

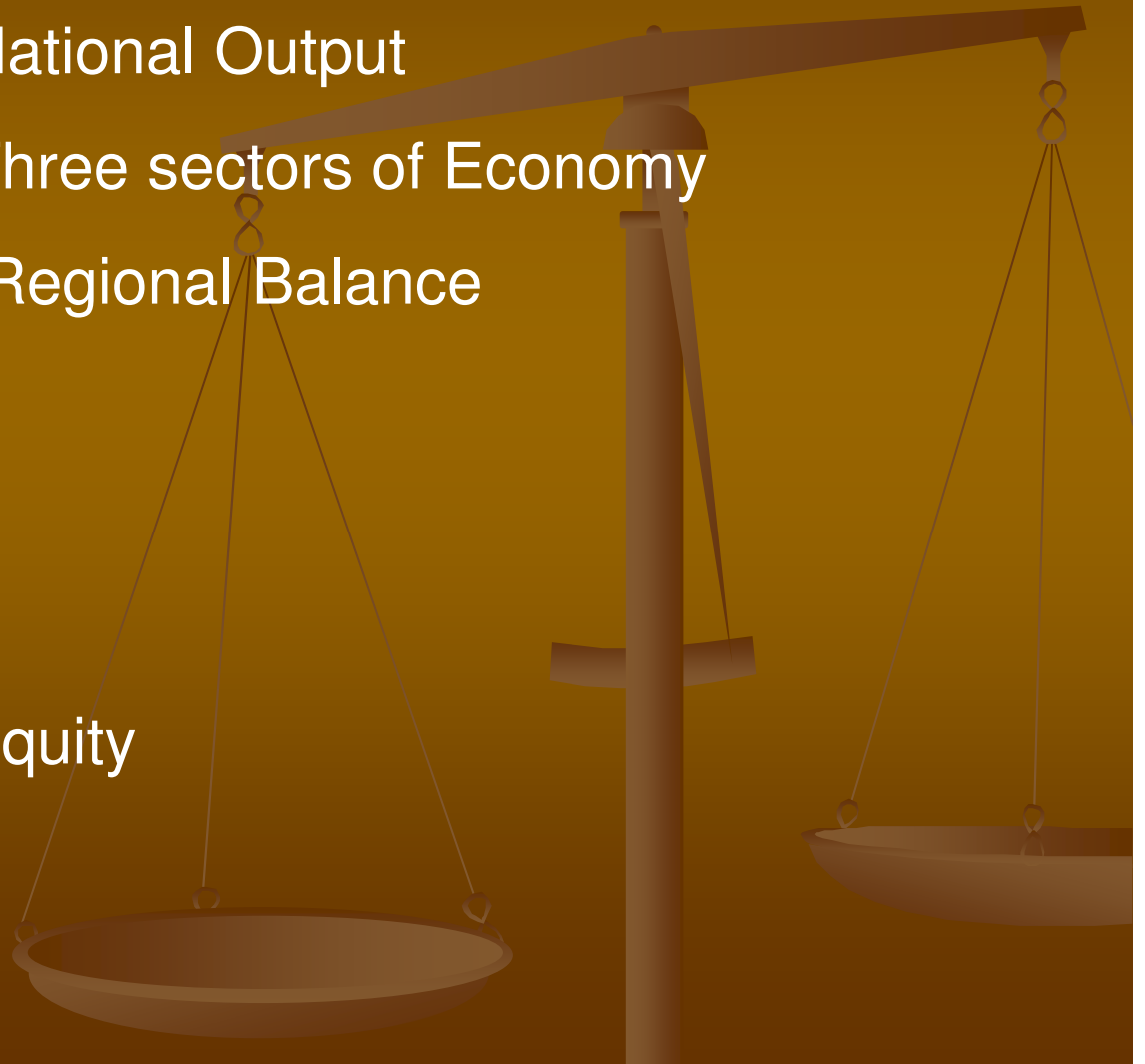
MACRO ECONOMIC POLICY



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Objects of Macro Economic Policy

1. Economic Growth – National Output
 - Three sectors of Economy
 - Regional Balance
2. Full Employment
3. Price Stability
4. Economic Welfare - Equity



Tools of Macro Economic Policy



Monetary Policy

Regulates

1. Supply of Money
2. Cost & availability of credit

Fiscal Policy

Deliberate changes in

1. Govt. Revenue
2. Govt. Expenditure
3. Govt. Borrowings

FISCAL POLICY

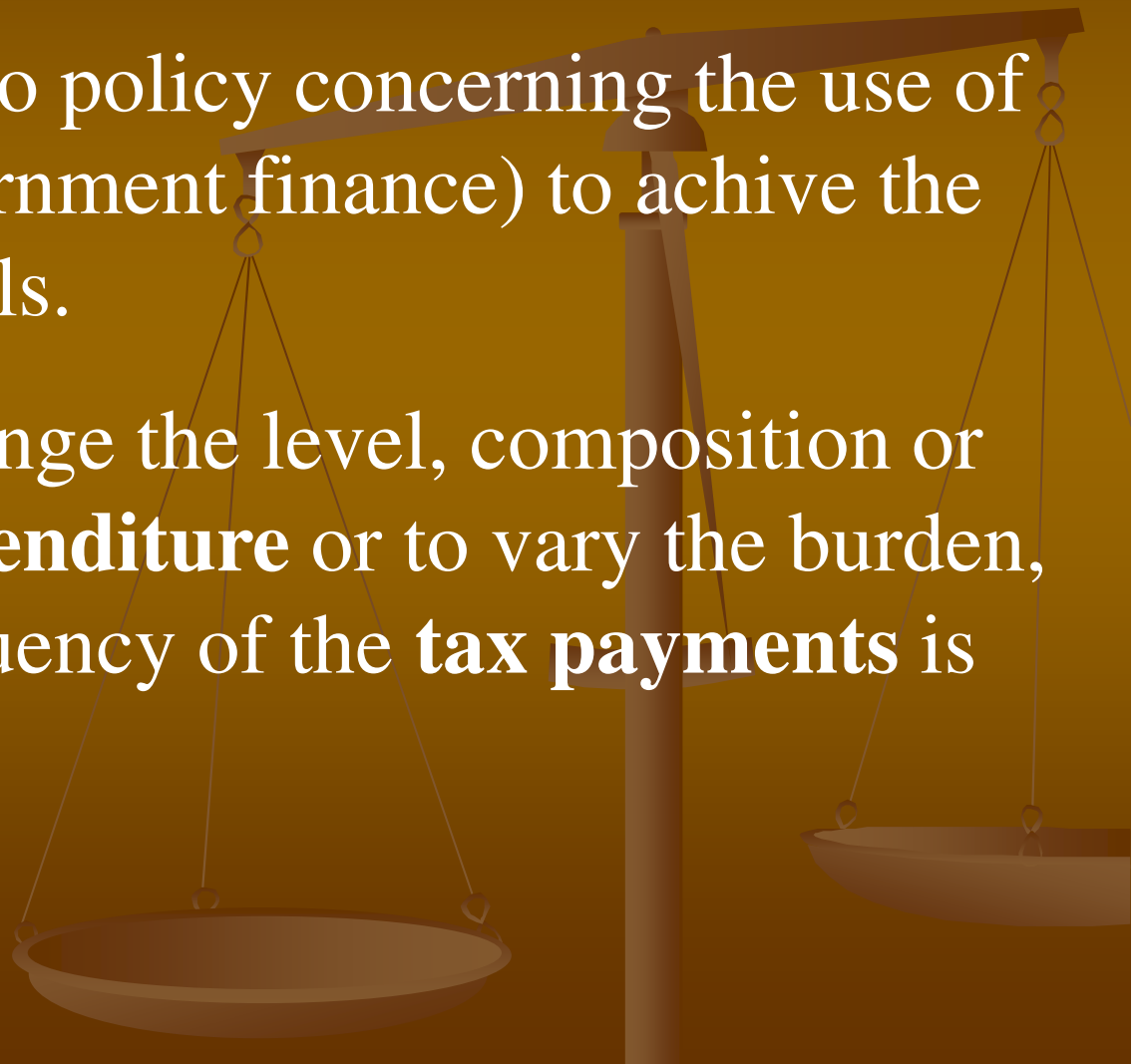


❖ FISCAL POLICY – meaning

The word **fisc** means ‘**state treasury**’

Fiscal policy refers to policy concerning the use of state treasury (Government finance) to achieve the micro economic goals.

“any decision to change the level, composition or timing of **Govt. expenditure** or to vary the burden, the structure or frequency of the **tax payments** is fiscal policy”



Fiscal Policy

Govt. Spending

1. Police State
2. Development State
3. Welfare State

- Public consumption
- Investments
- Taxation
- Deficits

Govt. Receipts

1. Taxation
2. Borrowings
3. Sale of Assets
4. Printing Money
5. Reserve Balances



❖ Objectives of Fiscal policy

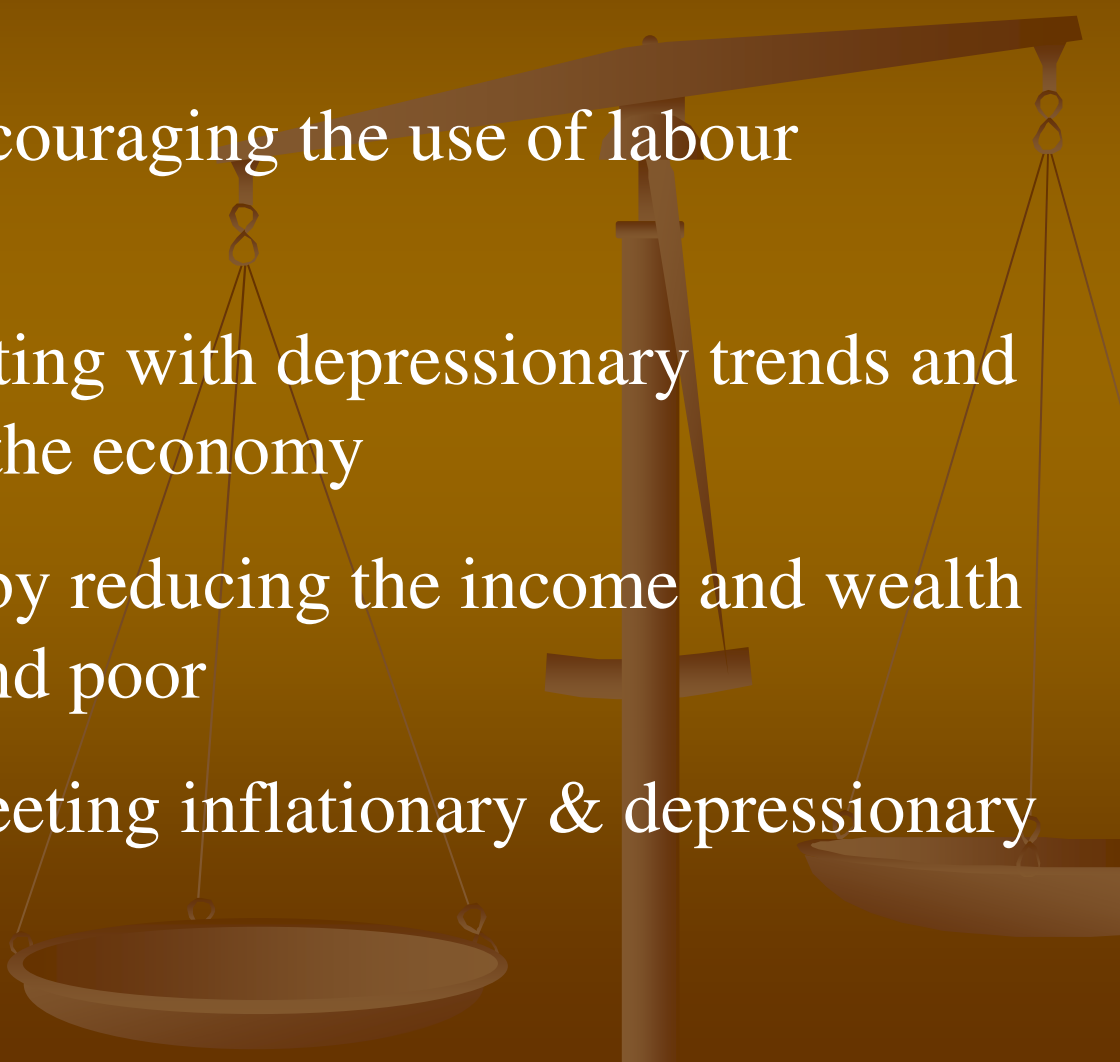
It has two major objectives

1. General :- to achieve macro economic goals

1. Specific :- to resolve any typical problem of the economy.



❖ Macro Economic Goals

- Economic Growth :- By creating conditions for increasing savings and investments
 - Employments :- by encouraging the use of labour absorbing technology
 - Stabilisation :- by fighting with depressionary trends and booming indications in the economy
 - Economic Equality :- by reducing the income and wealth gaps between the rich and poor
 - Price Stability :- by meeting inflationary & depressionary tendencies
- 

❖ Fiscal policy influences the economy

1. Aggregate demand & the level of economic activity

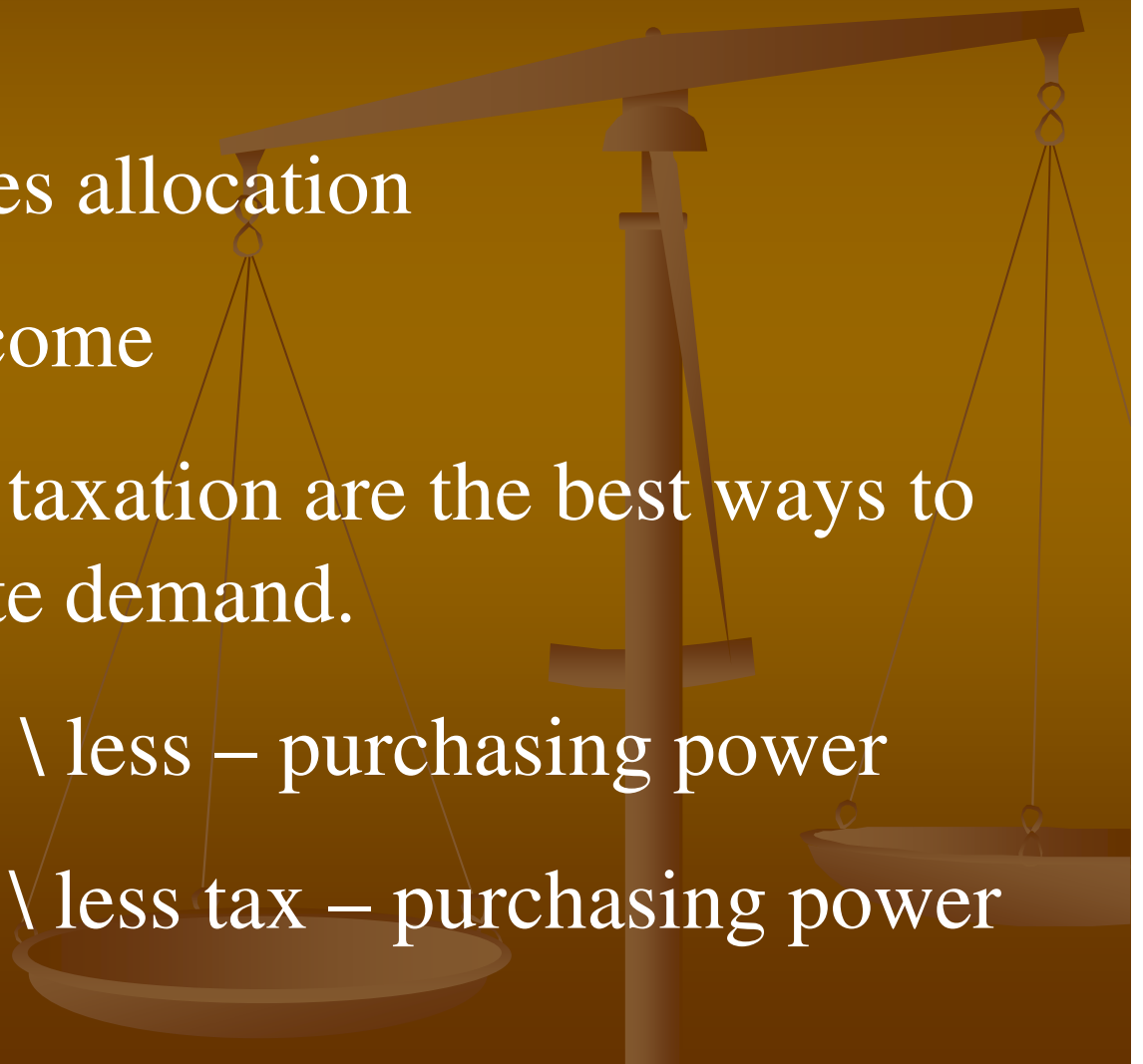
2. Pattern of resources allocation

3. Distribution of income

❖ Govt. spending & taxation are the best ways to stimulate aggregate demand.

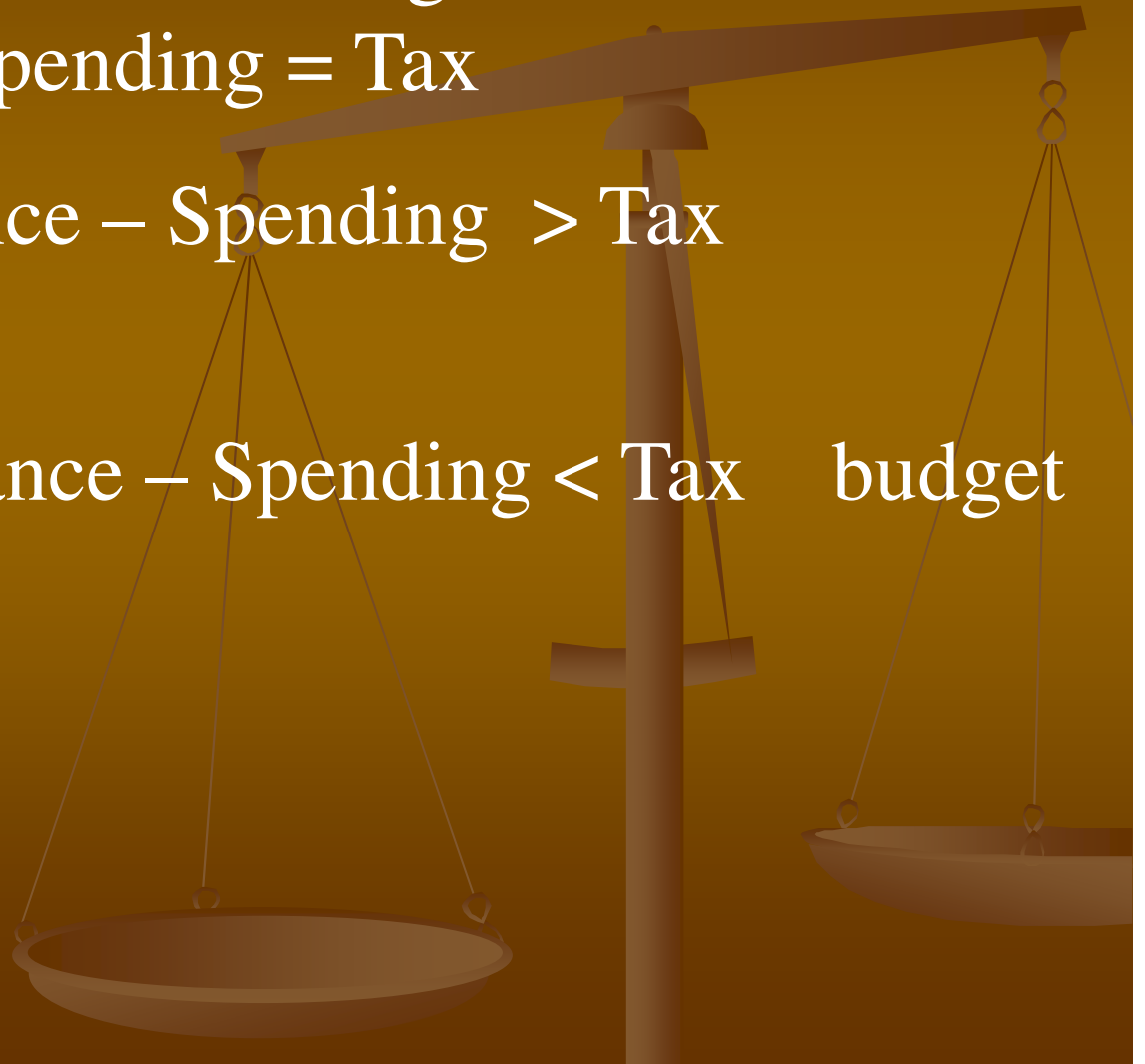
Govt. spending more \ less – purchasing power

Govt. charging more \ less tax – purchasing power



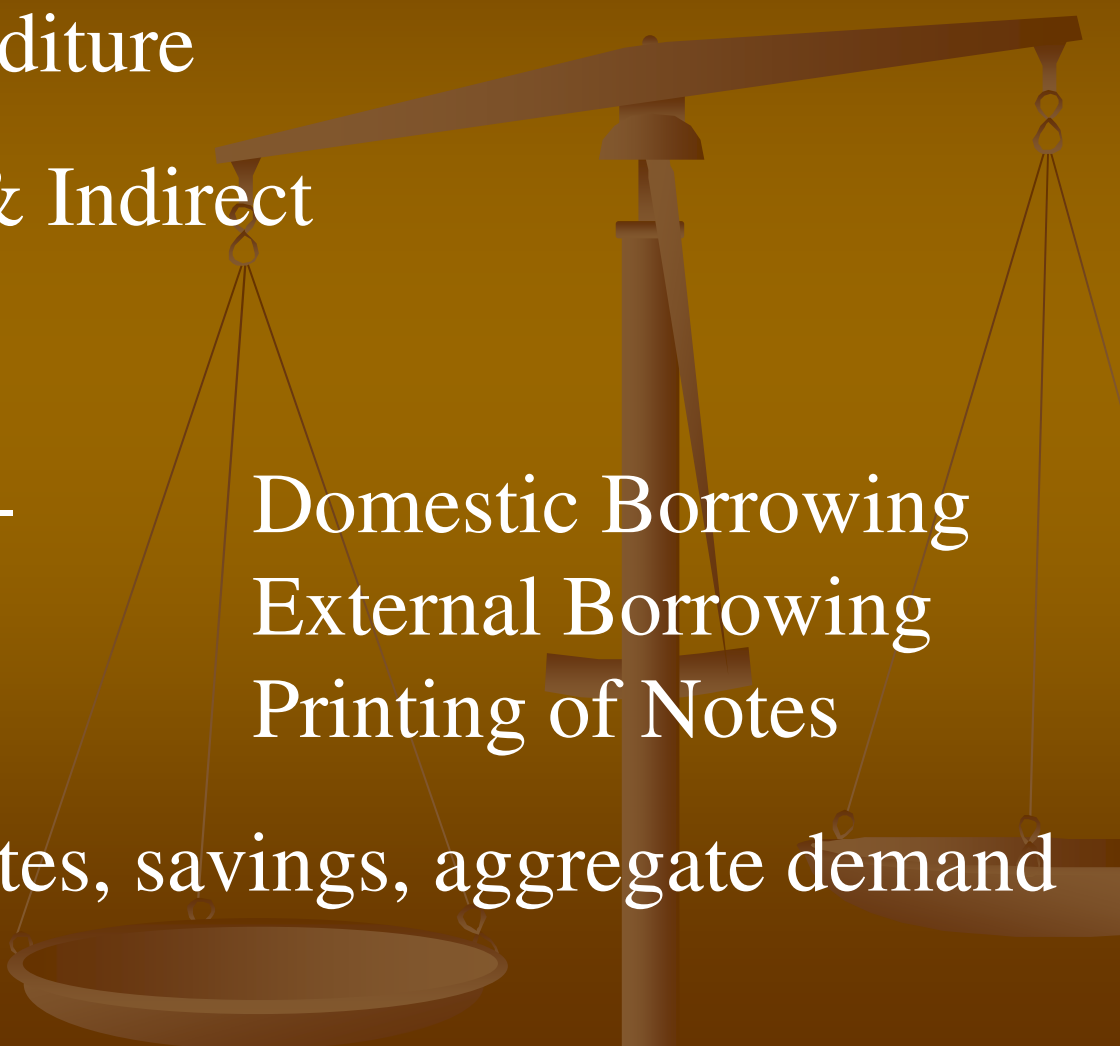
❖ Three possible stances of fiscal policy

1. Neutral stance – balanced budget –
 $\text{Spending} = \text{Tax}$
2. Expansionary stance – $\text{Spending} > \text{Tax}$
budget deficit.
3. Contractionary stance – $\text{Spending} < \text{Tax}$ budget
surplus



❖ Instruments of fiscal policy

- Budgetary surplus & deficits
- Government expenditure
- Taxation – Direct & Indirect
- Public Debt
- Deficit Financing :-



Domestic Borrowing
External Borrowing
Printing of Notes

Impact on interest rates, savings, aggregate demand and exports

❖ **Government Expenditure**

- Purchase of Goods & services
- Payments of wages & salaries of Govt. servants
- Public investments
- Transfer payments



❖ Taxation

'non quid pro quo' transfer of private income to public coffers

Classified into

1. Direct Taxes – Income Tax, Corporate Tax, wealth Tax, Gift Tax, Dividend distribution Tax
2. Indirect Taxes – Sales Tax, Customs, Excise, Service Tax



❖ Public Debt

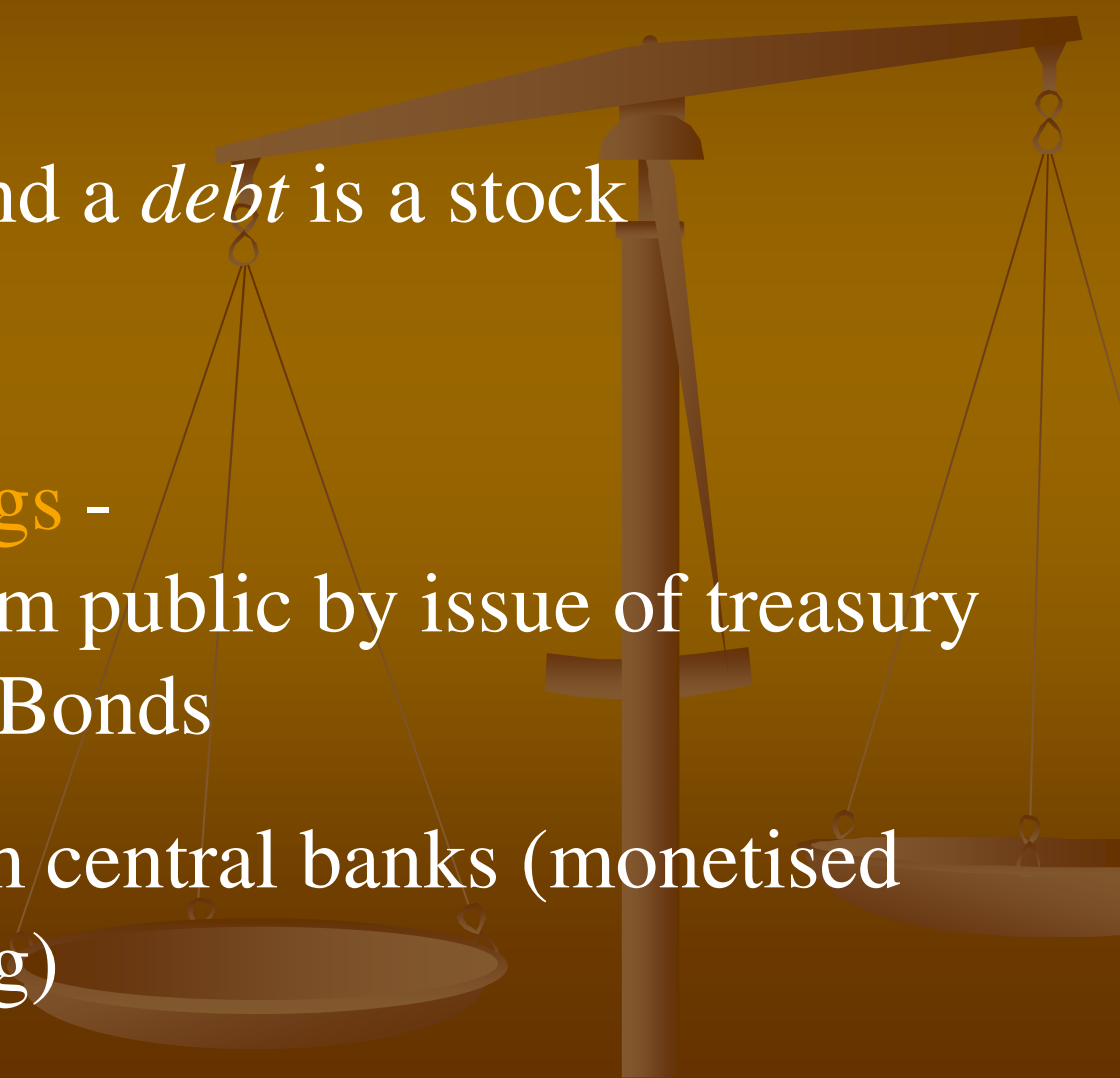
- an accumulated deficit over the period is referred to Govt. debt.
- a *deficit* is a flow and a *debt* is a stock

Sources

❖ Internal Borrowings -

Borrowings from public by issue of treasury bills and Govt. Bonds

Borrowing from central banks (monetised deficit financing)



❖ External borrowings

- Foreign Investments
- Borrowings from International organisations like World Bank, IMF, Asian Development Bank etc.

❖ Market borrowings



❖ FRBM Act

Objectives

1. Long term micro economic stability
2. Higher growth without inflation
3. Inter generational equity in fiscal management

It aims at –

1. Reducing revenue deficits
2. Reducing gross fiscal deficits
3. Reducing public debt
4. No borrowing from RBI



UNDERSTANDING & ANALYSING INDIAN BUDGETS



BUDGET

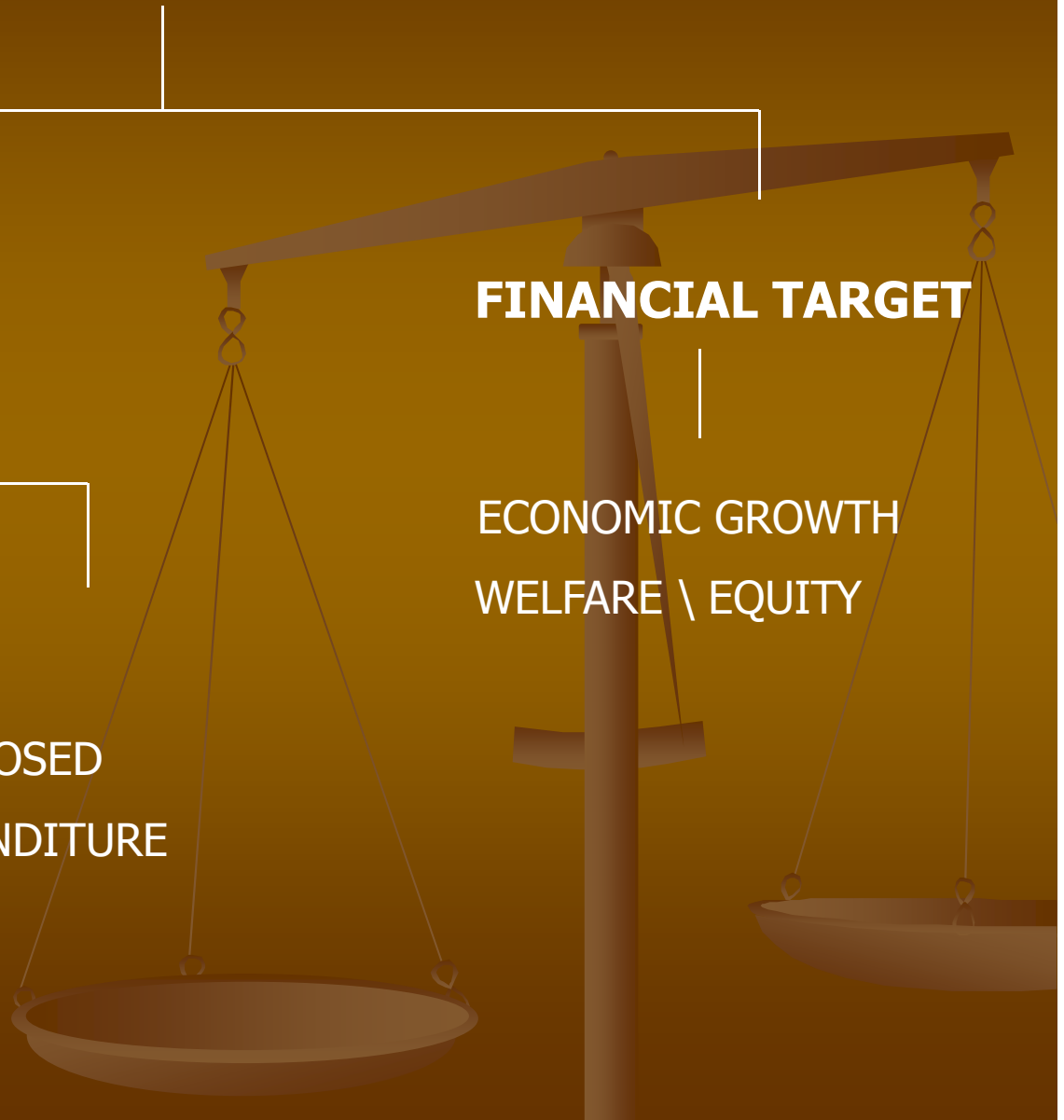
FINANCIAL FORECAST

FINANCIAL TARGET

ANTICIPATED
RECEIPTS

PROPOSED
EXPENDITURE

ECONOMIC GROWTH
WELFARE \ EQUITY



ASPECTS OF BUDGET



1. LEGAL – Constitution of India

F R B M Act

2. POLITICAL – Election manifesto of the ruling party

Economic Agenda of the party

3. FINANCIAL – Estimated receipts and proposed expenses

Deficit \ Surplus

ESTIMATED RECEIPTS

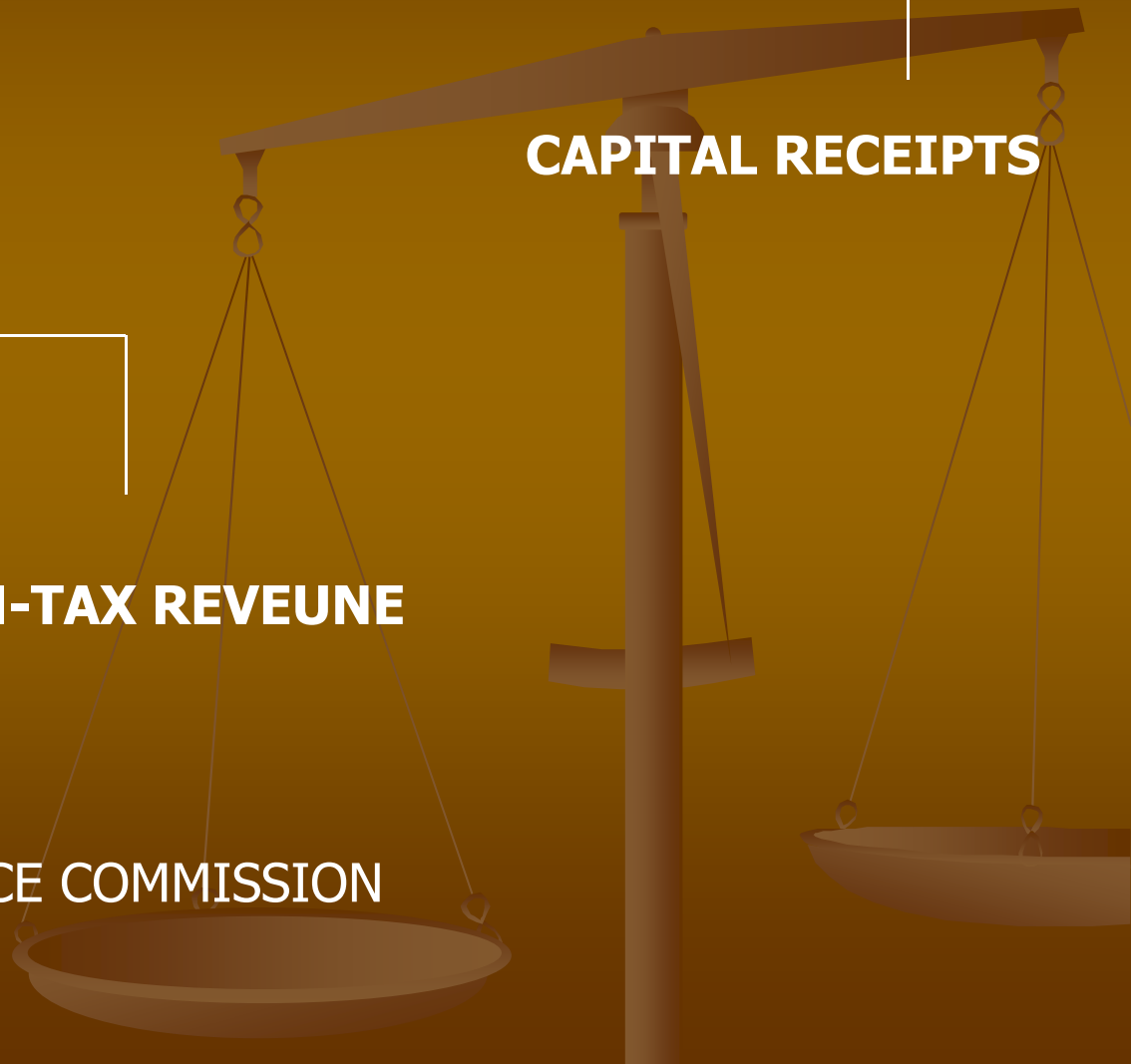
REVENUE RECEIPTS

CAPITAL RECEIPTS

TAX REVENUE

NON-TAX REVEUNE

- NET TAX REVENUE – FINANCE COMMISSION



PROPOSED EXPENDITURE



1. CAPITAL AND REVENUE EXPENDITURE

Recurring \ non recurring

Period of benefit.

Purpose of spending

Possibility of encashment.

2. PLAN AND NON PLAN EXPENDITURE

3. DEVELOPMENT AND NON DEVELOPMENT EXPENDITURE

SUBSIDIES

**1. CASH SUBSIDY – Supplying at less than cost-
Oil, food, fertilizers etc.**

2. INTEREST SUBSIDY –

3. TAX SUBSIDY

4. NON CASH SUBSIDY –

**Providing goods & services
free**

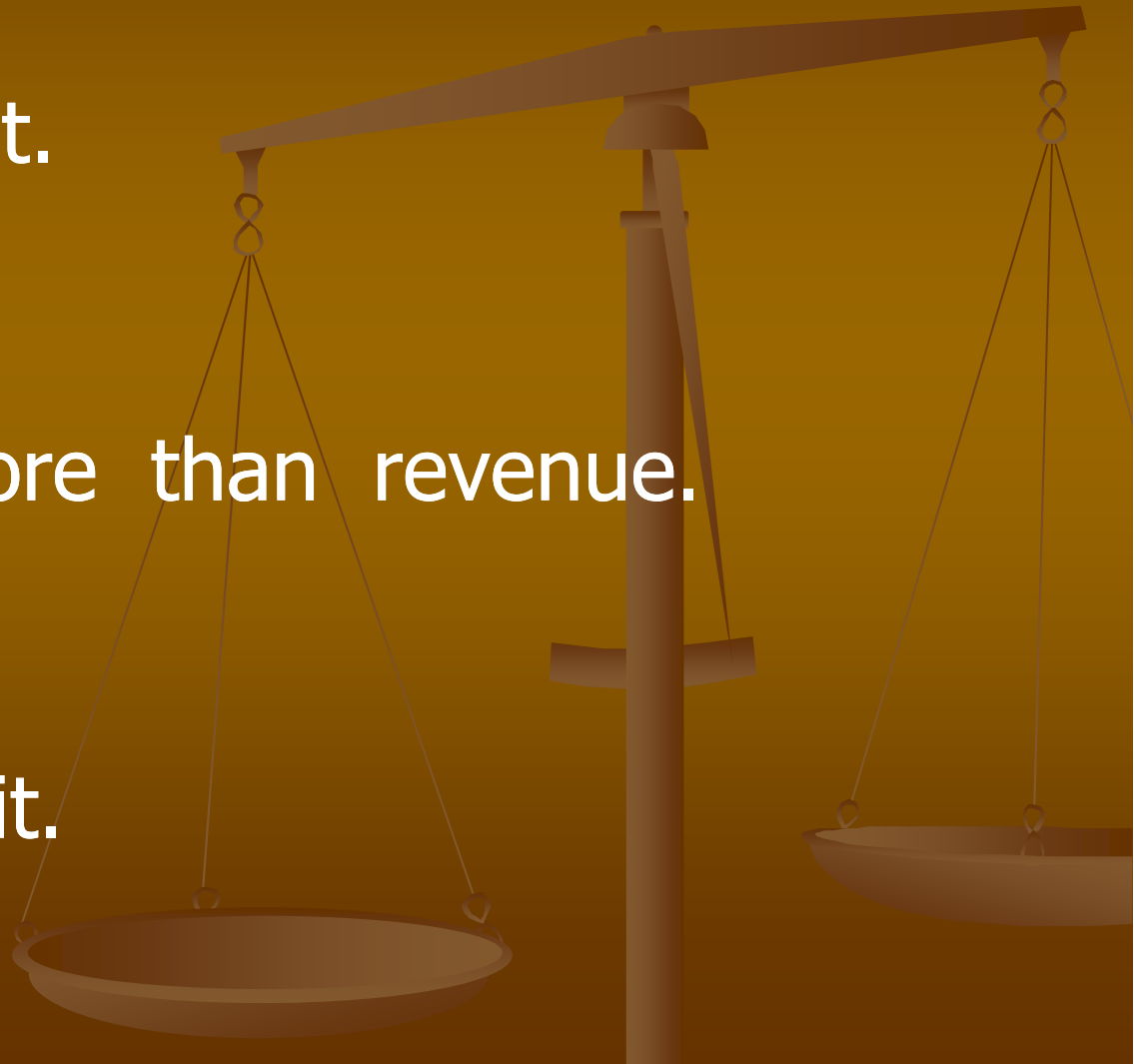
5. PURCHASE SUBSIDY –

**Minimum support price –
Cotton, wheat, sugarcane**



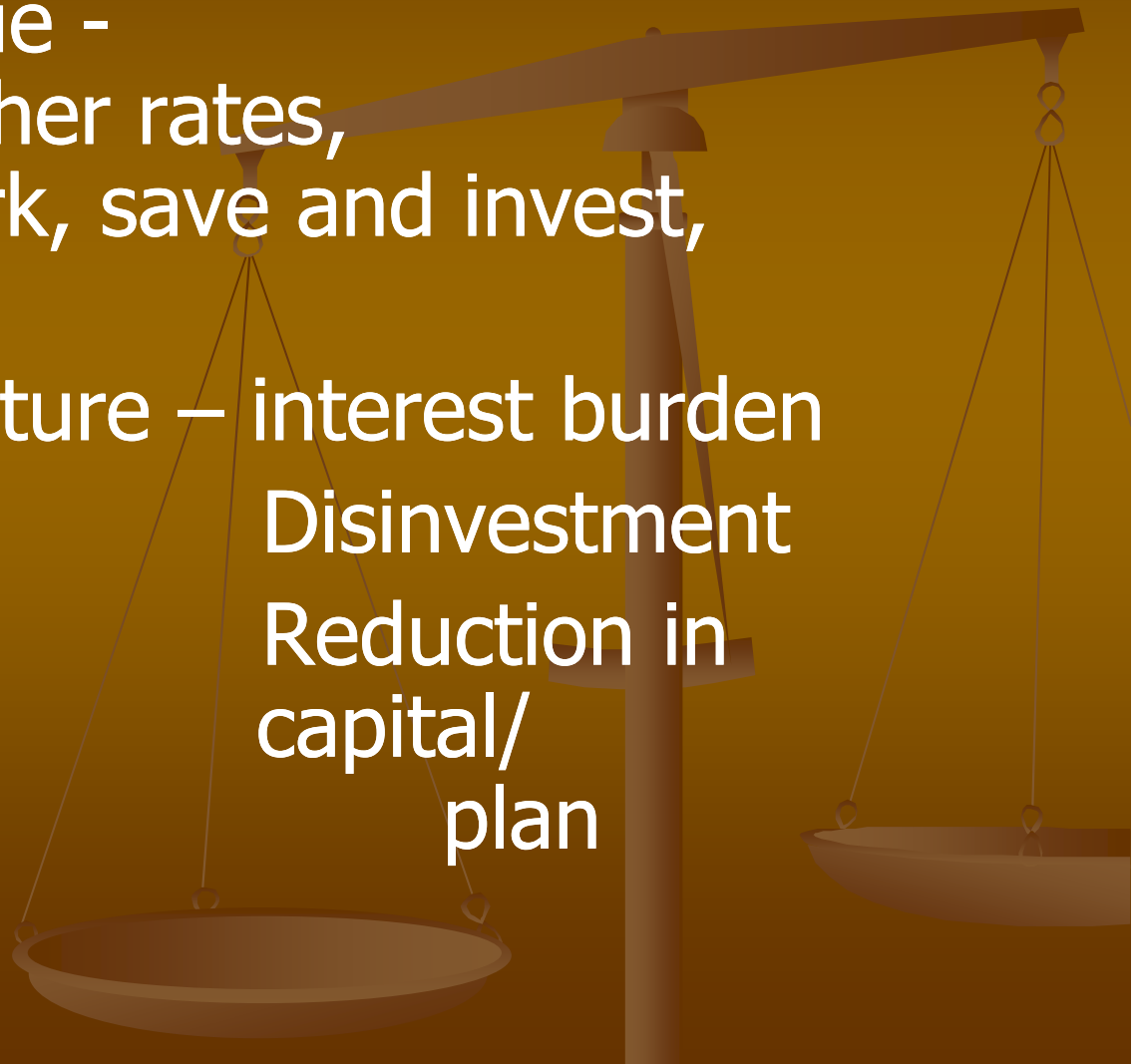
DEFICIT

- Balanced budget.
- Surplus budget.
- Deficit budget.
- Expenditure more than revenue.
- Revenue deficit.
- Capital deficit.
- Budgetary deficit.



TO LIMIT DEFICIT

- Increase revenue - more taxes, higher rates, incentive to work, save and invest, tax evasion.
- Reduce expenditure – interest burden
Disinvestment
Reduction in capital/
plan
expenditure.



WHICH DEFICIT ?

- Revenue surplus
- Capital deficit

FINANCING DEFICIT

- Borrow
- Issue more currency



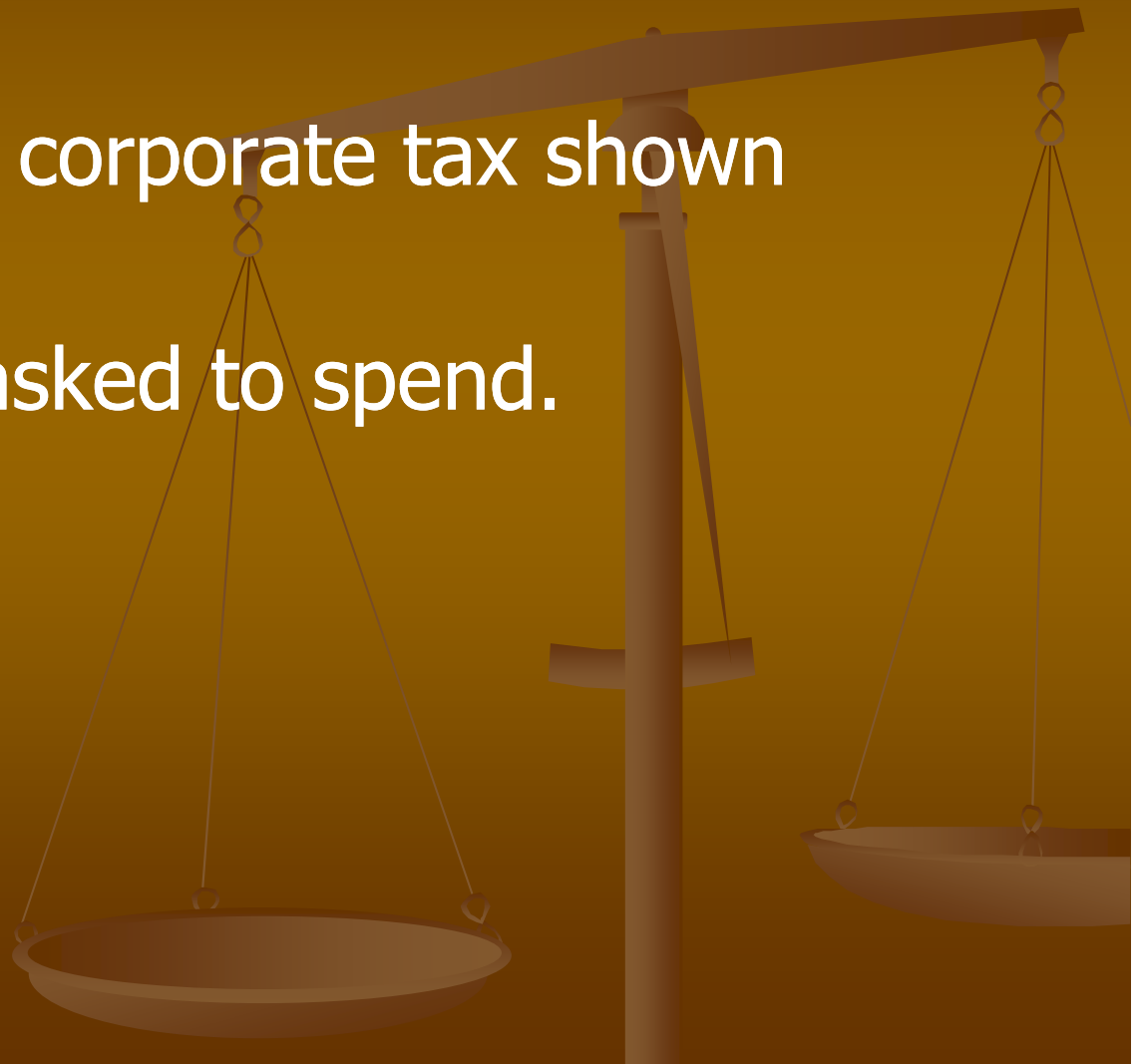
IS DEFICIT FINANCING BAD?

- Not always
 1. Unused resources.
 2. Inflation under control.
 3. Within limits.



WINDOW DRESSING

- Oil bonds
- Income tax and corporate tax shown separately.
- LIC and banks asked to spend.
- Disinvestment.



BUDGET DOCUMENTS

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graph TD; A[BUDGET DOCUMENTS] --- B[CONSTITUTION]; A --- C[FRBM ACT]; B --- B1[1. Annual Financial Statement Art. 112]; B --- B2[2. Demand for Grant. 113]; B --- B3[3. Appropriation Bill. 114(3)]; B --- B4[4. Finance Bill 110(a)]; C --- C1[1. Macro Economic frame for the year]; C --- C2[2. Fiscal Policy Strategy Statement for the year]; C --- C3[3. Medium Term Fiscal Policy Statement];
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CONSTITUTION

1. Annual Financial Statement

Art. 112

2. Demand for Grant. 113

3. Appropriation Bill. 114(3)

4. Finance Bill 110(a)

FRBM ACT

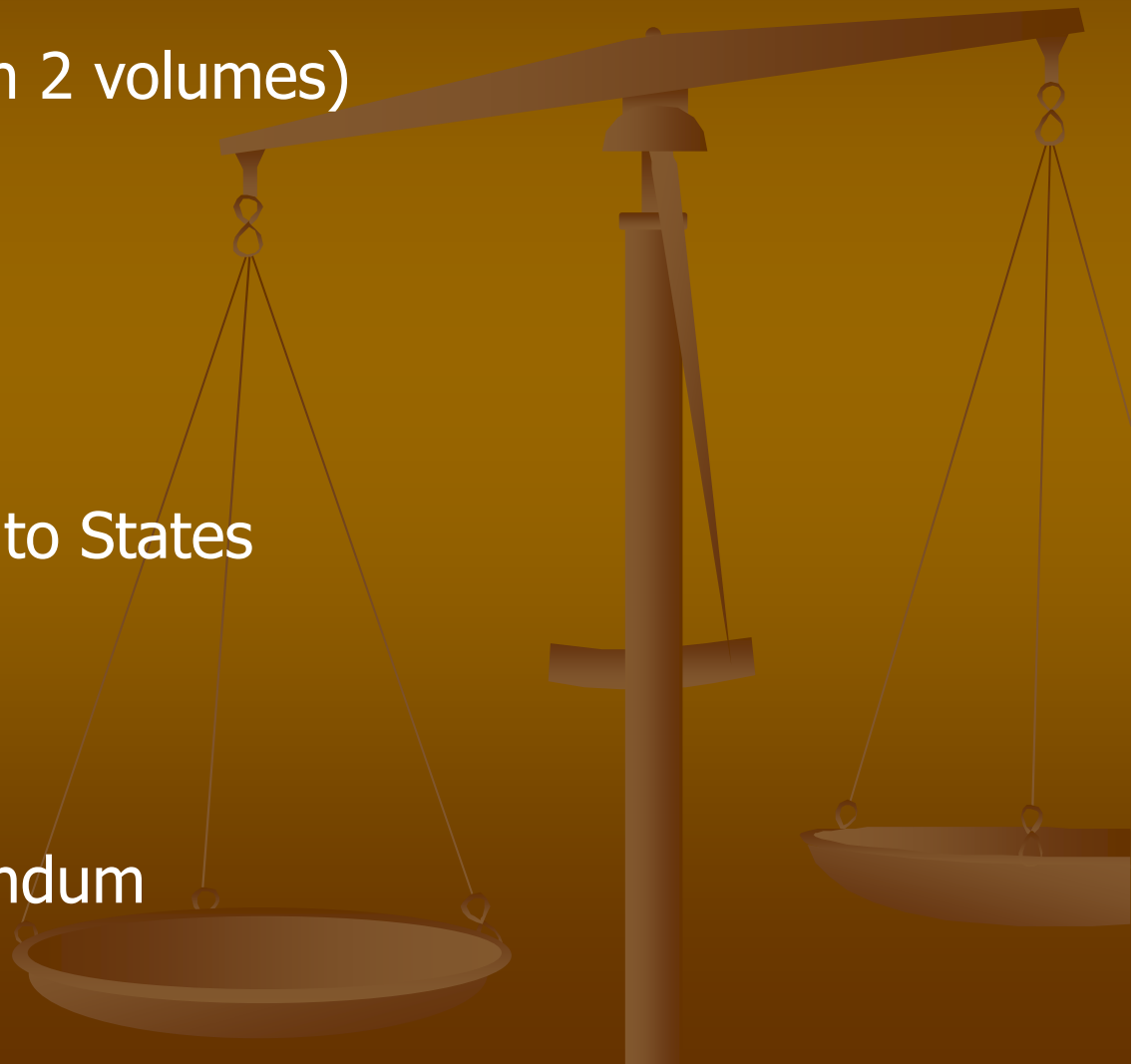
1. Macro Economic frame
for the year

2. Fiscal Policy Strategy
Statement for the year

3. Medium Term Fiscal
Policy Statement

EXPLANATORY DOCUMENTS

1. Budget at a glance
2. Highlights of Budget
3. Expenditure Budget (in 2 volumes)
4. Receipts Budget
5. Revenue Budget
6. Capital Budget
7. Resources transferred to States
8. Plan outlay
9. Outcome Budget
10. Explanatory Memorandum



THANK YOU

