Financial Literacy 360 Degree Endeavour for Learners

Clrn-shr.com

FISCAL

Table of Contents

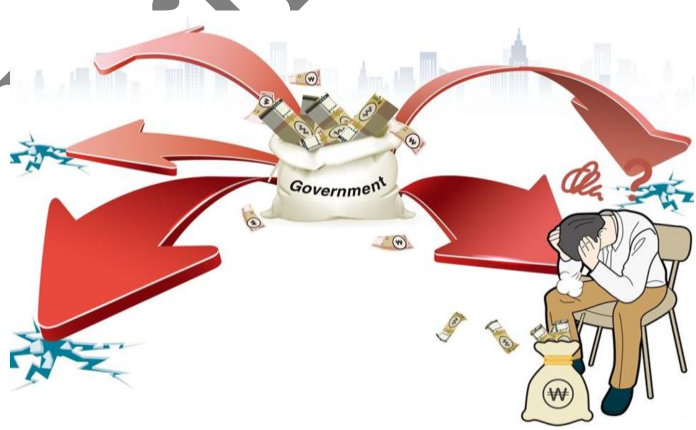
Explain the term 'Fiscal'

The word 'Fiscal' is derived from Latin word 'fiscus' which means 'basket' or 'treasury'. According to the Webster dictionary, in ancient Rome, fiscus was the term for the treasury, controlled by the emperor, where the money was stored in baskets and was collected primarily as revenue form the provinces.
In short, it is related to financial matters. Let's understand fiscal aspect in relation to economy.

What is Fiscal Policy?

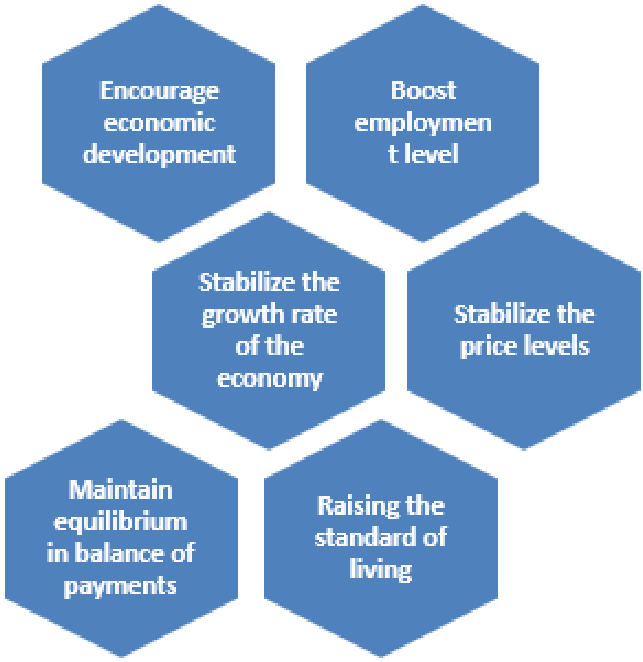
It is a policy tool used by the government of a country to control the finances and revenues that influence the economic growth of a country.

As per Britannica, Fiscal policy, is a measure employed by the government to stabilize the economy, specifically by manipulating the levels and allocations of taxes and government expenditures. Fiscal measures are often used in tandem with monetary policy to achieve specific goals.



Objectives of Fiscal Policy

Fiscal policy helps the government to control inflation, address unemployment and also the currency management in international markets. Objectives of the Fiscal policy are:



Fiscal Policy Tools

A government uses two tools to manage the Fiscal policy successfully –

Taxation

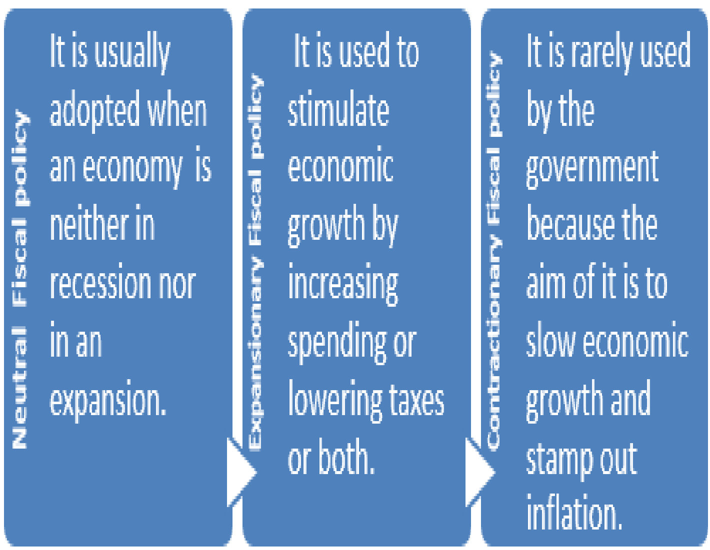
- It includes income and capital gains from investments, property and sales. More taxes means more income for the government but at the same time, it results in less income in the hands of people.

Public spending

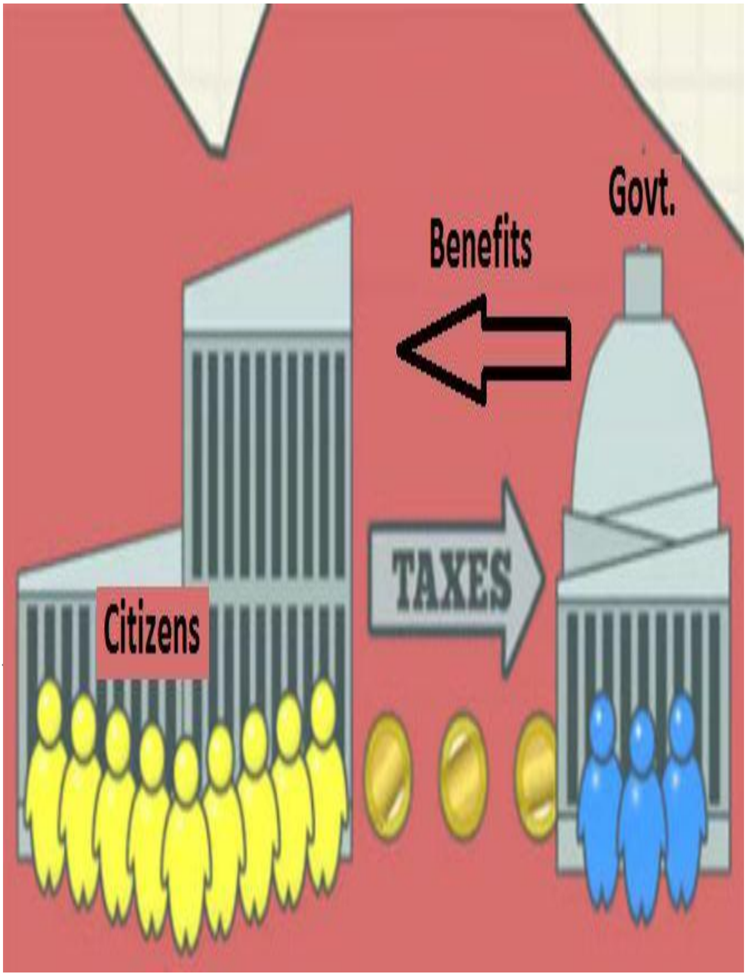
- It includes subsidies, welfare programs, payment of government employees' salaries and public work projects.

Types of Fiscal policy

To achieve the objectives of Fiscal policy, government follows three types of approaches:



Fiscal policy is adopted by the governments to achieve their targets. The benefits of the policy are enjoyed by the people associated with the particular sector / space. For example – spending on road infrastructure is beneficial to a large number of people, tax cut is enjoyed by the people who file taxes, reduction in petrol prices is enjoyed by the all citizens.



What is Fiscal year?

It is a 12 months period, that is used by organizations and government to report their finances.

According to the corporate financial institute, Fiscal year is a period of time used by the government and businesses for accounting purposes to formulate annual financial statements and reports.

The period of Fiscal year varies from country to country. For example:

Countries	**Fiscal Year Period**
India, United Kingdom, Canada, Japan, South Africa	April 1 to March 31
United States, Myanmar	October 1 to September 30
Australia, Bangladesh, New Zealand	July 1 to June 30
China, France, Singapore, Switzerland, United Arab Emirates, Italy, Russia, South Korea, Spain, Sweden, Taiwan	January 1 to December 31

What is Fiscal deficit?

A Fiscal deficit is a short fall between the government's income and spending. It does not include the government borrowings. According to the financial express- A fiscal deficit occurs when the government expenditure exceeds its income. The difference is calculated both in absolute terms and also as a percentage of the gross domestic product (GDP) of the country.

Fiscal deficit = Total expenditure - Total receipts excluding borrowings

Or

Fiscal Deficit = Total expenditure of the government (capital and revenue expenditure) - Total income of the government (Revenue receipts +recovery of loans +other receipts)

Whenever Fiscal deficit occurs, it is financed by borrowings that is either central bank of the country (Reserve Bank of India-(RBI) in case of India) or by raising money from capital market instruments such as treasury bills and bonds.

Fiscal deficit greatly impacts on growth, production cost, price stability and inflation.

What is Fiscal capacity?

It is the potential ability of government or institution to generate revenue. For example, governments generate maximum revenue from taxes. Fiscal capacity plays an important role in developing process of fiscal policy. It is also defined as fiscal effort.
Precisely, fiscal capacity provides a road map to government or any other institution to determine allocation of revenue that can equalize the grants at various levels.
According to Wikipedia, Fiscal capacity is the ability of the government to extract revenues to provide public goods and carry out other functions of the government in a given administrative fiscal accounting structure.
A research paper published by William E Sparkman defined, fiscal capacity refers to the economic resources of a government or taxing jurisdiction. It is essentially measured

as the ratio of actual revenues' raised per capita.

Conclusion

In economics and political science, fiscal refers to management of money, taxes, debts etc. which is controlled and managed by the government. Governments have to take proactive measures for smoothen economic cycle. A timely act results to bring stability and transparency in the country's economy for long run inspite of uncertainty and volatility in the global economy.

Evaluate your learning

1. Calculate Fiscal deficit –

   Capital expenditure = Rs. 45000, Capital receipts = Rs.39000, Revenue deficit = Rs. 10000

2. Who approves the fiscal policy in the following countries:

   - India
   - United States
   - United Arab Emirates
   - United Kingdom
   - France

Sources referred:

The Economic Theory of Fiscal Policy- by Bent Hansen.
Progressive Fiscal Policy in India by Praveen K Jha,
Investopedia.com, businessaccountingbasics.com,
Wikipedia, Financial Express.