2. Idea of fiscal prudence is the key to bring robust macro economic stability in the country. Analyse.

Fiscal policy may propup growth even when monetary policy controls inflation, but may not be valid always. Lifting demand may fuel inflation and cause twin deficit problem [ie. fiscal expansion fuelling Current Account deficit]

Current Market Conditions

Pandemic led to Debt unsustainability; & Central banks expansion 8x led to Increase in private ~~equity~~ wealth and Inequity also accentuated current Account deficit

Need for fiscal consolidation

Fiscal prudence - ability of Government for smooth monetary condition and longstanding fiscal conditions

15th Finance commission recommendation as Guide

Gross fiscal deficit (GFD) to GDP ratio - 4% by 2025-26.
Government in 2021-22 budget confirmed to < 4.5% by 2025-26.

Market conditions

Nominal growth 19.6% ~~by~~ in 2021-22 and is expected to be >9.5% in ~~2021~~ present year.

But concern is lack of implementation of reforms will affect ability to revertion to pre-pandemic level

Due to impending slowdown, 15th F.C target GFD/GDP - 5% by 2023-24 remains difficult.

Counter fiscal policy - may bring out tremendous change

eg: Eurozone - fiscal consolidation led to 5 straight year surpluses from 2015

Comprehensive approach.

Independent Monetary policy, Fixed exchange rate and open capital account won't help. need for comprehensive solution to maintain exchange rate, Market pessimism is vs Fed hikes.

Market sentiment - analysis

1. Tightening cycle led to global equity and corrections in bond market in 1st half and will continue

2. Housing price hike may burst once corrections are done.
eg: US, UK, China. already in process

3 Clustering volatility of exchange rate eg: [JPN-US $] - dip to 131 & further 145

Way forward

1. Treating exchange rate as automatic stabilizer. Move against volatile situation.

2. Worse case - go for quasi fiscal measures

3. Maintain Macro economic fiscal stability and, against focusing on economic growth at present condition