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The fiscal policy's impact on the economy of India

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Abstract

According to the International Monetary Fund, the Indian economy is a "bright spot" in the global context and has the seventh largest nominal GDP and the third largest in terms of purchasing power parity (PPP), and consequently, short-term growth prospects are also positive. Furthermore, India's GDP grew by 7.6% in 2015–2016, surpassing the World Bank's growth forecast for the first time (growth expected for 2023–2024 is 7.5 plus). "They know where government policy is on taxation and revenue growth as a budget." It has a direct impact on the economic accessibility of citizens. The use of government revenue collection (usually taxes) and spending (deficits) to influence the economy is known as monetary policy in economics and politics. The stated requirements of economic activity are affected when the government changes tax and spending levels. Monetary policy will be used to stabilise the economy in unstable times. The basic principles of budgeting are taxation, expenditure, investment and withdrawal strategies, and control of debt and surplus. Economic policy is most important in developing countries. The state has a great responsibility to participate in revenue and expenditure in a fair manner. Secondary sources of literature have been consulted for the research. This study attempts to provide strategies for increasing revenue, reducing government expenditure, and reducing taxes to stimulate the economy.

Keywords: *Indian Economy, GDP Growth, Monetary Policy, Government Revenue, Taxation, Economic policy.*

Introduction

Economic policy also involves revenue creation and spending by the government. In this case, the government develops a procedure called budgetary policy or fiscal policy for raising taxes and making expenditures. Therefore, fiscal policy focuses on government revenues and expenditures. Fiscal policy is supposed to guide how much money is spent as well as in which direction—into or out of the economy. Therefore, "economic policy means that segment of national economic policy that mainly deals with the incomes and outlays of the central government". This means that economic policy is about how the government deals with taxation, public expenditure, and borrowing. Economics plays a crucial role in underdeveloped countries. The state must play an active and crucial part. It appears that high democracy cannot tolerate direct tactics. Therefore, the government has no other choice but to use indirect legal means. This approach can also use the state's fiscal policy as a strong implementer for development objectives. Fiscal policy in economics and politics is the use of government income collection and expenditure, primarily through taxes, to direct the economy.

According to this argument, if the government adjusts the level of taxes and spending, then it will impact the level of economic activity as well as aggregate demand. Most often, fiscal policy aims at stabilising the economy from fluctuations. The following economic science variables, among others, will be impacted by changes in the amount and makeup of taxes and government spending in an economy:

It determines the level of economic activity and aggregate demand through its consumption, saving, and investment in the economy as well as the distribution of income.

This is what makes it possible to differentiate between fiscal and monetary policy. Fiscal policy governs the money supply, lending rates, and interest rates, whereas monetary policy is usually controlled by a country's central bank. This is usually done by a government through statutory laws enacted by the legislature. Fiscal policy refers to the choices made by the government on taxation and expenditure. The interest rate and the quantity of money within the economic system are determined by monetary policy. They are the main policy tools that economic managers use to direct the fundamental aspects of the economy. It is often the case that in modern-day economies, it is generally the mandate of the central bank to manage monetary policies and the government to handle fiscal policies. There are several components of fiscal policy. Some of them include tax policy, spending policy, investment or withdrawal strategies, and debt or surplus management. The economic policy of a country constitutes an integral part of the overall national economy and is inextricably tied to its general economic policy plan. Fiscal policy also has an impact on monetary policy and general macroeconomic developments. This is where the government earns more revenue than it spent in the economy. The government runs into debt whenever there is an excess of expenditure over revenues collected by the state. This means that it may have to borrow funds locally or internationally, apply its existing foreign exchange reserves, or print out the needed dollar equivalent. It normally affects other economic elements.

Generally, however, inflation results from too much money creation. It will be necessary for the government to take up large amounts of foreign borrowing, and this presents a debt problem for the government. It could result in an imbalance in balance payments if it increases its foreign currency reserves. Over borrowing has negative implications for a government as it may lead to an increase in the real interest rate, thus preventing domestic private borrowers. These will often happen simultaneously. However, any kind of excess deficit is harmful for short-term as well as long-term economic development and welfare. Therefore, no one disputes that a huge deficit should never be run by a government. Although it is generally accepted that using up surpluses instead of perpetual increases may not be wise, particularly with respect to developing nations where the need for infrastructure and social spending may be vast (Fischer and Easterly, 1990), Most of these governments face a dilemma: balancing the fulfilment of social and infrastructure needs with the soundness of their budgets to prevent debt or a very big deficit.

Objectives of the study

- To examine the role of fiscal policy in the Indian economic growth investigation.
- To consider the impacts of fiscal policy on region development, capital formation, income distribution, revenue mobilisation, price control, and employment.
- To assess whether Indian economic policy is achieving its stated objectives.
- In order to establish areas that will need improvement in India's fiscal policy framework. Offer suggestions on how to make Indian fiscal policies more effective.

Need of the study

Because fiscal policy steers India's monetary course of action, scrutiny into what works best and what can be corrected must be undertaken. This research is aimed at filling the knowledge gap by carefully examining the various multi-faceted effects resulting from fiscal policy and determining the overall effectiveness of fiscal policy for Indian development efforts. From this research, there can be lighthouses that can guide policymakers on how to craft and implement better budgetary decisions. The aim is to assist in the building of an economically sound nation that will help India become socially and financially independent."

Research Methodology

This study, using a doctrinal research strategy, employed vast secondary data sources like government books, literary works, and statistical databases to explore how fiscal policy influences the Indian economy. Academic journals, in addition to reports compiled by entities such as the Ministry of Finance and the Reserve Bank of India, were used to understand fiscal theories with respect to their implications for policy. The analysis also considered topics that were quantitatively examined using various statistical techniques and econometric models in an attempt to understand the relationship between fiscal policies and the economy. The study, although covering a broad scope, was dependent on secondary sources and might not have gone through much detailing. This study will make valuable data available for further research and future planning in this field and increase knowledge about India's fiscal system and its role in economic dynamics.

Hypothesis

India's economic growth has been impacted by its fiscal policies.

Goals and the Function of India's Development of Fiscal Policy

1. Efficient resource mobilization for development: The main objective of fiscal policy is fast economic growth. The process of achieving economic growth and development involves the mobilisation of economic resources.

2. Financial resource allocation has been effective and was done by both the federal and state authorities. The development fund will be spent on the construction of infrastructure, railways, and others rather than defence, the interest paid, subsidies, or any other non-development expenditure.

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3. Equity through reduced disparities in income for different segments of the population through fiscal policy. For instance, richer individuals have a greater share of income taxes compared to poorer ones. Indirect taxes, especially for semi-luxury and luxury goods, meant more for the upper and middle classes.
4. One of economic policy's core objectives is managing inflation and ensuring stable pricing. Therefore, the government will always strive to contain inflation by reducing budget deficits and implementing such measures as tax cuts, efficiency in resource utilization, etc.

5. The creation of jobs has been made easier for the government through some sane business policies. Infrastructure investment has created both direct and indirect employment. With the reduced taxes and levies directed to SSI units, there would be increased investments, resulting in more jobs being created.

6. Balanced Regional Development The second important aspect of the economy's policy is aimed at the promotion of harmonious regional growth. To encourage repair projects in poor districts, the government has a few offers, including financial subsidies, tax holidays, reductions on taxes and tariffs, finance with moderate interests, and so forth.

7. Fiscal policy reduces PBD by offering exemptions for export revenues like taxes, removing central excise charges, customs, nuisance taxes, and other similar taxes and tariffs that hinder more exports. It also guarantees security through customs tariffs on imports and financial incentives to import substitution sectors.

8. Indian economic policy also tries to increase the rate at which capital is created so as to speed up growth. The country is involved in a deadly spiral of poverty caused by low capital in that poor nation. Efficient design of economic policy shall encourage savings and discourage and minimise the disbursements for quicker capital expansion.

9. Rising National Income: That is the aim of economic policy. This result is usually a result of how fiscal policy increases capital accumulation. As a result, the value of the state, GDP, and personal financial profit increase due to this process, therefore stimulating economic growth.
10. Economic Expansion Through infrastructural development, the government has emphasised infrastructure development as its main route to achieving an expanding economy. An analogue of a tax for the state is a fiscal policy tool that brings money into the budget. The state pours a portion of its funds into the building of physical infrastructure. This is advantageous to all economic groups and sectors.

11. Financial prohibitions such as excise tax are export revenues, and octopi are prohibited by this program. From a commercial perspective, exchange provides advantages to import-replacement industries. The fact that exports offer exchange, while imports provide savings, partially helps resolve the balance of payments problem.

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Impact on National Development

In developing economies, full employment can be ensured by using various instruments of economic policy, such as debt, taxation, public expenditure, structural policies, and the budget, combined without leading to inflationary or deflationary effects. Obviously, they can be potent weapons that politicians possess to change investments, consume, or decide what to do with profit. A taxation system promotes expenditure, investments, and an increase in a person's earnings. The consequence of this might be an increase in the amount people distribute, which will eventually create a higher level of consumers' effective demand. On the other hand, it is possible to narrow the inflationary gap when there is inflammation through anti-inflationary measures. Inflation can only be controlled by measures such as these that reduce demand for surplus purchasing power from consumers. This raises the tax level by stopping the new investments. Despite having it all in mind, we say that a fiscal policy supports the stability and economic developments of emerging states. The points are clearly illustrated as follows:

Impact of Monetary Policy on the Indian Economy

Government spending and spending to influence the economy are known as monetary policy in economics. Monetary policy and other sub-programmes of major types will interact with monetary policy.

❖ The main effects of changes in tax rates and consumption on the economy and government spending are due to changes in the budget, government spending, and taxes.

Income distribution; distribution systems; and the main effects of combined demand and activity levels.

Gather supplies:

The main objective of economic policy in developing countries is the allocation of resources between the public and private sectors. Low levels of savings lead to {national economic surplus value}, and per capita income is usually very low. Consequently, the governments of these countries raise the limits on investment and capital formation through compulsory investment, which, in addition to accelerating economic growth, manages the public sector's various planned budgets. Private investment can help mitigate the inflationary effects of a country's economy, which increases investment, reduces consumption, and invests in inefficient strategies. These countries also deal with the issue of foreign exchange. So the way to increase the savings rate, or marginal propensity, is through taxation, public finance, and debt limits. Progressive taxes, high import duties on luxury goods, and restrictions in the case of luxury and semi-luxury items are some other methods that help to collect. Thus, progressive taxation of capital gains, honorary

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income, windfall, real estate, and debt, among other things, could go a long way towards a more equitable distribution of wealth.

Increase the number of job opportunities

Because of the rapid population growth in many developing countries, the goal of economic policy in these countries is to spend more useful money to increase employment prospects. Countries tend to have less developed countries under the influence of two categories of unemployment: disguised unemployment (II) and cyclical unemployment (I). Unemployment and economic policy cycles: External forces cause cyclical unemployment in developing countries. These countries export a significant amount of their raw materials. If another depression reduces the market for these basic commodities, even the least developed countries will have to deal with issues affecting their basic services. In order to eradicate such unemployment, the government may make a decision to increase public spending. As a result, spending on imports does not create jobs in the country. Instead of increasing productivity and jobs, spending on excess resources can increase costs. It is a consequence of the limited productivity of developing countries. It cannot keep up with the growing demand. Thus, monetary policy should aim at modernising and diversifying the economy. It suggests that public funds should be allocated to establish new industries, encourage the expansion of private enterprise, and improve agriculture. In addition, the government should provide tax breaks, bonuses, subsidies, and other benefits. This can help reduce the unemployment problem.

Promoting economic stability

Maintaining internal and external economic stability is another function of monetary policy in emerging economies. Developing countries are generally more susceptible to the effects of changing global cycles. These countries import large amounts of manufactured goods and capital and export the most basic commodities. However, in order to mitigate the effects of global cycle fluctuations, monetary policy should be considered in a broader sense. Its goal should be to diversify all sectors of the economy. A competitive monetary policy of deficit and excess monetary policy in a depression is considered the most appropriate strategy to achieve balanced growth and reduce the impact of cyclical fluctuations on the budget. This spending policy produces positive results during periods of inflation.Certainly, adding more purchasing power would lead to higher prices, which could be dealt with by containment measures. Quite to the contrary, such a plan should include sound financial planning.

Production and consumption support

Financial instruments are also used to provide subsidised food and housing materials to the poor in less developed countries. Public distribution programmes, grant programmes, food procurement, producer promotion, investment proposal programmes, and other government initiatives all aim to increase macroeconomic returns and support less fortunate communities. They have done a good job. Statewide, thereby focusing on building long-term local assets Per capita income also increases over time.

To promote a healthy social economy

Economic policy in developing countries encourages investment in profitable projects that are considered socially and economically acceptable. This advocates optimal investments while avoiding inefficient and wasteful investments to support economic growth. Simply put, the goal of budgeting should be to encourage investments in economic and social costs such as communications, transportation, technical training, health, and conservation. Production is often increased, opening up a market for attractive foreign investment. At the same time, underperforming investments are analysed and turned into socially acceptable and productive strategies.

Incentives for investment and capital formation

Economic policy in developing countries is important because, on the one hand, it encourages investment in infrastructure, and on the other hand, it supports initiatives to facilitate and reveal ways of doing things. Increased productivity and Potentially better economic policies here can also go a long way towards having a positive impact on economic growth. Changes in the demographics and abilities of the population, their preferences, their level of education, and the social structures that surround them are all part of dynamic economic development.

Analysis

Fig 1: Growth Rate of Indian Economy (2000-2023) [Source: World Bank. (2023, November 25). GDP growth (annual %). [Source: World Bank. https://data.worldbank.org/indicator/ NY

.GDP.MKTP.KD.ZG?end=2022&locations=IN&start=1961&view=chart]

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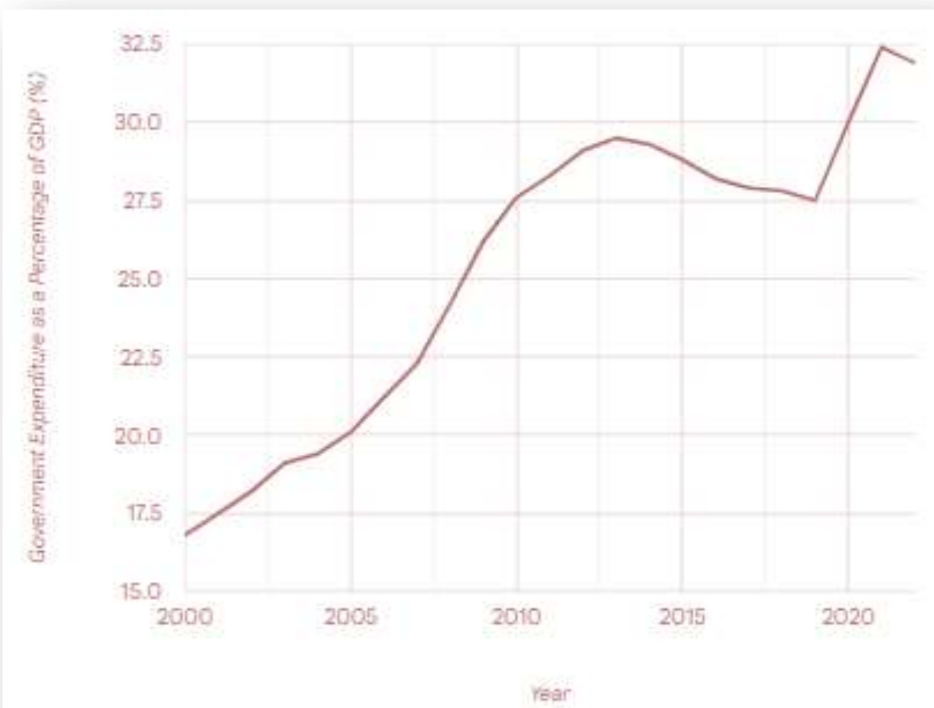
From 2000 to 2023, the Indian economy experienced various stages of growth, characterized by periods of strong and shaky growth. Meanwhile, India experienced strong growth, particularly in the early 2000s and mid-2010s, when GDP growth exceeded 9% in a few of those years. During the COVID-19 pandemic during the year, India has demonstrated its resilience to global economic trends, maintaining a growth rate of over 6% over a key period despite these fluctuations. Strong domestic demand, economic reforms, expansion of the service sector, and infrastructure contributed to the overall growth. Problems such as structural challenges, inflation, and the financial crisis also affected growth trajectories. The outlook remains positive, with an emphasis on inclusive policy, innovation, and reform to maintain high growth rates and support India's strong and dynamically changing economy.

Fig 2: Government Expenditure as a Percentage of GDP (2000-2023)

[Source: Ministry of Finance, Government of India (2023). Economic Survey 2022-23: Chapter 12: Fiscal Policy (Table 12.2). Retrieved from https://www.indiabudget.gov.in/economicsurvey/]



Government expenditure as a percentage of India's GDP (GDP) from 2000 to 2023 is shown in Figure 2. The graph taken from the Ministry of Finance's Economic Survey 2022–2023 shows

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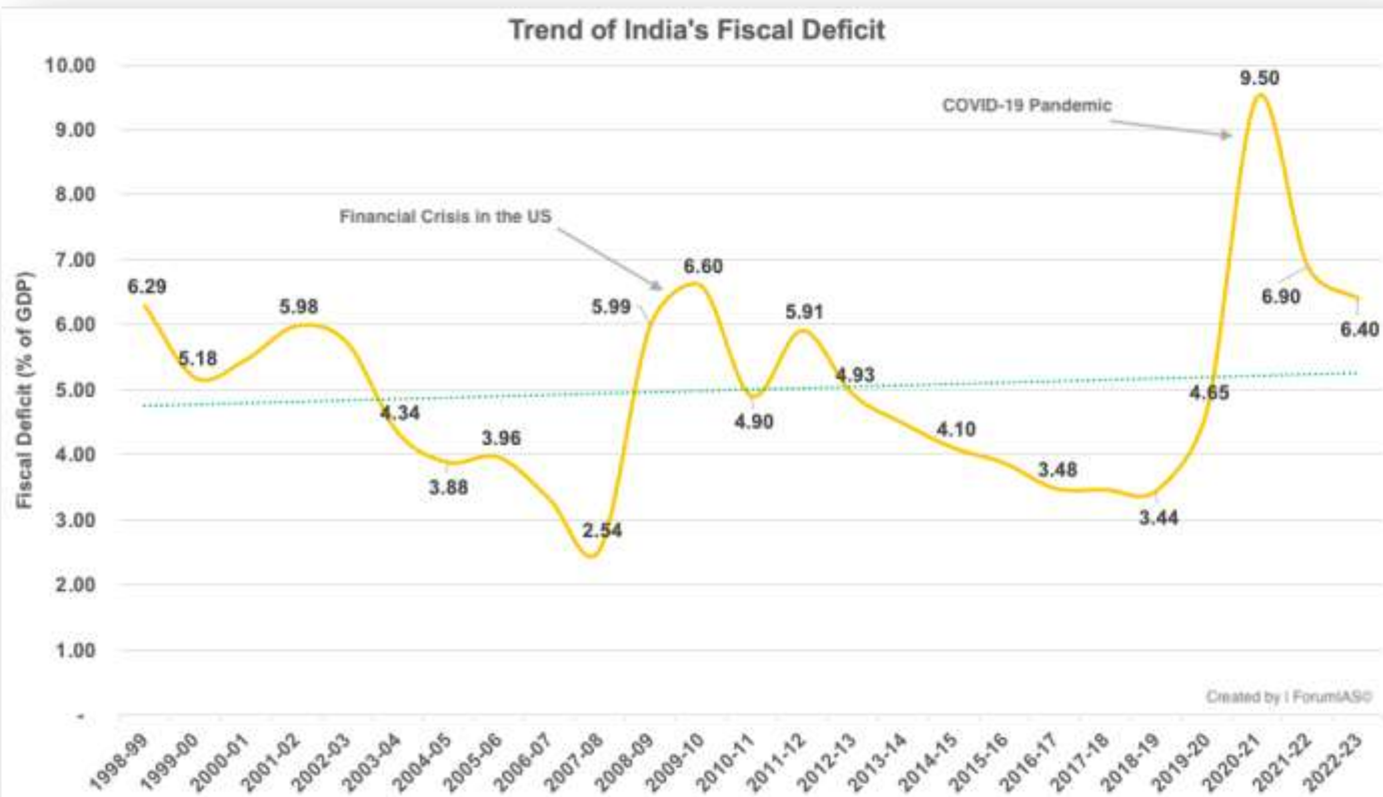
how GDP has changed comparatively to government expenditure over time. The government spent more on macroeconomics, as shown in the figure by the trend in government spending as a proportion of GDP. The figure also shows some changes in government spending as a proportion of GDP from year to year. These changes reflect changes in policy and funding objectives. For example, the same fiscal stimulus programme put in place in response to the global financial crisis resulted in a sharp increase in government spending in 2009–2010. To understand the fiscal position of the government and how it affects the economy, it is important to examine spending as a proportion of GDP. While higher government spending can boost economic growth, it can also cause inflation and higher debt. As for India, the rising government expenditure relative to GDP indicates the government's commitment to providing public goods and services, investing in infrastructure, and taking care of the vulnerable, but it they do not comply with security needs.

Fig 3: Fiscal Deficit as a Percentage of GDP (2000-2023) [Source: Ministry of Finance, Government of India (2023). Economic Survey 2022-23: Chapter 12: Fiscal Policy (Table 12.3).



Retrieved from https://www.indiabudget.gov.in/economicsurvey/]

India's economic crisis has taken a different turn over the last few years. GDP contracted by 2.54% in FY 2007–08. However, the fiscal stimulus generated by the global financial crisis increased to 6.6% in FY 2009–10 and 5.9% in FY 2011–12. Subsequently, spending declined over time, reaching 3.44% in FY 2018–19. However, the onset of the COVID-19 epidemic increased it to 9.5% in FY 2020–21 due to significant budgetary measures for economic recovery in the face of lockdown. It was then reduced to 6.9% in FY2021–2022 and projected at 6.4% in FY2022-23. The projected fiscal deficit for the last fiscal year to November 2022 was Rs 16.61 lakh crore, or 6.4% of GDP. This deficit also exceeded the projected annual budget by 58%. This approach highlights the challenges and solutions affecting India's monetary policy through the impact of international crises, monetary stimulus, and monetary recovery measures on the country's financial imbalances.

Results

1. The Indian economy is heavily dependent on financial systems. The government is able to achieve balanced national development through optimal distribution of resources, reduction of inequality, fair distribution of benefits, and entrepreneurial incentives for the private sector.

2. Revenues finance all government distribution costs, and in general, the end of the budget has no effect on the level of economic activity. The expansionary approach to the budget requires the government to spend more tax money. When government expenditures are low relative to revenues, a contractionary budget is used.

Recommendations

1. Acceleration of economic growth in the country is one of the main objectives of the economic policy formulated by the Government of India. In order to achieve such economic growth in the country, the federal budget has chosen the following two objectives: to facilitate the flow of profitable investments in every public and private sector in the country quickly; to improve the allocation of savings; and to mobilise sufficient capital for investment in the public and private sectors.

2. Effective utilisation of available resources to bring back profitability to the Indian economy

Conclusion

In summary, this study examines the profound impact of monetary policy on India's economic environment, highlighting its important role in wealth distribution, resource allocation, and maintaining financial stability. They give" recommendations that emphasise targeted collections, responsible use of critical economies, data-driven decision-making, and institutionally strong reforms. Effective implementation of economic policies depends on collective efforts; openness and strong commitment can be implemented for welfare, and for equity, its people are prosperous.

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