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Fiscal and Monetary Policies for Economic Growth and Development

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ABSTRACT:

There is a citation "India is a rich country, but Indians are the poor" – Prof. Galbreth

According to IMF report India is sixth richest country in the world as per nominal national income. As per the real national income the growth rate is being declined after pandemic situation.

Economic Growth means to increase the output consequently is called economic growth. Any side of this the development of institutional and technological development is called economic development. Fiscal Policy applied by the government by changing the tax rates, expenditure etc., for making stabilization in inflation.

Monetary Policy is framed by MPC which is headed by Reserve Bank of India for maintain the stability in inflation by adopting qualitative and quantitative measures. There is an inverse relationship between inflation and economic growth. Unless maintain the stability in inflation, the economic growth rate achievement is not possible. In the same way industrial policies were framed by Indian government since 1948 to 1991, the main objectives of these policies to sustain and improve the industrial growth rate in the country and global economy.

KEYWORDS:

Inflation, Economic Growth, Development, Employability, Quantitative & Qualitative Measures

Introduction:

Economic Growth means to increase the output consequently is called economic growth. Any side of this the development of institutional and technological development is called economic development. Fiscal Policy applied by the government by changing the tax rates, expenditure etc., for making stabilization in inflation.

Fiscal Policy and Monetary policies aim is to create economic growth environment by controlling inflation and defilation in the country. Under fiscal policy the Indian government introduces fiscal statement which consist revenue and expenditure. Fiscal statement is nothing but annual financial statement or budget. For achieving

of sustainable economic growth rate the government of India has to maintain the stability in inflation growth rate by altering taxes. The income receives the government through taxes is called public revenue. This is allocated for difference sectors are called public expenditure. Public expenditure exceeds than revenue is called public debt. Since independence the fiscal statement is in deficit. It leads to the public debt. Another series in public expenditure is that non plan expenditure. This expenditure incurs every budget around 35%. Non plan expenditure is not producing the economy appropriately. This expenditure leads to over inflation. Fiscal deficit is balance by taking market loans. The main reason for increasing the fiscal deficit is that introduce the freebies welfare schemes. The government of central and states have been introducing the schemes by spending lot of amount. These are come under the non plan expenditure. Which cause for high rate of inflation and low rate of real economic growth rate?

Monetary Policy which is introduced by reserve bank of India for sustainability in economic growth by maintains the stability in inflation in order to changes interest rate policies like repo rate and reverse repo rate. In monetary policy is designed in the country by monetary policy committee which is constituted by six members under chairman of the RBI governor.

Fiscal and Monetary policies objective is to maintain stabilization in inflation by altering taxes and interest rates. Supply of the money is cause for high rate of inflation. And also the production of the goods and services than demand is lead to high rate of inflation. The government of India is depending on monetary policy for controlling the inflation.

In 2003 Indian government introduce FRBM act. According to this act the government as to confine fiscal deficit is 3% and revenue deficit is zero. Tax GDP ratio 15% but until now tax GDP ratio not reached to 15%. The tax revenue is non refundable income to the government. Unfortunately tax income is not up to the mark in GDP and which leads to debts. The Indian government is in more than 150 lakh core in debt.

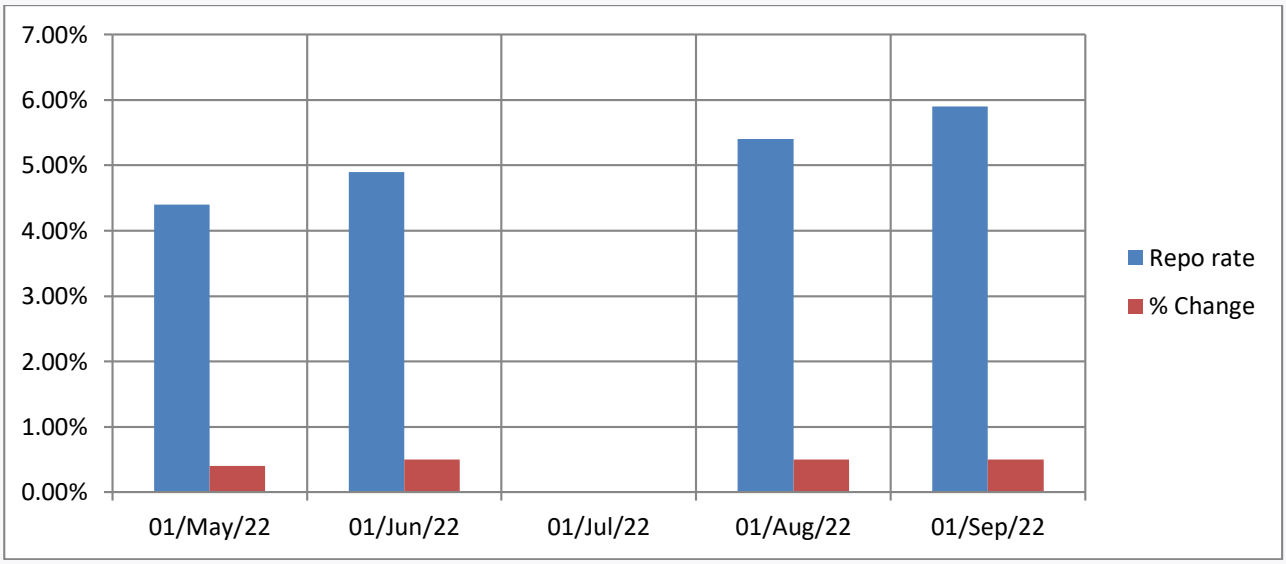
Undoubtedly Fiscal and Monetary policies are engines for economic growth and development. Fiscal policy reflects the consumption, saving and investment. The government of India alters the taxes under fiscal policy for collecting the revenue and distribute or allocation of this revenue to the different sectors for the sustaining of economic growth. If the tax revenue is not allocated in proper way economic growth and development are not achieved up to the expectation. In the country income tax is 30%, Corporation tax is reduced to 30% to 25% for encouraging the development of the economy.

GST revenue an average crossed in every month more than one lakh core rupees in the country. But this income is spending on plan expenditure rather than non plan expenditure. It means that the non expenditure has been increased than necessary in the country such as like subsidies, free BIE schemes by the government. This leads lower economic growth in the country. In every budget exceeds than revenue. So that government is looking for public debt for more than 25% in the budget. This is called Fiscal Deficit. The government of India is not only concentrate on collection of tax revenues but also reduce tried to minimize the non plan expenditure, which help for economic growth. But unfortunately the government of India and state government are also year by year allocating the resources on non plan expenditure which leads to less economic growth in the country. Governments are entered in to debt trap. s

The government of India every time depends on monetary policy for controlling inflation and improving the economic growth. The Reserve bank of India for last four times has increased repo rate for controlling the supply of the money to the market and control the inflation. In spite of this inflation is not controlled. Very

sonly RBI governor will be going to submit the report to the government reasons for non controlled inflation and not appropriate achieving economic growth rate.

Effective Date	Repo rate	% Change
30 September 2022	5.90%	0.5%
5 August 2022	5.40%	0.5%
8 June 2022	4.90%	0.5%
May 2022	4.40%	0.4%



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Review of Literature

Little literature on public expenditure was present until the post-era 1929-1930Great Depression where economies underwent rising public expenditure. Subsequently, the post-war economic reconstruction and public welfare programmes grasp many economists' interest on the study of public expenditure. A judicious theoretical approach on public expenditure was requisite. Wagner (1883,1893), Peacock and Wiseman (1961), Solow (1956), Bowen (1965), Pigou (1928)and Dalton (1965) as well as the classical and Keynesian economists poured lighton the nexus of government spending and national income

There is a vast literature studying the effects of monetary policy, which advances as improvements are made in the methods used to identify exogenous monetary policy shocks and is also updated as the implementation of monetary policy changes over time. Reviewing this literature is beyond the scope of this paper, but see Christiano et al. (2000) for a review of the literature on monetary policy transmission5 and Beck et al. (2014) for a review of the role of financial intermediaries in monetary policy transmission. In this section, I focus on several recent cross-country studies of transmission in developing countries and studies of monetary policy transmission in India.

Mishra and Montiel (2012) survey the evidence on the effectiveness of monetary transmission in developing countries. They conclude that, despite methodological issues present in the literature, monetary transmission appears to be weak in developing countries. Mishra et al. (2014) find large variation in the response of bank lending rates to monetary policy shocks across countries, with weaker transmission in developing countries.

Mohan (2008) comprehensively surveys monetary policy in India, including the evolution of the operating framework, instruments used for liquidity management, and reforms. Sengupta (2014) uses a vector auto regression (VAR) to study the various channels of monetary transmission in India from 1993 to 2012. She finds a structural break in transmission corresponding to the introduction of the Liquidity Adjustment Facility (LAF) in 2000, with the bank lending channel remaining important since the introduction of the LAF but the interest rate and asset price channels becoming stronger. Singh (2011) uses a VAR model from March 2001 to June 2012 to estimate pass-through from the policy rate to a variety of 5 For example, the literature spanning Bernanke and Blinder (1992) to Romer and Romer (2013) for the United States. 8 short and long term market interest rates.6 He finds significant contemporaneous past hrough under deficit liquidity conditions as well as significant lagged effects.7 A drawback of this method is that, while it estimates the effect of changes in the policy rate on other interest rates, it does not give a clear sense of the speed of transmission, which is a factor that policy makers must consider when making policy rate decisions. Mohanty (2012) also narrows in on the interest rate channel, studying policy rate changes through to their effects on output and inflation. Estimating a quarterly structural VAR model, he finds that policy rate increases have a negative effect on output growth with a lag of two quarters and a moderating impact on inflation with a lag of three quarters, with both effects persisting for eight to ten quarters.

Bhaumik et al. (2011), examine the impact of bank ownership on the reaction of banks to monetary policy from 2000 to 2007. The authors use the average prime lending rate (PLR) of large banks as a proxy for the monetary policy rate, and estimate the change in loans in response to changes in PLR at the bank level. They find that banks decrease loan supply in response to increases in PLR in tight money periods, and suggest that the bank lending channel of monetary policy is likely to be more effective in tight money periods than in easy money periods. Since the authors use the prime lending rate of banks themselves as the indicator of monetary policy, however, they implicitly assume complete and quick pass through of changes in monetary policy to bank lending rates, thus missing a potential price response by banks to monetary policy and looking only for a quantity response.

Economic Growth Trends in India:

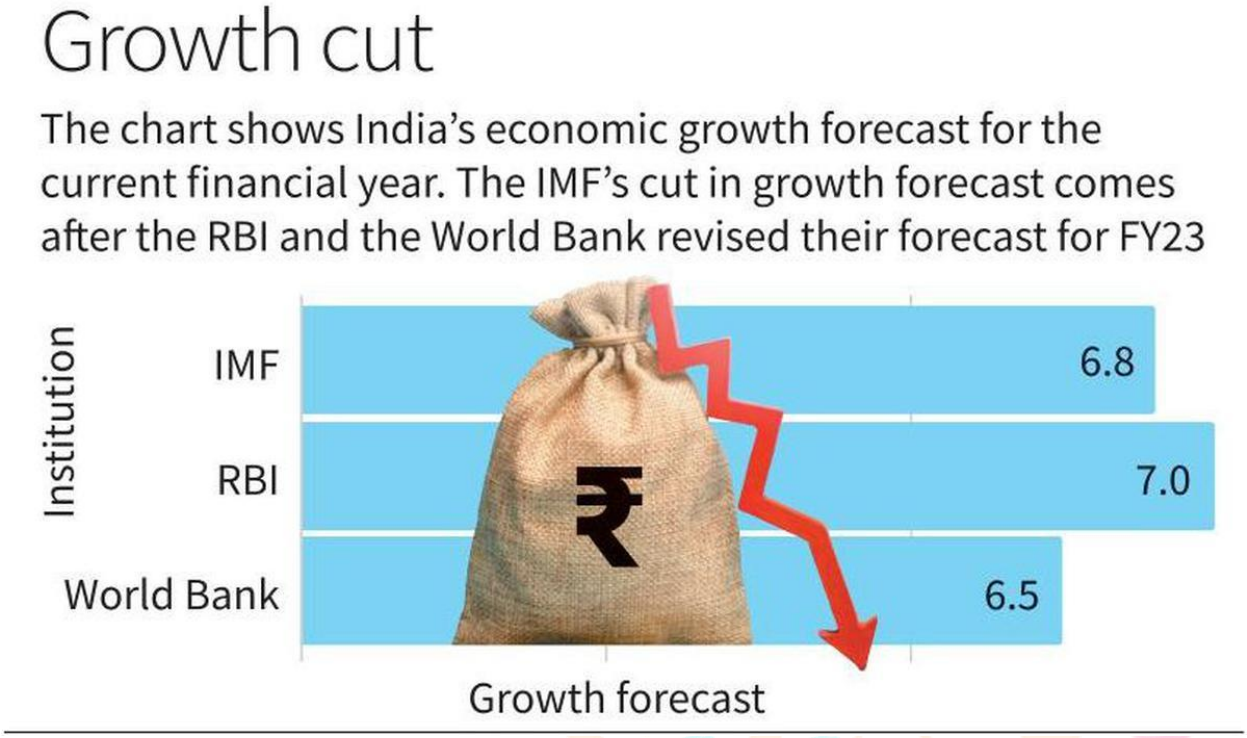
Year	GDP Growth (%)	Annual Change
2021	8.95%	15.54%
2020	-6.60%	-10.33%
2019	3.74%	-2.72%
2018	6.45%	-0.34%
2017	6.80%	-1.46%

2016	8.26%	0.26%
2015	8.00%	0.59%
2014	7.41%	1.02%
2013	6.39%	0.93%
2012	5.46%	0.22%
2011	5.24%	-3.26%
2010	8.50%	0.64%

Expected growth rate in 2022 – 23 by deferent Institutions:

- RBI cut off growth rate 7.2% to 7%
- World Bank expected growth rate 6.5%
- IMF expected growth rate 6.8%

Note: In 2021 – 22 financial year 8.75% but in 2022 – 23 GDP growth rate expectations are lesser than previous years.



The source is from secondary data collected from internet.

Factors are responsible for low growth rate:

Data analysis:

The above related secondary data collected from Internet, News Papers and Journals.

Objectives of the study:

- How monetary policy and Fiscal policy reflects economic growth and development.
- To analysis the inflation how for supports to economic growth and development.
- To study consumption, saving and investment pattern for economic growth and development.

Factors responsible for low economic growth trends in India:

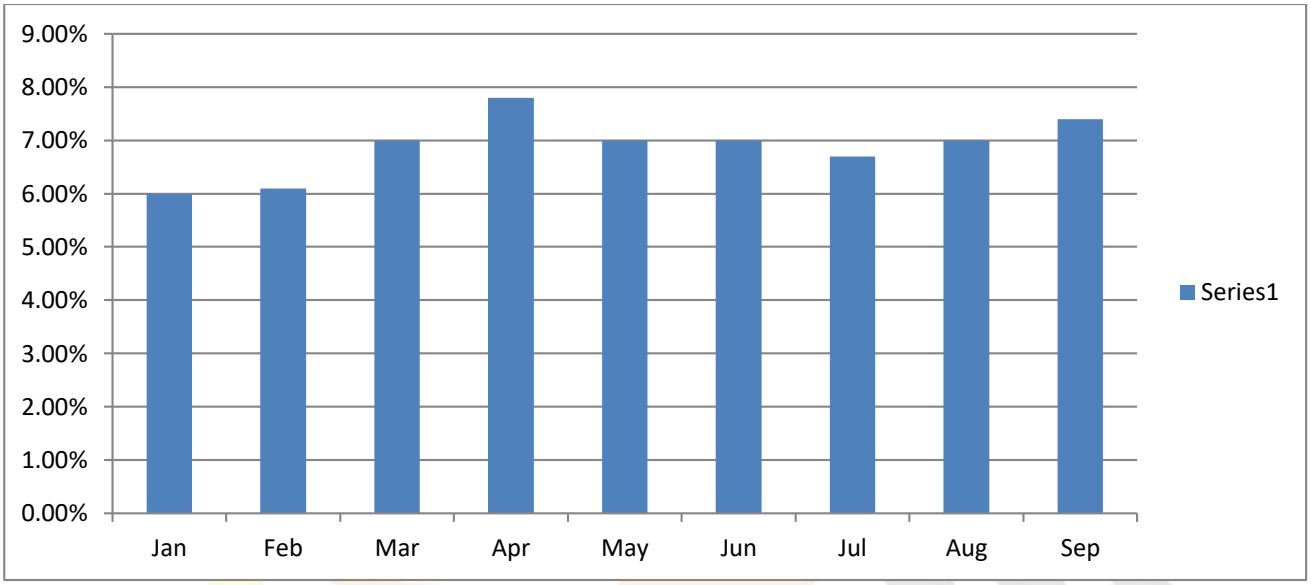
1. Inflation:

According to J. M. Keyns every country needs inflation up to certain level for development of economy. According to MPC India's requires inflation is 2% to 6% which leads growth economic growth. Unfortunately for last six months the inflation an average more than 7%. This is reflect on the consumption, saving and Investment factor, Tends to lead low economic growth rate in the country.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2022	6.0%	6.1%	7.0%	7.8%	7.0%	7.0%	6.7%	7.0%	7.4%				
2021	4.1%	5.0%	5.5%	4.2%	6.3%	6.3%	5.6%	5.3%	4.3%	4.5%	4.9%	5.7%	5.1%

2020	7.6%	6.6%	5.8%	7.2%	6.3%	6.2%	6.7%	6.7%	7.3%	7.6%	6.9%	4.6%	6.6%
2019	2.0%	2.6%	2.9%	3.0%	3.0%	3.2%	3.1%	3.3%	4.0%	4.6%	5.5%	7.4%	3.7%
2018	5.1%	4.4%	4.3%	4.6%	4.9%	4.9%	4.2%	3.7%	3.7%	3.4%	2.3%	2.1%	3.9%

Note: The below graph illustrates in inflation trends of 2022 monthly wise analysis.



2. Low Industrial Growth rate:

Before pandemic situation in 2015 – 16 in industrial growth rate was 13.1% but in 2019 – 20 it was decline 2.4%. In spite of introduction make in India, Athma Nirbarabharath schemes, which are encourage the corporate sector for production goods and services.

3. Foreign direct investment

We received a very good voluminous FDI is around 8,300 cores dollars. But unfortunately these are all come into the electronic and electrical industries.

4. Fluctuation in exchange rate

For past couple of months the exchange rate in current account is very high. Reasons for that high inflation and tends fall in economic growth rate.

5. Surge in oil prices

The OPEC plus countries have decided search to oil prices for 10 dollars per Pipa. Because of the demand for oil is increased in the country after pandemic. It directly reflects on current account deficit is increased 1400 cores to 1500 cores. It is around 0.4% of GDP.

6. Subsidies and free BIES

These are come under the non plan expenditure. It reflect negative growth rate in the economy.

Suggestions:

- The effective implementation of Fiscal policy for increasing tax GDP ratio.
- Minimize the non plan expenditure and maximize plan expenditure.
- Every time does not depend on monetary policy for controlling inflation.
- Effective implementation of make in India and Athma Nirbharabharath Programmes.
- Try to attractive more FDI's towards core sectors in the country.
- Try to reduce FMCG imports and make it substitutions in the country.
- Control the exchange rate fluctuation.

Conclusion:

Fiscal and Monetary Policies are very important tolls for economic growth and development. If they are implemented properly we can cross obstacles in growth and development of the country.

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