

# Fiscal policy

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# Fiscal policy

- Policy of the Govt towards the public expenditure, taxation & public debt.
- Also known as budgetary policy.
- Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy.



# Meaning Of Fiscal Policy

“It refers to a policy concerning the use of state treasury or the government finances to achieve the macro-economic goals”

or

“Government policy of changing its taxation and public expenditure programmes intended to achieve its objective”.

or

“Government uses its expenditure and revenue program to produce desirable effects on National Income , production and employment”.



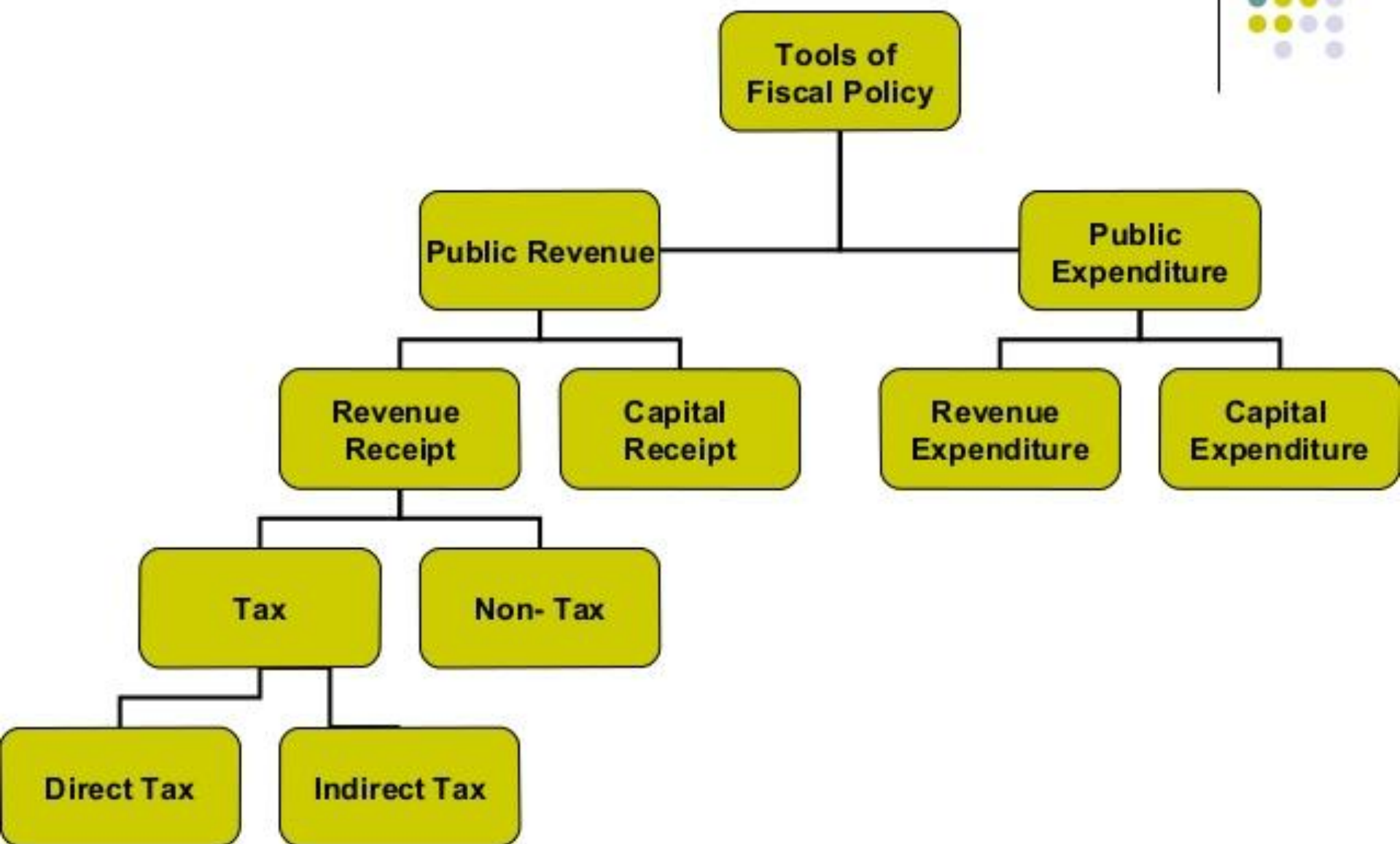
# Objectives of Fiscal Policy

- To mobilise resources for Economic Growth
- To promote growth in Private Sector
- Equitable distribution of Income and wealth
- Restrain inflationary forces in the Economy

# Objectives

- To accelerate the rate of investment
- To promote socially desirable investment.
- To achieve rapid economic development.
- To achieve full employment.
- To promote foreign trade
- To reduce inequalities of income

# Tools of Fiscal Policy



# Public Expenditure (Payments)



- **Revenue Expenditure**

- Interest Payments
- Major Subsidies
- Defense

- **Capital Expenditure**

- Expense on administration
- Repayment of Loans
- Extension of fresh loans to the state govt by the central
- Loans to public enterprise
- Expense on Irrigation project
- Sectoral development



# Public Revenue (Receipts)

- **Revenue Receipts**
  - **Tax**
  - **Non- Tax Receipts**
    - Fines and Penalties
    - Fees
    - Profits of PSU
    - Govt Interest
    - Grants and Gifts
- **Capital Receipts**
  - Recovery of Govt loans
  - Disinvestment of PSU
  - Market Borrowings – Internal and International sources



# Public Revenue (Receipts)

- **Direct Tax**

- Income Tax
- Corporate Tax
- Wealth Tax
- Gift Tax

- **Indirect Tax**

- Sales Tax
- Excise Tax
- Custom
- Service Tax

# Concept of Deficit



## **Deficit:**

Total government expenditure is more than government receipts.

**Budgetary Deficit:** Total Expenditure – Total Revenue

**Revenue Deficit:** Revenue Expenditure – Revenue Receipts

**Fiscal Deficit:** Total Expenditure – Total Revenue (Excluding Govt Borrowing)

**Primary Deficit:** Fiscal Deficit – Interest Payments

