Bold / Box etc

# Fiscal Policy & Business Environment

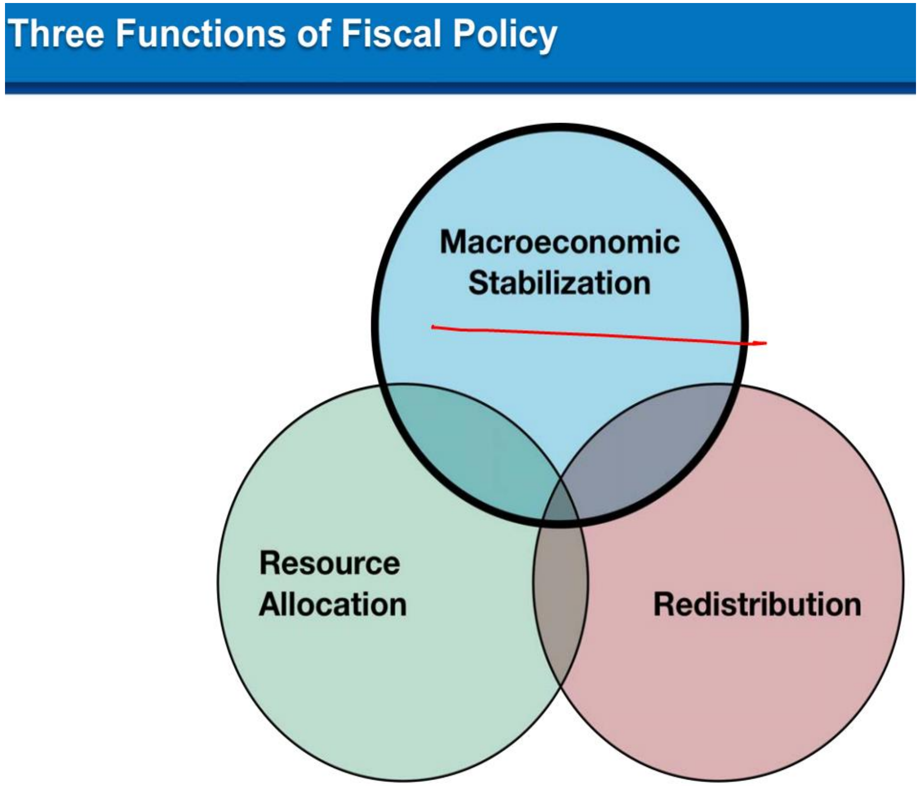
**India's Fiscal policy and its Various Techniques, components.**

***Fiscal policy is defined as a set of principles and decisions of government in setting the level of public expenditure and the way of financing it.***

# Fiscal Policy

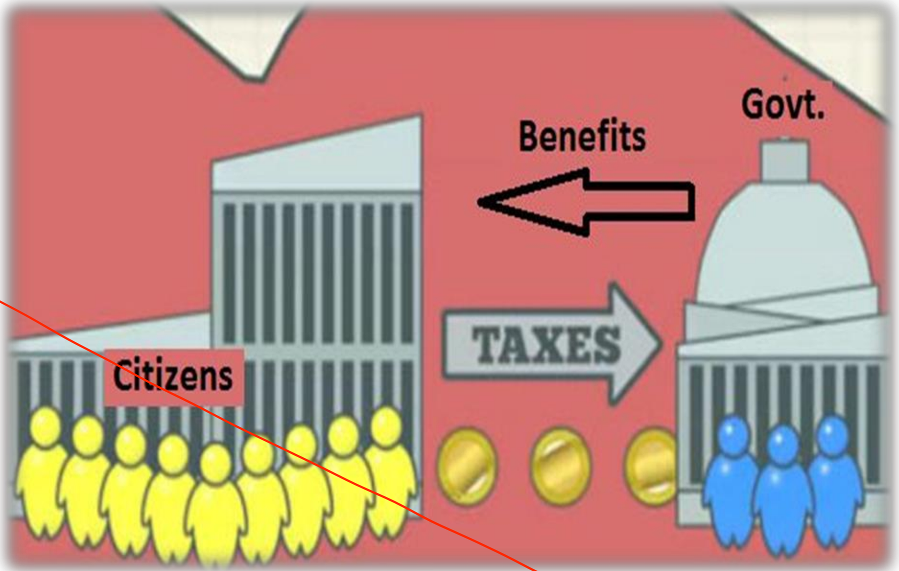
Bold

- *Fiscal policy* is defined as the government's measures to guide and control spending and taxation.
- The traditional view is that fiscal policy performs three main functions: ***Allocation, Distribution, and Stabilization.***
- It consists of the fiscal and revenue policy of the government.
- Macro and microeconomic objectives include mobilization and allocation of resources, equitable distribution of income, etc.



# OBJECTIVES

1. Economic Growth
2. Increasing National Income
3. Price Stability and Control of Inflation
4. Economic Development with Stability
5. Equity and Justice
6. Employment Generation
7. Capital formation
8. Balanced Regional Development
9. Encouraging Investment
10. Reducing Deficits in Balance Of Payments



# Budget

The Government's role assumes importance in the provisioning of public goods due to the failure of markets.

# Budget

Government's role assumes importance in the provisioning of public goods due to the failure of markets.

Public goods are characterised by "nonexcludability" and "non-rivalry" of consumption.

Non-excludability is a condition under which no individual can be excluded from the consumption of a public good.

# Budget

- Budget of a government usually refers to a statement of its receipts and expenditures for a particular year.
- Budget as a major policy statement is to necessarily reflect the ongoing national and global macroeconomic changes to make it an effective policy tool.
- There has been a general consensus on the allocation, distribution and stabilization functions of government.
- Government's role assumes importance in the provisioning of public goods due to the failure of markets. Public goods are characterised by "nonexcludability" and "non-rivalry" of consumption.
- Non-excludability is a condition under which no individual can be excluded from consumption of a public good.

# Budget



The government budget is a statement of resource and spending proposals for a specified period of time.

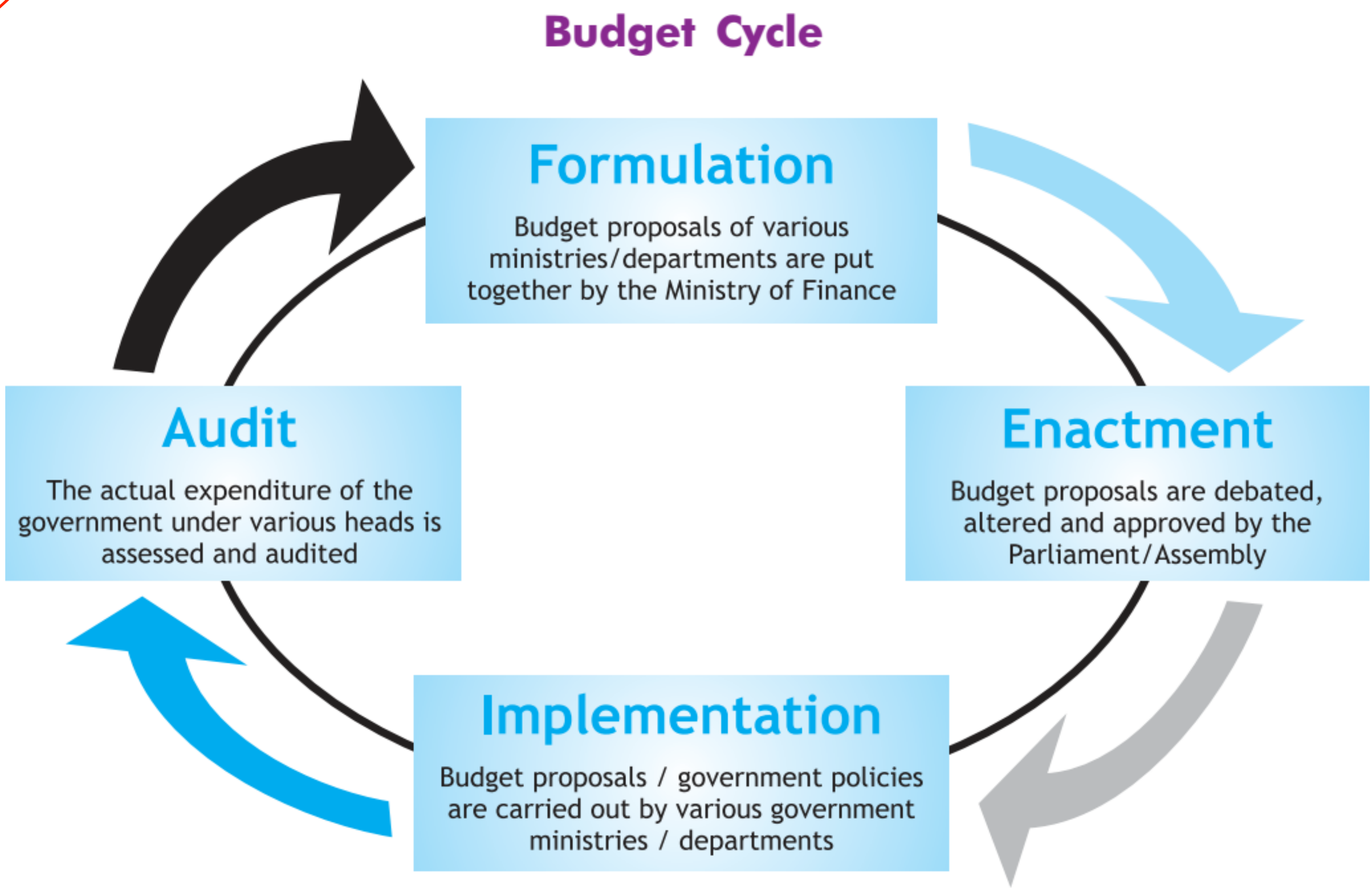
As per the Indian Constitution, the Central government ***(Article 112) and state governments (Article 202)*** are mandated to present their Annual Financial Statement (AFS) before the Parliament and State Legislatures, respectively.

Budgets are instrumental in translating the socio-economic development goals of the governments into reality by way of resource provisioning for the professed development.

Translation of policy goals into reality is largely dependent on ***how well the planning process, resource allocations, and execution of schemes synchronize with one another***.

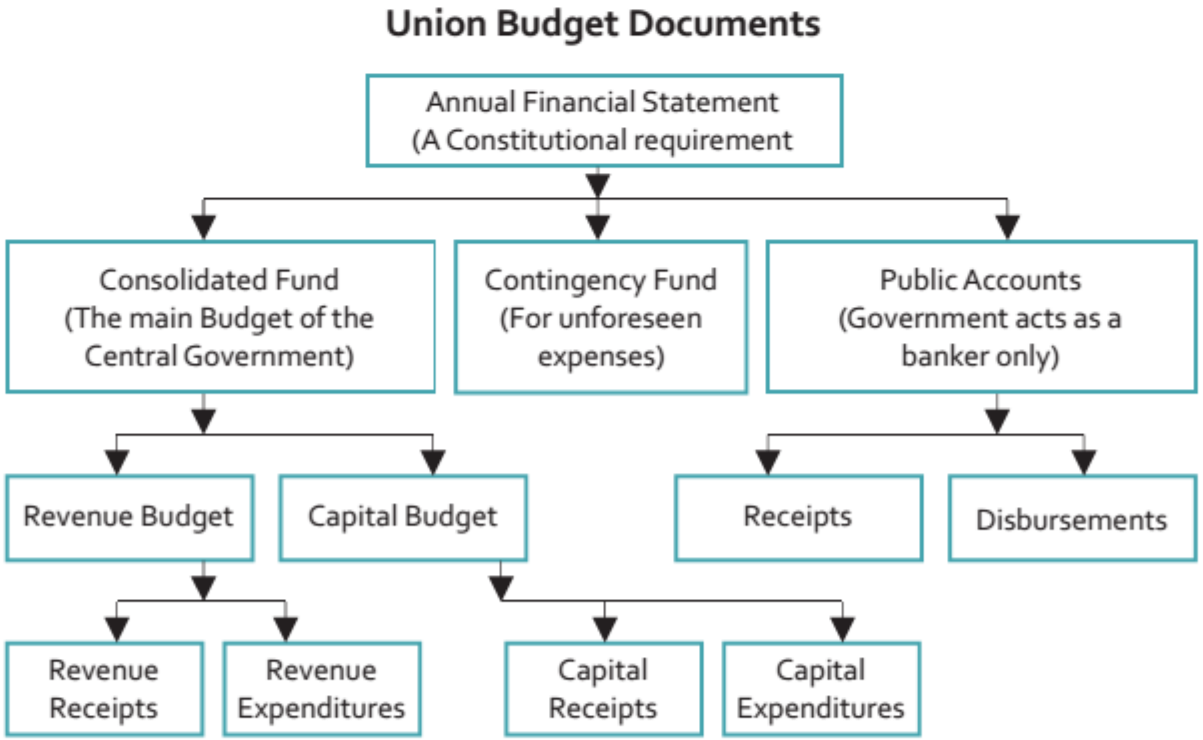
Public budgeting has undergone dramatic changes over the years with the diverse roles assumed by governments from time to time, as a fall out of which the scale and nature of public spending have been undergoing major changes.

# Budget


Budget Cycle
Formulation
Budget proposals of various ministries/departments are put together by the Ministry of Finance
Enactment
Budget proposals are debated, altered and approved by the Parliament/Assembly
Implementation
Budget proposals / government policies are carried out by various government ministries / departments
Audit
The actual expenditure of the government under various heads is assessed and audited

# Budget

## Budget Analysis Focusing on Union Budget




**Important Union Budget documents**

- Key to Budget Documents
- Budget Highlights
- Budget Speech
- Budget at a Glance
- Annual Financial Statement
- Finance Bill
- Memorandum
- Receipt Budget
- Expenditure Budget
- Customs & Central Excise
- The Macro Economic Framework Statement
- The Medium Term Fiscal Policy Statement
- The Fiscal Policy Strategy Statement
- Statement of Revenue Foregone
- Implementation of Budget Announcements

# Budget



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**Consolidated Fund** contains the account of the receipts and disbursements of the government planned for a year. It is considered as the Governments own money for running its business.

**Contingency fund** is an emergency buffer maintained to meet the emergencies. When emergencies occur, the fund is utilized and the buffer is maintained by taking equivalent amount from the Consolidated Fund.

**Public Account** is the money of the masses and the government is only a custodian of this money. Many of us might have heard of something called 'Provident Fund'.

# Criteria for a Good Tax System

## Criteria of a Good Tax

1. Efficiency
2. Fairness
3. Simplicity
4. Flexibility
5. Transparency
6. Effectiveness

@ Grubder, J. Public Finance and Policy: Musgrave and Musgrave-Public Finance: Theory and Policy

# FISCAL POLICY

## बजट का सार Budget at a Glance

(₹ करोड़) (In ₹ crore)

| | | 2020-2021 वास्तविक Actuals | 2021-2022 बजट अनुमान Budget Estimates | 2021-2022 संशोधित अनुमान Revised Estimates | 2022-2023 बजट अनुमान Budget Estimates |
|---|---|---|---|---|---|
| 1. राजस्व प्राप्तियां | 1. Revenue Receipts | 1633920 | 1788424 | 2078936 | 2204422 |
| 2. कर राजस्व (केंद्र को निवल ) | 2. Tax Revenue (Net to Centre) | 1426287 | 1545396 | 1765145 | 1934771 |
| 3. कर-भिन्न राजस्व | 3. Non Tax Revenue | 207633 | 243028 | 313791 | 269651 |
| 4. पूंजी प्राप्तियां [1] | 4. Capital Receipts | 1875916 | 1694812 | 1691064 | 1740487 |
| 5. ऋणों की वसूली | 5. Recovery of Loans | 19729 | 13000 | 21975 | 14291 |
| 6. अन्य प्राप्तियां | 6. Other Receipts | 37897 | 175000 | 78000 | 65000 |
| 7. उधार और अन्य देयताएं [2] | 7. Borrowings and Other Liabilities[1] | 1818291 | 1506812 | 1591089 | 1661196 |
| 8. कुल प्राप्तियां (1+4) | 8. Total Receipts (1+4) | 3509836 | 3483236 | 3770000 | 3944909 |
| 9. कुल व्यय (10+13) | 9. Total Expenditure (10+13) | 3509836 | 3483236 | 3770000 | 3944909 |
| 10. राजस्व खाते पर जिसमें से | 10. On Revenue Account of which | 3083519 | 2929000 | 3167289 | 3194663 |
| 11. ब्याज भुगतान | 11. Interest Payments | 679869 | 809701 | 813791 | 940651 |
| 12. पूंजी परिसंपत्तियों के सृजन हेतु सहायता अनुदान | 12. Grants in Aid for creation of capital assests | 230865 | 219112 | 237685 | 317643 |
| 13. पूंजी खाते पर [3] | 13. On Capital Account[2] | 426317 | 554236 | 602711 | 750246 |
| 14. (12+13)[4] | 14. Effective Capital Expenditure (12+13)[3] | 657182 | 773348 | 840396 | 1067889 |
| 15. राजस्व घाटा (10-1) | 15. Revenue Deficit (10-1) | 1449599 (7.3) | 1140576 (5.1) | 1088352 (4.7) | 990241 (3.8) |
| 16. प्रभावी राजस्व घाटा (15-12) | 16. Effective Revenue Deficit (15-12) | 1218734 (6.2) | 921464 (4.1) | 850667 (3.7) | 672598 (2.6) |
| 17. राजकोषीय घाटा [9-(1+5+6)] | 17. Fiscal Deficit [9-(1+5+6)] | 1818291 (9.2) | 1506812 (6.8) | 1591089 (6.9) | 1661196 (6.4) |
| 17. प्राथमिक घाटा (17-11) | 18. Primary Deficit (17-11) | 1138422 (5.8) | 697111 (3.1) | 777298 (3.3) | 720545 (2.8) |

| CAPITAL RECEIPTS | | | | |
|---|---|---|---|---|
| Non-debt Receipts | 57626 | 188000 | 99975 | 79291 |
| (i) Recoveries of loans and advances@ | 19729 | 13000 | 21975 | 14291 |
| (ii) Disinvestment Receipts | 37897 | 175000 | 78000 | 65000 |
| Debt Receipts* | 1825479 | 1435428 | 1416902 | 1660444 |

| | | | | |
|---|---|---|---|---|
| 1. Debt Receipts (Net) | 1825479 | 1435428 | 1416902 | 1660444 |
| 2. Market Borrowings (G-sec +T Bills) | 1239737 | 967708 | 875771 | 1158719 |
| 3. Securities against Small Savings | 483733 | 391927 | 591524 | 425449 |
| 4. State Provident Funds | 18514 | 20000 | 20000 | 20000 |
| 5. Other Receipts (Internal Debts and Public Account) | 13315 | 54280 | (-)90140* | 37025 |
| 6. External Debt | 70181 | 1514 | 19746 | 19251 |
| 7. Draw Down of Cash Balance | (-)7188 | 71383 | 174187 | 752 |

# INTRODUCTION





**Fiscal policy measures may be grouped into two:**

**(i) Non-discretionary- or Automatic or built-in stabilizers:**

- It is an endogenous component that changes along with business fluctuations.
- Here, there is an automatic change in tax receipts and expenditures with the changes in income.
- During the depression, as unemployment rises, income declines. As a result, tax receipts of the government decline. On the other hand, government expenditures rise.
- Public expenditure increases automatically in a downturn.
- Many Govt. have employment guarantee programmes that provide employment and unemployment benefits.
- During downturn and recession

# INTRODUCTION

**Fiscal policy measures may be grouped into two:**

**(ii) Discretionary fiscal policy:**

- Initiated by the authority. It is exogenous to the system and emerges from the deliberate policy actions of a government.
- Here, there is a deliberate policy change to influence the level of economic activities
- Discretionary fiscal policy entails a change in the government budget. The government deliberately alters tax schedules and various expenditure programs.

# Expansionary Policy

- In pursuing expansionary policy, the government increases spending, reduces taxes, or does a combination of the two.
- Since government spending is one of the components of aggregate demand, an increase in government spending will shift the demand curve to the right.
- A reduction in taxes will leave more disposable income and cause consumption and savings to increase, also shifting the aggregate demand curve to the right.

# Contractionary Policy

- A contractionary fiscal policy is implemented when there is demand-pull inflation. It can also be used to pay off unwanted debt.
- In pursuing contractionary fiscal policy the government can decrease its spending, raise taxes, or pursue a combination of the two. Contractionary fiscal policy shifts the AD curve to the left.
- If tax revenues exceed government spending, this type of policy will lead to a budget surplus.

# Tax Base

## Components of Tax Revenue

Tax Revenue = Tax Rate (%) × Tax Base

BOX nicely

# Progressive Tax



Taxes are progressive, proportional or regressive.

1. **Progressive Tax System-** A progressive tax is one which takes a higher percentage of the income or wealth of the rich. As taxable income or wealth rises, so does the rate of taxation.

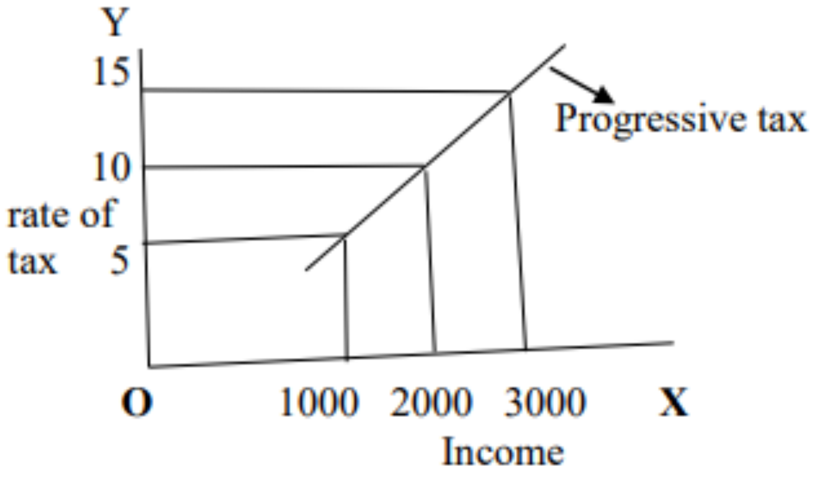



**Table of Progressive Taxation**

| Income (₹) | Tax (%) | Amount of Tax ( ) |
|---|---|---|
| 1000 | 5 | 50 |
| 2000 | 10 | 200 |
| 3000 | 15 | 450 |
| 4000 | 20 | 800 |

# Proportional Taxation

In the case of a proportional tax, the percentage paid in tax stays the same as income or wealth change.

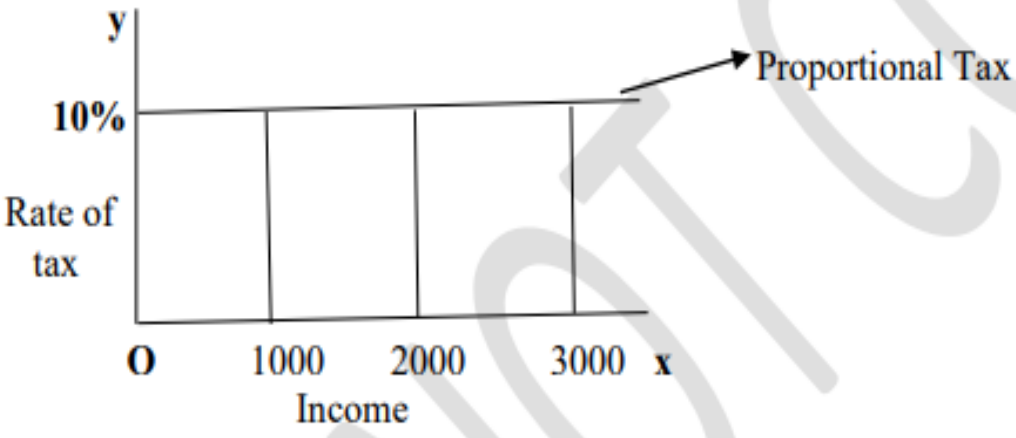



**Table of Proportional Taxation**

| Income (₹) | Tax (%) | Amount of Tax (`) |
|---|---|---|
| 1000 | 10 | 100 |
| 2000 | 10 | 200 |
| 3000 | 10 | 300 |
| 4000 | 10 | 400 |

# Regressive Taxation

FISCAL POLICY

With a regressive tax, the percentage paid in tax falls as income or wealth rises.

So in this case, people with higher incomes pay a smaller percentage of their income in tax than the poor do.

Low-income individuals pay a higher amount of taxes compared to high-income earners under a regressive tax system. That's because the government assesses tax as a percentage of the value of the asset that a taxpayer purchases or owns.

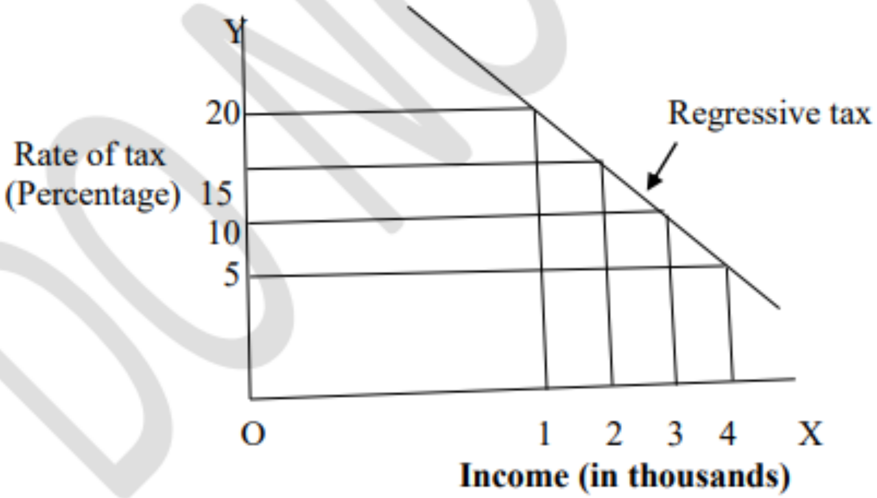
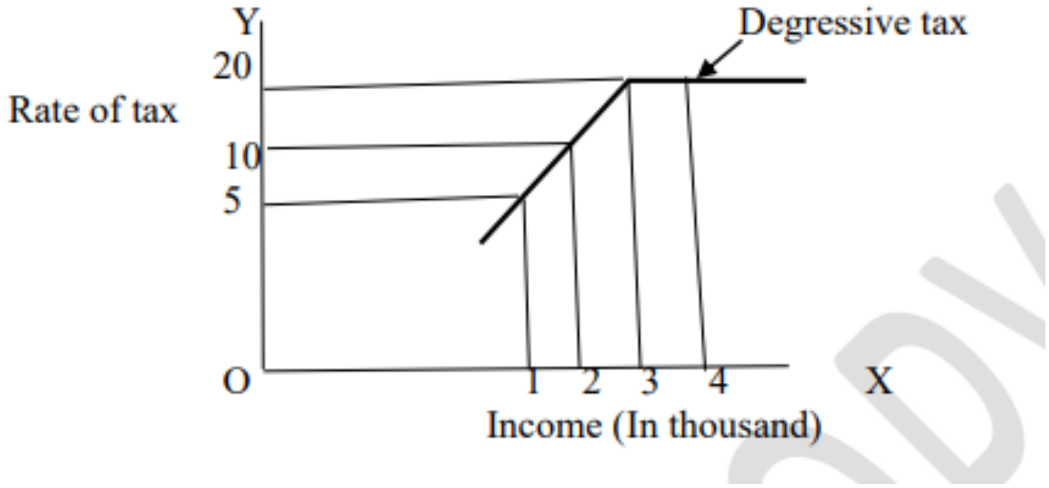



Table of Regressive Taxation

| Income (₹) | Tax (%) | Amount of Tax (₹) |
|---|---|---|
| 1000 | 20 | 200 |
| 2000 | 15 | 300 |
| 3000 | 10 | 300 |
| 4000 | 5 | 200 |

# Degressive Taxation

The degressive tax is progressive to a fixed point. But after this point these taxes becomes proportional. In present time developing economies are using these taxes more.

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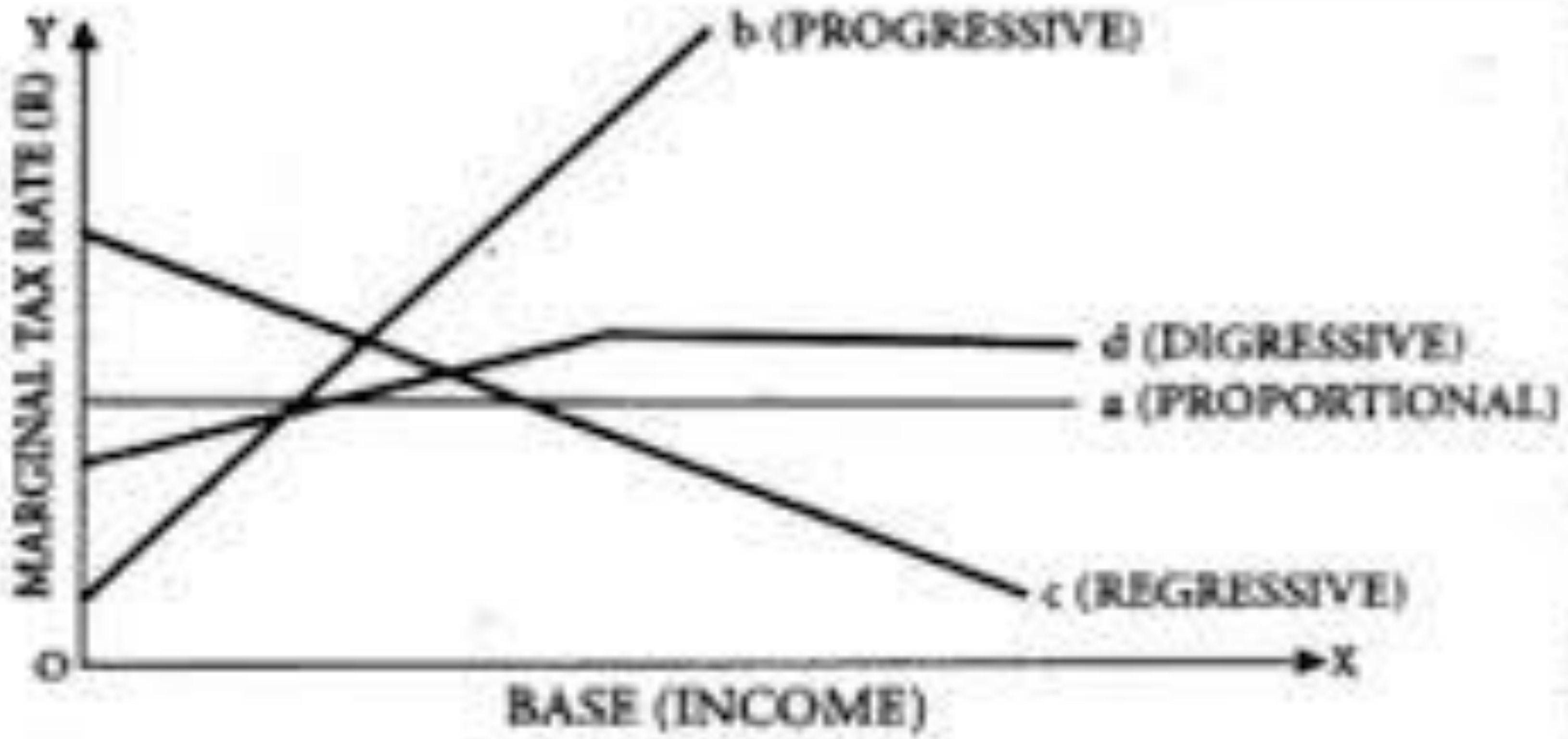


Taxation Types

# Tax Impact



The **tax elasticity** measures the responsiveness of tax revenue to changes in a tax rate, and is defined as the percentage change in tax revenue resulting from a 1 per cent change in tax rate. Thus, the tax elasticity ($e_t$) is:

$$e_t = \frac{\text{\% Change in tax revenue}}{\text{\% Change in tax rate}}$$

or

$$e_t = \frac{(\Delta TR/TR) \times 100}{(\Delta t/t) \times 100}$$

write carefully.

or

$$e_t = \frac{\Delta TR}{\Delta t} \cdot \frac{t}{TR}$$

where, $\Delta TR$ = Change in tax revenue; $TR$ = Total revenue before the change in tax rate; $\Delta t$ = Change in tax rate; $t$ = Original tax rate.

# Tax Impact

The **tax buoyancy** is defined as the percentage change in tax collection caused by a given percentage change in the tax base, i.e.,

$$e_b = \frac{\text{\% Change in tax revenue}}{\text{\% Change in tax base}}$$

Thus, it is a measure of increase in the actual tax revenue from a given change in the tax base. The **tax base** is an amount on which a taxpayer pays taxes. It varies with the type of tax.

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**Table 6.3: Criteria and Weights (%) in Previous Finance Commissions**

| | Criteria | FC-XI (2000-05) | FC-XII (2005-10) | FC-XIII (2010-15) | FC-XIV (2015-20) |
|---|---|---|---|---|---|
| **Need and cost disability** | Population (1971) | 10.0 | 25.0 | 25.0 | 17.5 |
| | Population (2011) | | | | 10.0 |
| | Area adjusted | 7.5 | 10.0 | 10.0 | 15.0 |
| | Forest cover | | | | 7.5 |
| **Equity** | Index of infrastructure | 7.5 | | | |
| | Income distance | 62.5 | 50.0 | | 50.0 |
| | Fiscal capacity distance | | | 47.5 | |
| **Performance** | Tax efforts | 5.0 | 7.5 | | |
| | Fiscal discipline | 7.5 | 7.5 | 17.5 | |
| | | **100** | **100** | **100** | **100** |

- Income distance: Income distance is the distance of a state's income from the state with the highest income. Income of a state has been computed as average per capita GSDP during the three-year period between 2016-17 and 2018-19. A state with lower per capita income will have a higher share to maintain equity among states.
- Demographic performance: The Terms of Reference of the Commission required it to use the population data of 2011 while making recommendations. Accordingly, the Commission used 2011 population data for its recommendations. The demographic performance criterion has been used to reward efforts made by states in controlling their population. States with a lower fertility ratio will be scored higher on this criterion.
- Forest and ecology: This criterion has been arrived at by calculating the share of the dense forest of each state in the total dense forest of all the states.
- Tax and fiscal efforts: This criterion has been used to reward states with higher tax collection efficiency. It is measured as the ratio of the average per capita own tax revenue and the average per capita state GDP during the three years between 2016-17 and 2018-19.
- All Finance Commissions since the FC-X have used area as a criterion in the devolution formula on the grounds of need –larger the area greater is the expenditure requirement for providing comparable services.

# Suggestions for necessary reforms in fiscal policy

- Progressive taxes
- Checking tax evasion
- Increasing reliance of direct taxes
- Raising the profitability of PSUs
- Reduction of non-developmental expenditures.

# Canons Of Taxation





Canons of Taxation Adam Smith has described the following cannons of Taxations

1.**The Canon of Equality:** - Canon of equality or equity is the first canon presented by Adam Smith. According to this, "The citizens of every state must contribute for the aid of government in proportion to their ability, means in proportion of that income whose enjoyment; they receive in security of state.

2. **Canon of Certainty:** -Second canon of Adam Smith is canon of certainty. According to this, "Every individual who pays taxes, must be certain. The time of payment of tax, method of payment and amount of payment etc., must be clear to taxpayer and each other individual.

- In the matter of tax, the payment which is paid to any individual, its certainty is very important that on the basis of experience of all countries, but my view is that the inequality of large amount is not so dangerous so that the certainty of less amount."

**3. Canon of Convenience:** -The third canon of Adam Smith is canon of convenience. According to this canon, "Every tax must be paid at such time and according to such ritual that the payment of this is more convenient for the taxpayer."

**4. Canon of Economy:** -The fourth and last canon of Smith is canon of economy. According to this, "Every tax must be imposed and received in such a way so that the money which comes by it in the treasure of state, people must have to pay less for it."

The objective of this canon is that the administrative cost of tax payment must be kept minimum, means there must be minimum difference between the money coming from the pocket of people and money deposited in treasure.

# Canons of Public Expenditure





Findlay Shirras gave cannons of public expenditure.

**1. Canon of Benefit:**

- According to Prof. Findlay Shirras public expenditure should bring with it important social advantages such as increased production, equitable distribution, social justice and maximum social welfare.
- This canon implies that public expenditure should be planned in such a way as to yield maximum social advantage and social welfare to the community as a whole and not to a particular group of the community.

## 2. Canon of Economy:

- Canon of economy also implies that government expenditure should not generate any adverse effect on production.
- Shirras, in this context observed that **"economy means protecting the interests of the tax payer and not merely in effecting economies in expenditure but in developing revenue".**

## 3. Canon of Sanction:

- This canon requires that the public authorities should spend money, only after obtaining prior sanction from the concerned authority for the specified purpose.
- This is done as a safeguard against the possibility of unwise and reckless expenditure.

## 4. Canon of Surplus:

- The government should always aim at a surplus of income over ex-penditure. Shirras observes **“public authorities must earn their living and pave their way like ordinary citizens”.**

## 5.Canon of Neutrality:

- Canon of neutrality implies that public expenditure should have no adverse effect on production and distribution activities of the economy.
- Public expenditure should only result in increased production, reduced inequality of income and wealth and increased economic activity.
-

# Effects of Public Expenditure

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Public expenditure is considered by the economists as an indicator that shows the course of economic development as well as the administrative skill of the government in a country or a governing body.

**1. Effects on Production:**

- the effect of public expenditure depends upon three facts:
- Ability to work, save and invest
- Willingness by people to work save and invest
- Allocation of economic resources as between different use and localities

**2. Effect on Distribution:**

Public expenditure affects the distribution in the following ways:

- Regional Inequality
- Distribution of dividends of Industrial Development
- Benefits to the Weaker Section
- Increase in the ability to work of the poor

**3. Effect on Economic Stability:**

- At the Time of Depression- Compensatory principle and Pump priming Expenditure
- At the time of Inflation- Increase in production and Reduction in Consumption

## 4. Effect on economic growth:

- The most important factor in developing countries such as ours that has led to a phenomenal increase in public expenditure is the expansion in developmental activities of the Government.
- In countries like India which have socialistic tendencies the public sector plays an important role in promoting economic growth and development.

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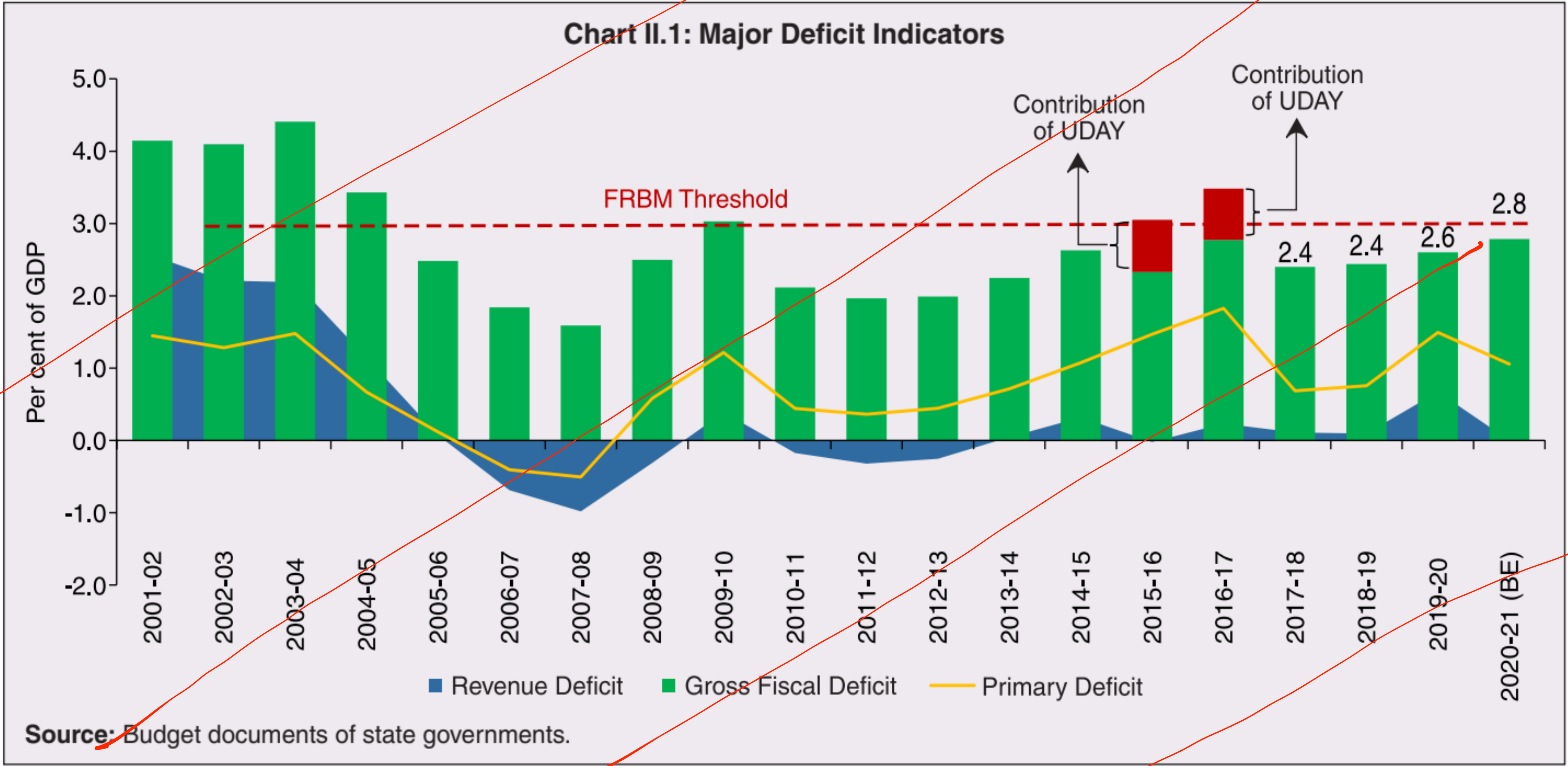


**Ujjwal DISCOM Assurance Yojana (UDAY)** is the financial turnaround and revival package for electricity distribution companies of India initiated by the Government of India with the intent to find a permanent solution to the financial mess that the power distribution is in.

# Measuring the Fairness of Tax Systems





Fairness is an important concern and elusive goal.

- Two key features of any tax system:
  - Marginal tax rate: The percentage that is paid in taxes of the next dollar earned.
  - Average tax rate: The percentage of gross income that is paid in taxes.

# Learn by Doing: Practice Question 1 (Answer)

Suppose a nation has a tax rate of 10% on the first $10,000 of taxable income, then 15% on the next $20,000, then 20% on the next $30,000, and 30% on all taxable income above $60,000. There is a $4,000 exemption per family member.

Anand's family has eight members and earns $80,000 per year.

***What is statutory marginal tax rate?***

# Learn by Doing: Practice Question 1 (Answer)

Suppose a nation has a tax rate of 10% on the first $10,000 of taxable income, then 15% on the next $20,000, then 20% on the next $30,000, and 30% on all taxable income above $60,000. There is a $4,000 exemption per family member.

Anand's family has eight members and earns $80,000 per year.

***What is effective marginal tax rate?***

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# Learn by Doing: Practice Question 1 (Answer)

Suppose a nation has a tax rate of 10% on the first $10,000 of taxable income, then 15% on the next $20,000, then 20% on the next $30,000, and 30% on all taxable income above $60,000. There is a $4,000 exemption per family member.

Anand's family has eight members and earns $80,000 per year.

***What is tax base?***

# Learn by Doing: Practice Question 1 (Answer)



Suppose a nation has a tax rate of 10% on the first $10,000 of taxable income, then 15% on the next $20,000, then 20% on the next $30,000, and 30% on all taxable income above $60,000. There is a $4,000 exemption per family member.

Anand's family has eight members and earns $80,000 per year.

***How much total taxes to be collected?***

# Learn by Doing: Practice Question 1 (Answer)





Suppose a nation has a tax rate of 10% on the first $10,000 of taxable income, then 15% on the next $20,000, then 20% on the next $30,000, and 30% on all taxable income above $60,000. There is a $4,000 exemption per family member.

Anand's family has eight members and earns $80,000 per year.

***What is his family's effective average tax rate?***

# TAXATION POLICY



- The taxation system in India is such that the taxes are levied by the **Central Government** and the **State Governments.**
- The structure of tax rates has to be varied in the context of conditions prevailing in an economy.
- During depression tax policy should encourage private consumption and investment
- While during inflation, tax policy must curtail consumption and investment.
- Taxes determine the size of disposable income in the hands of general public and therefore, the quantum of inflationary and deflationary gaps

# Tax policy

- Direct tax- Are one that are paid by the people or organization on whom they are imposed.
- Capital gain tax
- Corporate tax
- Inheritance tax
- Personal income tax
- Poll tax
- Property tax
- Wealth tax

# Tax policy

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FISCAL POLICY

- Indirect tax- Are collected from someone other than the person presumably responsible for paying the tax.
- Countervailing duty
- Custom duties
- Excise duty
- Value added tax
- GST
- Stam duty
- Sales tax

# GST

## Taxes subsumed under GST

**Central Taxes**

1. Central Excise Duty
2. Additional Excise Duties
3. Excise Duty levied under the Medicinal and Toiletries Preparation Act
4. Service Tax
5. Central Sales Tax (CST)
6. Additional Customs Duty, commonly known as Countervailing Duty (CVD)
7. Special Additional Duty of Customs (SAD)
8. Surcharges and cesses (In India, cess is applied on a specific commodity or service and is imposedas an addition to an existing tax. The revenue that is raised from it is also meant to meet certain specified objectives, such as Swachh Bharat cess. Surcharge is an additional charge levied on any tax, but revenue from surcharge can be spent for any purposes).

**State Taxes**

1. State VAT/ Sales tax
2. Entertainment tax (other than those levied by local bodies, such as municipalities)
3. Purchase Tax
4. Luxury Tax
5. Taxes on lottery, betting and gambling
6. Taxes on Advertisements
7. Entry Tax (All forms)
8. State Cess and Surcharges

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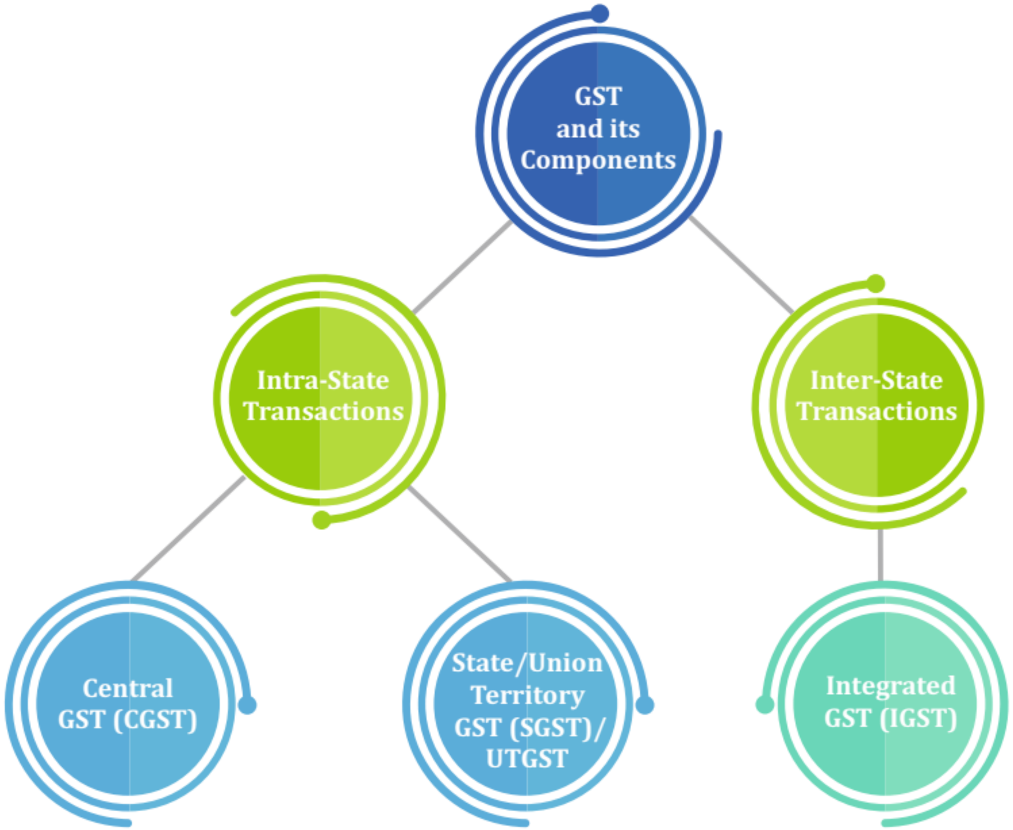
# Tax policy

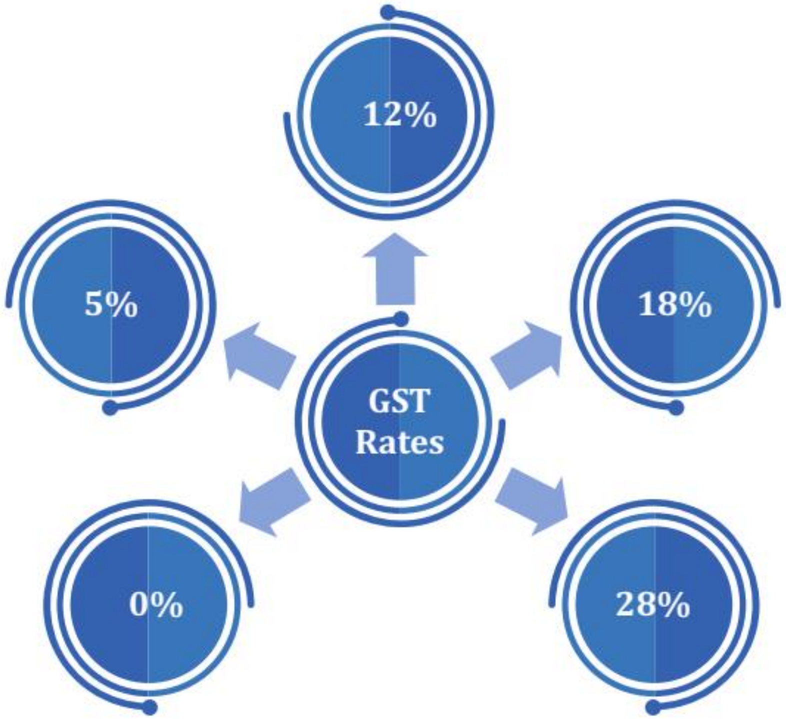
The following are the most important aspects of GST:

i. GST is based on 'supply' of goods or services, while the earlier tax(s) levied on manufacture of goods/sale of goods/provision of services.
ii. The principle of GST is destination-based consumption taxation, whereas earlier was on origin-based taxation.
iii. GST is dual in nature allowing the Centre (CGST or GSTC) and the States[10] (SGST) to levy tax on a common base at the same time. Union territories without legislature would levy union territory GST (UTGST).

An Integrated GST (IGST) levied on interState supply (including stock transfers) of goods/services will be collected by the centre in order to maintain the credit chain undisrupted. Import of goods is also considered as interState supplies and kept under IGST besides the applicable customs duties. Similarly, import of services is treated as interState supplies and hence is subject to IGST.

# GST

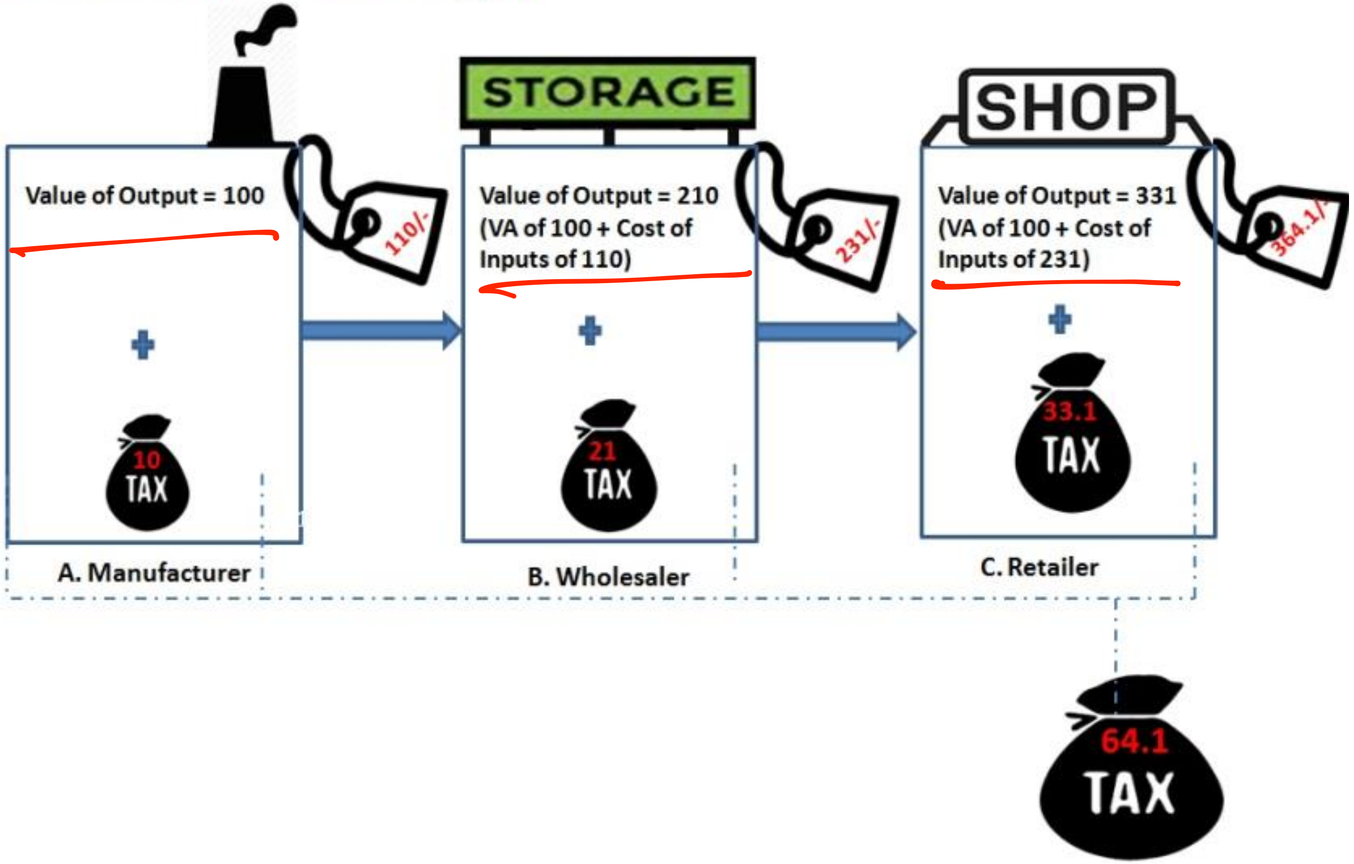



FISCAL POLICY

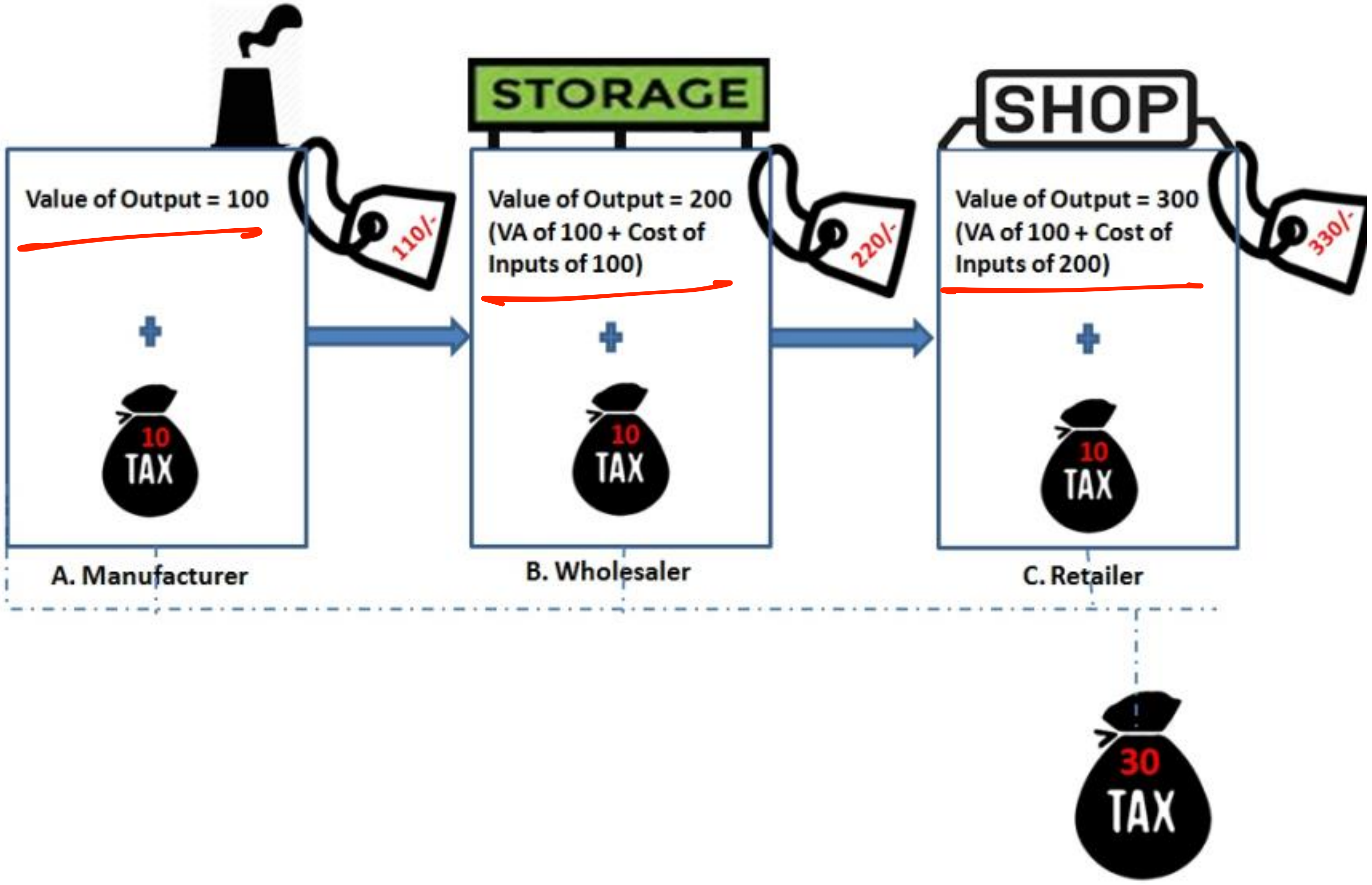
# Types of GST

Figure 4a: Cascading of Taxes and Tax Burden in the Pre-GST Regime-
The Case of Intra-State Supply



# Types of GST

Figure 4b: Reduced Cascading of Taxes and Tax Burden under GST-The Case of Intra-State Supply




FISCAL POLICY

# Implications for business managers

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- Fiscal policy is one of the important drivers of business environment and overall macroeconomic stability of a country.
- The levels of government expenditure, taxes and deficit affect both the demand and the supply side of an economy and have profound impact on economic and business decisions as summarized as follows:
- The government expenditure is one of the important components of aggregate demand. In a recessionary situation, when the deficiency of demand is the problem, the government consumption and investment expenditure boost up the level of aggregate demand and encourages business firms to produce or supply more.
- The government expenditure also affects the supply side as investment expenditure leads to an improvement in physical and social infrastructure which supports business activities and creates an enabling environment for business in general.

# Implications for business managers

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FISCAL POLICY

- Taxes also affect the demand and supply side of an economy. Taxes affect the disposable income and purchasing power of individuals and business units. Thus, they affect private consumption and investment expenditure which is important for business organizations to plan their production activities.

- Taxes affect the supply side as they largely direct the procurement, production. employment. investment and diversification decisions of business organizations. Taxes, by affecting the relative prices, and thus, the relative profitability of producing different commodities, also affect the allocation of resources by business units in favour of those commodities that are taxed less.

- Taxes also guide business enterprises in deciding the location for setting up their units. The level of fiscal deficit also affects the overall macroeconomic and business environment Fiscal deficit affects inflation in the country, especially when there is no excess capacity and the deficit is financed through printing domestic currency.

- Fiscal deficit, if financed from borrowing from the domestic market participants, affects the average level of interest rates. Both inflation and interest rates are important variables in business decisions. These variables affect the production. investment and financing decisions of business organizations and private producers.

# Implications for business managers

- For these reasons, business firms and private producers closely watch budget announcements and fiscal developments.

- They continuously monitor the trends in the ratio of fiscal deficit to GDP proportion of revenue deficit in total deficit, share of interest payments in total expenditure of the government, and the share of capital expenditure in total expenditure, debt to GDP ratio to ascertain whether the fiscal operations are sustainable.

# Thank You…

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