What is Consolidated Fiscal Deficit?

Fiscal consolidation is a reduction in the underlying fiscal deficit. Fiscal Consolidation refers to the policies undertaken by Governments (national and sub-national levels) to reduce their deficits and accumulation of debt stock. It is not aimed at eliminating fiscal debt.Fiscal Deficit is the key indicator to show the fiscal health of the Government. Importantly, the fiscal deficit indicates the amount of government borrowing for that particular year. Revenue Deficit and the Fiscal Deficit are the 2 key deficits of the Government.

Some of the adverse effects of fiscal deficit are given below.

1. It increases the interest rates.
2. It increases inflation.
3. The burden of higher interest payment increases for the Government

Fiscal Consolidation - India

The gains from the economic reforms introduced in India in the early nineties could not be sustained for a much longer period.Around year 2000, the combined fiscal deficit (of centre and states) almost reached levels of the 1991, the year when India faced a massive financial crisis. Sustainability of debt too was becoming a major issue. In December 2000, Government of India led by Atal Bihari Vajpayee introduced the Fiscal Responsibility and Budget Management (FRBM) Bill in the Parliament as it was felt that institutional support in the form of fiscal rules would help in setting the agenda for the future fiscal consolidation programme.

The revenue and expenditure measures planned by the Government to achieve Fiscal Consolidation are listed below.

1. Better targeting of government subsidies and extending Direct Benefit Transfer scheme for more subsidies.
2. Improving efficiency of tax administration by eliminating evasion of tax, increasing tax compliance, reducing tax avoidance,etc.
3. Enhancing tax GDP ratio by widening the tax base and minimizing tax concessions and exemptions also improves tax revenues.
4. Higher economic growth rate will help the government to get higher tax revenues as well. Augmentation of tax revenue is necessary to bring fiscal consolidation as there are limitations for reducing government expenditure in India.

What are the 3 tools of Fiscal Policy?

'Fiscal' means 'budget' and refers to the Government's budget. Fiscal policy, therefore, is the use of government spending, taxation and transfer payments to influence aggregate demand and, therefore, real GDP.

Brief explanation on the 3 tools of fiscal policy are mentioned below.

1. **Government Spending** - Economic output can be influenced by adjusting Government spending. Government spending includes acquiring goods and services for the benefit of the community, it can be classified as Government Final Consumption Expenditure. Government spending on Research activities, infrastructure all with the aim of creating future benefits is classified as Government Gross capital formation.
2. **Transfer Payments** - It is used to describe government payments to individuals through social welfare programs, student grants, and Social Security.
3. **Taxes -** Taxes are a fiscal policy tool because changes in taxes affect the average consumer's income, and changes in consumption lead to changes in real GDP. So, by adjusting taxes, the government can influence economic output. Taxes can be changed in several ways.

Fiscal Discipline

Fiscal Discipline refers to a state of an ideal balance between revenues and expenditure of government, in an economy. If the fiscal discipline is not maintained, then the government expenditure exceeds government receipts. Under this condition, the government would have to borrow funds or incurred deficit financing from the central bank. This may depreciate the currency and create inflation in an economy.

FRBM Act, 2003

The Fiscal Responsibility and Budget Management (FRBM) Bill was introduced in the Parliament of India in the year 2000. The FRBM Act was passed in the year 2003.It is an act of the Parliament that set targets for the Government of India to establish financial discipline, improve the management of public funds, strengthen fiscal prudence and reduce its fiscal deficits. The FRBM Act made it mandatory for the government to place the following along with the Union Budget documents in Parliament annually

1. Fiscal Policy Strategy Statement
2. Medium Term Fiscal Policy Statement
3. Macroeconomic Framework Statement

Fiscal Stimulus - Types

Fiscal stimulus may refer to

1. Greater public spending or
2. Tax cuts.

In both cases, the government wants to boost economic growth. In the majority of cases, government bailout packages are also types of fiscal stimulus.