India has returned to fiscal consolidation in 2016-17: IMF

International Monetary Fund in it's latest update on Fiscal Monitor, April 2017 finds that the fiscal policy has a greater role to play in fostering sustainable and inclusive growth. In spite of the impact of demonetization, India returned to fiscal consolidation in the fiscal year 2016-17 largely due to the near-elimination of fuel subsidies and improved targeting of social benefits.

As per the Reports, in India, the headline deficit is expected to decline moderately in fiscal year 2017/18, with continued setback in reaching the medium-term deficit target.

A Greater Role for Fiscal Policy

The global economy is undergoing major transformations, including a productivity deceleration, technological change, and global economic integration. This creates new demands for public policies to smoothen the progress of these transformations, while cushioning the effect on those negatively affected. Fiscal policy has recently gained importance, both in public debate and in governments' policy. A re-evaluation of fiscal policy is taking place, stressing its greater role in promoting sustainable and inclusive growth and smoothing the economic cycle. Simultaneously , the high uncertainty surrounding the outlook and high levels of public debt require a better understanding and managing of fiscal risks. Therefore, fiscal policy has the complex task of achieving more and better in a more inhibited environment.

Setting the Course for Fiscal Policy

In the past decade, the role of fiscal policy has been reassessed, reflecting specific circumstances, particularly the global financial crisis, as well as new academic research using macroeconomic and survey data. Fiscal policy is in general seen as an influential tool for promoting inclusive growth and can add to stabilizing the economy, predominantly during deep recessions and when monetary policy has become less effectual. At the same time, high debt levels, long-term demographic challenges, and elevated fiscal risks place a premium on sound public financial management. Particularly, policies should be anchored within a reliable medium term framework ensuring debt sustainability, manages risks effectively, and encourages countries to build buffers during upturns.

Achieving Sustainable and Inclusive Growth While Coping with High Debt

In most countries, limited fiscal buffers will require policymakers to be selective in their budgetary choices. If additional resources are essential, they should be raised in a way that is the least harmful for growth, while keeping debt on a sustainable path.

Upgrading the Tax System to Boost Productivity

An important challenge facing policymakers today is how to raise total factor productivity, the key driver of living standards over the long term. Tackling this challenge calls for the application of all policy levers, and particularly growth-friendly fiscal policies. Upgrading a country's tax system is important to boost productivity as it can reduce distortions that avert resources from going to where they are most productive. In sum, how governments tax matters for productivity. Improving the design of tax policies helps get rid of the distortions that are holding more productive firms back, generating a positive impact on aggregate productivity and growth.

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Warm regards,

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