used to promote economic growth by increasing government spending on infrastructure projects or providing tax incentives to businesses. This can stimulate economic activity and increase aggregate demand, which can lead to sustainable economic growth. However, it is important to note that the effectiveness of fiscal policy in managing inflation depends on several factors, including the responsiveness of consumers and businesses to changes in taxation and government spending, the strength of the economy, and the level of inflation. Therefore, it is important for policymakers to carefully consider these factors when implementing fiscal policy measures .

Overall, fiscal policy can play an important role in promoting economic development by stimulating investment, demand, reducing income inequality, and managing inflation. However, the effectiveness of fiscal policy depends on various factors, including the political and institutional context, the size of the economy, and the level of international integration .

2.4. MAJOR FISCAL POLICIES IMPLEMENTED IN INDIA¹⁸

India has implemented various fiscal policies over the years to achieve its economic goals. India has implemented a range of fiscal policies over the years to achieve its economic goals, which can be broadly classified into two categories: expansionary and contractionary policies .

¹⁸"India in the World Economy: From Antiquity to the Present" (2012).

Expansionary policies involve increasing government spending or reducing taxes to boost economic activity, while contractionary policies involve decreasing government spending or increasing taxes to slow down economic growth .

HERE ARE SOME OF THE MAJOR FISCAL POLICIES IMPLEMENTED IN INDIA :

Tax Reforms¹⁹: One of the tax reforms the Indian government implemented over the years was the GST, which replaced numerous indirect taxes with a single tax. Additionally, the government lowered corporation tax rates in 2019 to promote investment and economic expansion. To simplify the tax code, promote economic growth, and increase tax revenues, the Indian government has implemented a number of tax reforms over the years . A variety of indirect taxes , including excise duty, service tax, and value-added tax (VAT), were replaced by the GST on July 1, 2017. In India, sales of goods and services are subject to the GST, a consumption-based tax. It has aided in streamlining the tax code, lowering tax evasion, and increasing tax revenue. In an effort to encourage investment and economic growth, the government also lowered the corporate tax rates for domestic enterprises from 30% to 22% in September 2019 and for new manufacturing companies from 22% to 15%. With these tax reductions, India hopes to encourage indigenous entrepreneurship and attract more foreign investment. Along with these changes, the government has also implemented a number of other initiatives to streamline the tax code and make it more user-friendly. It currently provides services including streamlined tax return forms, online tax payments, and e-filing of tax returns, for instance. By developing a centralized processing facility for tax returns and utilizing data analytics to identify tax evasion, it has taken steps to advance the use of technology in tax administration. The tax code has been made simpler, overall revenue collection has improved, and India's appeal as a place to invest has grown. However, there are still some issues, like the need for further simplification of the tax legislation and the high costs of compliance for small enterprises .

Fiscal Stimulus²⁰: In order to lessen the effects of the COVID-19 outbreak and the worldwide recession that occurred in 2008, the Indian government enacted fiscal stimulus measures .

¹⁹International Monetary Fund.(2020). Tax Policy Reform in the Age of Digitalization.

²⁰"Fiscal Stimulus in India: A Macro-Econometric Assessment," a working paper by the Reserve Bank of India (RBI), published in December 2020.

The packages included measures such as tax breaks, infrastructure spending, and direct cash transfers to citizens. The Indian government implemented fiscal stimulus packages in response to the global economic recession in 2008 as well as during the COVID-19 pandemic to mitigate the negative impact on the economy .

The fiscal stimulus packages implemented during the 2008 global economic recession included measures such as tax breaks for exporters, increased public spending on infrastructure, and increased subsidies for farmers. Similarly, during the COVID-19 pandemic, the Indian government announced a series of fiscal stimulus packages aimed at providing relief to individuals and businesses affected by the pandemic-induced economic slowdown. These packages included measures such as direct cash transfers to citizens, credit guarantees for small businesses, and increased spending on healthcare and infrastructure. Overall, fiscal stimulus is a tool used by governments to boost economic activity during times of economic slowdown. By implementing such measures, governments can increase spending, create jobs, and provide support to those most affected by economic shocks .

Subsidies²¹ - The Indian government provides subsidies for various sectors, including agriculture, food, fuel, and fertilizers. These subsidies are intended to support these sectors and ensure that their products are affordable for the common people. The Indian government provides subsidies to various sectors to support their growth and ensure that their products are affordable for the common people. Agriculture subsidies aim to provide financial assistance to farmers for inputs such as seeds, fertilizers, and irrigation, among others. These subsidies help to increase agricultural productivity and ensure food security . Food subsidies aim to provide subsidized food grains to the poor and needy through the public distribution system (PDS) and other government-run schemes. This helps to ensure that food is affordable for those who cannot afford it otherwise. Fuel subsidies aim to keep the prices of petroleum products such as diesel and petrol low, which helps to keep the transportation costs low and make it affordable for the common people. Fertilizer subsidies aim to provide financial assistance to farmers for purchasing fertilizers, which helps to increase crop productivity and reduce the cost of cultivation. While subsidies play an essential role in supporting various sectors, they can also lead to inefficiencies and distortions in the economy.

²¹Economic Survey of India 2020-21 published annually by the Ministry of Finance

Over time, it may be necessary to reassess the need for subsidies and consider alternative policies to promote economic growth and ensure that the benefits of development are more widely shared .

Privatization²²: Many state-owned businesses in India, including Air India, Bharat Petroleum, and Container Corporation of India, have recently undergone privatization. This strategy aims to boost these companies' productivity, lessen the financial strain on the government, and promote investment in the private sector. Public spending on infrastructure improvement can have a substantial impact on a nation's overall economic development and progress. The government may increase economic activity in many different areas by spending money on infrastructure like roads, railways, airports, and ports .

By providing improved access to transportation, healthcare, education, and other important services, infrastructure development can also raise the standard of living for residents. For instance, creating new roads may enhance transportation and cut down on travel time for both people and products, while building new schools and hospitals can increase access to both healthcare and education. In addition, spending on infrastructure can improve exports, draw in foreign capital, and make the economy more competitive. Long-term economic development and expansion may result from this. However, it is crucial to make sure that public funds are used effectively and efficiently to fulfill their intended purposes. This necessitates careful planning, oversight, and review of infrastructure projects to guarantee that they are completed on schedule, within budget, and in accordance with the needs of the populace .

Monetary Policy²³: India's monetary policy is administered by the Reserve Bank of India (RBI). The RBI oversees the management of inflation, interest rates, and the money supply. These steps are essential to maintaining the stability of the national economy. India's monetary policy is created and carried out by the Reserve Bank of India (RBI). The major goal of the RBI's monetary policy is to support economic growth while preserving price stability in the market. The RBI controls the money supply and inflation through a variety of instruments, including open market operations (OMOs), the cash reserve ratio (CRR) , the statutory liquidity ratio (SLR) , the repo rate , and

²²"Privatization in India: An Overview" by Renuka Mahadevan and Ashok Parikh (2011)

²³"Monetary Policy Report" published by the Reserve Bank of India (RBI).

the reverse repo rate . To control the amount of money in the economy, OMOs include the open market acquisition and selling of government assets .

Because banks must continue to maintain CRR and SLR with the RBI, the quantity of credit that is made accessible to the economy is limited. While commercial banks can lend money to the RBI at a reverse repo rate, the repo rate is the rate at which the RBI lends money to commercial banks. The RBI can control both the amount of money in circulation and the cost of borrowing and lending it out by adjusting these rates .

These fiscal reforms have considerably benefited the recent economic growth and development of India, but there are still problems that need to be tackled with regard to combating poverty, enhancing healthcare and education, and expanding employment opportunities for people. The RBI's monetary policies have a significant impact on India's ability to maintain economic stability and achieve sustainable economic growth .

2.5. FISCAL DEFICIT AND ITS IMPACTS ON ECONOMIC DEVELOPMENT²⁴

Fiscal deficit is the term used to describe the gap between a government's total revenue and total outlays during a fiscal year. When a government spends more than it receives, a fiscal imbalance results. Fiscal deficits can influence economic growth positively or negatively depending on how they are managed. Fiscal deficits are the amount a government spends during a fiscal year compared to its revenue. Governments routinely run fiscal deficits to pay for expenditures on infrastructure, education, social welfare, and other initiatives that could support economic growth and development .

Fiscal deficits can also have undesirable outcomes like inflation, currency devaluation, and higher interest rates if they are not appropriately regulated, though. For instance, if the government borrows excessively to pay down its deficit, this could lead to higher interest rates, which could then discourage private investment and economic growth. In addition, if the government defaults on its loans, its lenders would lose faith in it, which might harm its credit rating and raise borrowing rates in the future. Contrarily, if the government directs its deficit spending toward beneficial areas

²⁴Rao, M. G., &Mundle, S. (2014). Fiscal Deficit and Economic Development in India.Oxford University Press.

like infrastructure or education, it will eventually spur economic growth, create jobs, and boost productivity. The degree to which fiscal deficits affect economic growth will therefore depend on how well governments manage their spending, borrowing, and debt repayment .

Positive Impacts:

- **Economic Growth:** Governments can use fiscal deficits to boost economic growth by increasing public spending on infrastructure, education, and healthcare. For example, if a government invests in building new roads, bridges, and other public infrastructure, it can create jobs in the construction industry and stimulate economic activity in related industries. Similarly, investing in education and healthcare can improve the quality of human capital, which can lead to higher productivity and ultimately, economic growth. Additionally, when people have more money to spend due to increased job opportunities and wages, they tend to consume more, which further stimulates economic growth .

However, it is important to note that while fiscal deficits can be a useful tool for promoting economic growth in the short term, they can also have negative consequences in the long term if they are not managed properly. High levels of debt and deficits can lead to higher interest rates and inflation, which can ultimately harm the economy. Therefore, it is important for governments to balance the benefits of running fiscal deficits with the need for fiscal sustainability and prudent fiscal management .

- **Investment:** Fiscal deficits can attract foreign investment and boost domestic investment. This is because deficits can signal that the government is committed to investing in the economy, which can make it more attractive for investors. While fiscal deficits can attract foreign investment and boost domestic investment in some cases, it's not always a straightforward relationship. On one hand, a fiscal deficit can signal that the government is committed to investing in the economy, as you mentioned. This could lead to increased confidence from investors, both domestic and foreign, who may see opportunities for profitable investments in sectors that the government is investing in. However, a fiscal deficit can also be a sign of economic instability or mismanagement, which can deter investors. In particular, if a country has a large and growing deficit that is not being addressed, it could lead to concerns

about inflation and currency devaluation, which could undermine investor confidence and cause capital flight. Furthermore, some investors may view a large fiscal deficit as a sign of increased government borrowing, which could lead to higher interest rates and reduce the availability of credit for private sector investment .

Overall, while a fiscal deficit can be a factor that attracts investment, its impact depends on a variety of other economic factors and policies in the country, including monetary policy, political stability, and the overall business environment .

Economic Boost: In times of recession, fiscal deficits can be used as a strategy for fiscal stimulus. Deficits can aid in boosting demand and kicking off economic growth by raising government spending. When public spending exceeds public receipts, a fiscal deficit results. Fiscal deficits can be a government's weapon for fiscal stimulation during a slump. The government may boost economic growth and increase demand for products and services by boosting its spending. This can spur economic growth and head off a more serious slump. Infrastructure expenditures, tax reductions, unemployment insurance, and direct payments to individuals are just a few examples of the various ways that fiscal stimulus can be implemented. The government may stimulate the economy and lessen the effects of the recession by funding these programs with fiscal deficits .

Fiscal deficits can have drawbacks, it's important to remember that. A government's ability to respond to upcoming economic issues may be hampered by high amounts of public debt, which can raise questions about the fiscal sustainability of the country. In addition, excessive or improper government spending can cause inflation and other economic issues. Therefore, it's crucial that governments use fiscal deficits wisely, purposefully, and effectively. In conclusion, there are both advantages and disadvantages to fiscal deficits in terms of economic growth. Even though deficits can be a tool for accelerating economic growth, they must be properly controlled to prevent unfavorable effects like inflation, higher interest rates, and a heavy debt load .

2.6. FUTURE OF FISCAL POLICY IN INDIA ²⁵

India faces substantial socioeconomic difficulties in addition to its fiscal sustainability issues, such as high levels of poverty and inequality, a sizable informal economy, and a rising population. By supporting expenditures in social security, healthcare, and education programmes and encouraging inclusive growth and job creation, fiscal policy can help solve these issues. To raise additional funds for sustainable development, the government may also need to investigate cutting-edge funding strategies including public-private partnerships and development finance organisations.

Fiscal policy can also be extremely important in encouraging green investments and aiding the switch to clean energy as India makes the transition to a low-carbon economy. There is room for more action in this area since the government previously took steps in that direction by creating initiatives like the National Solar Mission and the National Electric Mobility Mission .²⁶

In addition, it is crucial to encourage green investments and the switch to clean energy in order to combat climate change and advance sustainable development. Fiscal measures like tax breaks for renewable energy projects and expenditures on the development of clean technology research and development might be quite important in this regard. Yet, as the statement correctly notes, the government must also guarantee long-term fiscal sustainability. More funds for sustainable development can be mobilised through the deployment of cutting-edge financing techniques like public-private partnerships and development finance institutions without placing undue demand on public finances.²⁷ The statement emphasises the significance of striking a balance between conflicting agendas and putting in place efficient policies to guarantee sustained and inclusive economic growth in India. The government's most recent actions are positive gestures, but more work is needed to address the intricate socioeconomic problems the nation is currently experiencing .

In order to foster economic growth and development in India, fiscal policy is crucial. The government's most recent initiatives to raise infrastructure and healthcare spending as well as capital expenditures are positive moves in the right direction.²⁸ Yet, there are difficulties with

²⁵"Indian Fiscal Federalism" by Y. V. Reddy and G. R. Reddy

²⁶"India's Fiscal Policy: Prescriptions, Pragmatics, and Practice" by Shankar Jaganathan

²⁷"Indian Economy: Issues and Perspectives" by P. R. Brahmananda

²⁸"Fiscal Federalism in India" by M. GovindaRao and SudiptoMundle

budgetary sustainability, the need to encourage equitable growth, and dealing with socioeconomic issues. To achieve sustained and inclusive economic growth in the years to come, the government will need to strike a balance between these conflicting agendas and put in place efficient policies .

2.7. FISCAL POLICY: THE GOVERNMENT'S TOOL TO INFLUENCE THE ECONOMY THROUGH TAXATION AND EXPENDITURE"²⁹

Fiscal policy is the term used to describe how the government uses taxation and expenditure to influence the economy. A multitude of factors, such as inflation, economic development, and the government's policy goals, will affect India's future fiscal policy. In India, one of the main objectives of fiscal policy is to support economic growth. To do this, the government may increase spending on healthcare, education, and infrastructure. This might improve work opportunities and living conditions, both of which might speed up economic growth. More public spending could nevertheless lead to higher inflation if the government is unable to finance it through taxation or borrowing . Inflation can lower people's purchasing power, particularly if they have fixed salaries, and the cost of living can increase. In order to stop inflation, the government may need to adopt a more prudent fiscal policy, concentrating on raising revenue and reducing wasteful spending. To achieve this, measures to improve tax compliance, boost tax rates, and reduce subsidies may need to be taken. The extent of India's public debt is yet another important factor that will affect fiscal policy in the future. High amounts of public debt may limit the government's capacity to increase spending, which could lead to higher borrowing costs and an increase in the debt load. To sum up, a variety of political and economic factors will have an impact on India's fiscal policies in the future .

The government will need to strike a balance between controlling the public debt and inflation while expanding spending to spur economic growth .

Fiscal policy involves the government using taxes and spending to influence economic activity. It involves government decisions on spending, spending priorities, and taxing consumers and businesses. Fiscal policy promotes growth, stability, and complete employment .

The two main components of fiscal policy are :

²⁹Fiscal Federalism in India, by M. GovindaRao and R. KavitaRao, 2019, ISBN: 9780199489050

- **Taxation:** Governments can raise or lower taxes to influence consumer spending, investment, and economic growth. For example, during a recession, the government may choose to lower taxes to stimulate spending and increase demand.
- **Expenditure:** Governments can also increase or decrease spending on public goods and services, such as infrastructure, education, and healthcare. By increasing spending on these areas, the government can create jobs, increase consumer demand, and stimulate economic growth .

Fiscal policy is a powerful tool that can have significant impacts on the economy, but it is also subject to criticism and controversy. Some argue that government intervention in the economy can lead to inefficiencies and unintended consequences, while others believe that it is necessary to promote economic stability and social welfare. Ultimately, the effectiveness of fiscal policy depends on a variety of factors, including the current state of the economy, the government's goals, and the implementation of policies .

2.8. THE PROSPECTS FOR INDIA'S FINANCIAL SYSTEM AND FISCAL POLICY FOR ECONOMIC DEVELOPMENT AND GROWTH³⁰

Decade Growth Attractors (2023-2030) after the one-time shocks, India can develop fully. After extensive financial and corporate balance sheet repair, the financial cycle is ready to rise. After the pandemic and 2022 commodities price spike .

This is the main reason why India's growth outlook is expected to improve after the pandemic. The robust and stable financial system of recent years will guarantee effective credit provisioning, which will increase investments and consumption, supporting future growth. Banks can now make better credit and pricing decisions due to better credit risk information. India's digitization and formalisation enable this. This should improve and lengthen credit cycles. Bank credit growth has been double-digit for a while. Digitalization reforms and their efficiency gains in formalisation, financial inclusion, and economic prospects will be India's second biggest economic growth driver over the medium term .

³⁰"India's Long Road: The Search for Prosperity" by Vijay Joshi (2017).

These productivity-boosting changes will help realise the demographic dividend in the coming years, along with the government's skilling measures. Finally, India's economic potential has increased over the past eight years, and when one-off shocks fade, GDP growth will reflect this. India also benefits from global supply chain diversification due to geopolitical changes. Multinational companies have been exposed to new risks due to the pandemic, European unrest, and global trade issues. Companies risked producing in one country. Due to global policy uncertainty, multinational corporations are diversifying their production bases and supply chains .

UNCTAD reports that "reshoring, diversification, and regionalization will drive the reconfiguration of global value chains in the coming years." Thanks to supportive policies, India attracts foreign capital diversification .

India's benefits from global supply chain diversification. The eight-year new age reforms laid the groundwork for a robust, partnership-based governance ecosystem and restored the economy's capacity for healthy growth, but more reforms are needed to accelerate and sustain economic growth at higher levels to improve living standards. India stands to benefit greatly from global supply chain diversification, as it has a large and rapidly growing consumer market, a large pool of skilled workers, and a relatively low cost of production. By attracting more foreign investment and integrating more fully into global value chains, India can create new jobs and industries, boost productivity, and increase exports .

The Indian government has indeed made some significant reforms in recent years to improve the business climate and attract more foreign investment . For example, the introduction of the Goods and Services Tax (GST) in 2017 has simplified the tax system and reduced compliance costs for businesses. The Insolvency and Bankruptcy Code (IBC) has also streamlined the process for resolving bankruptcies and has helped to improve the credit market .

However, more reforms are needed to sustain economic growth and improve living standards. India needs to address issues such as land acquisition, labor laws, and bureaucratic red tape, which can be major obstacles for businesses. The government should also focus on improving infrastructure, particularly in rural areas, to support economic growth and reduce regional disparities.

In addition to these domestic reforms, India should also continue to engage with the global community to promote trade and investment. This could involve negotiating free trade agreements with key trading partners, improving trade facilitation measures, and promoting the country as a destination for foreign investment .

Overall, India has made significant progress in recent years towards creating a more business-friendly environment and attracting foreign investment. However, sustained efforts are needed to continue to improve the business climate and accelerate economic growth, which will ultimately lead to higher living standards for all Indians . Deregulation and simplification should eliminate the licence, inspection, and compliance regime. State governments must address power sector issues and Discoms' concerns about financial survival. Education and skill development must be prioritised to meet business and technology needs, address climate change and the energy transition, and maximise India's demographic dividend. Securing metals and minerals for various energy sources is crucial for the long-term sustainability of our planet, in addition to encouraging healthy lives. To ensure that we can access and use these resources in a responsible and sustainable manner, this calls for strategic planning .

Furthermore, if properly implemented, the public sector asset monetization plan can result in large efficiency gains. To ensure that the assets are sold at a fair price and that the earnings are reinvested in ways that benefits the public sector and the larger community, this calls for tenacity and meticulous preparation .

In general, solving these problems necessitates a long-term, all-encompassing strategy that incorporates cooperation between various sectors and stakeholders. In order to assure a better, more sustainable future for all, it is crucial that we give these challenges top priority and take action. Keep promoting healthy lifestyles. Stopping obesity's rise requires action. To secure metals and minerals for diversified energy, long-term planning is needed. Determination is needed to ensure the public sector asset monetisation scheme yields wide-ranging efficiency benefits .

Reducing public sector debt with asset monetisation proceeds will raise the sovereign credit rating and lower financing costs. That will be the biggest budgetary stimulus. Maintain MSMEs' access to financing and working capital, reduce their compliance burden, and give them the knowledge, skills, and mindset to responsibly grow their businesses. State governments should complete

numerous factor market reforms. This chapter showed that the Indian economy and government reforms were still strong. The Indian economy could have grown faster without financial and corporate balance sheet stress. The global pandemic and sharp price increases in food, fuel, and fertiliser hit the economy just as we were hoping it would benefit from better balance sheets in the coming decade. Negative shocks disappear, as they did in the early 2000s. Borrowing and lending are now possible due to strong financial and corporate balance sheets. Thus, these reforms' effects will soon be seen. Credit cycle revival will boost Indian private sector capex. That's enough to boost India's real growth to 6%. The public digital infrastructure built over the past 6-7 years will boost economic efficiency and GDP growth by 30--50 basis points. India's public digital infrastructure's growth implications have received little research .

The benefits of formalization, including financial inclusion, are too clear to ignore. It only takes a short while for its growing benefits to start showing up in the statistics consistently. Because of this, we are hopeful that India will have real GDP growth of 6.5% on average over the coming years. Also, India's potential GDP growth might reach 7-8% per year in the medium term if the other reforms mentioned in the preceding paragraph are carried out in the upcoming years .

2.9. A REVIEW OF THE ECONOMIC AND STRUCTURAL REFORMS IS PROVIDED; SHOCKS TO THE ECONOMY ARE COVERED FROM 2014 THROUGH 2022.³¹

As mentioned above, India's economic growth should have increased due to the significant and profound economic developments of the past eight years. It was unintentional..³² The "culprit" is India's debt from the previous years' credit binge. According to the Bank for International Settlements, India's non-financial private sector debt to GDP rose from 72.9% in March 2004 to 113.6% in December 2010. 40.7 percentage points increased in six years. The non-financial sector has 44–133 lakh crore in rupee debt. Tripled in six years. Despite meager economic changes, global capital flows and optimism in the BRICS (Brazil, Russia, India, China, and South Africa) fueled a local lending and investment bubble that was unsustainable. The 2013 fiscal and external deficit

³¹"The Indian Economy: Problems and Prospects" (2002).

³²Evidence from a Natural Experiment" by Gabriel Chodorow-Reich, Gita Gopinath, and Prachi Mishra, published in the Quarterly Journal of Economics (2019).

crisis demonstrated this. After that, non-financial private sector debt to GDP began to drop in 2015, hitting 83.8% in December 2018. Over eight years, that's a drop of over 30 percentage points from December's 113.6 percent.³³

A negative credit gap to GDP ratio resulted from the fact that private non-financial sector credit as a proportion of GDP was below its trend value for the bulk of the second decade of the millennium. 2017 saw a record-breaking 25% divergence. Throughout the second decade, banks' capacity to offer credit was considerably constrained by balance sheet stress (-0.5). This explains why the credit-to-GDP ratio has dropped sharply .

Due to bad investment choices, businesses were unable to repay bank loans. NPAs at banks rose as a result. It took a while for the balance sheets of the financial and non-financial firms to recover in the second part of the previous decade. The government and RBI changed policies to assist in the banking sector's recovery from the 2010s balance sheet crisis. The Insolvency and Bankruptcy Code (IBC), the "Asset Quality Review" (AQR), the prompt corrective action (PCA) framework, the recapitalization of Public Sector Banks (PSBs), and PSB mergers all helped to clean up the balance books of banks and businesses .

Businesses struggled to pay back bank loans as a result of bad investments . NPAs at banks rose as a result. The balance sheets of the financial and non-financial firms were subsequently repaired over an extended period of time in the second half of the preceding decade. The government and RBI modified existing regulations to help the banking sector recover from the 2010s balance sheet crisis. Cleanup of bank and company balance sheets was made feasible by the Insolvency and Bankruptcy Code (IBC), the "Asset Quality Review" (AQR), the prompt corrective action (PCA) framework, the recapitalization of Public Sector Banks (PSBs), and their mergers .

In September 2018, just when businesses and banks were fortifying their financial statements, IL&FS saw a decrease. a large asset base for an NBFC . Its demise also had an impact on other non-banking financial institutions. Many mortgage lenders stopped operating. Payments on mortgages were put on hold. Financial institutions that are not banks lend to more and riskier borrowers. They acquire loans from banks. Their refinancing was unsuccessful because of the

³³"The Impact of COVID-19 on the Indian Economy: An Analysis" by Rajesh Chadha and Rahul Anand, published in the World Bank South Asia Economic Update (2020)

failure of IL&FS, an NBFC, and a few housing finance businesses. Bank loan growth has decreased to single digits since 2019. Capital development was hampered by inadequate credit expansion .

To minimize the effects of the failure of IL&FS and the housing financing industries, the government responded by implementing a variety of measures, including a cut in corporation taxes in September 2019. When the epidemic eventually manifested, it was up to the administration to deal with the significant health, social, and economic ramifications. In September 2019, the government agreed to cut business taxes as the IL&FS and home finance sectors failed. To boost the economy and attract new investors, this was done. However, the administration faced unexpected challenges at the start of 2020 as a result of the COVID-19 pandemic outbreak .

To mitigate the effects of the epidemic on the health, social, and economic fronts, the government needed to act quickly. These initiatives included a thorough lockdown to halt the virus's spread, a sizeable stimulus package to aid individuals negatively impacted both physically and financially by the outbreak, and other measures to enhance the healthcare system. The focus of the government's response to the outbreak, which had a serious impact on the economy, was on supporting both businesses and individuals. The government made a series of announcements regarding economic relief measures, such as cash transfers, loan moratoria, and interest rate reductions, to help people and companies deal with the economic effects of the epidemic. Lockdowns, social isolation laws, the requirement to wear masks, increased testing, and contact tracking are just a few of the strategies that governments around the world have used to combat the epidemic. To curb the virus's spread and keep the healthcare system from becoming overworked, a variety of measures have been taken. The government has enacted a number of economic policies, including stimulus packages, corporate loans and subsidies, and higher unemployment payments. Several steps have been taken to help those lives and companies have been negatively impacted by the pandemic and to prevent major economic disruption .

The success of the measures taken to prevent the pandemic, the degree of citizen compliance, and the capacity of the healthcare systems to handle the virus will all play a role in how well the government responds to it. The effects of the pandemic on the global economy have been felt regardless of whether some nations have been able to successfully limit the virus' spread or not .

The general aim of the government's response to the outbreak was to stop the virus's spread while also reducing the harm it caused to the economy and standard of living of the people of the country. The administration's efforts have been successful in keeping the economy afloat, despite the fact that it has been difficult to stop the virus's spread. Several governments have put into place measures like fiscal stimulus packages, monetary policy measures, and regulatory reforms to help businesses, workers, and the economy as a whole during this difficult time. The severity and length of the epidemic, the size and complexity of the economy, and the government's response are just a few variables that can influence how successful these efforts are. The situation must be regularly assessed, and action must be done, to improve the economy and public health while preserving long-term sustainability and stability. These themes were covered in depth in the 2020-2021 and 2021-2022 economic surveys. The impact of these consecutive shocks on economic growth has delayed the results of such extensive reforms .

The concept of "fiscal policy" describes how the government influences the economy through taxation and spending. In reaction to the two consecutive shocks that occurred in 2020–2021 and 2021–2022, governments all over the world enacted a range of fiscal policy measures to bolster their economies .

Aiming to boost economic activity, create jobs, and help those hurt by shocks during recessions, fiscal policy generally seeks to do all three. This could entail taking steps like boosting public spending on infrastructure upgrades, distributing money directly to individuals and organizations, providing tax breaks and other incentives, and obtaining loan guarantees. The extent, timeliness, overall health, and specific issues that need to be rectified of the economy, as well as fiscal policy's ability to encourage economic growth, are all important considerations. The impacts of the successive shocks that affected people and businesses in 2020–2021 and 2021–2022, respectively, have been greatly mitigated because to the implementation of fiscal policy .

But it can take some time before these policy adjustments have a discernible effect on economic growth. Certainly, economists and decision-makers will continue to study and examine the long-term effects of the successive shocks as well as the fiscal policy responses for many years to come .

The following are a few of the key concerns raised by the statement regarding changes to economic policy and how they affect economic growth :

- **Time Lag:** It may take some time for policy changes to have an impact on the economy. This is due to the fact that implementing policies takes time, and it is possible for changes to policies to take some time to filter through to other economic sectors. In addition, economic agents might take some time to alter their behavior and expectations in response to changes in policy.
- **Effects throughout time:** It's critical to research and analyze how changes in policy will affect the economy over time. Policymakers can understand the success of their policies and, if necessary, alter them with the aid of long-term studies.
- **Successive Shocks:** The statement also implies that decision-makers should take into account the economy's overall effects of successive shocks. The cumulative impact of several shocks on the economy, such as a pandemic followed by a natural disaster, may be bigger than the sum of each shock's individual effects. When creating measures to lessen the effects of these shocks, policymakers must take this into consideration .

The statement emphasizes the significance of fiscal policy measures in reducing the effects of economic shocks. Government spending and taxation are included in fiscal policy, and during times of economic instability, officials can utilize fiscal policy measures to stabilize the economy. However, it is crucial to make sure that fiscal policies are long-term viable and do not lead to upcoming economic imbalances. In general, the statement underlines the significance of keeping the long term in mind when formulating and putting into practice economic policies, particularly in times of economic upheaval. The transmission delay of policy changes, the cumulative effect of subsequent shocks, and the sustainability of fiscal policies are all factors that need to be taken into account by policymakers .

CHAPTER- 3

SUMMARY OF THE EMPIRICAL AND THEORETICAL STUDIES ON THE RELATIONSHIP AMONG FISCAL POLICY & ECONOMIC DEVELOPMENT

3.1. INTRODUCTION³⁴

The phrase "fiscal policy" refers to how the government employs borrowing, spending, and taxation to influence the state of the economy. Contrarily, economic development is the process of long-term increases in real per capita income and other measures of national well-being. There has been substantial and varied theoretical research on the connection between fiscal policy and economic growth, with a wide range of models and opinions. It is a recurring subject in this literature that fiscal policy can influence economic growth and development in both the short and long timeframes. For instance, while short-term government spending might boost overall demand and economic expansion, long-term government debt and deficits can deter private investment and sluggish economic growth. The theoretical literature frequently discusses how the institutional and political context, the type of policy intervention, and the structure of the economy all have an impact on how effective fiscal policy is. For instance, some experts argue that in economies with high levels of market flexibility and trade openness, the political and institutional environment has a stronger influence on fiscal policy success. Numerous studies and approaches have been used in a significant corpus of empirical research on the connection between fiscal policy and economic development. Studies have examined both the overall impact of fiscal policy—such as government spending or taxation—on economic growth and development and its individual components.

Fiscal policy describes how the government affects the economy through taxing and spending decisions. Contrarily, economic development is the steady rise in a nation's or region's level of living and economic activity. Fiscal policy has a significant potential to support economic growth. Government spending on infrastructure initiatives, such as building roads, bridges, and airports, for instance, can increase employment and enhance mobility, both of which can boost productivity

³⁴"Economic Reforms and Development in India" by Suresh Tendulkar, published in the book "India's Economic Reforms and Development: Essays for Manmohan Singh" (2004).

and economic activity. Similar to this, tax policies that encourage investment in R&D, education, and entrepreneurship can encourage innovation and the emergence of new industries, both of which can support economic growth .

Yet, if fiscal policy is poorly administered, it can also impede economic growth. For instance, large amounts of public debt and excessive government expenditure may cause inflation and higher interest rates, both of which may be detrimental to economic growth. Similar to this, tax regulations that are too onerous or uncertain might deter investment and impede entrepreneurship. Hence, fostering economic development requires a balanced and successful fiscal strategy. This necessitates carefully weighing the trade-offs between taxation, debt management, and government spending, as well as the effects of these policies on the overall economy. Overall, the empirical data point to a nuanced and situation-specific link between fiscal policy and economic progress. For instance, some research has discovered that government expenditure on infrastructure and education can promote economic growth and development, while other studies have discovered that excessive levels of public debt and deficits might have the opposite impact. According to this, some research have found that tax policies that support entrepreneurship and private investment can advance economic development, while other studies have discovered that high tax rates can impede growth .

3.2. FISCAL POLICY IN INDIA: LESSONS AND PRIORITIES³⁵

Fiscal policy is the use of government spending and taxation to influence the economy. In India, fiscal policy has played a crucial role in shaping the economy , especially since the country's economic liberalization in the early 1990s. Infrastructure Investment: The Indian government has made significant progress in this area, especially in the development of roads, airports, and seaports. India's fiscal policy is an essential tool for achieving its economic goals, as it allows the government to control the amount of money flowing into and out of the economy. Infrastructure development is essential for the expansion of the economy . Along with creating jobs, it also boosts production and draws in outside capital. By setting taxation and spending policies, the government can promote growth, reduce poverty and inequality, and manage inflation. To promote growth, the government can use fiscal policy to increase spending on infrastructure, education,

³⁵"Fiscal Policy in India: An Empirical Investigation" by Amaresh Samantaraya and Rajiv Ranjan, published in the Journal of Public Finance and Public Choice in 2019.

and healthcare. By investing in these areas, the government can create jobs, boost productivity, and increase the country's overall economic output. To reduce poverty and inequality, the government can use fiscal policy to provide targeted social welfare programs, such as subsidies for food, housing, and healthcare, to those who need them most. These programs can help lift people out of poverty and improve their standard of living .

Finally, through regulating the money supply, fiscal policy can also aid in the management of inflation. In order to lower the amount of money accessible in the economy, the government may raise taxes or cut spending if it determines that there is too much money in circulation. In contrast, if the government thinks there isn't enough money in circulation, it might raise spending or cut taxes to boost the economy .

- **Targeted Subsidies:** Subsidies are an essential tool for addressing the issue of poverty and inequality. However, indiscriminate subsidies can be costly and inefficient. The Indian government has taken steps to ensure that subsidies are targeted to those who need them the most. For example, the Direct Benefit Transfer (DBT) scheme has been implemented to transfer subsidies directly to the bank accounts of beneficiaries .
- **Fiscal Consolidation:** Fiscal consolidation is necessary for sustainable economic growth. The Indian government has made progress in reducing its fiscal deficit in recent years. However, more needs to be done to bring down the debt-to-GDP ratio, which remains high .

Priorities for India's Fiscal Policy³⁶

- **Boosting Demand:** India's economy has been hit hard by the COVID-19 pandemic, and one of the key priorities for fiscal policy is to boost demand. This can be achieved by increasing government spending on infrastructure and social welfare programs.
- **Tax Reform:** India's tax system is complex and can be a significant burden on businesses. Simplifying the tax system and reducing tax rates can encourage investment and stimulate economic growth.

³⁶"Fiscal Policy, Stabilization, and Growth: Prudence or Abstinence?" by Raghuram G. Rajan and Francesco Giavazzi, published by the National Bureau of Economic Research in 2002.

- **Public Sector Reforms³⁷:** The public sector in India is often criticized for being inefficient and corrupt. Fiscal policy can play a crucial role in reforming the public sector by improving governance, increasing transparency, and reducing bureaucracy.
- **Agriculture Reforms:** Agriculture remains a significant sector of the Indian economy, but it faces significant challenges. Fiscal policy can play a role in addressing these challenges by increasing investment in agricultural infrastructure, promoting agri-exports, and providing support to small farmers .

In conclusion, fiscal policy in India has played a crucial role in shaping the economy. The government has made progress in several areas, but there is still a lot to be done. Prioritizing boosting demand, tax reform, public sector reform, and agriculture reform can help India achieve sustainable economic growth in the years to come .

3.3. THE IMPACT OF FISCAL POLICY ON MACROECONOMIC VARIABLES LIKE GDP, INFLATION AND EMPLOYMENT³⁸ .

The use of taxation and spending by the government to affect the economy is referred to as fiscal policy. Macroeconomic factors including GDP, inflation, and employment can be significantly impacted by fiscal policy. Governments utilize fiscal policy as a tool to influence the overall health of their economies .

Policymakers can affect the level of economic activity, inflation, and employment rates by changing the amount of taxation and spending that the government imposes. For instance, a government may employ an expansionary fiscal strategy by raising expenditure and lowering taxes during economic downturns. This financial boost to the economy can promote job creation and economic growth while assisting in the fight against the recession. In contrast, a government may adopt a contractionary fiscal strategy during periods of economic expansion by cutting back on expenditure and raising taxes. This can assist in reducing inflation and avoiding an overheated economy .

³⁷"Fiscal Responsibility and Budget Management Act: An Overview" by Priyanka Singh and Abhishek Kumar, published in the International Journal of Innovative Research and Development in 2014.

³⁸"Fiscal Policy and Economic Growth in South Asia" edited by Rajiv Kumar and Nagesh Kumar, published by Oxford University Press in 2016.

Overall, a number of variables, such as the size and structure of the economy, the type of economic shock being handled, and the political and institutional context in which the policy is executed, affect how effective fiscal policy is. By raising the demand for products and services, the government can promote economic growth by increasing expenditure or lowering taxation. Increased productivity, employment, and money may result from this. The government can enhance spending by making investments in infrastructure, healthcare, education, or other initiatives that foster economic activity and the creation of jobs; however, if the economy is close to reaching capacity, this increased demand may also result in inflation. When the economy is unable to meet demand for goods and services, businesses may raise their prices, which can result in inflation. The purchasing power of the populace can be diminished, economic progress might be slowed, and social and economic instability can result from excessive inflation .

It is significant to keep in mind that there might be trade-offs between accomplishing certain policy goals and the effectiveness of these measures, depending on the unique economic environment. Increasing government expenditure, for instance, can result in job growth but also enlarge the budget deficit, which might harm the economy over the long run. In addition, changing interest rates to curb inflation may have an impact on borrowing and investment choices, which may have wider economic repercussions .

Overall, achieving a balance between monetary and fiscal policies is essential for preserving employment levels and promoting sustainable economic growth. To ensure that the desired objectives are fulfilled and unforeseen consequences are avoided, careful analysis and assessment of the potential implications of policy initiatives are required .

- Governments use fiscal policy to influence their economies. By altering government expenditure and taxation, policymakers can have an impact on GDP, inflation, and employment. Depending on the policy and economy, fiscal policy has varying effects on these variables. Governments may increase expenditure or lower taxes during recessions to increase demand and jobs. During an economic expansion, governments may reduce spending or increase taxes to prevent inflation and overheating. Economic growth is influenced by and controlled by fiscal policy. Government spending and taxes have an impact on the economy through fiscal policy. When implemented appropriately, fiscal policy can have an impact on GDP, inflation, and employment. Government expenditure

increases consumer demand, which in turn spurs economic growth. Demand boosts output, employment, and GDP. Overspending by the government can result in price increases and currency depreciation .

- The economy may also be impacted by taxes. Tax reductions may increase consumer spending, fostering job growth and economic growth. The debt and deficit could rise as a result of tax cuts without spending restraints. Depending on the policies and how they are carried out, fiscal policy has an impact on GDP, inflation, and employment. Decision-makers must carefully examine and, if required, modify their fiscal policy decisions in order to sustain long-term economic stability and growth .
- Increased business taxes could result in less employment and investment. Employment, GDP, and inflation are all impacted by fiscal policy. The outcomes depend on the government's policies as well as how fast and effectively consumers and businesses react. Fiscal policy needs to be thoroughly researched and applied to produce the intended results .

3.4. IMPORTANCE OF STUDYING THE CONNECTION BETWEEN FISCAL POLICY AND ECONOMIC DEVELOPMENT³⁹

Studying the connection between fiscal policy and economic development in India is crucial for several reasons. Studying the connection between fiscal policy and economic development in India is crucial for several reasons. Firstly, India is one of the fastest-growing major economies in the world and is expected to play a significant role in the global economy in the coming decades. Understanding the impact of fiscal policy on economic development is crucial for policymakers and investors looking to understand and participate in India's growth story. Secondly, India has a complex fiscal system that involves multiple levels of government and a wide range of taxes and subsidies.⁴⁰ Understanding how different fiscal policies impact economic development in this context requires careful analysis and research. Thirdly, India has several challenges related to economic development, including poverty, inequality, and unemployment. Fiscal policies can be

³⁹"Fiscal Consolidation, Budget Deficits and the Macro Economy in India" by Rajesh Chakrabarti and Sugata Marjit, published by the Oxford University Press in 2015.

⁴⁰"The Indian Economy: Challenges and Opportunities" edited by Ratan Lal Basu and Ashok K. Lahiri, published by the Springer in 2019.

used to address these challenges, but their effectiveness depends on various factors, such as the quality of governance, the institutional framework, and the political economy of the country. Fourthly, Understanding how fiscal policies impact economic development in different regions and states is crucial for designing targeted policies that can address regional disparities and promote inclusive growth. Studying the connection between fiscal policy and economic development in India is crucial for policymakers, investors, researchers, and other stakeholders interested in understanding and promoting India's economic growth and development . India is one of the fastest-growing economies in the world, and its fiscal policies have played a significant role in driving this growth. A deeper understanding of how these policies work can help policymakers make informed decisions that can sustain economic growth over the long term. India faces a range of economic challenges, such as high inflation, a large informal sector, and a widening income gap. By studying the connection between fiscal policy and economic development, researchers can identify policies that can address these challenges and promote more inclusive growth. India is a diverse country with a vast population, and the impact of fiscal policy can vary significantly across regions and social groups. Studying the connection between fiscal policy and economic development can help policymakers design policies that are tailored to the specific needs and circumstances of different regions and communities .

In conclusion, studying the connection between fiscal policy and economic development in India is essential for policymakers, researchers, and other stakeholders. It can provide insights into how to sustain economic growth, address economic challenges, promote inclusive growth, and ensure that economic policies are tailored to the needs of diverse communities .

3.5. CURRENT STATE OF FISCAL POLICY AND ECONOMIC DEVELOPMENT IN INDIA

The current state of fiscal policy and economic development in India was mixed. India's fiscal policy and economic development have been mixed in recent years, with some positive developments and some challenges. On the one hand, India has made significant progress in reducing poverty, boosting economic growth, and attracting foreign investment. On the other hand, the country faces several structural problems, such as income inequality, high unemployment, and slow progress in some sectors. The Indian government has implemented several fiscal policy measures to promote economic growth and development. These measures include reducing

corporate tax rates, introducing a new direct tax code, and increasing public investment in infrastructure. Despite this positive factor, India still faces several challenges that need to be addressed to sustain its economic development, such as improving the quality of education and healthcare, reducing corruption, and increasing the ease of doing business

Furthermore, the current state of fiscal policy and economic development in India is mixed. On the positive side, India has undertaken several structural reforms in recent years, such as the introduction of a goods and services tax (GST) and the implementation of the Insolvency and Bankruptcy Code (IBC). These reforms are expected to improve the ease of doing business in India and attract more foreign investment. India's fiscal policy has been expansionary in recent years, leading to an increase in fiscal deficits and debt levels .

This has raised concerns about India's long-term fiscal sustainability and the potential impact on the country's credit rating. However, the COVID-19 pandemic has impacted the Indian economy, leading to a slowdown in growth and an increase in fiscal deficits. India's economic development has been driven by a combination of factors, including its large and growing population, abundant natural resources, and the development of key industries such as IT, pharmaceuticals, and automotive manufacturing. However, the country still faces several challenges, such as improving the quality of education and healthcare, reducing corruption, and increasing the ease of doing business. The current state of fiscal policy and economic development in India is mixed, with both positive and negative trends. The Indian government will need to continue implementing effective fiscal policies and addressing structural challenges to ensure sustainable economic growth and development in the future .

Fiscal Policy: India's fiscal policy has been affected by the COVID-19 pandemic. To mitigate the impact of the pandemic, the government increased spending on health, infrastructure, and social programs, which led to a rise in the fiscal deficit. The fiscal deficit for 2021-22 was projected to be 6.8% of GDP, which is higher than the government's target of 3.5% of GDP. To finance this deficit, the government relied on borrowing from domestic and international markets .

Economic Development: The Indian economy was recovering from the pandemic-induced slowdown, but the pace of recovery was uneven across sectors. While some sectors such as IT and pharmaceuticals performed well, others like tourism and hospitality continued to struggle. India's

GDP growth rate for 2021-22 was projected to be 9.5%, which is higher than the previous year's contraction of 7.7%. However, the recovery remained fragile, and the economic impact of the pandemic continued to linger .

In addition, India's economic development was also affected by other factors such as inflation, unemployment, and structural reforms. Inflation remained high due to supply-side disruptions caused by the pandemic, rising fuel prices, and higher import duties. Unemployment remained a concern, particularly for the informal sector. The government continued to implement structural reforms such as the new labor codes, the production-linked incentive (PLI) scheme, and the privatization of public sector enterprises, which aimed to promote investment, growth, and job creation .

Overall, while India's fiscal policy has been expansionary, aimed at supporting the economy during the pandemic, the pace of economic recovery remained uneven across sectors, and the impact of the pandemic continued to linger .

3.6. INDIA'S FISCAL POLICY AND GDP: A RELATIONSHIP A PLAN FOR BOOSTING THE ECONOMY'S GROWTH⁴¹

They can include raising government expenditure on social welfare and infrastructure projects, enacting tax changes to promote spending and investment, and overseeing the nation's public debt.⁴² Governments can affect macroeconomic variables including the demand for goods and services, inflation, employment, and economic growth through enacting fiscal policy. Contrast that with monetary policy, which is run by central bankers rather than elected leaders.

- In India, fiscal policy refers to the decisions made by the government on spending, taxes, and borrowing to support economic growth, stability, and development.
- The total monetary quantity of products and services generated inside a nation's boundaries is known as the gross domestic product , or GDP , which is used to gauge the size of an economy.
- The GDP of India has steadily expanded over the previous few decades, but recent economic hardships have been severe.

⁴¹"India's Economic Development: Strategies for the Twenty-First Century" by Jagdish Bhagwati and Arvind Panagariya.

⁴²"Public Finance" by Harvey S. Rosen and Ted Gayer

- A variety of choices are available for officials to boost economic growth under the fiscal policy framework in India.

It is crucial to make sure that fiscal policies are carried out successfully and efficiently while taking into account the distinctive economic and social features of the nation. To ensure ongoing growth and development, officials must also strike a balance between short-term economic objectives and long-term sustainability⁴³. In light of the foregoing, this strategy aims to investigate the connection between India's fiscal policy and GDP and to pinpoint both short- and long-term measures for accelerating the nation's economic growth. Because it impacts the amount of government spending, taxation, and borrowing, all of which can have an impact on the level of general economic activity, fiscal policy can have a major impact on a nation's GDP. With the goal of boosting public spending to stimulate economic growth, India has recently implemented expansionary fiscal policies. To boost economic activity and strengthen the nation's physical infrastructure, the government has undertaken numerous large-scale infrastructure projects, such as the building of highways, airports, and ports .

India has grappled with large levels of public debt and recurring fiscal deficits, but the nation has also had difficulties upholding fiscal discipline. Concerns about the sustainability of India's fiscal policy and the potential effects it may have on the nation's prospects for long-term economic growth have arisen as a result. The relationship between fiscal policy and a nation's GDP, or gross domestic product, is well known. Fiscal policy is the process through which the government uses spending and taxation to influence the economy. When the government increases spending or decreases taxes, the economy benefits financially, which can increase investment, consumption, and employment. Due to this increased economic activity, the GDP could rise. By funding infrastructure projects, healthcare, education, and other activities, spending increases by the government help to create jobs and stimulate the economy. These higher levels of economic activity may lead to higher levels of investment and consumption, which would raise the GDP .

- Tax reductions: When the government lowers taxes, it gives people and businesses more money, which may encourage spending and investment. The GDP may increase as a result of this increased economic activity.

⁴³"The Economics of Public Issues" by Roger LeRoy Miller and Daniel K. Benjamin

- Investment incentives: The government can promote economic growth by providing incentives to businesses for making new investments or expanding existing operations. Higher employment rates and increased economic activity may result from this increased investment, which may enhance the GDP.
- Economic stimulus plans: The government may deploy stimulus plans during economic downturns, which generally include increased government expenditure and tax breaks. These actions aim to increase economic activity and encourage growth .

In conclusion, fiscal policy can significantly contribute to a nation's economic growth and GDP. Governments can create a more favourable economic environment that can result in greater consumption, investment, and employment, which can raise GDP, by raising government spending, cutting taxes, providing investment incentives, and enacting economic stimulus packages. The revenue budget's deficit for 2022–2023. The revised projection for India's fiscal deficit in 2022-23 was 4.1% of GDP.

- A 2.9% GDP revenue gap is shown in the Union Budget for 2023-24.
- The primary deficit, excluding interest payments, was 3% of GDP in 2022-23.
- The budget deficit is expected to fall to 5.9% of GDP in FY24 from 6.4% in FY23, according to Nirmala Sitharaman, the finance minister.
- The administration expects to continue fiscal restructuring and cut the fiscal deficit to 4.5% by 2025-2026.
- In 2023-24, net market borrowings from dated securities are estimated to support the fiscal deficit at \$11.8 lakh crore.
- Small savings and other sources will provide the remainder.
- \$15.4 lakh crore in market borrowings is estimated.
- In the Union Budget for 2023-24, the fiscal deficit to GDP is 5.9% in FY24.

This ratio dropped from 6.4% (updated estimate) in 2022–2023 and 6.7% in 2021–2022 (actual) .

According to a Fitch Ratings analyst on Wednesday, India may struggle to meet its fiscal deficit goal of 4.5% of GDP in 2025–2026. The analyst also noted that the nation's sovereign rating is still stable. According to updated forecasts, the government intends to have a budget deficit of 5.9% of GDP in 2023–24, down from 6.4% in 2022–23 .

The government's goal for a fiscal deficit in 2025–2026 may face some difficulties, according to a Moody's Investors Service representative who had earlier in the day made a similar warning. The government may find it challenging to balance its budget because to geopolitical unrest, increased commodity costs, and unfavorable global economic conditions, among other factors, according to Fitch's Zook. According to Zook, maintaining subsidies at a higher level may face further pressure if commodity prices increase significantly during an election year. This can cause some financial instability and possibly raise the cost of borrowing money for the government. According to figures from the Finance Ministry issued on Friday, the government's fiscal deficit at the end of November reached 59% of the full year Budget Estimate because of higher capital expenses and sluggish growth in non-tax revenue. The fiscal deficit—the discrepancy between spending and income—between April and November of 2022–2023 was really Rs 9.78 lakh crore. In comparison to the deficit forecast in the budget for 2021–2022, the deficit for the same period in 2017 was 46.2% higher. For the fiscal year that ends in March 2023, the government expects a deficit of Rs. 16.61 lakh crore, or 6.4% of GDP. Market borrowing is used to make up the difference. The Controller General of Accounts (CGA) reported that net tax revenue of Rs. 12.24 lakh crore accounted for 63.3% of BE 2022–23. Net tax revenue made up 73.5% of the BE for the same period in 2021–2022. The non-tax sources accounted for 1.98 lakh crore, or 23.5% of BE, of the total revenue. BE was collected in the previous fiscal year at a rate of 91.8%. The federal government's entire spending from April to November grew to 61.9 percent of BE 2022–23 from the same time last year .

3.7. KEY ELEMENTS AND GOALS OF INDIA'S MONETARY POLICY⁴⁴

To achieve specific objectives, the Reserve Bank of India develops and puts into effect the country's monetary policy. To manage the economy's money supply: The term "money supply" refers to both the total amount of cash in circulation and the total amount of bank credit issued. Monetary policy uses credit expansion or contraction to control the amount of money in the economy.⁴⁵

⁴⁴Monetary Policy in India: A Modern Macroeconomic Perspective by ChetanGhate, RadhikaPandey, and IlaPatnaik (2018)

⁴⁵World Bank Country Partnership Framework for India (2021-2025)

- **To Encourage Exports & Substitute Imports⁴⁶:** By providing subsidized loans, monetary policy encourages export-oriented and import-substitute enterprises. This improves the state of the balance of payments .
- **To Guarantee More Credit for vital Sectors:** By decreasing interest rates, monetary policy seeks to increase the amount of credit available to vital sectors. Among the top sectors are agriculture, small businesses, especially the most vulnerable segments in society.
- **To Foster Employment:** Monetary policy supports employment by providing loan facilities to successful initiatives, small and medium-sized businesses, and exclusive credit programs for young people without jobs .
- **Expansion and Regulation of Banking:** The Reserve Bank of India (RBI) is in charge of regulating the country's financial sector. The RBI issues directives to various banks in an effort to encourage agricultural lending through monetary policy and encourage the opening of bank branches in rural regions. The government also established cooperative banks and regional rural banks.
- **Maintaining Price Stability:** One of the primary goals of Indian monetary policy is to maintain price stability. It suggests that inflation is under control. The money supply has an impact on price levels. To preserve price stability, monetary policy controls the money supply.
- **To Stimulate Economic Growth:** One of the most important goals of monetary policy is to provide the appropriate amount of cash and loans to support the country's economic growth. Credit is made available in the right amounts to the sectors of the economy that are most important for growth.
- **To Promote Saving and Investment:** Monetary policy encourages saving and investment by controlling inflation and interest rates. Interest rates that are higher encourage saving and investing .

3.8. EFFECTS OF GLOBAL ECONOMIC VARIABLES ON INDIA'S FISCAL POLICIES⁴⁷

Due to erratic rainfall patterns and supply shocks brought on by Russia's invasion of Ukraine, prices for cereals and vegetables, which make up the majority of the inflation basket, have

⁴⁶Indian Economy: Problems, Policies and Development by Uma Kapila (2019)

⁴⁷Reserve Bank of India Annual Report 2020-21

increased during the past two years. Customers were already feeling the effects of the COVID-19 pandemic, and the price hike over the holidays when they were spending a lot on food made matters worse. This year, consumer prices exceeded the RBI's tolerance limit .

The desired range of 2% to 4% is maintained by the RBI with a 2% cushion. India saw inflation of more than 6% in eleven of the months this year. The CPI for November fell below the target range set by the RBI as a result of slower price rises for food. rates. In May 2022, the RBI raised its benchmark interest rate by 225 basis points. The repo rate is currently higher than it has been in the previous three years. Due to increased interest rates, loan borrowers now have a greater monthly payment, which has made their financial stress worse in an inflationary economy. The central banks of several significant nations, including India, expect rate increases .

Shaktikanta Das, governor of the RBI, warns that delaying rate increases while inflation is still high could be a costly policy error. Powell conceded. According to the US Federal Reserve, 2019 will see an increase in interest rates .

Regardless of the impending US recession. The Fed is increasing borrowing prices in an effort to reduce demand and inflation. It is essential to examine how the economy affects things. In order to battle inflation, other big central banks increased interest rates in 2022 at their fastest and highest rates in at least 20 years. In nations like the US and India, rates are increasing. The US Federal Reserve, ECB, Bank of England, Reserve Bank of Australia, Norges Bank, Bank of Canada, and Swiss National Bank all increased their benchmark interest rates by 300 basis points. However, the monthly high for September was 550 bps. Last week, Fed Chairman Jerom Powell postponed forecasting a recession . He forecast "moderate" growth and unemployment despite the Federal Reserve's efforts to suppress the boom in order to reduce inflation. US recessions can range in length and intensity. The first two spoke extensively. Good work. If there were no job losses, there wouldn't be a recession. It is expanding. To avoid more problems, it is essential to get ready for a recession . A cataclysmic global calamity might cause all economies to collapse. Following Russia's invasion of Ukraine in February, people found it difficult to survive without the necessities. The economic tensions between Russia and Ukraine as well as the international sanctions placed on Russia had a huge influence on supply chains all around the world. The high price of oil drove up inflation. Even the Indian Ocean shook. According to common trends, the currency plummeted, the stock markets declined, the inflation rate increased to new highs, and

foreign exchange reserves also decreased. Inflation and growth must be chosen by the government and RBI. The price was determined. The political choices taken this year will have an effect on the government's Union Budget for 2023-2024. The Center will put expansion first and foremost. Issues cannot be solved by policies. Geopolitical concerns occurring overseas have an impact on India. India would suffer from the US and Chinese economies slowing down .

Academics, trading firms, the IMF, and the World Bank all predicted that the Indian economy will expand at the fastest rate between 2022 and 2023. Strong domestic demand will support India's growth amid tightening monetary policy cycles, a faltering economy, and rising commodity prices. The current status of the international economy is largely the result of global uncertainty, the escalating Ukraine crisis, commodity market reactions to shifting scenarios, tight monetary policy, and other reasons .

India surpassed estimates for its quarterly growth and was more immune to global shocks, according to the most recent World Bank report .

India's GDP expanded by 6.3% in the third quarter of 2022-2023 as opposed to 13.5% in the second due to declining mining and manufacturing output . According to SBI researchers, India's economy would be the third largest by 2029. In FY23, a growth of 6.7% to 7.0% was predicted for India. The RBI revised down its December India GDP prediction from 7% to 6.8% due to geopolitical uncertainty. According to a prediction issued by Morgan Stanley in August, India's GDP will rise by 7% in FY23, the greatest growth rate among the world's major economies and the quickest among Asian countries. The issue of inflation is still present . The Ukrainian conflict put a cap on local commodity prices, which led to an increase in demand-supply imbalances. Global inflation has risen since 2021. Disaster was caused by war. The commodity market, international trade, and financial ties, according to ICRIER, are impeding economic growth and driving up inflation. Due to erratic rainfall patterns and supply shocks brought on by Russia's invasion of Ukraine, prices for cereals and vegetables, which make up the majority of the inflation basket, have increased during the past two years.

The COVID-19 pandemic was already causing customers problems, and the holiday season, when they spent a lot of money on groceries, made the price increase even more difficult. The government put restrictions on rice exports in an effort to lower inflation. This year, consumer

prices exceeded the RBI's tolerance limit. The desired range of 2% to 4% is maintained by the RBI with a 2% cushion. India saw inflation of more than 6% in eleven of the months this year. The CPI for November fell below the target range set by the RBI as a result of slower price rises for food. The recession in India is still running strong. Given the ongoing global challenges, India has been asked to move slowly. India was urged by the IMF to progressively raise interest rates. The fund commended India for its "appropriate policy tightening," but it issued a warning against tightening much further. Rate increases In May 2022, the RBI raised its benchmark interest rate by 225 basis points.

The repo rate is currently higher than it has been in the previous three years. Due to increased interest rates, loan borrowers now have greater monthly payments, which has made their financial stress worse in an inflationary economy. The central banks of several significant nations, including India, expect rate increases. Shaktikanta Das, governor of the RBI, warns that delaying rate increases while inflation is still high could be a costly policy error. Powell conceded. According to the US Federal Reserve, 2019 will see an increase in interest rates. Despite the impending collapse of the US economy. The Fed is increasing borrowing prices in an effort to reduce demand and inflation. It is essential to examine how the economy affects things. In order to battle inflation, other big central banks increased interest rates in 2022 at their fastest and highest rates in at least 20 years. In nations like the US and India, rates are increasing. The US Federal Reserve, ECB, Bank of England, Reserve Bank of Australia, Norges Bank, Bank of Canada, and Swiss National Bank all increased their benchmark interest rates by 300 basis points. However, the monthly high for September was 550 bps.

There has been a lot of talk around the possibility of the largest economy in the world entering a recession in 2019. After a challenging year for US financial markets, investors are prepared for a recession in 2023, according to Reuters. Inflation reached 40-year highs when the Fed resumed hiking rates. Since the beginning of 2022, the Treasury yield curve has inverted, a sign of a recession. Jerom Powell, the head of the Fed, did not foresee a recession last week. He anticipated "moderate" unemployment and growth, notwithstanding the Fed's efforts to curb inflation by slowing GDP.

The severity and length of US recessions can vary. The first two covered a lot of ground. Good work. A recession would not occur if jobs were not lost. It is growing. Economic systems need to

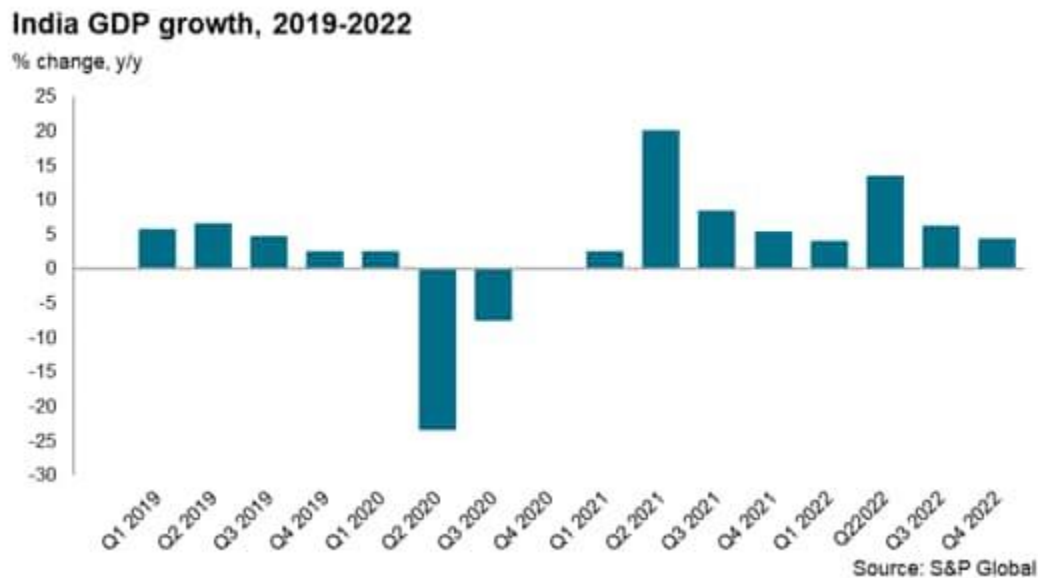
prepare for a recession because the repercussions will cause new issues. The Chinese economy is weakening. A housing crisis, a global economic depression, and protracted COVID restrictions are all affecting the second-largest economy in the world. Hospitals and cemeteries in China are overflowing with Covid cases. New strains worry other nations since China has the highest infection rate. Nations will need to control the new Covid strain if it spreads as quickly as the old one did during a global economic collapse. China takes part.

The strict COVID-related regulations that hampered supply chains and production caused a decline in GDP earnings for China's industrial companies from January to November. Analysts think their zero-Covid plan could be changed in 2019 to improve prospects. JP Morgan analysts predicted a shorter period of transitional pain in the first quarter of 2023, followed by an above-trend sustained recovery from the second quarter, due to China's domestic openness, which happened faster than expected. Earlier this month, they reduced prognosis for China's current quarter from 2.7% to 2.2% while increasing their estimate for the entire year from 4% to 4.3%.

China's housing market collapses. Real estate investment fell 16% in October, according to Reuters. China's real estate market has been impeded by the government's credit restrictions. The Chinese Banking Administration recommended real estate developers to employ pre-sale housing finance to boost liquidity. In China, real estate accounts for 20% of GDP. Investments may suffer if the financial crisis gets worse. Exports, which make up China's fourth pillar of the economy, deteriorated as a result of the country being forced by weaker international markets to cut labor costs, move to lower-value commodities, and lease out factories.

Other economies would be impacted if a big industrial hub saw a decline. Reuters experts predict that China won't achieve its target of 5.5% annual growth. South Asia is experiencing unrest. India's neighbors had to contend with issues including escalating inflation, political unrest, economic instability, issues with their balance of payments, and more this year. Economic recovery was hampered by the addition of these new difficulties to the Covid epidemic's scars. The region's economy is being constrained by the unanticipated shocks that Sri Lanka, Pakistan, Bangladesh, and China have all suffered. South Asia's average annual growth rate dropped from 5.8% to 5.8% in the World Bank's June report. The report noted that millions of Pakistanis have lost their homes due to flooding, households in Afghanistan are experiencing double-digit income

declines and have limited access to essential services, and migrant workers are insecure and potentially dangerous due to COVID lockdowns.



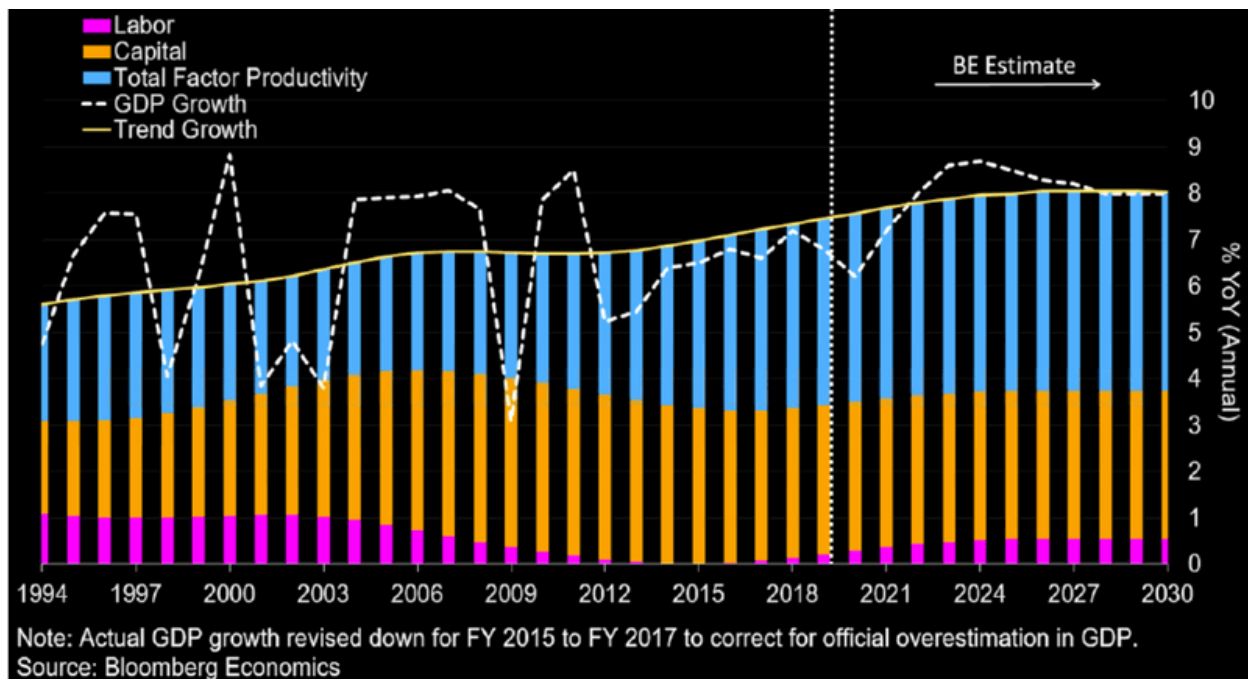
Sri Lanka defaulted in May. Due to political turmoil and human suffering, an IMF bailout of \$2.9 billion for the island in the Indian Ocean was postponed. The economy is in freefall since there aren't enough resources to buy gasoline. Output, inflation, and poverty all doubled in just one year. This year, a vote of no confidence resulted in the resignation of Imran Khan, the PTI's leader. Foreign exchange reserves were drained, resulting in an economic collapse. Pakistan needed money from the IMF.

To stop future losses to its foreign exchange reserves, Bangladesh and the IMF entered into negotiations. According to the World Bank, while the economies of Afghanistan, Sri Lanka, and Pakistan are more vulnerable and will see an increase in poverty in 2022 as a result of serious domestic crises, the economies of India, Nepal, and the Maldives, which are more service-led, are predicted to continue their reasonable recovery trend despite difficulties. India has long been troubled by China's influence in Sri Lanka, Bangladesh, and Nepal.

market unpredictability. The highest domestic equity indices were found in the capital economies of Asia, which raised expectations for 2023. The weight of Indian stock markets in MSCI's developing markets index increased by three times from 2019 to 16% as a result of predictions for the fastest economic growth, a structural shift in supply chains away from pandemic-hit China, and a post-pandemic retail boom. India's economy would grow by 6% in 2023, according to Reuters. The post-pandemic retail boom, the anticipated 6% economic growth, and robust corporate earnings are a few factors contributing to this. Despite a steady stream of bad news and a significant selloff by foreign funds, local institutional and individual investors were the key drivers of this outperformance.

It was unexpected for the sensex and Nifty, along with other stock markets, to have a negative year, especially following the start of the Ukraine War in February. The holidays caused the Sensex to rise. In 2018, 63,284 people counted. The sensex remains the world's best-performing primary market index despite an increase of 4.44% in 2022. In 2022, decreases were seen in the Nikkei (down 10.47%), FTSE 100 (down 0.43%), Hang Seng (15.82%), Shanghai Composite Index (16.15%), and Dow Jones (down 9.24%). Despite a drop of 18% in the global stock market, Asia's stock market remains the most expensive.

For the NSE Nifty 50 Index, growth exceeded 7%. The expansion of the Indian market was ignored by foreign investors. Foreign portfolio investors who had invested in Indian stocks for the previous three years withdrew Rs. 1.21 lakh crore in 2022. Experts predict FPI inflows for the upcoming year. The phrase "fiscal policy" refers to how the government employs taxation and spending to affect the economy. In general, fiscal policy can be either expansionary or restrictive. To promote economic growth, an expansionary fiscal strategy entails raising government expenditure and/or lowering taxation.



In order to moderate inflation and cool down an overheated economy, a contractionary fiscal strategy entails lowering government expenditure and/or raising taxes.

- India's current economic position, which can be influenced by a number of factors such as inflation, unemployment, and the performance of various sectors of the economy, will determine the precise fiscal policy measures that are adopted to achieve growth.
- The Indian government has generally concentrated on numerous initiatives to enhance economic growth and generate jobs, including increasing infrastructure spending, streamlining tax structures, and promoting foreign investment.
- Also, the government has put in place a number of programmes to aid certain economic sectors, including industry, agriculture, and small companies.

The enormous budget imbalance of India could be a problem for the government in its efforts to modify fiscal policy and achieve growth. By reducing subsidies and raising tax revenues, for example, the government has been reducing the deficit. The government must, however, strike a difficult balance between the need to encourage development and the requirement to reduce the

deficit. In general, the precise fiscal policy adjustments made in India to promote growth would rely on a number of variables and might alter over time.

3.9. GLOBAL ECONOMIC FACTORS THAT CAN AFFECT INDIA'S FISCAL POLICIES.⁴⁸

Overall, global economic factors can affect India's fiscal policies. To maintain fiscal stability, the government must be aware of these variables and ready to respond to global economic changes.

Major economic issues began 2022. This year was a chance for economies to recover after two years of COVID-19 pandemic destruction. Nobody predicted a global economic collapse. After Russia invaded Ukraine in February, humanity struggled to survive. Russia and Ukraine's economic channels were disrupted, and other economies sanctioned Russia, affecting global supply networks. Oil prices hit record highs, raising inflation. India suffered. Global trends affected stocks, inflation, the rupee, and foreign exchange reserves.

1. The expansion of the world economy has an impact on India's budgetary policy. Slowdowns in the global economy might damage India's fiscal policy by reducing demand for its products and services. A healthy global economy might benefit India's fiscal policies and tax revenues by boosting the demand for Indian goods and services.

2. Global Oil Prices: As a net oil importer, India's fiscal policies are influenced by the price of crude. India's fiscal imbalance and cost of oil imports may rise as world oil prices rise. The government might have to increase taxes or decrease spending to maintain its financial stability.

3. International Interest Rates: Indian fiscal policy is impacted by international interest rates. Reduced capital flows to India due to higher global interest rates could harm its fiscal policy. Capital flow reduction and increase in borrowing prices can put pressure on India's fiscal policy.

4. International Trade Policy: Indian fiscal policy may be impacted by international trade policy. Global economic protectionist trade policies might lower demand for Indian goods and services,

⁴⁸"Global Economic Factors and their Impact on Indian Economy" by Neeraj Kumar and Deepak Kumar (2019) in International Journal of Recent Technology and Engineering (IJRTE)

harming India's fiscal plans. However, more open trade laws can improve India's fiscal plans by boosting the demand for its products and services.

Economic growth or inflation reduction? Price control. 2023–2024's Union Budget will reflect this year's policy decisions. The Center will prioritise expansion. Policies don't fix the problem. India faces external geopolitical issues. US and Chinese slowdowns will also affect India. India is expected to shine amid global economic stagnation and recession rumours. Academics, brokerage firms, and the IMF and World Bank expect the Indian economy to grow the fastest in 2022–2023.

Strong domestic demand will support India's growth despite tightening monetary policy cycles, a faltering economy, and rising commodity prices. The current status of the international economy is mostly due to global volatility, the escalating Ukraine crisis, commodity market responses to shifting scenarios, strict monetary policy, and other factors.

According to the most recent World Bank report, India experienced stronger-than-anticipated quarterly growth and was more resilient to global shocks. India's GDP increased by 6.3% in the third quarter of 2022–2023 as opposed to 13.5% in the second, as a result of decreases in mining and manufacturing output. According to SBI researchers, India's economy will be the third largest by 2029. In FY23, an increase in India was predicted to range between 6.7% and 7.0%. The RBI revised its estimate of India's GDP for December from 7% to 6.8% in light of the geopolitical uncertainty. India's GDP will increase by 7% in FY23, Morgan Stanley predicted in August, the quickest rate among Asian countries and the highest among the major economies of the globe. Demand-supply imbalances widened because domestic commodity prices were constrained throughout the Ukrainian crisis. The rate of global inflation has increased since 2021. Disaster was caused by war. The commodity market, trade, and financial ties, according to ICRIER, are limiting growth and driving up inflation. There are ten factors that could affect the Indian economy in 2023, including inflation, growth, the budget, and more. Cereals and vegetables, which make up the majority of the inflation basket, have seen price hikes over the past two years due to fluctuating rainfall and supply shocks brought on by Russia's invasion of Ukraine. A cataclysmic global calamity might cause all economies to collapse. After Russia invaded Ukraine in February, there was a fight for basic necessities. The commercial disputes between Russia and Ukraine as well as the sanctions imposed on Russia by other countries had a substantial influence on global supply chains. High oil prices caused a sharp increase in inflation. Indian

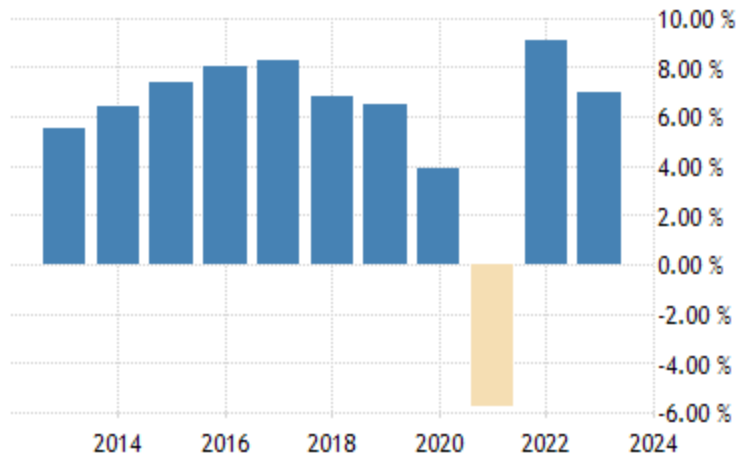
Ocean trembled. The currency declined, the stock markets declined, inflation soared to record highs, foreign exchange reserves also decreased in accordance with overall trends. Growth or inflation must be chosen by the government and RBI.

It decided the price. The policy decisions made this year will have an impact on the government's Union Budget for 2023-2024. The Center will put expansion first and foremost. Policies cannot solve the issue. Foreign geopolitical events have an impact on India. India would suffer from the slowdowns in the US and Chinese economies. The following ten economic developments in 2023, which will soon commence, are listed: The economy there is expanding the fastest. India is predicted to succeed despite predictions of a recession and a stagnant global economy.

According to forecasts from academics, trading houses, the IMF, and the World Bank, the Indian economy would expand at the quickest rate between 2022 and 2023. Strong domestic demand will support India's growth despite tightening monetary policy cycles, a faltering economy, and rising commodity prices.

The current status of the international economy is mostly due to global volatility, the escalating Ukraine crisis, commodity market responses to shifting scenarios, strict monetary policy, and other factors. According to the most recent World Bank report, India experienced stronger-than-anticipated quarterly growth and was more resilient to global shocks. India's GDP increased by 6.3% in the third quarter of 2022-2023 as opposed to 13.5% in the second, as a result of decreases in mining and manufacturing output. According to SBI researchers, India's economy will be the third largest by 2029. In FY23, an increase in India was predicted to range between 6.7% and 7.0%.

The RBI revised its estimate of India's GDP for December from 7% to 6.8% in light of the geopolitical uncertainty. India's GDP will increase by 7% in FY23, Morgan Stanley predicted in August, the quickest rate among Asian countries and the highest among the major economies of the globe. Still a concern is the inflation problem. Demand-supply imbalances widened because domestic commodity prices were constrained throughout the Ukrainian crisis. The rate of global inflation has increased since 2021. Disaster was caused by war. The commodity market, trade, and financial ties, according to ICRIER, are limiting growth and driving up inflation.



India's late 1980s and early 1990s macroeconomic imbalances prompted 1991 fiscal policy and economic growth structural adjustments.

The Indian economy went through a balance of payments crisis (CAD) as a result of a substantial and unsustainable current account deficit, increased inflationary pressures, and a large combined deficit of the central and state governments. Trade and investment were liberalized in 1991 as a result of the crisis.

- There were less entry restrictions for businesses, and import permits were no longer needed for practically all intermediate inputs and capital products. The removal of public sector monopolies in various areas and the establishment of the automatic approval policy for FDI up to 51% were two aspects of the new strategy that favored the entry of private sector businesses.
- In order to maintain competitiveness, the exchange rate was made flexible and allowed to decline as needed. On both the current account and the capital account, the rupee was rendered completely convertible.
- These acts improved the state of the economy. Real growth increased to 6.3% between FY93 and FY2000 from an average of 5.5% in the 1980s.
- The total trade in goods and services increased from 17.2% of GDP in 1990 to 30.6 percent in 2000, demonstrating the benefits of trade liberalization on global commerce.

Reforms with a Fresh Impulse: Persistence

The current focus of the government on both public physical and digital infrastructure has changed the economic potential for both people and businesses. According to a recent article in the RBI Monthly Bulletin, between 2014 and 2019, India's core digital sector will grow 2.4 times faster than the country's overall GDP. Due to its strong forward connections to non-digital sectors, digitalization fosters economic growth. We discuss financial formalisation, efficacy, and potential below.

- Recent advancements in financial inclusion have been based on Aadhar, the PM-Jan DhanYojana, and the growth of mobile phones (JAM Trinity). Compared to 53% in 2015–16, 78% of people in 2019–21 had bank accounts (as per NFHS). According to data from other nations, India's enormous growth in the number of bank accounts has taken them more than 50 years to match (D'Silva et al. 2019).
- The adoption of digital public goods, such as e-KYC, digital signatures, Digilockers, and UPI, which have decreased transaction costs and enhanced access to regulated financial services, has boosted financial inclusion. Financial inclusion and lending increase investment and consumption, which promote economic growth. Smaller businesses will have access to online marketplaces and funding thanks to the Open Network for Digital Commerce (ONDC) and Account Aggregator architecture, promoting medium-term economic growth.

Several firms benefited from these reforms, which also contributed to India's IT boom. Moreover, privatisation and disinvestment gained momentum. A Ministry was established by the government to accomplish this. Along with selling equity stakes in CPSEs, it privatised Maruti Udyog, Hindustan Zinc, Bharat Aluminum, and Videh Sanchar Nigam Ltd.

Because of digital infrastructure, the economy is now more officially organized. In its January 2023 issue, The Economist makes an argument for a connection between the formalization of India's labor force, the adoption of UPI, and the digitization of the GST. These organizations have found it simpler to integrate into the present economic system thanks to the websites for eshram, GSTN, SVANidhi, Aadhar, and Udayam. 10,000 small enterprises have evolved into medium-sized companies during the previous two years, out of the 1.27 crore businesses listed on the Udyam Portal. More than 93,000 small businesses have expanded as well. Many of these groups can now get formal credit more easily thanks to identification. More than 32.7

lakh street vendors have received a 10,000 rupee first loan through the PM SVANidhi Program, while 6.9 lakh have received a 20,000 rupee second credit. The e-Way Bill system and the Goods and Services Tax Network (GSTN) have formalized commercial transactions. According to GST taxpayers, it is predicted that formal business will increase from 70 lakh in 2017 to over 1.4 crore in 2022. Even modest transactions can be formalized thanks to UPI's widespread acceptance. By improving business performance and extending funding options, increasing formalization will raise economic production.

The advantages of economic and structural reform are increased by governance restrictions. Project- and portal-wide standardized digital interfaces have improved resource allocation and streamlined governance. The National Single Window System for corporate clearances, the JanSamarth portal for projects linked to central government credit, and the UMANG app for services from the central and state governments are all integrated for business purposes. In the 1990s, there was a gradual liberalization of the market for both products and capital. The government assisted them toward the end of the decade. Opportunities for debt-free capital inflows through investing were liberalized. Significant reforms were made to the telecom sector under the 1999 New Telecom Policy. Participation in the private sector was made possible by regulatory framework improvements (TRAI). Through reforms (BSNL), government regulation and policy were separated from operator functions.

CHAPTER – 4

CHALLENGES AND CONSTRAINTS IN IMPLEMENTING FISCAL POLICY FOR ECONOMIC DEVELOPMENT ⁴⁹

4.1. INTRODUCTION

Fiscal policy is one of the key tools used by governments to influence economic development. It involves the use of government spending, taxation, and borrowing to achieve specific economic objectives such as stabilizing the economy, promoting growth, and reducing inequality. However, implementing fiscal policy for economic development can be challenging and constrained by several factors. One of the primary challenges is the limited availability of resources, which can limit the government's ability to implement fiscal policies that require significant expenditure. Governments must balance the need for economic development with the need to maintain fiscal sustainability, which can be challenging when resources are limited.

Another challenge is the potential for fiscal policy to create unintended consequences. For example, if a government implements expansionary fiscal policy, such as increasing government spending or cutting taxes, it can lead to inflation or a budget deficit if not managed carefully. Similarly, contractionary fiscal policy, such as reducing government spending or increasing taxes, can lead to a recession if implemented too aggressively. In addition, the effectiveness of fiscal policy can be limited by external factors such as global economic conditions, exchange rate fluctuations, and trade restrictions. These factors can influence the effectiveness of fiscal policy measures and limit the government's ability to achieve its economic development goals. Furthermore, political considerations can also constrain the implementation of fiscal policy for economic development. The political environment can impact the government's ability to implement fiscal policies, particularly in cases where different political parties have different economic ideologies or interests.

⁴⁹Global Economic Factors and Fiscal Policy in India: A Time-Series Analysis by Abhay Kumar Singh and Naveen Kumar Maurya (2020)

Benefits of Implementing Fiscal Policy for Economic Development⁵⁰:

- **Stimulating Economic Growth⁵¹:** Fiscal policy can help stimulate economic growth by increasing government spending on public infrastructure projects, education, and health care, which can create job opportunities, increase consumer spending, and promote business expansion.
- **Stabilizing the Economy:** Fiscal policy can help stabilize the economy during times of economic crisis or recession by implementing policies that increase government spending and reduce taxes, which can stimulate demand and increase economic activity.
- **Reducing Income Inequality:** Fiscal policy can be used to reduce income inequality by implementing progressive tax policies that require high-income earners to pay a higher percentage of their income in taxes, and by increasing spending on social welfare programs to support low-income households.
- **Addressing Market Failures:** Fiscal policy can be used to address market failures, such as environmental degradation, by implementing taxes or subsidies that incentivize individuals and firms to adopt more sustainable practices.
- **Challenges and Constraints of Implementing Fiscal Policy for Economic Development:**
- **Political Instability:** Fiscal policy is often subject to political pressures and can be influenced by changes in government leadership or ideology, which can lead to inconsistent policy implementation and reduced effectiveness.
- **Limited Resources:** Fiscal policy implementation can be constrained by limited resources, such as budget deficits or debt, which can limit the government's ability to invest in public infrastructure and social welfare programs.
- **Time Lag:** Fiscal policy implementation can have a time lag between when the policy is implemented and when its effects are realized, which can lead to difficulties in predicting the impact of policy changes and making adjustments accordingly.

⁵⁰"Fiscal Policy and Economic Growth in Europe and Central Asia: An Overview" by Harry A. Patrinos, World Bank Group (2018).

⁵¹"The Impact of Fiscal Policy on Economic Growth: Empirical Evidence from OECD Countries" by BalázsÉgert, OECD Journal: Economic Studies (2013)

- **External Factors:** Fiscal policy implementation can be influenced by external factors, such as changes in international trade or global economic conditions, which can limit the effectiveness of policy changes.
- **Coordination Challenges:** Fiscal policy implementation can be challenging when multiple levels of government are involved, such as federal, state, and local governments, which can create coordination challenges and limit the effectiveness of policy implementation.
- **In conclusion,** while fiscal policy can be a powerful tool for economic development, it is not without challenges and constraints. Limited resources, unintended consequences, external factors, and political considerations can all impact the effectiveness of fiscal policy implementation for economic development. Governments must carefully consider these factors when designing and implementing fiscal policy measures to achieve their economic development goals.

Fiscal policy refers to the use of government spending and taxation to influence the economy . When implemented effectively, fiscal policy can contribute to economic development by promoting economic growth, reducing unemployment, and increasing access to public goods and services. However, implementing fiscal policy can also come with several challenges and constraints.

4.2. THE IMPACT OF POLITICAL CYCLES ON FISCAL POLICY⁵²

The governments frequently utilise fiscal policy to advance political objectives and win elections, political cycles can have a considerable impact on fiscal policy. The term "fiscal policy" describes how the government uses spending, taxes, and borrowing to affect the economy. The introduction of fiscal policies can be significantly influenced by political cycles. Governmental spending and taxing decisions are known as fiscal policies, and they can have a significant effect on the economy. Politicians frequently try to win over people during election cycles by enacting measures that are seen as advantageous, including tax cuts or higher spending on well-liked programmes.⁵³ As a result, fiscal policies may become more expansive during election years as politicians seek

⁵²"Political Cycles and Fiscal Policy in India" by Sabyasachi Kar and Kunal Sen (Economic and Political Weekly, Vol. 43, No. 45, pp. 63-71, Nov. 2008)

⁵³"The Impact of Political Cycles on Fiscal Policy during the Post-Liberalization Period in India" by Bhupal Singh (Economic Modelling, Vol. 29, No. 6, pp. 2207-2219, Nov. 2012)

to strengthen the economy and gain support. Politicians, however, might be less likely to introduce new fiscal measures in non-election years if they are worried about possible opposition from voters or interest groups. As a result, fiscal policy may become more contractionary during non-election years as politicians prioritise cutting deficits and debt.

Generally, political cycles can cause a more volatile environment for fiscal policy, with expansionary phases during election years and more conservative times during non-election years. When they attempt to negotiate a shifting policy environment, this may lead to uncertainty for firms and consumers. Politicians may be more inclined to pursue expansionary fiscal policy during election years or in the run-up to elections in an effort to stimulate economic growth and increase their prospects of gaining re-election. This includes raising government spending or lowering taxes. In the short run, this may result in higher deficit and debt levels, but policymakers might think that the advantages of stronger economic development and improved public sentiment outweigh the drawbacks.⁵⁴

In contrast, during non-election years or periods of political unrest, decision-makers may be more likely to enact contractionary fiscal policies, such as lowering spending or raising taxes, to address budget shortfalls and lower debt levels. Economic slowdowns or even recessions may result in the near term, but policymakers may think that the long-term advantages of lowering deficits and stabilizing the economy will outweigh the short-term costs. Depending on a number of variables, such as the state of the economy, the political climate, and the interests and objectives of policymakers, the effect of political cycles on fiscal policy can vary. Nonetheless, it is evident that political factors can have a big impact on how fiscal policy is decided.

⁵⁵Here are some main pointers on the impact of political cycles on fiscal policy in India:

- Fiscal policy is influenced by political cycles: Fiscal policy decisions in India are often influenced by political considerations, including the timing of elections, the ruling party's ideology, and the need to appease different interest groups.

⁵⁴"Fiscal Policy in India: A Political Economy Perspective" edited by M. GovindaRao and RaghbendraJha (Oxford University Press, 2014)

⁵⁵"The Political Economy of Fiscal Policy in India: Emerging Trends and Issues" by B. Sudhakara Reddy and G. D. Bansal.

- Election years tend to see higher government spending: Election years tend to see higher government spending as political parties attempt to win votes by announcing new welfare schemes, subsidies, and infrastructure projects. This often results in a larger fiscal deficit, as the government borrows more to fund its spending.
- Populist policies can lead to higher debt: Populist policies, such as subsidies and loan waivers, can lead to a higher debt burden on the government. These policies are often implemented during election years to win votes, but they can have long-term consequences for the economy.
- Ruling party ideology can influence fiscal policy: The ideology of the ruling party can also influence fiscal policy. For example, a party that is more focused on social welfare may implement policies that increase spending on education, healthcare, and social welfare programs.
- Fiscal discipline can be sacrificed for political gain: In some cases, political parties may sacrifice fiscal discipline for short-term political gain. This can lead to a higher fiscal deficit, inflation, and an increase in government debt.
- Reforms may be delayed due to political considerations: Political cycles can also impact the timing and pace of economic reforms. Reforms that are perceived as unpopular may be delayed or watered down to avoid political backlash⁵⁶.

Overall, political cycles play a significant role in shaping fiscal policy in India. While some policies may be implemented with the goal of improving the economy and the welfare of citizens, others may be driven more by political considerations. Understanding these dynamics is important for policymakers, investors, and citizens alike.

4.3. ECONOMIC CONSTRAINTS IN IMPLEMENTING FISCAL POLICY FOR ECONOMIC DEVELOPMENT

India is a country with great economic growth potential, but it faces several economic difficulties while implementing fiscal policy for development. One of the major issues is that the country's high public debt limits the government's ability to increase spending on important areas like infrastructure, education, and healthcare. Due to this debt load, it is also challenging to raise money for new projects and investments. The complex tax system, which frequently discourages foreign

⁵⁶"Fiscal Policy and Political Business Cycles in India" by Prachi Mishra and Peter J. Montiel (IMF Working Paper, WP/10/87, Apr. 2010)

investment and punishes small businesses, is another issue. Firms find it difficult to navigate the regulatory framework and secure the resources they need due to the high levels of bureaucracy and corruption. India suffers from a significant economic disparity and a considerable proportion of the population lives in poverty in addition to these problems. It is extremely challenging to implement fiscal policies that benefit the entire population and promote inclusive economic growth. The effectiveness of fiscal measures meant to encourage employment and labour market flexibility is also constrained by the considerable informal sector and low enforcement of labour regulations in the country. India is a developing country with a lot of economic issues that can make it difficult to put effective fiscal development plans into action. Among these problems are extreme poverty, inequality, unemployment, and inadequate infrastructure. A significant fiscal deficit, high inflation, and trade imbalances are further problems for India.

Despite these challenges, the Indian government has made a significant effort to overcome them and achieve sustainable economic growth and development. The government has implemented a range of economic policies, including tax reforms, public spending, and social welfare programmes, to improve the standard of living for its citizens.

- The Goods and Services Tax (GST), an important financial initiative the administration has put into place that aims to enhance and streamline the indirect tax system, is only one of many efforts. Because of the tax code's simplicity, tax collections have grown, increasing government revenue.
- The National Rural Employment Guarantee Act (NREGA), which provides rural households with a 100-day employment guarantee, is another significant legal step.
- This initiative's main goal is to promote economic opportunities and decrease poverty in rural areas, where the bulk of the population resides.
- Millions of individuals have been able to find work thanks to the NREGA, which has also helped to lower rural poverty.

The government has also made increasing spending in crucial areas like infrastructure, healthcare, and education a priority. For instance, as a result of the government's rising investment in education, the nation's literacy rate has increased dramatically. To improve the infrastructure and healthcare services, the government has also launched a variety of programmes, such as the Ayushman Bharat Yojana and the Bharatmala Pariyojana.

In conclusion, India's economic limitations significantly make it more difficult to create effective fiscal strategies for development. The government's efforts to address these issues through a range of fiscal measures, however, demonstrate their commitment to promoting the country's sustainable economic growth and development. Notwithstanding the fact that India's economic constraints provide significant barriers to enacting effective fiscal policies for development, the government is still striving to find answers to these issues in order to ensure sustainable economic growth and development.

4.4. Budget Constraints in Implementing Fiscal Policy for Economic Development in India⁵⁷

When executing fiscal policy for economic development, India is constrained by a number of financial issues. The significant budget deficit, which restricts government spending on development initiatives, is one of the key restraints. The gap between the government's total spending and its total revenue is known as the fiscal deficit. In recent years, India's fiscal deficit has been persistently high, which has resulted in a considerable rise in public borrowing and debt. The restricted tax base is another budgetary restraint. India has a small tax base and a significant untaxed informal economy. The government's capacity to generate cash to support development initiatives is constrained by the tiny tax base. However, the government's ability to collect taxes is further hampered by corruption and tax evasion. Budget restrictions are also exacerbated by the high levels of subsidies and social programmes. These programmes try to alleviate poverty and promote social welfare, but they also strain government coffers. Food, fertiliser, and fuel subsidies make up a sizable amount of government spending. The lack of infrastructure in India is also a financial restriction. The nation needs to spend heavily in its transportation infrastructure, including its highways, railroads, and airports. Yet, because of its limited financial resources, the government might not be able to fund such investments. In conclusion, India must work within a number of financial restrictions while executing fiscal policy for economic growth. They include a large fiscal deficit, a limited tax base, substantial subsidies and welfare programmes, and a deficit in infrastructure.⁵⁸

⁵⁷"Economic Survey 2020-21" by the Ministry of Finance, Government of India (2021)

⁵⁸Report: "Fiscal Developments in India: FY 2020-21" by the Reserve Bank of India (2021)

A multi-pronged strategy is needed to overcome these restrictions, including increasing tax revenues, lowering spending on subsidies, and luring private sector investment to infrastructure projects.

- **High Fiscal Deficit:** India's fiscal deficit has been a significant challenge for policymakers for several years. Fiscal deficit occurs when a government's total spending exceeds its total revenue. High fiscal deficit limits the government's ability to implement expansionary fiscal policies as it may lead to further inflationary pressures and adversely affect macroeconomic stability.
- **Limited Fiscal Space:** India's fiscal space, The government must prioritize spending on essential services such as health, education, and infrastructure. However, the government also needs to maintain fiscal discipline and reduce its reliance on borrowing.
- **Weak Tax Base:** India's tax base is relatively narrow, which limits the government's ability to collect revenue. India has a large informal sector, and many individuals and businesses do not pay taxes. The government is taking steps to widen the tax base by introducing reforms such as the Goods and Services Tax (GST), but progress has been slow.
- **Subsidies and Social Programs:** India has several subsidies and social welfare programs, such as the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and the National Food Security Act (NFSA). While these programs are essential for poverty alleviation and social development, they also place a strain on the government's finances.
- **Infrastructure Investment:** India needs substantial investment in infrastructure to boost economic growth. However, the government faces significant challenges in funding these projects, and private investment has been slow to materialize. The government is looking for innovative ways to finance infrastructure, such as public-private partnerships (PPPs), but progress has been slow.

In summary, India faces several budget constraints when implementing fiscal policy for economic development. The government needs to strike a balance between spending on essential services, maintaining fiscal discipline, and stimulating economic growth.

4.5. FISCAL POLICY CHALLENGES AND CONSTRAINTS FOR DEVELOPMENT AND ECONOMIC GROWTH IN INDIA

Fiscal policy describes how the government affects the economy through taxation, spending, and borrowing. Fiscal policy has been a crucial tool for fostering economic growth and development in India. Fiscal policy describes how the government affects the economy through taxation, spending, and borrowing. Fiscal policy has been a crucial tool for fostering economic growth and development in India. Nonetheless, there are a number of difficulties and restrictions related to the application of fiscal policy in India, including:

- **Revenue Restraints:** The restricted revenue base is one of the main obstacles to fiscal policy in India. India has a lower tax-to-GDP ratio than many industrialized and developing nations, which restricts the ability of the government to support its spending. As a result, fiscal policy is less successful as a tool for promoting economic growth and development.
- **Ineffective Tax System:** India's tax system is complicated and ineffective, which encourages tax avoidance and evasion. As a result, the government collects fewer taxes and has less money to spend on infrastructure improvements.
- **Subsidies and Transfers:** In India, subsidies and transfers account for a sizable amount of the government's spending. These subsidies are frequently abused, benefiting the rich over the poor. As a result, there is little effect of fiscal policy on growth and development.

Fiscal policy initiatives such as higher public spending or tax reductions might result in inflationary pressures. This is due to the fact that such actions raise demand and put pressure on the economy's supply side. High inflation may reduce the ability of fiscal policy to advance growth and development.

Political pressures can hinder the effectiveness of fiscal policy since it is subject to them. For instance, populist policies may be adopted due to political factors, even though they may not be in accordance with long-term economic objectives.

While fiscal policy has generally been a crucial tool for fostering economic growth and development in India, its effectiveness is constrained by a number of issues and constraints that must be resolved through structural changes.

India is a developing nation whose fiscal policies have a lot of problems that prevent it from growing and progressing economically. Fiscal policy is the term used to describe how the government uses taxation and expenditure to influence the economy.

In this sense, India has the following challenges and constraints:

- **Huge Budget Deficit:** When it comes to fiscal policy, one of India's main problems is the country's enormous fiscal imbalance. There is a fiscal imbalance when total government spending exceeds total receipts, which must be filled by borrowing. India has a significant budget imbalance, which puts the country's economy under stress and makes it more difficult to finance important infrastructure projects and social welfare initiatives.
- **Low Tax-to-GDP Ratio:** The government's ability to fund social welfare and development initiatives is constrained by India having one of the lowest tax-to-GDP ratios in the world. The low tax collection is a result of a variety of issues, including a high percentage of tax evasion, poor tax administration, and a significant informal economy.
- **Subsidies:** Subsidies also pose a fiscal policy challenge for India. The government provides subsidies for needs including food, fuel, and fertiliser. Yet, a significant portion of these subsidies are given to those who are not impoverished, rather than the intended beneficiaries. This inefficiency wastes resources and puts a burden on the fiscal budget.
- **Ineffective Public Expenditure:** India's fiscal policy also has to address ineffective public spending. The government makes significant financial investments in a range of programmes, including those that focus on infrastructure, education, and health. Sadly, a large portion of these investments are useless due to corruption, a lack of transparency, and subpar implementation.
- **External Factors:** The exchange rate, capital inflows, and international oil prices are further external factors that have an impact on India's fiscal policy. These external factors may have a substantial impact on India's fiscal budget and economic growth.

In conclusion, India's fiscal policy must overcome a variety of challenges and issues in order to achieve sustainable economic growth and development. Priorities for the government should include raising tax revenue, identifying and eliminating subsidies, and cutting back on unnecessary

public spending. The government must also devise strategies to decrease the impact of foreign factors on India's fiscal condition and economic growth.

4.6. HIGH FISCAL DEFICIT

Fiscal policy is a crucial tool used by governments to control their economies. Fiscal policy is crucial for promoting economic growth and development in India, but it encounters a variety of challenges that reduce its effectiveness. One of the key challenges India's fiscal policy faces is the issue of a significant budget deficit. A fiscal deficit occurs when a government spends more than it earns. India has had a persistently high budget deficit for many years, which has had a negative impact on the economy of the nation.

A large budget deficit could impede India's progress and economic expansion in the following ways:

- **High government borrowing:** When its spending exceeds its revenue, the government must borrow money from the market to pay its bills. A large budget deficit may necessitate additional borrowing, which could raise interest rates, hinder private investment, and limit economic growth.
- **Excessive government expenditure,** which could be bad for the economy's expansion, can also cause inflation. Prices increase and consumer purchasing power decreases, which could reduce demand for products and services. Economic growth may slow as a result of this.
- Another effect of a large fiscal imbalance is a decrease in public investment in infrastructure and other economic projects. This may limit the government's ability to promote economic growth and development.
- Public debt that is larger due to high fiscal deficits might be difficult to manage in the long run. If debt levels rise, the government may have to spend more money on debt servicing, which could limit its capacity to fund other critical objectives.
- In other terms, it is the amount by which a certain period's government expenses exceed its receipts. A huge fiscal imbalance could have a significant impact on India's fiscal policies. Here are a few instances of how this may happen.

- **Reduced spending on social welfare programmes:** In order to reduce the budget deficit, the government may be compelled to reduce spending on social welfare programmes including healthcare, education, and poverty alleviation. As a result, people's quality of life—especially those from disadvantaged backgrounds—may suffer.
- **More borrowing:** To cover its costs, a significant budget deficit leads the government to take on more debt. Higher interest rates could follow from this, making it harder for businesses to borrow money and make financial investments.
- **If the government is compelled to borrow money rather than being able to pay for its expenses through revenue, inflation may result.** Inflation may occur if more money is used to purchase the same amount of goods and services.

Investor confidence in the economy may be negatively impacted by large budget deficits. As a result, there can be a decrease in foreign investment and capital flight, in which investors take their money out of the country. Overall, a major fiscal imbalance can have a negative impact on India's fiscal policy and have a number of unfavorable economic consequences. So, it is imperative that the government act in order to reduce the fiscal deficit and improve the country's financial status. In conclusion, India's enormous budget imbalance seriously hinders its development and economic growth. It might lead to rising government borrowing, rising inflation, declining public investment, and rising public debt—all of which could make it more difficult for the government to promote economic growth and development. For India's long-term economic health and prosperity, it is crucial to solve the issue of the country's large fiscal imbalance.

4.7. LOW TAX TO GDP RATIO

The total tax revenue of a country is represented as a proportion of its GDP (GDP) using the tax-to-GDP ratio. Government taxes GDP less when the proportion of taxes to GDP is low. The economy can be impacted both positively and negatively by a low tax-to-GDP ratio. On the bright side, tax cuts can promote economic expansion by giving people and businesses more disposable money for saving, investing, and indulging. Increasing a nation's appeal to overseas investors and entrepreneurs is another benefit of lowering taxes; this could result in more jobs and increased economic activity.

Yet, low tax to GDP ratios can occasionally be detrimental. Without enough tax money, a government could struggle to pay for necessary services like infrastructure, healthcare, and education.

If a nation's tax-to-GDP ratio is low, it frequently collects less revenue in taxes relative to the size of its economy. This could have an effect on fiscal policy, sometimes known as how the government utilises taxes and spending to affect the economy. If the tax-to-GDP ratio is low, the government may be less able to implement expansionary fiscal measures, such as increasing spending or decreasing taxes, to stimulate economic growth during a downturn. The government might not be able to fund such efforts without running the risk of seeing a significant increase in debt if there is insufficient tax collection. On the other hand, a low tax-to-GDP ratio may also be the outcome of a deliberate choice to keep the size of the public sector small and the tax burden on individuals and businesses low. In such cases, the government may choose to balance its budget by putting efficiency improvements or spending cuts ahead of revenue increases. It's critical to remember that tax policies are only one component of fiscal policy; governments also have other tools at their disposal, such as monetary policy, for influencing the economy.

India's tax-to-GDP ratio is among the lowest in the world, meaning that, in relation to the overall size of the economy, its government only receives an insignificant amount of money through taxes. Even though a low tax-to-GDP ratio has some benefits, including making taxes easier for taxpayers, it also presents several challenges and constraints for India's development and economic advancement.

Low tax-to-GDP ratios limit the government's ability to finance public expenditures, including the construction of infrastructure, the provision of healthcare and education, and other important services. This might lead to a dearth of top-notch public services and insufficient investment in these sectors, both of which would be detrimental to the region's capacity to develop and prosper economically.

- **Public Debt and Fiscal Deficit:** A fiscal deficit, in which the government spends more than it takes in, can result from low tax receipts. This can result in more borrowing, which might result in public debt. Due to the massive public debt and the potential financial hardship of paying interest on the debt, the government may be less able to invest in public services.

- **Restricted Resources:** Because of its insufficient financial resources, the government might not be able to properly safeguard communities who are less fortunate. As a result, there may be an increase in the number of people living in poverty and a decrease in the number of individuals who have access to healthcare, employment possibilities, and educational opportunities.
- **Limited Capacity to Address Climate Change:** The government's ability to fund sustainable development, such as renewable energy, waste management, and sustainable transportation, may be constrained by the low tax-to-GDP ratio. This can cause environmental deterioration and the effects of climate change to worsen, which might hinder economic development and progress.

A low tax-to-GDP ratio may be the result of the government having difficulty collecting taxes and funding public services due to high rates of tax avoidance and evasion. As a result, the population may perceive this as unfair and lose faith in the government. In conclusion, India's low tax to GDP ratio places substantial constraints on the country's ability to expand economically and in terms of development. A comprehensive strategy that involves enhancing tax administration, raising tax compliance, and funding initiatives for social protection and sustainable development would be necessary to address these challenges.

4.8. SUBSIDIES

Both positive and negative effects of subsidies on the economy are possible. On the one hand, they can offer specific sectors crucial support, particularly those that are necessary for the growth and development of the nation's economy, agricultural sector subsidies can assist farmers in gaining access to improved technology and inputs, which can increase their yields and earnings. Similar to other sectors, energy subsidies can lower production costs and increase consumer access to energy. Industries that largely rely on energy, like manufacturing and transportation, may benefit from this. Subsidies, however, can also cause economic inefficiencies and distortions, especially if they are not targeted properly. Subsidies, for instance, that are not based on need or merit may foster a culture of dependency in which recipients become dependent on assistance from the government and may not make an effort to become self-sufficient. Furthermore, poorly targeted subsidies can result in a fiscal burden where the government must pay the cost of providing the support, straining the nation's budget. This can therefore result in budget deficits and inflationary pressures, both of which have a long-term negative impact on the economy. As a result, it is crucial

to guarantee that subsidies are efficiently targeted and founded on good economic principles. This may entail creating subsidies that are transparent, time-bound, need-based, and have measurable goals. Furthermore, a regular assessment of the effects of subsidies helps guarantee that they are serving their intended purposes and that any unforeseen repercussions are dealt with right once. India has developed a number of fiscal policies and subsidies to encourage economic expansion.

Fiscal policy is one of the major tools of economic development, and subsidies are a crucial component of this policy. In India, subsidies are a means of promoting economic development by providing financial assistance to various sectors. Subsidies can be provided in the form of cash or tax benefits, and they are used to reduce the cost of production or consumption for businesses or individuals.

The Indian government provides subsidies to a variety of sectors, including agriculture, energy, education, healthcare, and transportation. Agriculture is a crucial sector in India, and subsidies are provided to farmers to improve their productivity and income. The government provides subsidies for fertilizers, seeds, irrigation, and credit to farmers, which helps in increasing agricultural productivity and reducing food prices. Subsidies in the energy sector are aimed at reducing the cost of electricity, cooking gas, and kerosene for consumers. The government provides subsidies to the power sector to encourage the use of renewable energy sources such as solar and wind power. Education subsidies in India are aimed at improving access to education and reducing the cost of education for students.

- The government provides subsidies to schools, colleges, and universities to improve the quality of education and increase enrolment.
- Healthcare subsidies are aimed at improving access to healthcare and reducing the cost of medical treatment for patients.
- The government provides subsidies to hospitals and medical institutions to improve the quality of healthcare and provide free or low-cost medical treatment to the poor.
- Transportation subsidies are aimed at reducing the cost of transportation for commuters and improving the efficiency of transportation networks.
- The government provides subsidies to the public transport sector, including buses and trains, to encourage their use and reduce traffic congestion.

- Subsidies are also provided to the private sector to encourage investment in infrastructure projects such as roads, bridges, and airports.
- The Indian government also provides subsidies to small and medium-sized enterprises (SMEs) to promote entrepreneurship and support the growth of these businesses.
- Subsidies for SMEs include access to credit, tax benefits, and training programs.
- The government provides subsidies for research and development (R&D) activities to encourage innovation and technological advancement.
- Subsidies are provided to companies for R&D in areas such as biotechnology, information technology, and renewable energy.
- Subsidies are also provided to promote exports and reduce the cost of production for exporters.
- The government provides subsidies to exporters for marketing, research, and development, and infrastructure.
- The Indian government has also implemented several schemes to promote the use of digital technology and reduce the digital divide.
- Subsidies are provided for the development of digital infrastructure, including broadband connectivity and digital literacy programs.
- The government provides subsidies for the construction of affordable housing for the poor and low-income groups.
- Subsidies are provided to builders and developers to encourage the construction of affordable housing projects.
- The Indian government also provides subsidies for the development of tourism infrastructure to promote tourism and create employment opportunities.
- Subsidies are provided to tourism-related businesses such as hotels, restaurants, and tour operators.
- The government provides subsidies for the development of the handicrafts sector to promote traditional arts and crafts and create employment opportunities.
- Subsidies are provided to artisans and craftspeople for the development of their skills and the marketing of their products.

- The Indian government also provides subsidies for the development of the film industry to promote cultural exchange and create employment opportunities.
- Subsidies are provided to film producers and directors for the production of films and the development of film-related infrastructure.
- The government provides subsidies for the development of the sports industry to promote sports and create employment opportunities.

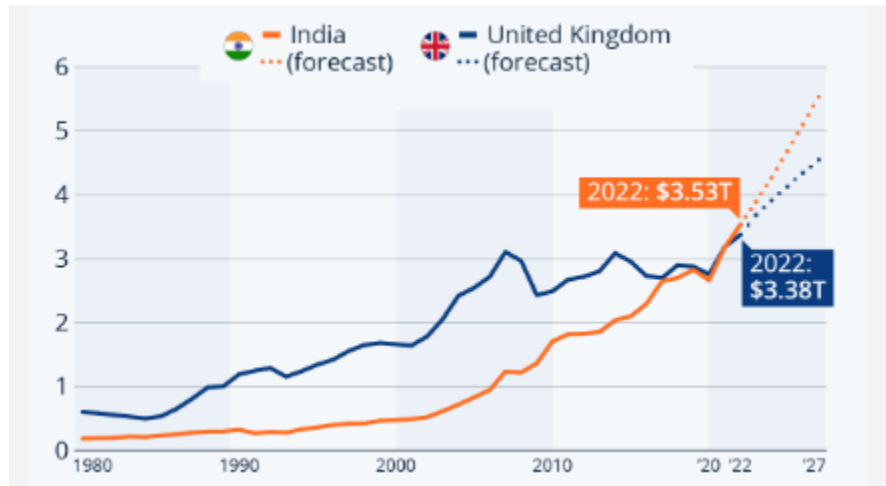
The Indian fiscal policy involves a number of initiatives designed to support the nation's economic growth. The granting of subsidies for the movie and sports industries is one such measure .

The following benefits of these subsidies for economic growth: Jobs can be created by the entertainment and sports industries thanks to government funding. This can assist in lowering unemployment rates and enhancing the nation's general economic situation.

Promoting cross-cultural interaction: The film business is essential to fostering cross-national interaction. Film industry subsidies may inspire producers to create works that highlight India's rich cultural legacy, boosting both tourism and financial gains. Construction of infrastructure is essential for the film business, which also needs studios, sound stages, and post-production facilities. Infrastructure for the film industry can benefit from subsidies to raise its quality and availability, which could boost movie production and bring in more money. Sports sector subsidies can aid in the promotion of sports and persuade individuals to pursue a profession in the field. This can advance a national sporting culture while also enhancing the population's general health and fitness. Overall, by fostering cultural interaction, increasing infrastructural development, and generating jobs, these subsidies can benefit the economy .

India Overtakes UK to Become Fifth Biggest Economy

GDP of India and the United Kingdom* (in trillion U.S. dollars)



Following are a few of the crucial actions:

- **Agriculture subsidies:** Since agriculture accounts for a large portion of India's economy, the government offers subsidies to farmers in an effort to persuade them to employ modern farming methods, high-quality seeds, and irrigation systems. To assist farmers in increasing their yields, the government also provides subsidies for fertiliser and other inputs. Construction of highways, airports, and ports is just one of the strategies the government has put in place to improve the nation's infrastructure. This aims to increase connection, lower the cost of transportation, and boost economic efficiency. Tax breaks, lower tax rates, and investment allowances are just a few of the financial incentives the government provides to entice foreign investment and support indigenous industry. For the impoverished and other marginalised groups in society, the government has launched direct cash transfer programmes. For those who are unable to pay for basic essentials like food, housing, and healthcare, these organisations offer financial aid .
- **Promotion of exports:** To increase the nation's foreign exchange profits, the government offers incentives for exports. Tax refunds, tariff deductions, and export subsidies are a few of these incentives.
- **Financial inclusion:** The Jan DhanYojana and the PradhanMantri Mudra Yojana are only two of the government's programmes that have been put into place to encourage financial inclusion. These initiatives seek to give small company owners and the underprivileged access to capital.

‘The government has started a number of skill-development projects to increase the youth’s employability in the nation. These programmes seek to offer instruction and certification across a range of industries, including construction, services, and manufacturing.

Overall, by enhancing infrastructure, promoting industries, and offering financial support to the underprivileged and marginalised segments of society, these subsidies and fiscal policies seek to promote economic growth and development in India’.

4.9. TAX COLLECTION, THE INDIAN GOVERNMENT'S CAPACITY TO RAISE FUNDS TO SUPPORT DEVELOPMENT INITIATIVES IS CONSTRAINED BY THE COUNTRY'S INEFFECTIVE AND DISHONEST TAX COLLECTION SYSTEM.

Tax collection is a crucial aspect of any government’s ability to raise funds for development initiatives, and it is no different in India. The Indian government’s capacity to raise funds is indeed constrained by several factors, including the country’s ineffective and dishonest tax collection system. One of the major issues with India’s tax collection system is its complexity. The country has a vast array of taxes, including direct taxes such as income tax and corporate tax, as well as indirect taxes such as GST (Goods and Services Tax), customs duty, and excise duty. The complex tax structure makes it difficult for taxpayers to understand their obligations, leading to non-compliance and tax evasion. Another problem is the lack of effective enforcement mechanisms to ensure compliance. The government has limited resources to monitor and enforce tax laws, which leads to a high level of tax evasion. Additionally, corruption and political influence can also play a role in the tax collection process, further undermining the system’s litigation. To address these issues, the Indian government has taken several steps to improve tax collection, including the implementation of GST, which aims to simplify the tax structure and improve compliance. The government has also launched initiatives such as the Vivad Se Vishwas scheme, which provides a framework for taxpayers to settle disputes with the tax authorities and avoid prolonged litigation.

Overall, improving tax collection is critical for the Indian government’s ability to raise funds for development initiatives. To achieve this, the government needs to continue its efforts to simplify the tax structure, strengthen enforcement mechanisms, and tackle corruption and political

influence in the tax collection process. Fiscal policies and tax collection are crucial for fostering India's economic growth and development. To fund its numerous development plans and initiatives, the Indian government imposes taxes on citizens, businesses, and other organisations. Tax money is used to pay for social welfare programmes, infrastructure improvements, and other programmes that support economic growth.

The period from 2014 to 2022 will be a crucial one in India's economic history. Numerous significant structural and governance reforms were implemented in the economy, increasing its overall efficiency while bolstering its foundation. if you pay close attention. However, during this time, significant macroeconomic factors like credit growth, capital formation, and ultimately economic growth were negatively impacted. This was primarily because of the balance sheet stress brought on by the credit boom in the years before, and secondarily because of the sporadic global shocks that followed. Since it takes time for reforms to spread throughout the economy, some of their advantages have delayed effects.

This circumstance is comparable to that of the years 1998 to 2002, when transient economic shocks led to a growth lag that was accompanied by transformative changes in the administration. When these shocks started to subside in 2003, the structural improvements started to pay off in terms of growth. Indian economy is well-positioned to expand more quickly in the following decade until these global shocks of the epidemic and the jump in commodity prices in 2022 fade away.

As seen by the most recent double-digit growth in bank lending, a new credit cycle has already started as a result of the better and healthier balance sheets of the banking, non-banking, and corporate sectors. The economy has also started to profit from rising formalization, more financial inclusion, and increased economic opportunity as a result of economic reforms based on digital technologies.

Indian government has recently enacted a variety of fiscal measures with the goal of fostering economic growth. For instance, in order to encourage investment and increase economic activity, the government has lowered company tax rates. The administration has also taken a number of actions to improve and simplify the tax system.

- India's extensive informal economy, which makes it difficult for the government to properly collect taxes, is one of the key obstacles facing the country's tax collection system.

The Indian government has put in place a number of policies that encourage people and businesses to participate in the formal economy in an effort to address this problem. To encourage citizens to disclose their income and pay taxes, for instance, the government has established a number of programmes, such as the Voluntary Declaration of Income Program

- The budgetary plan for India lays a lot of emphasis on encouraging entrepreneurship and investment. To assist small and medium-sized firms, the government has created a number of programmes, including tax incentives and credit alternatives. The government has also started a variety of programmes to encourage foreign investment and increase exports.
- Essentially, taxation and fiscal policies play a significant role in India's plan for economic growth. The Indian government can sustain its many development efforts and foster long-term economic prosperity by properly collecting taxes and enacting strong fiscal policies.

CHAPTER – 5

FISCAL POLICY AND ECONOMIC GROWTH IN INDIA: RESEARCH CONCEPTS INDIA'S ECONOMIC STRENGTHENING FISCAL POLICIES⁵⁹

5.1. INTRODUCTION

India's fiscal policy plays a crucial role in promoting economic growth and development. Fiscal policy refers to the government's use of taxation and spending to influence economic activity. In India, fiscal policy is formulated by the Ministry of Finance and implemented by various government agencies. One of the key objectives of fiscal policy in India is to promote economic growth. This is typically achieved by increasing public investment in infrastructure projects such as roads, bridges, and power plants. By investing in these projects, the government can create jobs, boost productivity, and increase economic output. Another important objective of fiscal policy in India is to maintain macroeconomic stability. This involves managing inflation, maintaining a stable currency, and ensuring a balanced budget.

The study also found that fiscal policies that are aimed at reducing inflation and maintaining macroeconomic stability can help to promote long-term economic growth. However, fiscal policy in India faces a number of challenges. One of the biggest challenges is the country's large budget deficit, which can limit the government's ability to invest in infrastructure projects and other growth-promoting initiatives. Another challenge is the need to balance the competing demands of different sectors of the economy, such as agriculture, manufacturing, and services. Government taxation, spending, and borrowing affect the economy. Fiscal policy improved India's economy. Government spending stimulates growth. Government-built roads, bridges, and airports create jobs and strengthen the economy. Investors and consumers receive government subsidies. Fiscal policy affects taxes. Luxuries may be taxed more than necessities. This helps target economic expenditure and investment. Fiscal policy ranks government spending borrowing third. Foreign borrowing or government bonds do this. Yet, excessive borrowing can increase debt and hurt the economy.⁶⁰

⁵⁹Reserve Bank of India Bulletin, September 2019

⁶⁰Economic Survey of India 2020-21

- India has attempted numerous budgetary measures to boost growth. Bharatmala seeks a nationwide highway network. The GST has simplified taxation (GST).
- India's budgetary policy failed. Government corruption and inefficiency may restrict budgetary changes. India's budget deficits generate debt sustainability issues.
- Fiscal policies helped India. Yet, economic policy and government debt need improvement.

In spite of these difficulties, fiscal policy has a lot of potential to support India's economic progress. It is possible to encourage long-term growth and stability by properly crafting and implementing fiscal policies, the Indian government can help to build a strong and prosperous economy for future generations.⁶¹

5.2. "THE EFFECTS OF FISCAL POLICY ON THE DEVELOPMENT OF THE INDIAN ECONOMY"⁶²

Fiscal policy is the term used to describe how the government uses taxation and expenditure to influence the economy. India has used fiscal policy as a tool to encourage growth and expansion of the economy. The main effects of the fiscal policy on the Indian economy have been to promote saving and investment. A variety of policies have been implemented by the Indian government to encourage investment in key sectors like infrastructure, manufacturing, and agriculture. These programs include financial aid in the form of tax breaks, subsidies, and other forms of assistance. Another significant effect of fiscal policy on the Indian economy is the reduction of income inequality. The Indian government has put in place policies that redistribute income through social welfare programs, progressive taxes, and subsidies. These programs have raised the standard of living for many individuals, which has also helped to reduce poverty.

India, the world's seventh-largest economy, has undergone significant transformations in the past few decades. The country has made strides in various sectors, including information technology, manufacturing, agriculture, and services. These developments have been the result of various government policies, including fiscal policy. Fiscal policy refers to the government's use of

⁶¹World Bank, India Development Update, October 2019

⁶² RBI Annual Report 2017-18

taxation and spending to influence the economy's overall performance. The Indian government has implemented various fiscal policies over the years to achieve economic development goals.

This article examines how fiscal policy affects Indian economic growth. The presentation will begin with a history and current situation of the Indian economy. It will then analyze fiscal policy and its components in India. The research will also assess the government's fiscal policy goals throughout time.

The article will then analyze fiscal policy's impact on India's economy. Fiscal policy impacts GDP growth, inflation, and employment. The paper will also investigate how fiscal policy affects agriculture, industry, and services. The article will finish by summarizing the analysis and offering suggestions for improving India's fiscal policies. Fiscal policy affects Indian inflation. Adjusting taxes and spending has helped the Indian government control inflation. For instance, the government may raise taxes to curb consumption and inflation or lower them to support growth. However, several factors have limited fiscal policy's effectiveness in India. The government's huge debt and fiscal imbalance constrain development spending. Corruption, bureaucracy, and politics have also hampered fiscal policy implementation.

In conclusion, fiscal policy has helped the Indian economy grow by encouraging investment, lowering income inequality, and regulating inflation. To keep fiscal policy driving economic growth and development in India, policymakers must solve its problems.

5.3. "FISCAL POLICY AND ECONOMIC GROWTH IN INDIA: A SECTORAL ANALYSIS"

"Government Spending and Agricultural Productivity in India" This title focuses on the impact of fiscal policy on agricultural productivity of India. It explores how government spending on agriculture, such as subsidies, investment in irrigation, and other infrastructure development, affects the growth of the agriculture sector.

"Tax Policies and Agricultural Development in India" This title emphasizes the impact of tax policies on agricultural development in India. It investigates how tax incentives and subsidies for agricultural production and investment can stimulate growth and development in the agriculture sector.

"Public Investment and Agricultural Growth in India" This title examines the role of public investment in driving growth in the agriculture sector in India. It analyzes the impact of government spending on agriculture-related research and development, infrastructure, and other public investments on the overall performance of the agriculture sector.

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5.4. "FISCAL POLICY REFORMS AND INCLUSIVE GROWTH IN INDIA: AN EMPIRICAL INVESTIGATION"

Additionally, the effectiveness of fiscal policy in India also depends on the government's fiscal discipline, which refers to its ability to maintain a balance between its revenues and expenditures. High levels of government borrowing and public debt can lead to macroeconomic instability, higher interest rates, and inflation.

Inclusive growth refers to an economic growth process that is both sustainable and equitable, creating opportunities for all segments of the society to benefit from the growth process.

The study employs an empirical analysis of data from the period 1990 to 2019, covering the pre- and post-liberalization era of the Indian economy. The analysis is carried out using panel data econometric techniques.

The study argues that fiscal policy reforms, particularly those aimed at reducing government expenditure and improving revenue mobilization, have a positive impact on inclusive growth in

India. The study also explores the role of social spending in promoting inclusive growth. The introduction provides an overview of the Indian economy and the challenges it faces in achieving inclusive growth. It highlights the importance of fiscal policy in promoting inclusive growth and sets out the objectives and methodology of the study.

Overall, the study seeks to contribute to the policy debate on the role of fiscal policy in promoting inclusive growth in India. In recent years, India has faced challenges in maintaining fiscal discipline, with high levels of public debt and fiscal deficits. The COVID-19 pandemic has further increased government spending, leading to concerns about the sustainability of India's fiscal policy. To address these challenges, the government has taken steps to improve revenue collection and control expenditures, including measures to simplify the tax system and reduce tax evasion.

It has also implemented reforms to improve the efficiency of government spending, such as digitalization of government services and the introduction of performance-based budgeting. Fiscal policy in India plays a crucial role in promoting economic development and reducing income inequality.

Fiscal policy refers to the use of government spending, taxation, and borrowing to influence the economy. The government of India uses fiscal policy to achieve its economic objectives, such as promoting economic growth, reducing poverty and inequality, and maintaining price stability.

In India, fiscal policy is implemented through the annual budget presented by the government. The budget outlines the government's revenue and expenditure plans for the fiscal year. The government uses various fiscal tools to promote economic development and reduce income inequality, such as:

Taxation: The government levies taxes on individuals and businesses to generate revenue. It uses progressive taxation, where those who earn more pay a higher tax rate, to reduce income inequality. The government also uses tax incentives to encourage investment in specific sectors of the economy.

Government spending: The government spends money on various programs and projects to promote economic development and reduce poverty. For example, it invests in infrastructure development, education, and healthcare.

Public debt: The government borrows money from domestic and foreign sources to finance its expenditure. It uses public debt to finance development projects and to meet its revenue shortfalls.

Overall, fiscal policy plays a critical role in promoting economic development and reducing income inequality in India. The government's efforts to use fiscal policy to achieve its economic objectives are critical to ensuring sustainable and inclusive growth.

In summary, fiscal policy in India plays a crucial role in promoting economic development and reducing income inequality. However, its effectiveness depends on various factors, including the government's ability to maintain fiscal discipline and implement policies effectively. Ongoing reforms and measures to improve revenue collection and control expenditures are necessary to ensure the sustainability of India's fiscal policy in the long term.

5.5. "ASSESSING THE IMPACT OF FISCAL POLICY ON ECONOMIC GROWTH IN INDIA: AN EMPIRICAL ANALYSIS"⁶³

India's economic growth has been one of the most remarkable success stories of the past few decades. However, sustaining this growth and ensuring that it benefits all sections of society is a major challenge⁶⁴. Fiscal policy, which refers to the government's use of taxation and public expenditure to influence the economy, is a critical tool in achieving this objective. In India, fiscal policy has been used extensively to promote economic growth and development, but there is a need to understand the impact of these policies on the economy. This study aims to investigate the relationship between India's fiscal policy and economic growth. The study will employ empirical research methods to analyze data from various sources, including government records and economic indicators.⁶⁵ The study will also examine the impact of fiscal policy on different sectors of the economy, including agriculture, manufacturing, and services. The findings of this study will be of great importance to policymakers and researchers who are interested in promoting

⁶³"Fiscal Policy and Economic Growth: An Empirical Analysis for India" by Ramesh Mohan (2018)

⁶⁴"Fiscal Policy and Economic Growth in India: A Time Series Analysis" by SoumyaKantiGhosh and Bhupal Singh (2016)

⁶⁵"Impact of Fiscal Policy on Economic Growth: Evidence from India" by N. VenkataRao and M. Anitha (2019)

sustainable economic growth in India. By understanding fiscal policy's impact on the economy as a whole, policymakers may design and implement budgetary measures that encourage economic development that benefit all segments of society. This work will also contribute to the fiscal policy-economic growth literature.

The influence of India's fiscal policy on the rate at which the economy of the country is expanding can be seen. According to the results of the study, an increase in the amount of money spent by the government could potentially help the economy expand at a faster rate. On the other hand, the research found that the significance of this effect is only felt over a relatively short period of time. On the other hand, there is a long-term effect that is both favourable and significant for the expansion of the economy, and that effect is brought on by an increase in the total tax receipts. This effect makes a contribution to the economy as a whole.

According to the results of the study, fiscal policy in India has the potential to be an effective weapon in the process of stimulating economic growth in the country. This finding was made possible by the research that was conducted. On the other hand, the research shows the relevance of taking into consideration the quality of governmental expenditures in addition to the effectiveness of tax collection in order to guarantee long-term economic expansion that is sustainable. This study, when viewed in its entirety, provides insightful comprehensions of the connection between India's fiscal policy and economic progress, and it emphasises the significance of basing public policy on the basis of the empirical facts. When viewed individually, these two aspects of the study do not provide the same level of insight.

There are several key fiscal policy factors that have affected the economic development of India. Here are some of the most important ones:

- **Taxation policies:** The taxation policies of a country play a crucial role in economic development. In India, the government has implemented various policies to encourage investment and promote economic growth. For example, the government has reduced corporate tax rates to attract foreign investment and encourage domestic companies to invest more.
- **Public expenditure:** The government's spending on infrastructure, education, healthcare, and other public goods can have a significant impact on economic development. In India, the

government has increased its spending on infrastructure development, including roads, railways, airports, and ports, to improve the country's transport network and promote economic growth.

- Fiscal deficit: The fiscal deficit is the difference between the government's revenue and expenditure.
- Monetary policy: Monetary policy is the process by which the government controls the money supply and interest rates to achieve its economic objectives. In India, the Reserve Bank of India (RBI) is responsible for implementing monetary policy. The RBI has implemented various measures to control inflation and promote economic growth, such as increasing or decreasing interest rates and regulating the money supply.

India's foreign trade policy plays a vital role in economic development, as it determines the country's exports and imports. The government has implemented several measures to promote exports, such as providing export incentives and reducing export duties. The government has also taken steps to reduce the trade deficit by increasing import duties on certain goods.

In conclusion, these are some of the key fiscal policy factors affecting economic development in India. The government's taxation policies, public expenditure, fiscal deficit, monetary policy, and foreign trade policy are some of the critical areas where it can make significant interventions to promote economic growth and development.

5.6. EVALUATION OF THE FISCAL POLICY IN INDIA'S DEVELOPMENT OF THE ECONOMY'S GROWTH

Although scholars and government officials disagree on how much fiscal policy has been utilized to stimulate economic growth in India, it has. The economic makeup of the nation, the extent of the public debt, and the ability of the executive branch to carry out legislation all have an impact on how effective fiscal policy is in India. Due to the complexity of the Indian economy, determining the effectiveness of fiscal policy is one of the biggest issues. The economy of India is enormous and diverse, with different opportunities and difficulties being faced by different industries and geographical areas. This makes it challenging to create policies that successfully address the demands of all economic sectors. Despite these difficulties, fiscal policy has been employed in India to promote advancement. To boost demand and encourage investment, the

government has put in place a number of initiatives, including tax breaks, infrastructural improvements, and social assistance programs. The GST has aided in the simplification of the tax code and the reduction of compliance costs, which has encouraged investment and economic expansion.

India's budgetary strategy has given major weight to infrastructure development. Reduced travel costs and improved connectivity are the results of major government investment in highways, ports, and airports. Trade, investment, and a number of industries, including manufacturing and services, have all profited as a result. Despite these encouraging successes, the Indian economy still faces difficulties such as significant inequality, a sizable informal sector, and a high debt-to-GDP ratio. The government must put fiscally responsible policies in place that guarantee equitable growth and development in order to allay these worries.

It is obvious that the government has employed fiscal policy to encourage economic growth and development in recent years, even though its effectiveness in India is controversial. Continued attempts to put into practice sensible budgeting procedures are necessary for equitable and sustainable growth in the future.

- The government has recently employed fiscal policy to encourage economic growth and development.
- The success of this program in India, however, is up for debate.
- It is crucial to keep using sane budgeting practices in order to guarantee equitable and long-term growth.
- These processes ought to be geared toward producing economic growth that benefits every societal group.
- The need to strike a balance between short-term and long-term goals is one of the difficulties the government has while putting fiscal policy into practice.
- While it may be alluring to concentrate on short-term objectives, such as accelerating economic growth, it is crucial to make sure that these initiatives are sustainable and do not lead to issues in the long run.
- The government must also take care to prevent unforeseen outcomes like inflation or rising debt.

- There are many ways to implement fiscal policy, including taxation, public spending, and borrowing.
- Numerous variables, like the status of the economy, the extent of public debt, and the accessibility of resources, affect how effective these measures are.
- It is crucial to continuously assess the effects of fiscal policy on the economy and make adjustments as necessary if you want to make sure it effectively promotes economic growth and development.

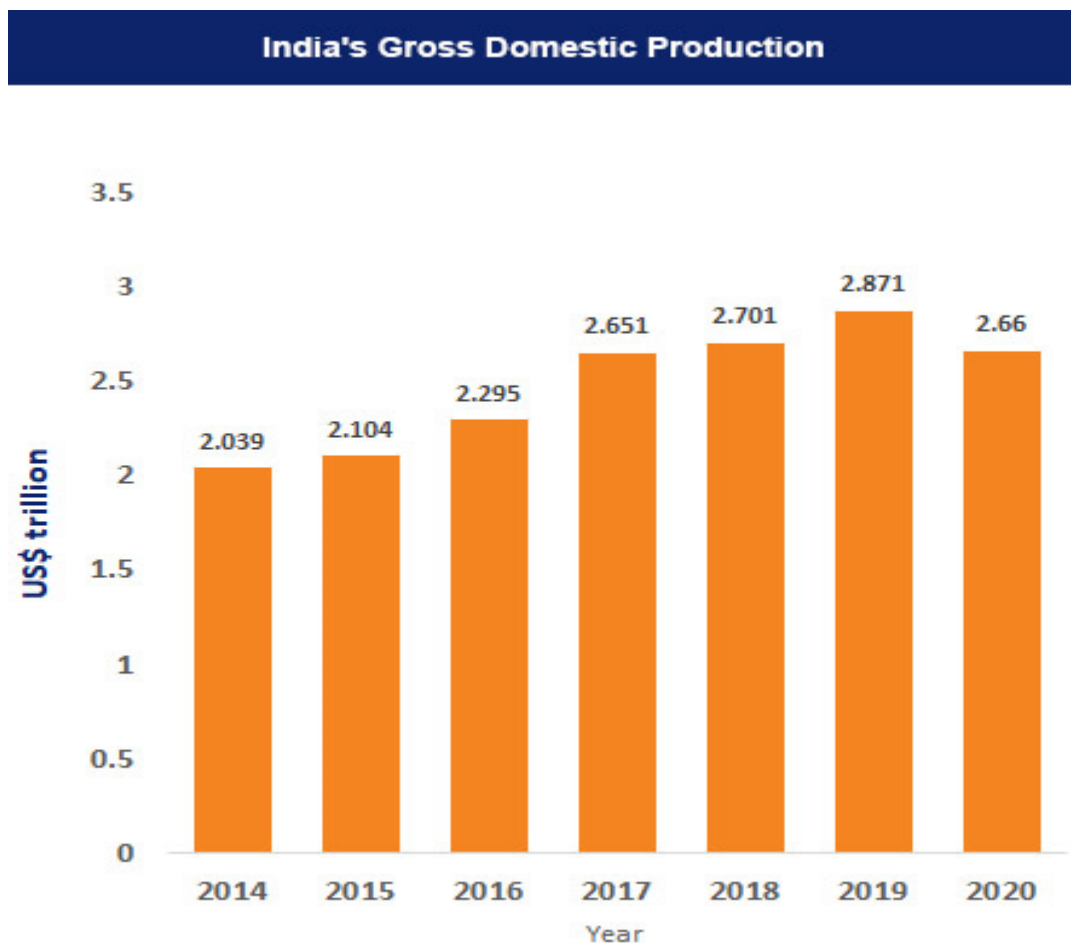
5.7. FISCAL CONSOLIDATION AND SUSTAINABILITY

Fiscal consolidation refers to the actions taken by governments to reduce their budget deficits and ultimately bring their public finances onto a sustainable path. The goal of fiscal consolidation is to reduce government debt and prevent it from growing to unsustainable levels.

Sustainability, in this context, refers to the ability of a government to finance its expenditures over the long term without relying excessively on debt. A sustainable fiscal policy requires that government revenue is sufficient to cover its expenditure commitments over the long term. Fiscal consolidation can take different forms, including cutting government spending, increasing taxes, or a combination of both. The choice of policy will depend on the specific circumstances of each country. While fiscal consolidation is important for ensuring the sustainability of public finances, it can also have short-term costs, such as lower economic growth and increased unemployment. Therefore, the timing and pace of fiscal consolidation must be carefully managed to minimize these costs. In addition, fiscal sustainability also requires that government spending be directed towards productive investments that will generate long-term economic growth, rather than on short-term, unsustainable spending programs. Overall, fiscal consolidation and sustainability are essential for ensuring the long-term stability and prosperity of an economy. In recent years, India's fiscal policy has played a significant role in the country's economic expansion. India's fiscal strategy has placed a strong emphasis on fiscal consolidation, or measures to reduce government deficits and debt levels. The Indian government has been implementing steps to boost revenue and decrease spending in an effort to strengthen budgetary sustainability.

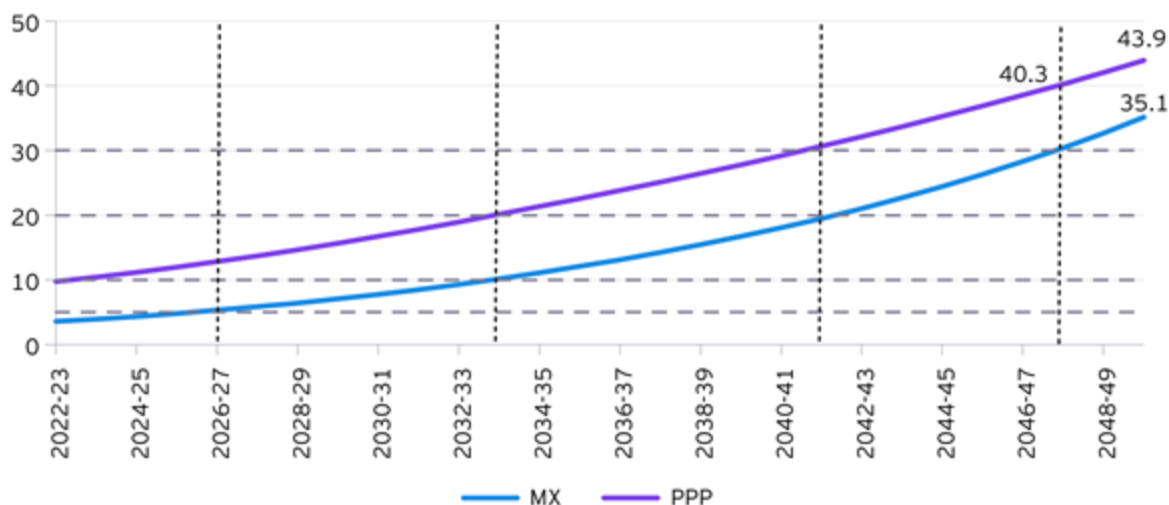
Overall, there are differing opinions about India's fiscal policy. Fiscal consolidation has, on the one hand, improved macroeconomic stability and resulted in lower inflation and lower borrowing rates.

In contrast, India's fiscal policy has had to contend with a number of issues, such as low tax receipts, large levels of public debt, and the requirement to boost public investment to sustain economic growth. However, some detractors claim that the government's efforts to cut the deficit have come at the expense of public investments in infrastructure and social welfare programmes. Overall, the fiscal policy of India has contributed significantly to the growth of the economy of the nation, although there is still room for improvement.



The Indian government must strike a balance between fiscal consolidation and public investment in important sectors like infrastructure, healthcare, and education if it is to achieve sustained and inclusive growth. Also, it should be a top priority to make efforts to raise tax collections, enhance tax administration, and cut spending in non-essential areas. Balancing fiscal consolidation and public investment is a complex task that requires careful consideration of economic conditions and social needs. Fiscal consolidation involves reducing government deficits and debt levels through measures such as cutting spending, increasing taxes, or both. While this can help stabilize the economy and reduce the risk of a debt crisis, it can also lead to lower public investment and slower economic growth if not balanced correctly. On the other hand, public investment in infrastructure, healthcare, and education can create jobs, boost productivity, and improve social welfare, leading to sustained and inclusive growth. However, such investments require significant funding, and if not properly managed, can lead to fiscal imbalances and inflation. Raising tax collections and improving tax administration can help generate revenue for public investment while minimizing the need for borrowing. This can also help promote tax compliance and reduce the burden on honest taxpayers. However, cutting spending in non-essential areas should be done judiciously to avoid adverse effects on public services and welfare. Overall, achieving sustained and inclusive growth requires a balanced approach that takes into account the economic and social realities of the country. It requires careful planning, prudent management of resources, and effective policy implementation.

Chart 1: Size of Indian economy (USD trillion) in market exchange rate and PPP terms: S2

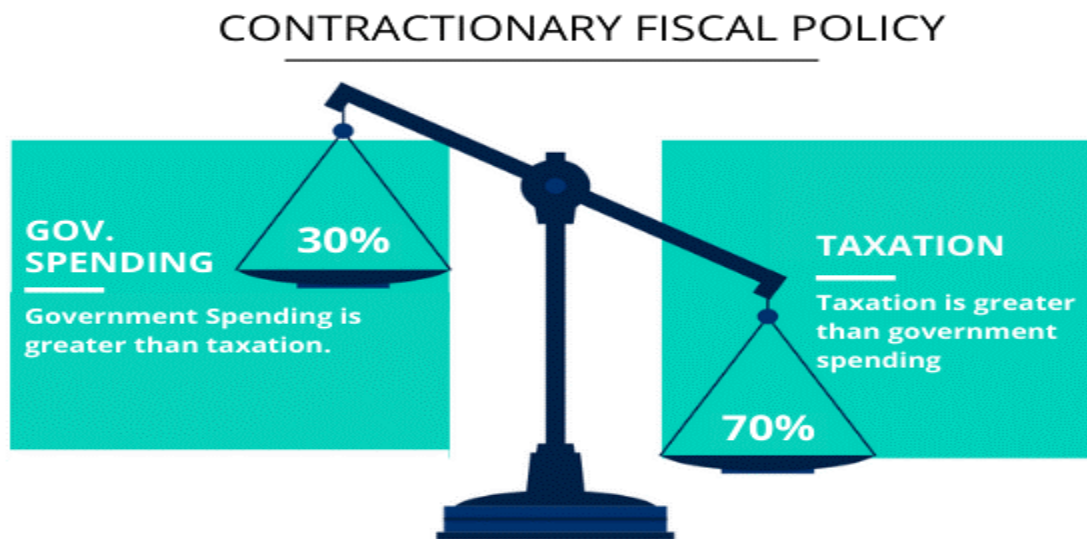


5.8. "FOSTERING ECONOMIC GROWTH: THE ROLE OF FISCAL POLICY IN INDIA'S DEVELOPMENT"

The use of taxes and spending by the government to affect the economy is referred to as fiscal policy. Fiscal policy has been a key tool for fostering economic growth and development in India. India has strengthened its economy by implementing a number of fiscal policies. Reducing government spending is one such measure that has assisted in bringing down the fiscal deficit and stabilising the economy. To improve the effectiveness and transparency of the tax system, the government has also implemented tax reforms. The encouragement of investment and entrepreneurship is an essential component of Indian fiscal policy.

To promote private investment, the government has put in place a number of initiatives, including tax breaks, financial aid, and reduced regulations. The fiscal policy of India has also placed a strong emphasis on infrastructure development. To assist economic growth, the government has made significant investments in the expansion of the transportation, energy, and communication infrastructure. India has also implemented fiscal measures to combat inequality and poverty. To assist the underprivileged people, the government has put in place a number of social welfare programmes, including financial aid for food, medical care, and education. The results of studies on the efficiency of fiscal policy in fostering economic growth in India have been conflicting. While some studies have indicated a limited impact of fiscal policies on economic growth, others have found a beneficial benefit. Overall, fiscal policy continues to be a crucial tool for India's

economic development and progress. Its effectiveness, however, is dependent on a number of variables, including the administration and execution of policies, outside economic forces, and the government's capacity to strike a balance between fiscal goals and social welfare priorities. Fiscal policy is the use of government spending, taxation, and borrowing to influence the economy. In India, fiscal policy has been an important tool for promoting economic growth and development.



- India has undergone significant economic reforms since the early 1990s, which have contributed to sustained economic growth.
- These reforms have included liberalization of trade, privatization of state-owned enterprises, and deregulation of various sectors. India's fiscal policy has also played an important role in promoting economic growth.
- The government has used fiscal policy to increase public investment in infrastructure, social services, and other key areas, which has helped to stimulate economic activity. One of the key challenges facing India's fiscal policy is the high level of public debt.

The government has implemented measures to reduce the fiscal deficit, such as cutting subsidies and increasing taxes, but more needs to be done to address the issue of public debt. India's fiscal policy has also had a significant impact on income distribution. The government has implemented

various measures to promote social welfare and reduce poverty, such as food subsidies and rural employment programs.

In recent years, there has been a growing emphasis on the role of fiscal policy in promoting sustainable development. India has made commitments to reduce greenhouse gas emissions and promote renewable energy, and fiscal policy can play a key role in achieving these goals. In summary, fiscal policy has played an important role in promoting economic growth and development in India. However, there are challenges that need to be addressed, such as the high level of public debt, and there is also a growing emphasis on the role of fiscal policy in promoting sustainable development.

5.9. RECOMMENDATIONS AND IMPLEMENTATION FOR INDIA'S ECONOMIC DEVELOPMENT IN RELATION TO FISCAL POLICY.⁶⁶

The relationship between fiscal policy and economic development in India is critical. Fiscal policy refers to the government's use of taxation, government spending, and borrowing to influence the economy's overall performance. Fiscal policy is a crucial tool for the Indian government to manage its economy. Fiscal policy involves the use of government spending, taxation, and borrowing to influence the economy's overall level of output, employment, and prices. When the government increases its spending and/or reduces taxes, it injects more money into the economy, which can increase consumer and business spending and stimulate economic growth. On the other hand, when the government reduces its spending and/or increases taxes, it removes money from the economy.⁶⁷

If the government spends more than it collects in revenue, it must borrow to make up the difference. High levels of borrowing can lead to an increase in the government's debt levels, which can have negative consequences for the economy if investors lose confidence in the government's ability to repay its debt.⁶⁸

⁶⁶"Fiscal Policy and Economic Growth in India: A Cointegration Analysis" by M. Dhanajayan and G. Ramesh (2018)

⁶⁷"Fiscal Policy and Economic Growth: Evidence from India" by Nidhi Shrivastava and Neha Gupta (2019)

⁶⁸Sengupta, A. (2019). Fiscal policy and public debt in India: Trends, sustainability, and challenges. *Journal of Economic Policy Reform*, 22(1), 20-42. doi:10.1080/17487870.2018.1469469

Therefore, a well-designed fiscal policy is important for sustainable economic growth in India. The government needs to balance its spending and revenue collection to ensure that it can fund its programs without incurring unsustainable levels of debt. It is also important for the government to target its spending towards productive investments that can create jobs and improve the country's infrastructure and human capital.

LaxmiKhandsari v. State of U.P. (1980)⁶⁹ In this case, the Supreme Court of India held that the imposition of sales tax on Khandsari sugar was unconstitutional as the tax was discriminatory and violated the right to equality guaranteed by the Constitution

Here are some recommendations and implementation strategies that can be adopted to promote economic development in India through fiscal policy:

- **Taxation:** The government can encourage economic development by providing tax incentives to businesses, particularly small and medium-sized enterprises (SMEs). This can be done by reducing corporate tax rates or providing tax credits for investments in research and development, technology, and innovation. Tax incentives can also be provided for companies that create jobs in certain sectors or regions.***Union of India v. Vodafone Group (2012)***⁷⁰ In this case, the Supreme Court held that the Indian tax authorities did not have jurisdiction to tax a transaction between two foreign companies that involved the transfer of shares of an Indian company. However, the Indian government later passed a retrospective amendment to the Income Tax Act to tax such transactions, which was criticized by many as it undermined the principle of certainty in taxation.
- **Government spending:** The government can boost economic development by increasing spending on infrastructure projects, such as roads, bridges, airports, and power plants. This can create jobs and stimulate economic activity in the short term while also laying the foundation for long-term growth. ***Association of Leasing and Financial Service Companies v. Union of India (2010)***⁷¹ In this case, the Supreme Court held that the imposition of service tax on leasing and hire-purchase transactions was constitutional as it was a valid form of taxation under the Constitution.

⁶⁹AIR 1981 SC 873.

⁷⁰AIR 2012 SC 2187.

⁷¹2010 AIR SC 2034.

- **Borrowing:** The government can borrow to finance infrastructure projects or other initiatives that promote economic development. However, it is essential to ensure that borrowing is sustainable and does not lead to an excessive debt burden.*State of Karnataka v. Azad Coach Builders (2005)*⁷² In this case, the Supreme Court held that the imposition of entry tax by a State on goods coming from other States was unconstitutional as it violated the freedom of trade, commerce and intercourse between the States guaranteed by the Constitution.
- **Efficient tax collection:** The government should focus on improving the efficiency of tax collection to increase revenue without raising tax rates. This can be achieved through the use of technology, simplification of tax laws, and reducing tax evasion.*Union of India v. AzadiBachaoAndolan (2003)*⁷³ In this case, the Supreme Court held that the levy of Minimum Alternate Tax (MAT) on companies that claimed tax exemptions under the Income Tax Act was constitutional.
- **Fiscal discipline:** The government should maintain fiscal discipline to ensure that the budget deficit does not spiral out of control. This can be achieved through careful management of government spending, reducing wasteful expenditures, and increasing revenue through efficient tax collection.
- **Inclusive policies:** Fiscal policies should be designed to promote inclusive growth, ensuring that the benefits of economic development are shared across all sections of society. This can be done by providing social safety nets, improving access to education and healthcare, and promoting job creation in sectors that employ disadvantaged groups.
- **Promotion of exports:** The government can promote economic development by incentivizing exports. This can be achieved through tax rebates for exporters, infrastructure development in export-oriented sectors, and promotion of foreign investment in export-oriented industries.

Implementation of these recommendations will require a coordinated effort from policymakers, businesses, and civil society organizations. It is essential to ensure that fiscal policies are aligned

⁷²AIR 2006 SC 2763.

⁷³AIR 2003 SC 2978.

with long-term development goals and do not have adverse effects on the environment, social welfare, or other areas of public concern.

There are several fiscal policy recommendations that can help develop the Indian economy.

Here are a few:

- Increase government spending on infrastructure: India needs significant investment in infrastructure to improve its competitiveness and support economic growth. The government can increase spending on roads, bridges, airports, and other key infrastructure projects to create jobs and stimulate economic activity.
- Encourage foreign investment: The Indian government can attract foreign investment by providing tax incentives, simplifying regulations, and promoting the ease of doing business in India. This will increase investment, create jobs, and stimulate economic growth.
- Implement tax reforms: The government can simplify the tax system by reducing the number of taxes and creating a single, uniform tax rate. This will reduce compliance costs for businesses and improve the ease of doing business in India.
- Boost domestic manufacturing: The government can promote domestic manufacturing by providing incentives to small and medium-sized enterprises, reducing tariffs on raw materials, and investing in research and development.
- Encourage entrepreneurship: The government can provide support for entrepreneurship by creating a favorable business environment, offering incentives for start-ups, and investing in incubation centers and accelerators.
- Invest in education and training: A skilled workforce is critical for economic growth. The government can invest in education and training programs to improve the skills of the workforce and increase productivity.
- These are just a few fiscal policy recommendations that can help develop the Indian economy. Implementing these policies can create a favorable business environment, promote investment, and stimulate economic growth.

These are just a few ideas for potential fiscal policies that could help the Indian economy grow. It is essential to consider a number of factors when developing exact policy ideas, such as political viability, financial constraints, and economic realities. Infrastructure is essential for the growth of

the economy. Government should build and enhance infrastructure, such as roads, ports, airports, railways, and other types. By generating jobs and boosting the economy in the short term, such investments can pave the path for long-term prosperity. Government spending on healthcare, education, and other social services can spur economic growth. These investments may result in better living conditions and more jobs in the service sector. Tax reforms encourage corporate growth and investment, which strengthens the economy and creates more jobs. To lessen the costs of business compliance, the government can lower corporate tax rates, provide tax benefits for specific industries, and simplify the tax law. Foreign investment boosts economic growth and creates jobs. There may be tax benefits and less bureaucracy for foreign companies investing in India. Encourage SMEs since they are the engine of India's employment and economy. SMEs benefit from government financing, tax benefits, and legislation that is supportive of business. Innovation is the primary force behind long-term economic prosperity. The government can encourage innovation and entrepreneurship, assist R&D, and provide tax benefits to inventors. Income disparity can boost the economy and lessen poverty. Progressive taxes, social assistance, and employment training programs can all help the government do a better job of allocating its revenue.

CHAPTER 6 : CONCLUSION & SUGGESTION

The relationship between fiscal policy and economic growth in India is convoluted and entangled. Fiscal policy refers to the choices the government makes regarding its borrowing, taxing, and spending actions. These choices might have a big effect on the economy. Fiscal policy in India has played a crucial role in promoting economic development over the years. The government has used a number of fiscal policy strategies to improve income inequality and combat poverty. A few notable initiatives are the Goods and Services Tax (GST), the Direct Benefit Transfer (DBT) program, and the focus on infrastructure development through schemes like Bharatmala and Sagarmala. But there are also some problems with Indian fiscal policy. One of the key issues is the massive budget deficit, which puts a pressure on government finances and increases the risk of inflation and other economic catastrophes. Government expenditure must also be more effective and efficient in order to guarantee that resources are spent as efficiently as possible.

The fiscal policies in India have a significant impact on economic growth. The availability of resources and their distribution throughout the economy are influenced by the government's borrowing, taxing, and spending policies. Overspending by the government can discourage private investment and halt economic development. Growth would be hindered, just to how high taxes could discourage customers and companies from investing. On the other hand, government expenditure on infrastructure, health care, and education can encourage economic growth by raising productivity and living standards. It is advised that the government focus on striking a balance between its borrowing, taxing, and spending policies in order to promote economic growth in India. While attempting to lower its fiscal deficit, the government should make sure to fund important areas like infrastructure, healthcare, and education. The tax system should also be simplified in order to encourage greater compliance and lessen the tax burden on both people and enterprises.

Another suggestion is to promote FDI, which might quicken India's economic expansion. By lowering administrative barriers and addressing issues with corruption, law, and intellectual property rights, the government should improve the business climate. To encourage foreign investment, the government may also offer incentives like tax exemptions, subsidies, and other advantages. To stimulate economic growth in India, the government should simplify the tax code, invest in important industries, balance its fiscal policies, and encourage foreign direct investment.

The correlation between fiscal policy and economic growth in India frequently has both good and negative features. Even while fiscal policy has been crucial in promoting growth and development, there is still work to be done to guarantee that government spending and taxation policies support sustainable and fair economic growth over the long run. The Goods and Services Tax (GST), which replaced a number of indirect taxes with a single, unified tax in 2017, is one key change to India's fiscal policy. Additionally, the administration has expanded financing for social welfare and infrastructure initiatives. One such initiative is the PradhanMantri Jan DhanYojana, which aims to make banking services available to all households nationwide. India may pursue additional tax system reforms in the future, such as easier tax rules and lower corporate tax rates, in order to draw in more international investment. In order to increase human capital and foster long-term economic growth, the government may also place a high premium on increasing public spending on healthcare and education. However, there is ongoing discussion among economists about the efficacy of different fiscal measures because the relationship between fiscal policy and economic development in India is a complicated one. In India, fiscal policy has been a crucial tool for promoting economic expansion, eliminating poverty, and enhancing social welfare. As the pandemic's impacts and the rise in commodity prices fade, India is expected to experience favorable growth over the next ten years. Experts predict that the following factors will help India grow:

a reliable and secure financial infrastructure India's formalization and digital transformation have bolstered the commercial and banking sectors' balance sheets, allowing banks to make more informed decisions about loans and prices. Faster GDP growth and faster credit expansion are directly correlated with higher bank capitalization. The government's initiatives to raise productivity, develop skills, and successfully implement reforms connected to digitization may increase India's potential for medium-term growth. Formalization, financial inclusion, and better economic prospects are all very likely to happen. India may profit from the many global supply networks as a result of the shifting geopolitical environment. Multinational corporations are attempting to diversify their production and supply bases as a result of India's favorable legal frameworks, making it a viable destination for capital flight from other countries. Reforms must continue if the economy is to grow more quickly and sustainably, improving living standards as it goes. In addition, it necessitates addressing problems with the electricity sector and Discoms' financial viability, placing a focus on skill development and education, and establishing

regulations to curb the growth in obesity rates. Long-term planning is also necessary for purchasing the metals and minerals necessary for a variety of energy sources.

This chapter has demonstrated that neither the strength of the Indian economy nor the effectiveness of governmental reform initiatives had diminished. The balance balances of the banking and corporate sectors weren't as stressed, which would have allowed the Indian economy to expand more quickly. while we were still looking forward to. The global pandemic buffeted it before it could benefit from better and healthier balance sheets in the new decade. This was followed by a dramatic increase in the price of food, fuel, and fertilizer. Just as they did in the early years of the new millennium, negative shocks will and do pass. Now that the financial and corporate sectors' balance sheets are strong, there is a readiness to borrow and lend. It follows that the effects of these measures will now unavoidably be felt. In India's private sector, reviving the credit cycle will also revivify the capex cycle. That is sufficient to sustain India's growth on its own and enable it to increase by at least 6% annually in real terms. Additionally, the public digital infrastructure built over the last 6-7 years has improved economic efficiency, which will add another 30--50 basis points to potential GDP growth. Insufficient research has been done on the growth effects of India's expanding public internet infrastructure. It would be foolish to ignore the benefits of formalization, such as financial inclusion. It simply takes some time for its growing benefits to start consistently showing up in the statistics. As a result, we expect India's real GDP will grow by 6.5% yearly on average in the coming years. If the further reforms mentioned in the previous sentence are put into place during the ensuing years, India's potential GDP growth might reach 7-8% annually in the medium term.

The administration recently put in place a number of initiatives to revamp fiscal policy and promote economic growth, including:

- Increasing government spending: The government has increased spending on infrastructure, education, health care, and social welfare programs to promote economic growth, enhance living circumstances, and generate jobs.
- Tax reforms: To simplify the tax law and lower taxes for both people and corporations, the government has undertaken a series of tax reforms. These adjustments are expected to increase economic activity, draw in investment, and foster economic development.

In order to reduce the fiscal deficit and accomplish fiscal consolidation, the administration has also taken action. This attempts to strengthen the credibility of the government's fiscal initiatives in addition to promoting economic stability and lowering inflation. A variety of digital initiatives have been launched by the government to promote financial inclusion and cut costs for companies. These initiatives include the PradhanMantri Jan DhanYojana, which aims to provide financial services to every home, and the Digital India initiative, which aims to provide broadband connectivity to all citizens. In the future, it is anticipated that the Indian government will continue to make significant efforts to improve fiscal policy and promote economic development. The adoption of digital initiatives with the aim of promoting financial inclusion and lowering the cost of doing business, among other things, as well as new tax reforms, increased public investment in infrastructure and social welfare programs, may be involved in this.

Over the past ten years, India's economy has grown at some of the quickest rates, and it has achieved great strides in eradicating poverty and raising living standards. The COVID-19 epidemic, on the other hand, has had a very negative influence on the Indian economy, causing a considerable decline in GDP in 2020. Even so, the nation's economic recovery has been quite swift, and it is anticipated that it will get much better in the coming years.

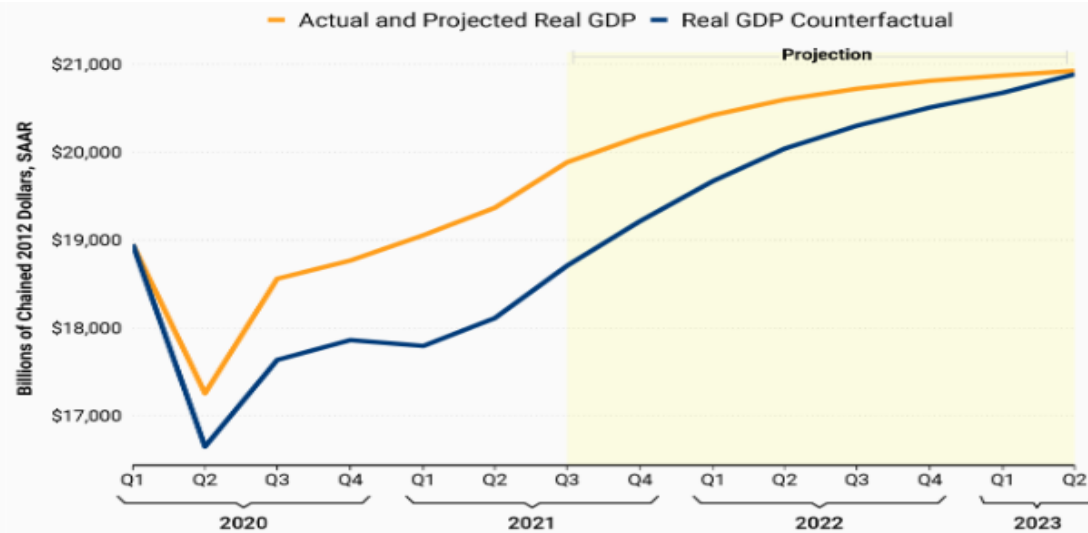
It is anticipated that recent fiscal policy changes in India will help long-term growth and development. For instance, the government's recently implemented goods and services tax (GST) is anticipated to make tax legislation simpler and increase tax income. The government has also announced plans to privatize a number of state-owned businesses in an effort to promote more international investment. Additionally, restrictions on foreign investment have been loosened. Although India has substantial obstacles in the areas of poverty, inequality, and infrastructure development, recent adjustments to its fiscal policy have prepared the nation for long-term growth and development. Future progress and prosperity may be possible for the nation if it can stay on its current course and address some of its core problems. As its reform process progresses, India is in an excellent position to build on its achievements. India's economy is now well-positioned for future growth as a result of recent adjustments made to the country's fiscal policies, which have created a strong foundation for long-term growth and development. Fiscal policies have a big impact on the Indian economy. The government's choices on fiscal policy may have an effect on the nation's economic growth, inflation rates, employment levels, and overall economic stability.

The government can stimulate economic growth by, for example, investing more on infrastructure or social assistance programs, which will raise consumer spending and provide job opportunities. On the other hand, excessive government expenditure without adequate taxation may cause the economy to suffer from inflation, an increase in interest rates, and other negative repercussions.

Similar to how businesses and individuals would reduce their spending if taxes were raised by the government, thereby slowing economic growth. On the other hand, tax cuts might increase disposable income, consumer spending, and business investments. India's fiscal strategy has a direct impact on the country's budget deficit and debt levels. The public debt may rise and other revenue streams. In addition to other detrimental effects, excessive governmental debt may impair the economy by limiting private investment options and increasing borrowing costs

Overall, fiscal policy and economic growth in India have a complex and nuanced relationship, and decision-makers must carefully consider the potential impacts of their decisions on a variety of economic indices .

Effects of Fiscal Policy on the Level of GDP



- India has had significant economic progress and a reduction in poverty over the past 10 years, but the COVID-19 pandemic has had a negative effect on the nation's economy.
- The liberalization of foreign investment, the implementation of the goods and services tax (GST), and the privatization of state-owned businesses are a few of the fiscal policy initiatives that the Indian government has implemented to encourage long-term growth and development.
- Decisions made regarding fiscal policy have a substantial impact on the Indian economy, including economic growth, inflation rates, employment levels, and overall economic stability.
- By increasing investment on infrastructure or social welfare programs, the government can promote economic growth by boosting consumer spending and creating more jobs.
- Excessive government spending without adequate tax revenues can lead to higher interest rates, inflation, and other negative consequences on the economy.
- Tax cuts can increase disposable income, consumer spending, and business investment, whereas tax increases could halt economic growth and lead to a drop in spending.
- The fiscal policies of the country, which may have a negative effect on the economy by restricting private investment alternatives and increasing borrowing costs, are strongly tied to the budget deficit and debt levels of India .

- Decision-makers must carefully evaluate the potential implications of their fiscal policy choices on a variety of economic indicators in order to promote sustainable economic growth in India .

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