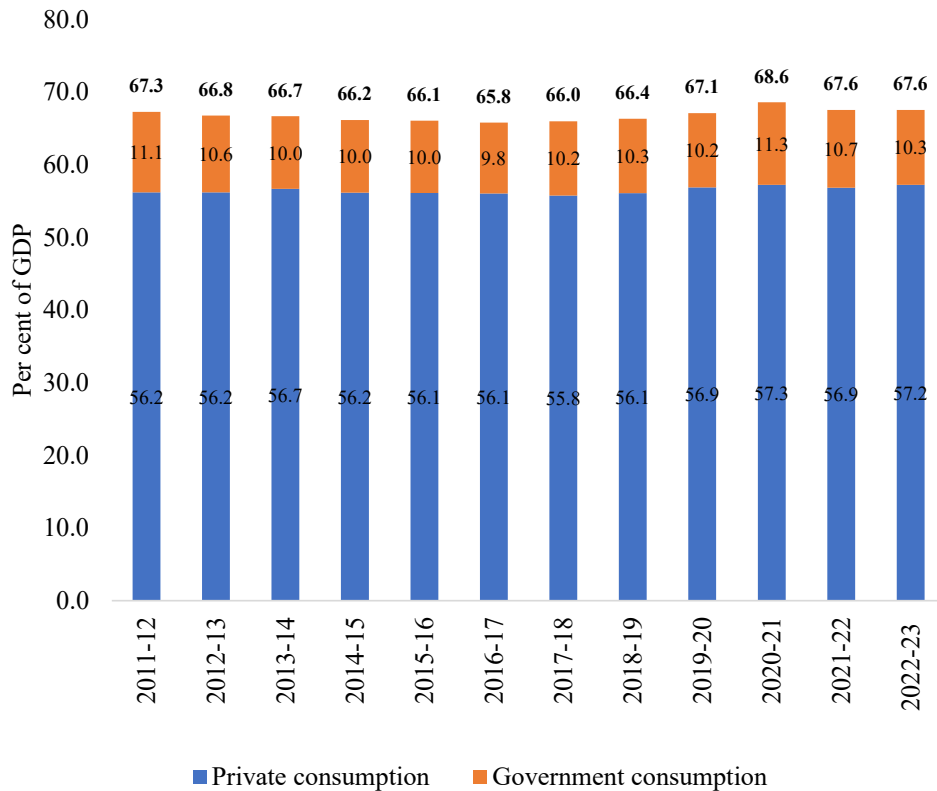


Fiscal Policy and Reforms for Post-Recovery Sustainable Growth

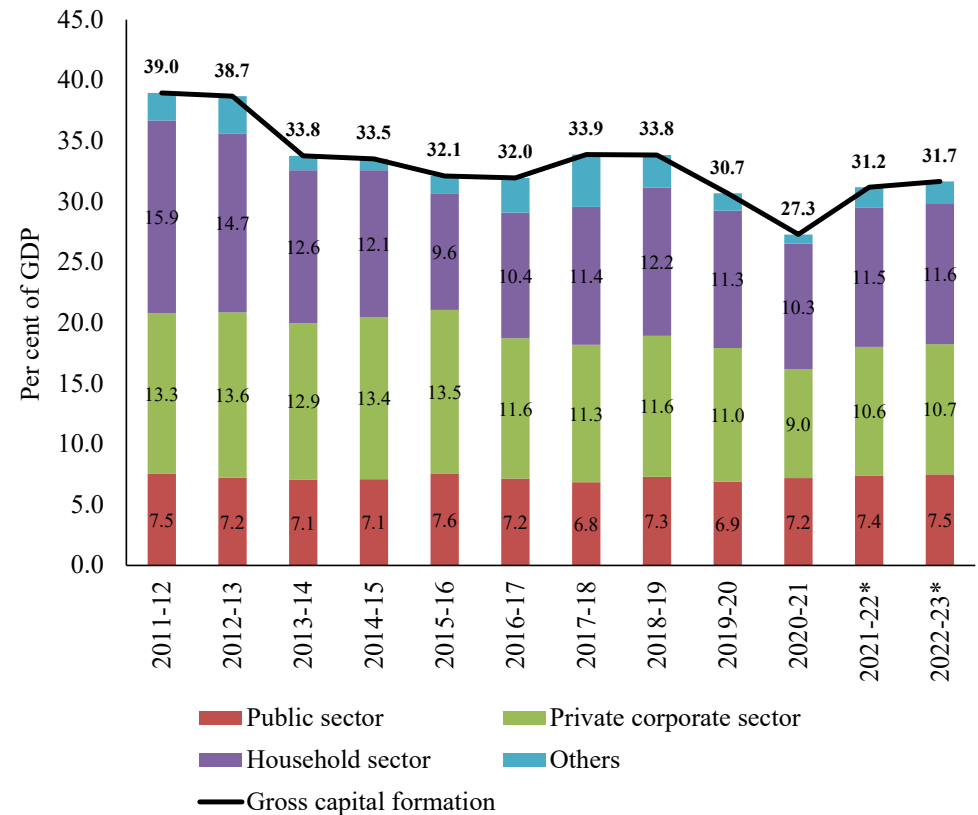
Sitikantha Pattanaik

Role of Public Expenditure in Driving a Policy-induced Recovery

**Public Sector Share in Consumption Demand
(As per cent of GDP)**

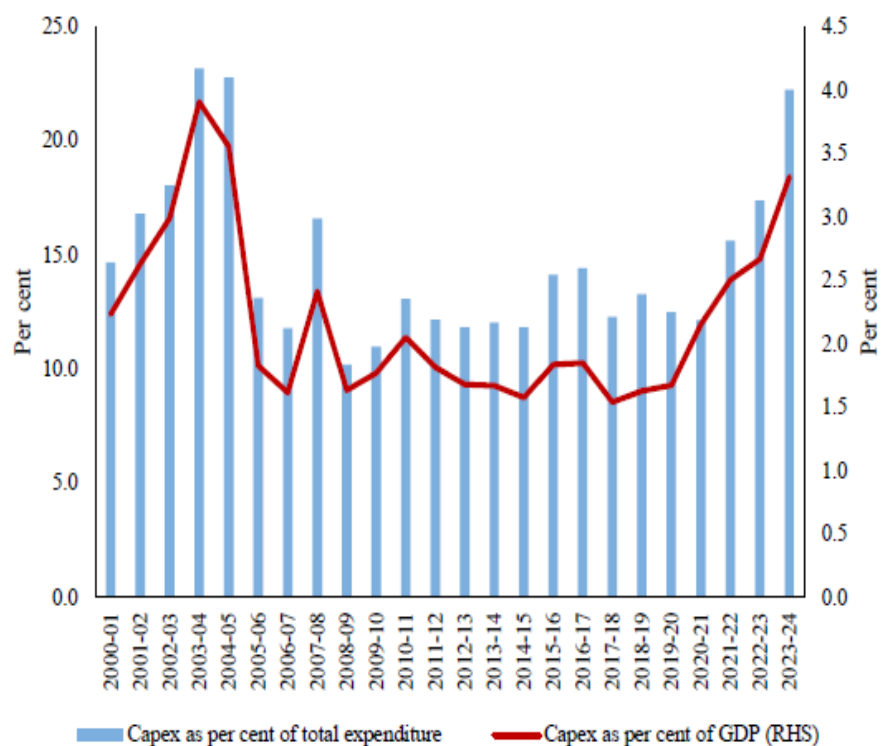


**Public Sector Share in Gross Capital Formation
(As per cent of GDP)**



Fiscal Policy During and After Recovery

Capital Expenditure



Overall Fiscal Multipliers

	Total Expenditure	Revenue Expenditure	Revenue Expenditure net of Interest Payment and Subsidy	Capital Expenditure
Impact Multiplier	0.72	0.79	0.84	1.32

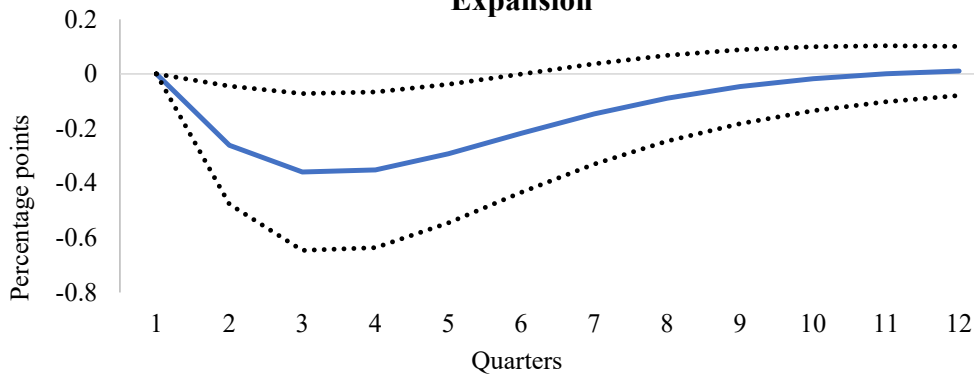
Asymmetric Fiscal Multipliers

Duration of Multiplier/ Types of Multiplier	Impact (Current)	Cumulative (Over 4 quarters)	Peak
Growth Slowdown			
Total Expenditure	0.78	3.98	1.89
Capital Expenditure	0.43	6.66	3.41
Revenue Expenditure	0.43	3.77	2.64
Expansion			
Total Expenditure	-0.21	-0.22	0.15
Capital Expenditure	-0.13	-0.44	0.55
Revenue Expenditure	-0.28	-0.74	-0.07

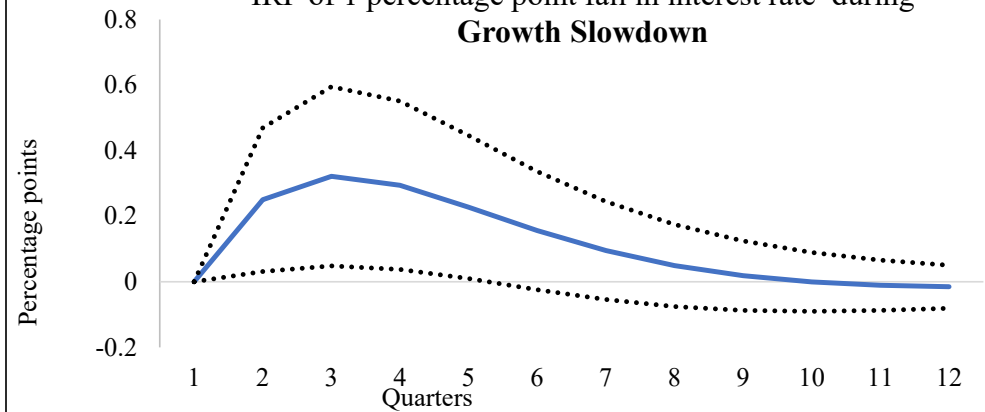
Source: RBI staff estimates

Asymmetric Response of GDP Growth to Policy Shocks

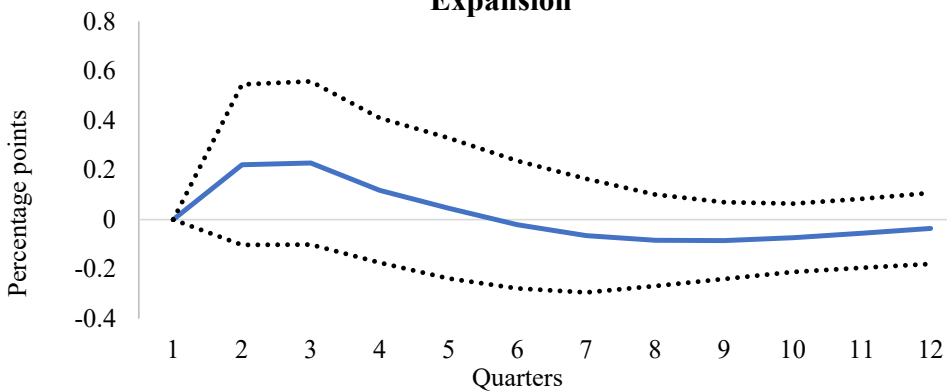
IRF of 1 percentage point rise in interest rate during **Expansion**



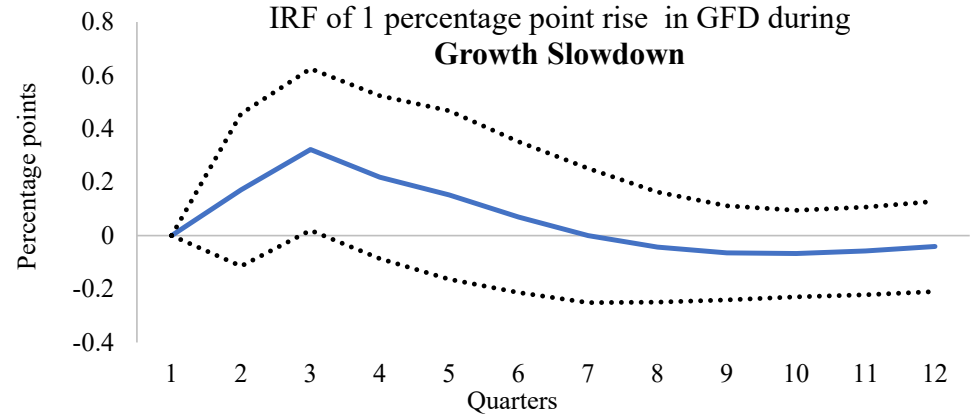
IRF of 1 percentage point fall in interest rate during **Growth Slowdown**



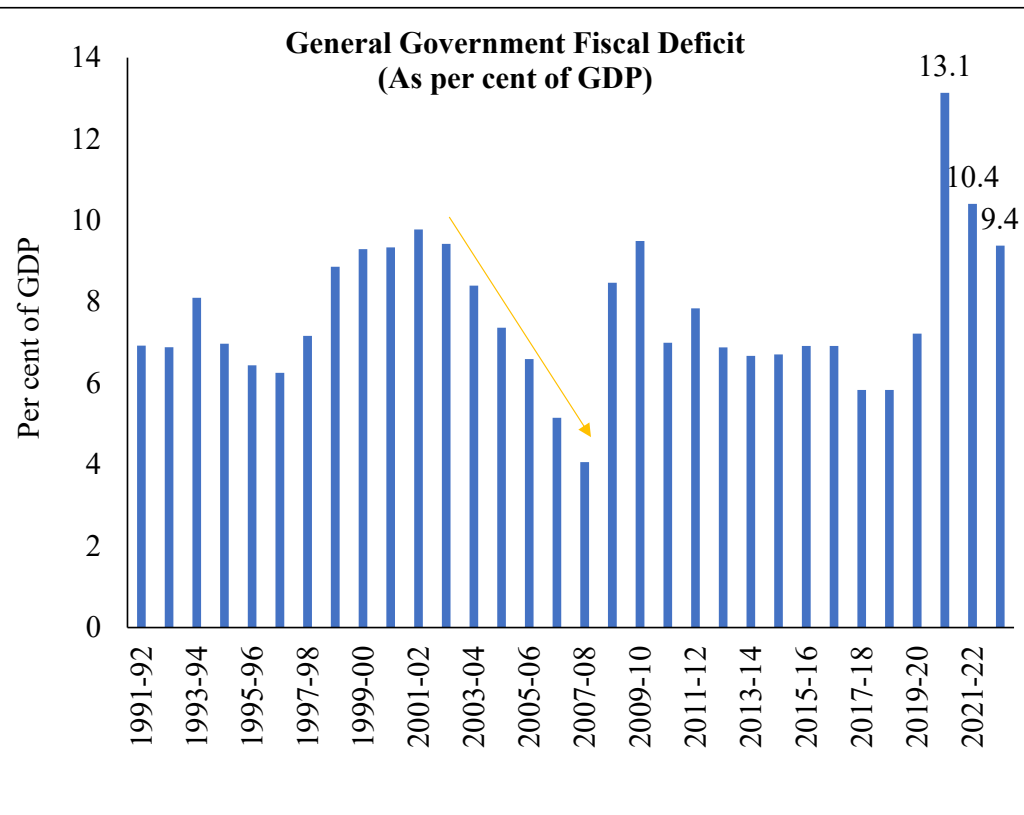
IRF of 1 percentage point rise in GFD during **Expansion**



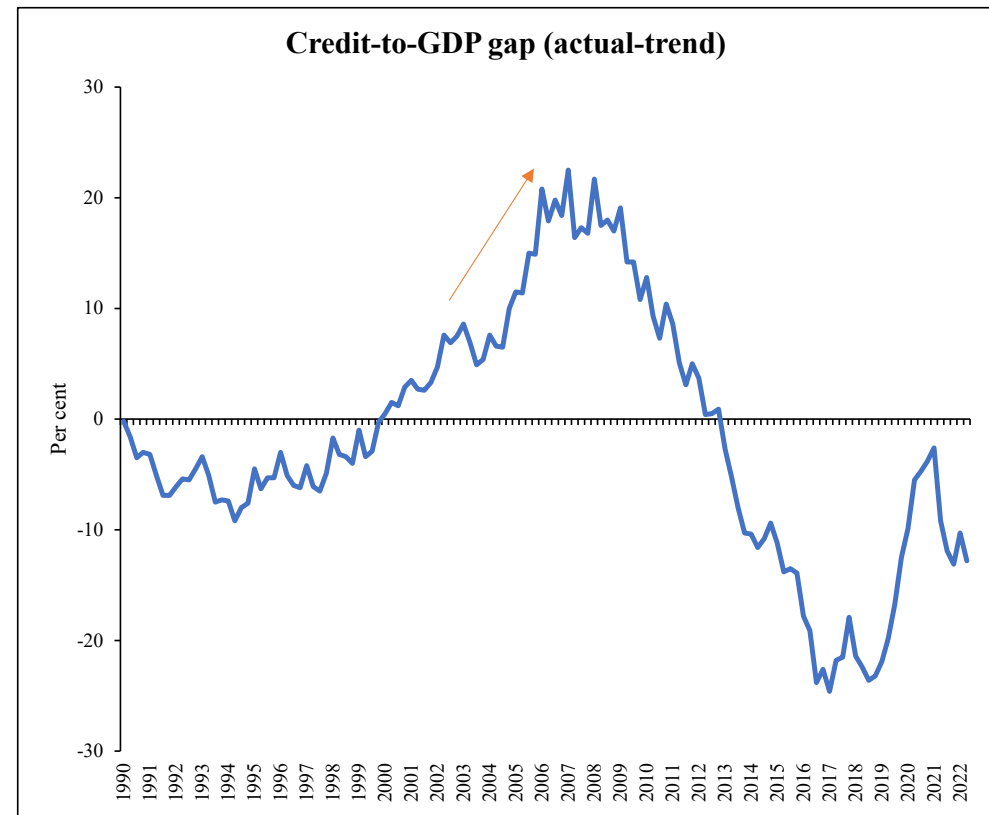
IRF of 1 percentage point rise in GFD during **Growth Slowdown**



Fiscal Expansion Amid Weak Private Sector Credit Demand



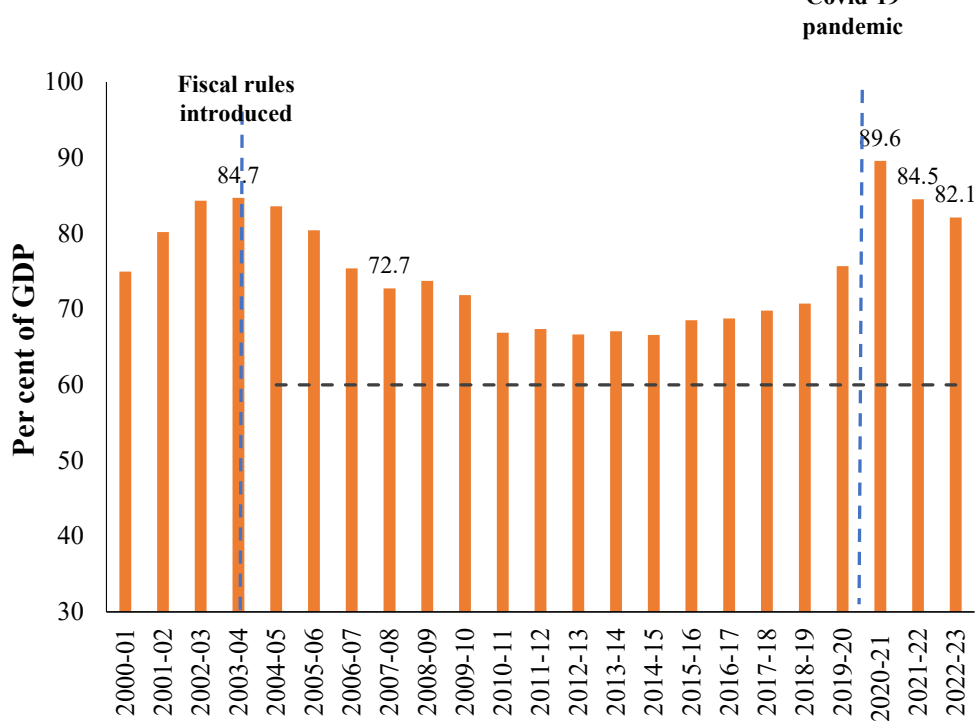
Note: Data for 2021-22 is Revised Estimates. For 2022-23 we have used Revised Estimates for Centre and Budget Estimates for States.



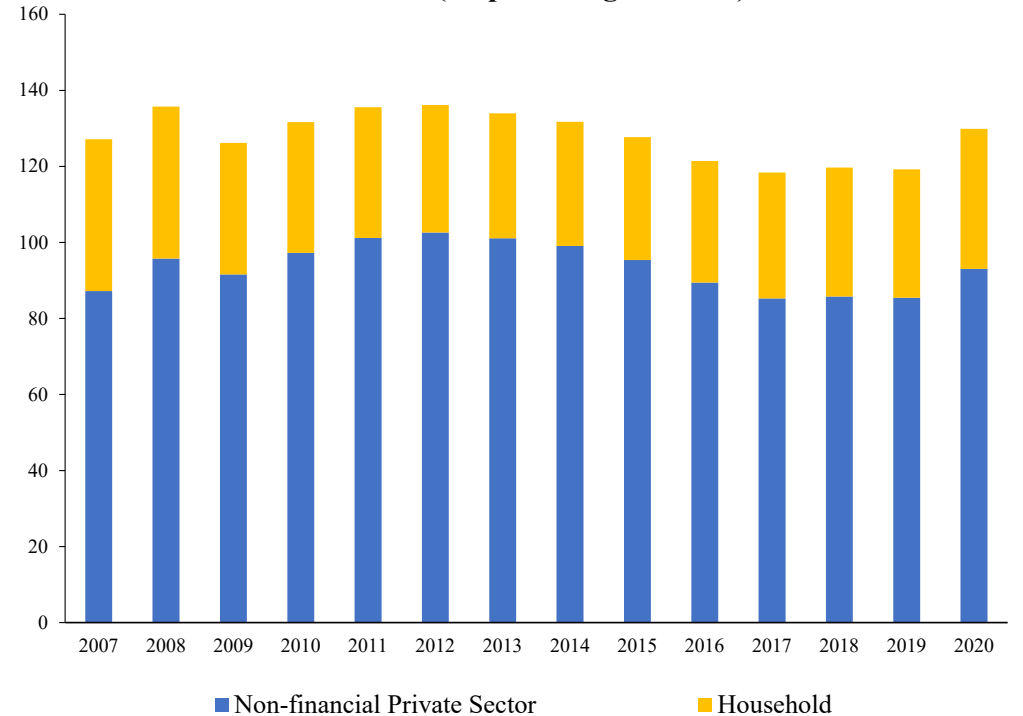
Source: BIS.

Increase in Public Debt amid Stable Debt of Rest of the Economy

General Government Outstanding Liabilities

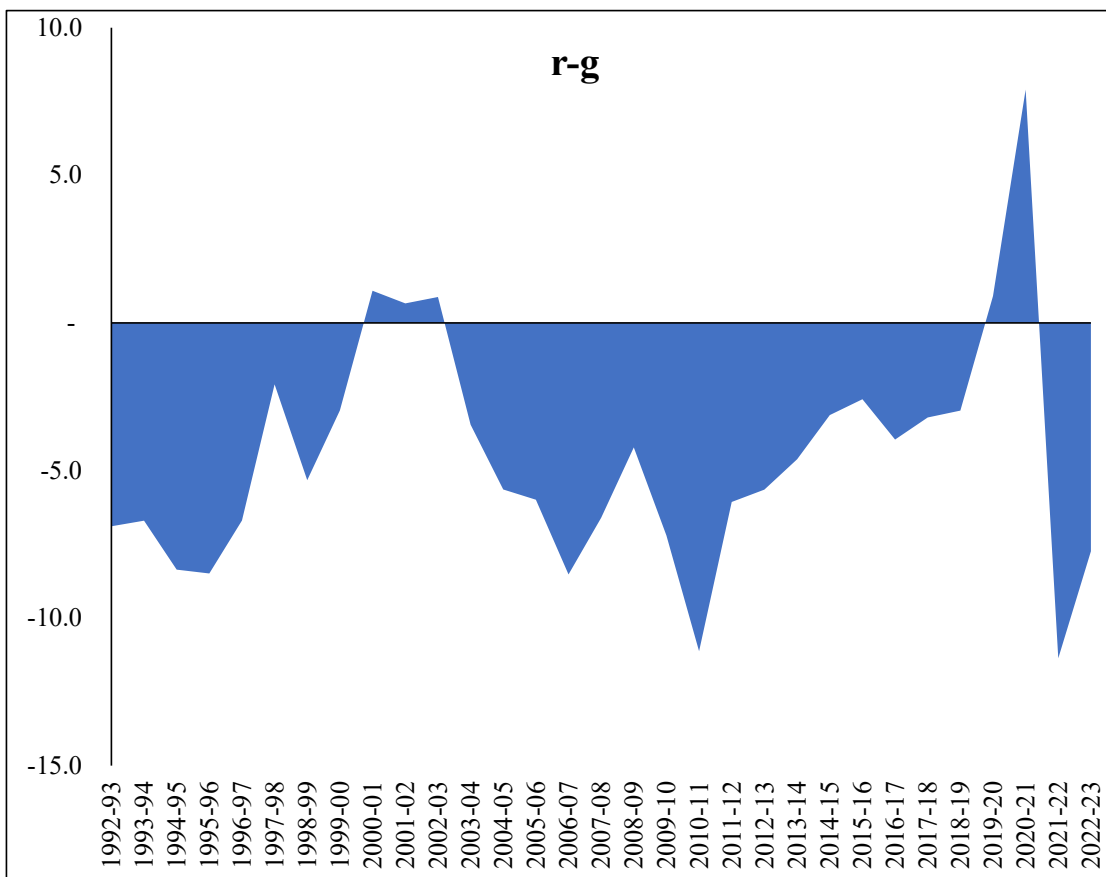


Private Debt (As percentage of GDP)

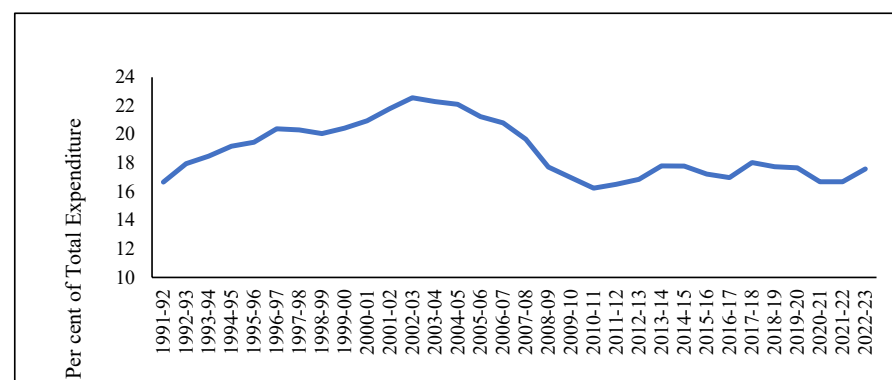
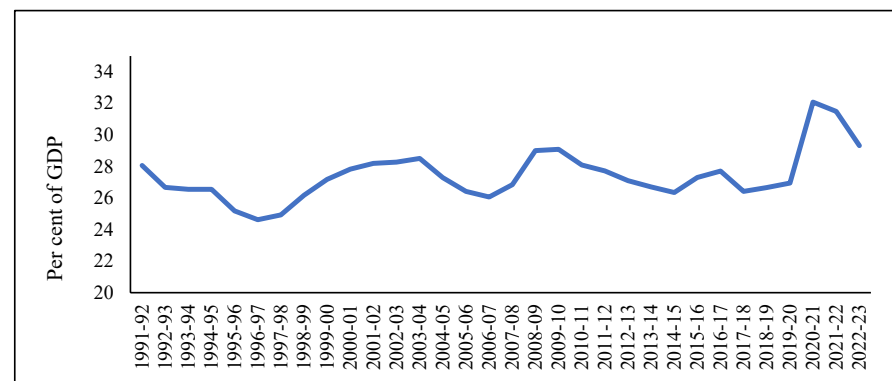


Note: Data for 2021-22 is Revised Estimates. For 2022-23 we have used Revised Estimates for Centre and Budget Estimates for States.

Debt Sustainability not Threatened

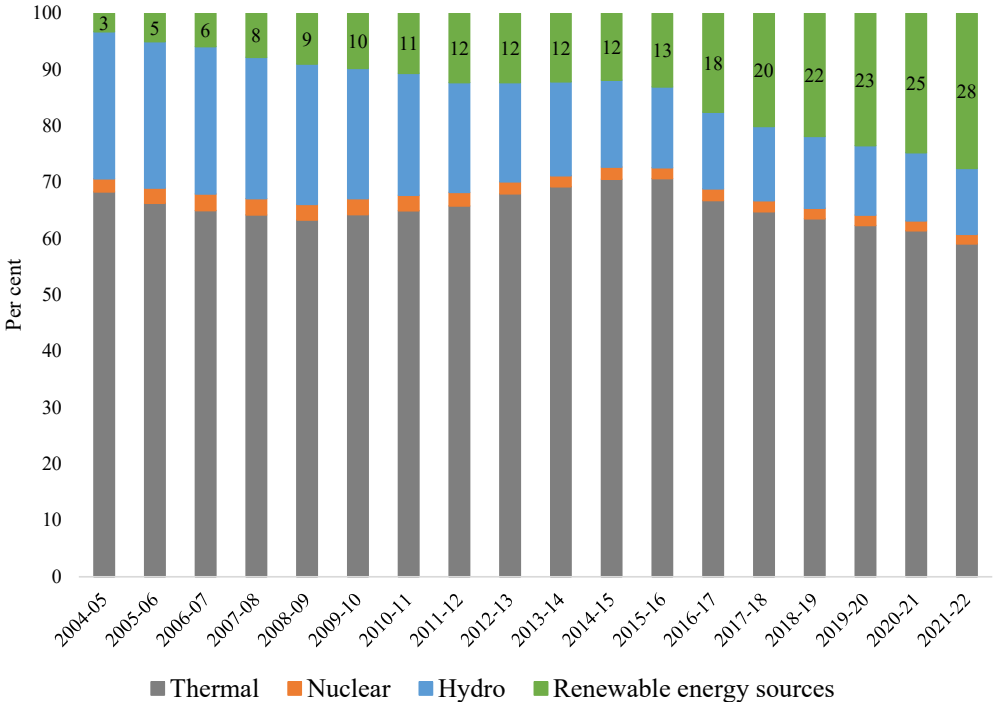


Interest Payment as Percentage of GDP and Total Expenditure

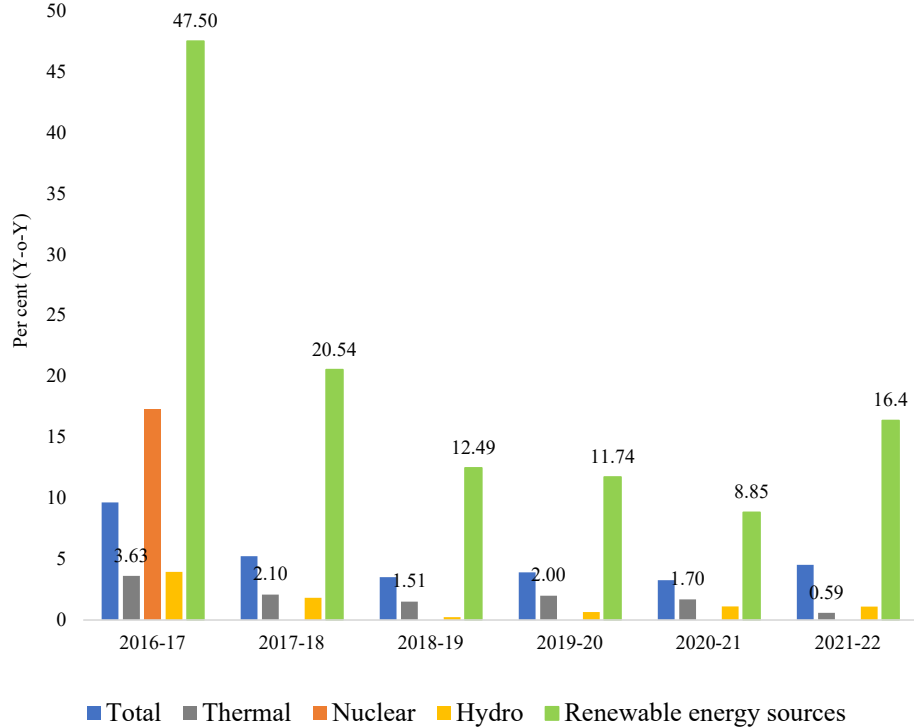


Green Transition for Sustainable Growth – Rising Share of Renewables

Installed Generating Capacity: Shares by Sources



Installed Generating Capacity: Y-o-Y % change



Source: Central Electricity Authority, Ministry of Power.

Key Takeaways

- Three Cs (COVID, Conflict and Climate change), as new challenges, have necessitated adequate and innovative fiscal responses encompassing three Es – Expenditure (to protect the vulnerable while powering growth recovery), Expectations (communication with targeted actions to quell adverse expectations and boost confidence) and Efficiency (in resource allocation, by sustaining reforms to secure and strengthen medium-term growth). Pragmatism trumps idealism.
- Sustainable growth objective warrants fiscal actions to tame supply-shock induced inflation and timely fiscal consolidation to contain external sector vulnerabilities, besides pursuing the social development goals (SDGs) and climate change action plan.
- Profound shifts taking place globally impacting trade, technology and capital flows, commodity prices, supply chains and provision of global public goods are expected to pose new anticipated and unanticipated challenges for every economy, and hence for the fiscal policy, in its pursuit of securing post-recovery sustainable growth.
- Public sector capex-led recovery in investment cycle while rebuilding fiscal space gradually through consolidation of deficit and debt to entrench macro stability - a sign of prudent, progressive and pragmatic fiscal policy.