



Fiscal Policy, Fiscal Rules and GST

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Agenda & Learning Objectives

1 **Fiscal Policy Fundamentals**

Explore objectives, tools, and the Indian context of fiscal policy.

2 **FRBM Framework**

Delve into targets, escape clauses, and compliance challenges of the FRBM Act.

3 **GST Evolution**

Understand the structure of GST, simplification efforts (GST 2.0), and revenue trends.

4 **Integration & Impact**

Analyze how GST reforms support fiscal consolidation efforts.

5 **Real-World Case Studies**

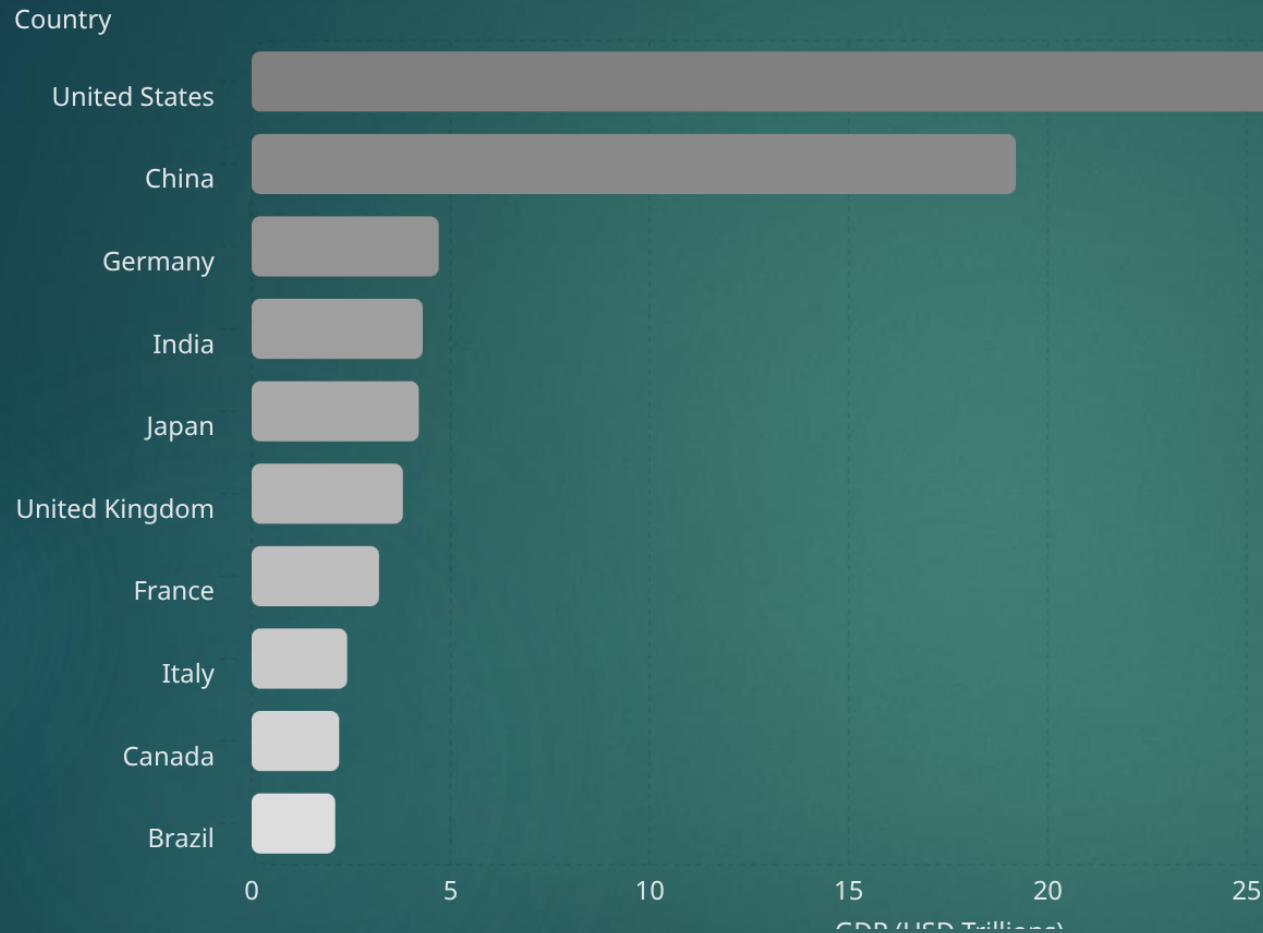
Examine the COVID-19 shock and the buoyancy of GST revenue.

Top 10 Largest Economies in the World (2026)

India is projected to become the world's 4th largest economy by 2026, showcasing significant growth amidst global economic shifts.



Global Economic Powerhouses: 2026 Nominal GDP



Rank	Country	Nominal GDP (USD trillions, 2026)
1	United States	\$31.82 trillion
2	China	\$20.65 trillion
3	Germany	\$5.33 trillion
4	India	\$4.51 trillion
5	Japan	\$4.46 trillion
6	United Kingdom	\$4.23 trillion
7	France	\$3.56 trillion
8	Italy	\$2.68 trillion
9	Canada	\$2.42 trillion
10	Brazil	\$2.39 trillion

India secures the 4th position with a nominal GDP of \$4.3 trillion, demonstrating its rising economic prominence. The U.S. and China remain the top two, while Germany narrowly edges out India for third place in this projection.

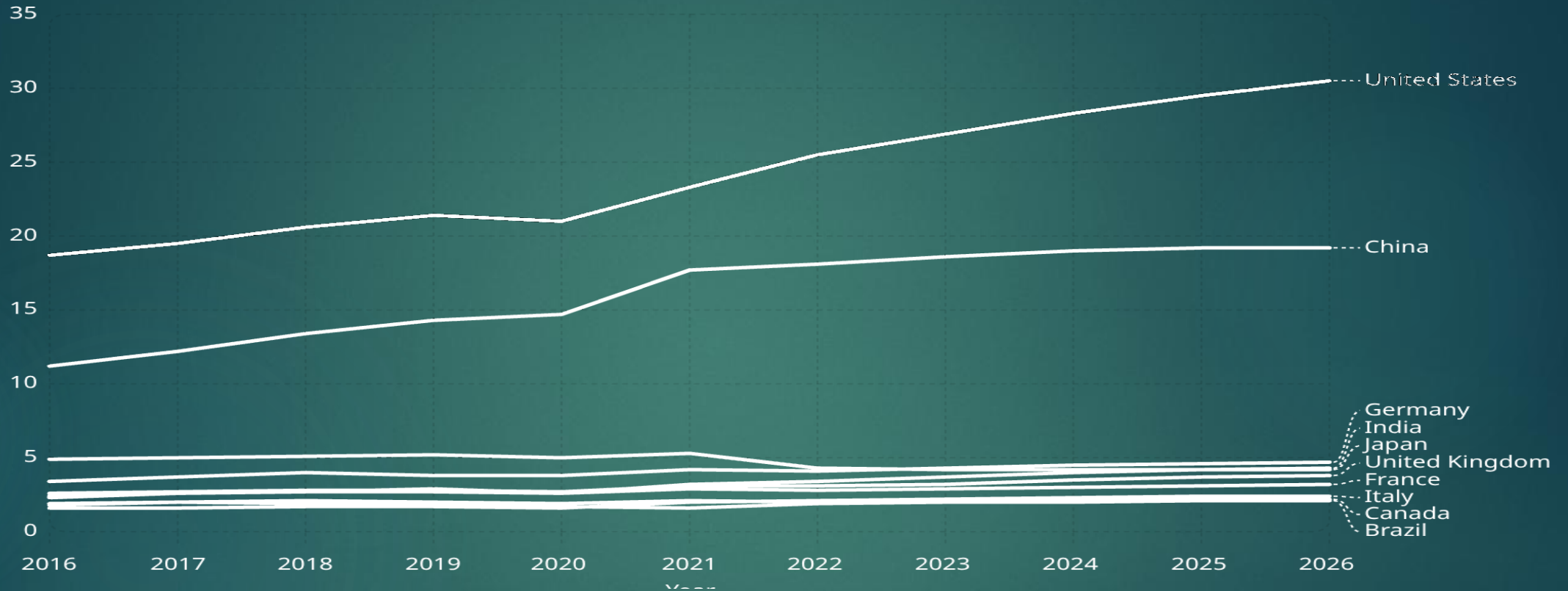


What is GDP?

Gross Domestic Product (GDP) stands as a fundamental metric for understanding a nation's economic health. It quantifies the **total monetary value of all final goods and services** produced within a country's borders over a specific time frame, typically a quarter or a year.

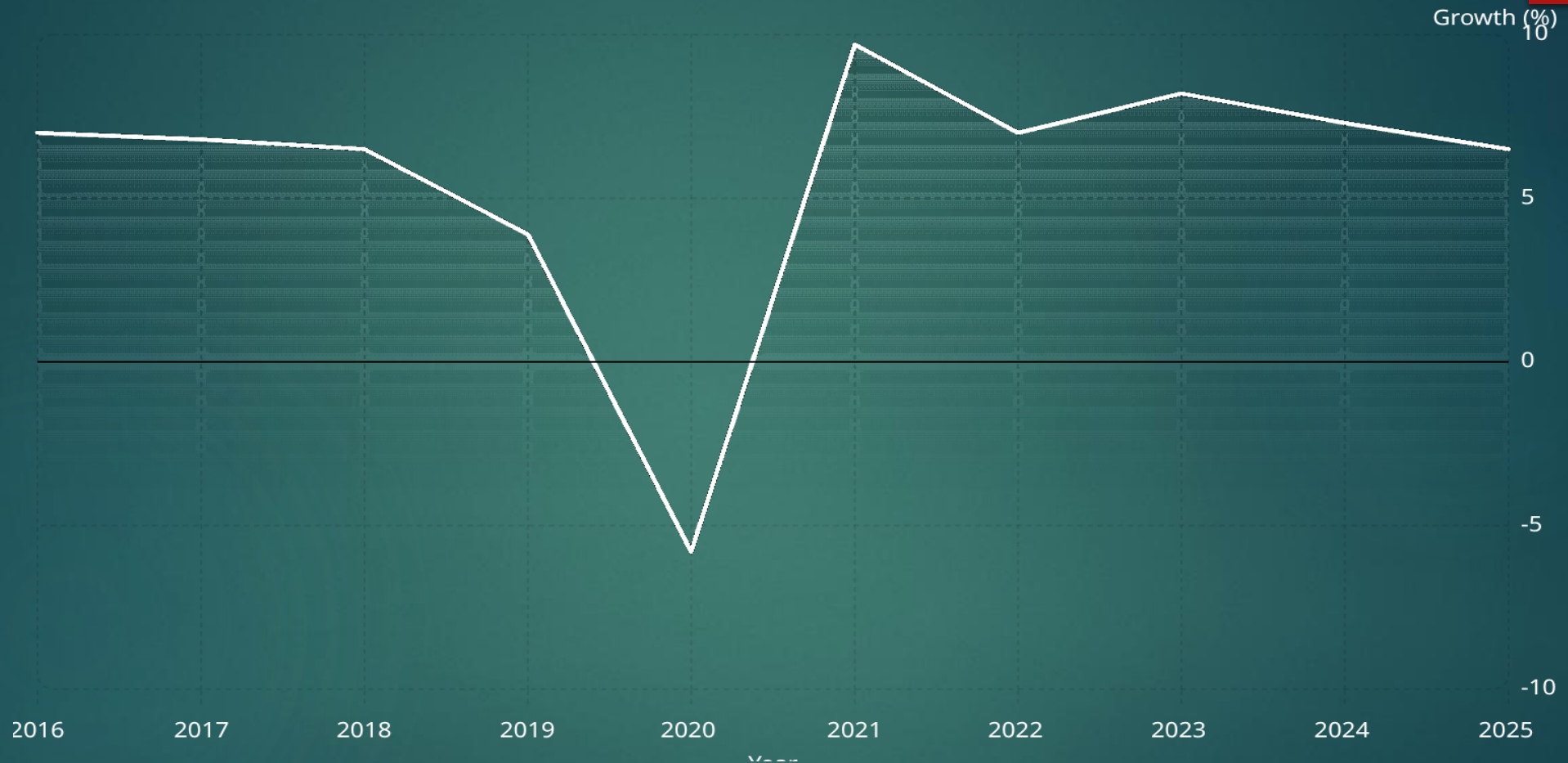
- GDP serves as a primary indicator of an economy's size and overall performance, reflecting its productive capacity.
- Crucially, GDP calculations only include the **final output** of goods and services to prevent "double counting" intermediate goods used in production.

GDP Growth Trends of Top 10 Economies (2016–2026)



India's GDP has seen an impressive average annual growth of ~6.5%, with a strong rebound post-pandemic. While the U.S. maintains steady growth, China's growth rate is moderating. India's trajectory indicates a potential to surpass other major economies soon.

Historical GDP Growth Snapshot: India (2016–2026)



India's GDP growth showcases remarkable resilience and recovery. Despite a dip in 2020 due to the COVID-19 pandemic, the economy surged back with robust growth in 2021 and 2023, maintaining a strong positive outlook for 2026.

India's Prominent Position in the Global GDP Ranking

India's GDP

\$4.3T

Positioned closely to Germany (\$4.7T) and Japan (\$4.2T), India's economy is rapidly expanding and reshaping the global economic landscape.

Fastest Growth

6.4%

India is the fastest-growing major economy, with a projected growth rate of 6.4% in 2026, significantly outpacing the US (2.1%) and Germany (0.8%).

India's post-pandemic growth resilience is a crucial driver for the global economy, demonstrating remarkable stability and acceleration in challenging times.



Fiscal Policy, FRBM & GST in India



Fiscal Policy in brief ...

Fiscal policy is the government's use of taxation, spending, and borrowing to influence the economy.

Main objectives: promoting growth, maintaining stability, and ensuring equity.

- **Economic Stability:** Prevent sharp fluctuations in growth.
- **Employment Generation:** Create jobs through public projects and incentives.
- **Inflation Control:** Balance demand and supply to keep prices stable.
- **Redistribution of Wealth:** Progressive taxation and welfare programs reduce inequality.
- **Long-term Growth:** Investments in education, health, and infrastructure strengthen the economy



Fiscal policy operates through three main tools.

- **Revenue side:** taxes — direct (income tax, corporate tax) and indirect (GST).
- **Expenditure side:** subsidies, infrastructure projects, welfare schemes.
- **Deficit financing:** borrowing from domestic and foreign sources.

Example: Fertilizer subsidies reduce costs for farmers, boosting agricultural output.

Example: During COVID-19, India announced a ₹20 lakh crore stimulus package to protect jobs and businesses. That was fiscal policy in action.



Fiscal Policy's Impact on GDP

Fiscal policy, managed by governments, plays a pivotal role in influencing a nation's GDP through strategic adjustments in **government spending and taxation**. These levers can stimulate or cool down economic activity.

Expansionary Policy

Used during recessions or slow growth. Involves increasing government spending (e.g., infrastructure projects, subsidies) or cutting taxes to boost disposable income and demand. Goal: Stimulate economic activity and reduce unemployment. Results in typically leading to an increase in GDP.

Contractionary Policy

Applied when the economy is overheating (high inflation). Involves reducing government spending or raising taxes. Goal: Slow down demand, control inflation, and stabilize prices. Results in a reduction in GDP.

A crucial aspect of fiscal policy is the **multiplier effect**. Government spending doesn't just add directly to GDP; it also generates additional rounds of spending. For example, if the government spends on a road, the workers building the road earn income and then spend it, further amplifying the initial investment's impact on GDP.

Fiscal Instruments — What Administrators Manage

Effective fiscal administration relies on a robust understanding and management of various financial tools.

Revenue Generation

Direct taxes, Goods and Services Tax (GST), and other indirect levies.

Expenditure Control

Managing subsidies, capital expenditure (capex), and social protection programs.

Financing Mechanisms

Utilizing market borrowing, small savings, and disinvestment strategies.

Regulatory Frameworks

Adhering to rules like fiscal deficit, revenue deficit, and debt anchors.

Institutional Bodies

Working within the mandates of the Budget, Finance Commissions, and GST Council.



Case Study 1: The COVID-19 Economic Shock (FY21)

The Fiscal Year 2021 served as a stark reminder of the vulnerability of public finances to unforeseen global crises like the COVID-19 pandemic.

- **Deficit Spike:** The fiscal deficit surged dramatically to approximately 9.2% of GDP, a direct consequence of the widespread economic disruption.
- **Revenue & Spending Impact:** This spike was driven by a severe revenue shock, as economic activity slowed, coupled with substantial emergency spending required for public health and economic relief measures.
- **Managed Borrowing Costs:** Despite the massive borrowing, the government effectively managed debt costs through strategic liquidity injections and market support interventions from the central bank.
- **Critical Lessons:** The crisis underscored the importance of fiscal flexibility and the need for robust financial buffers. It demonstrated that rigid fiscal rules may require escape clauses during extraordinary circumstances to allow for necessary government intervention.

India's Fiscal Position — Big Picture

India's fiscal landscape reflects resilience and strategic adjustments in response to global and domestic challenges.



Post-COVID Consolidation

The temporary spike in deficit due to the pandemic is now being actively consolidated.



Capex & Revenue Recovery

A strong emphasis on capital expenditure, supported by gradual GST revenue recovery.



Debt Sustainability

Dependent on maintaining a favorable growth-interest differential to manage national debt.



States' Financial Diversity

Varying fiscal health across states, reflecting differences in debt levels and quality of capital expenditure.



Fiscal Rules ...

Fiscal rules are legal frameworks that set limits on government borrowing and spending.

These rules prevent reckless borrowing, ensure stability, and build investor confidence.

Analogy: If fiscal policy is the steering wheel, fiscal rules are the seatbelt — keeping us safe from crashes.

India's main fiscal rule is the Fiscal Responsibility and Budget Management Act, 2003."

- It set targets: fiscal deficit \leq 3% of GDP, general government debt \leq 60%, central government debt \leq 40%.
- Over time, amendments allowed flexibility during crises.
- Why does this matter? Investors and credit rating agencies look at these numbers. India's BBB- rating depends on fiscal discipline.



FRBM Act — Why Rules Matter

The Fiscal Responsibility and Budget Management (FRBM) Act provides a statutory framework for fiscal discipline.

Anchor Expectations

Provides a clear framework for fiscal policy, reducing pro-cyclicality and inherent deficit bias.

Enhance Credibility

Boosts confidence among markets and rating agencies through transparent fiscal management.

Counter-Cyclical Space

Allows for strategic flexibility during economic downturns via stipulated escape clauses.

Intergenerational Equity

Contributes to long-term debt containment, ensuring fiscal stability for future generations.



FRBM Targets & Escape Clauses

The FRBM Act sets clear fiscal targets while providing necessary flexibility for unforeseen circumstances.

Core Targets

- Deficit ceiling: A medium-term goal of 3% of GDP.
- Debt anchors: General government debt capped at 60% of GDP, with the Centre's share at 40%.
- States' debt: An indicative aggregate anchor of 20% of GDP.

Escape Clauses

Provisions allowing for temporary deviations from targets under extraordinary conditions:

- Severe economic shocks, such as a global pandemic.
- Significant structural reforms with long-term economic benefits.

These clauses ensure the framework remains pragmatic and responsive to dynamic economic realities.



FRBM Compliance — Where We Stand (Illustrative)

An overview of India's current position relative to FRBM targets, highlighting areas of progress and challenge.



General Government Debt

Currently significantly above the 60% target, indicating ongoing fiscal pressure.

States' Debt

Exceeding the indicative 20% target, reflecting diverse financial conditions across states.

Fiscal Deficit

Showing a narrowing trend post-pandemic spike, striving towards the 3% target.

Sustained fiscal health requires continued efforts towards durable revenue gains and high-quality capital expenditure.

Debt Dynamics: Confronting FRBM Targets



Both general government and states' debt levels have exceeded their respective FRBM targets, exacerbated by increased spending during economic downturns. While there has been some consolidation, significant divergence remains, highlighting the need for strategic fiscal management and debt reduction policies.



Understanding GST: Features, Dual GST Concept & Its Impact

A comprehensive guide to India's unified tax system and its transformative effects

What is GST? A Unified Tax Revolution



Launched July 2017

Replaced multiple indirect taxes with a single, destination-based tax system



Multi-Stage Tax

Levied on value addition at every stage of production and supply chain



Unified Market

Eliminated cascading taxes and created seamless national market integration

Existing Indirect Tax Structure in India

Central Taxes

- Central Excise duty
- Additional duties of excise
- Excise duty levied under Medicinal & Toilet Preparation Act
- Additional duties of customs (CVD & SAD)
- Service Tax
- Surcharges & Cesses

State Taxes

- State VAT / Sales Tax
- Central Sales Tax
- Purchase Tax
- Entertainment Tax (other than those levied by local bodies)
- Luxury Tax
- Entry Tax (All forms)
- Taxes on lottery, betting & gambling
- Surcharges & Cesses



Constitution amended to provide concurrent powers to both Centre & States to levy GST (Centre to tax sale of goods and States to tax provision of services)

One Tax
For

Manufacturing

Trading

Services



ONE NATION: ONE TAX

Features of Constitution Amendment Act



Alcohol for human consumption

Power to tax remains with the State



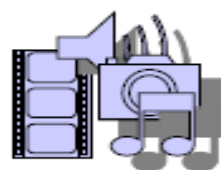
Five petroleum products – crude oil , diesel, petrol, natural gas and ATF

GST Council to decide the date from which GST will be applicable



Tobacco

Part of GST but power to levy additional excise duty with Central Government



Entertainment tax levied by local bodies

Power to tax remains with the State

Comparing Tax Systems: Pre-GST Complexities vs GST Streamlined Framework

Key distinctions in tax structure, compliance, and administration enhancing ease of business

Pre-GST System

Multiple taxes: Excise, VAT, Service Tax, CST

Limited and fragmented input tax credit

Multiple filings with varying formats

Varied tax rates across states and taxes

Separate enforcement by Central and State authorities

GST System

Unified dual GST: CGST + SGST/UTGST and IGST

Seamless input tax credit across goods and services reducing cascading

Single online portal (GSTN) for registration and returns

Uniform tax rates with 5%, 12%, 18%, 28% slabs

Concurrent jurisdiction under GST Council oversight

The Dual GST Model: Structure & Meaning

India's federal structure requires both Central and State governments to levy taxes simultaneously on the same



Central GST (CGST)

Levied by the Central Government on intra-state supplies. Revenue collected goes to the Central Government.



State GST (SGST)

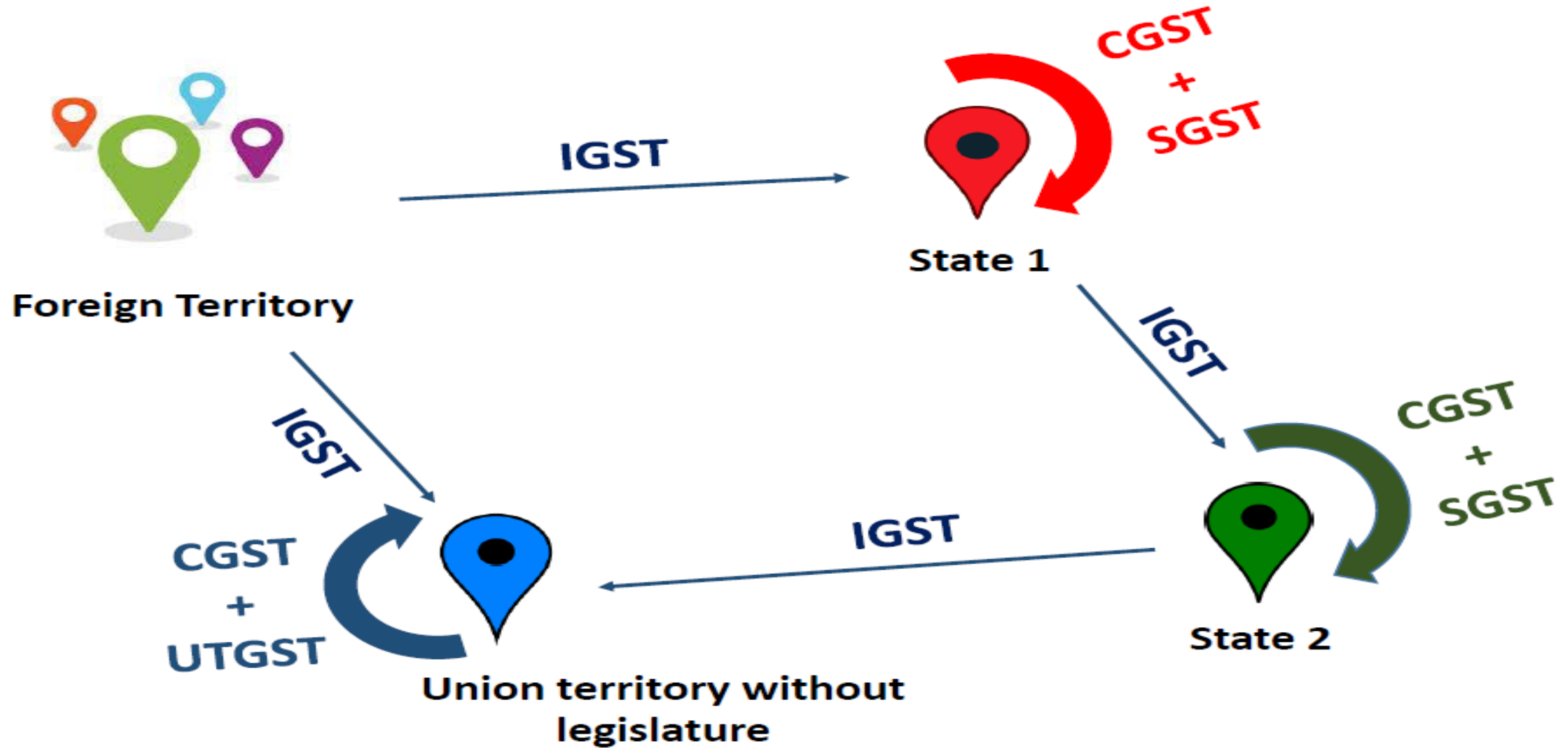
Levied by State Governments on intra-state supplies. Revenue collected goes to the respective State Government.



Integrated GST (IGST)

Levied by the Centre on inter-state supplies and imports. Revenue shared between Centre and destination state.

Understanding CGST, SGST, UTGST & IGST



Key Features of GST



Dual Tax Structure

Clear division of tax powers between Central and State governments ensures federal balance and equitable revenue distribution



IT Infrastructure

Robust electronic system enables online filing, digital payments, automated compliance, and real-time tracking



Uniform Tax Rates

Standardized rates across all states for goods and services eliminate tax arbitrage and create price stability



Input Tax Credit

Mechanism eliminates cascading effect by allowing credit of taxes paid at previous stages, reducing overall tax burden



Destination-Based Tax

Consumption tax ensures revenue accrues to the state where goods are consumed, not produced

Benefits of GST: Nation, Citizen & Business



Benefits to the Nation

- Increased tax compliance and revenue collection
- Simplified tax administration and reduced litigation
- Boost to 'Make in India' initiative through unified market
- Improved tax-to-GDP ratio



Benefits to the Citizen

- Lower prices due to elimination of cascading taxes
- Transparent pricing on all goods and services
- Reduced tax burden on essential items
- Faster refunds and easier access to goods



Benefits to Business

- Simplified tax filing with one system replacing multiple taxes
- Seamless input tax credit across entire supply chain
- Reduced compliance costs and paperwork
- Improved ease of doing business and competitiveness

GST Milestones in Figures

As of March 2026

1.5Cr

12Cr+

120Cr+

₹1.2L Cr

Registered Taxpayers

Total businesses registered under GST system

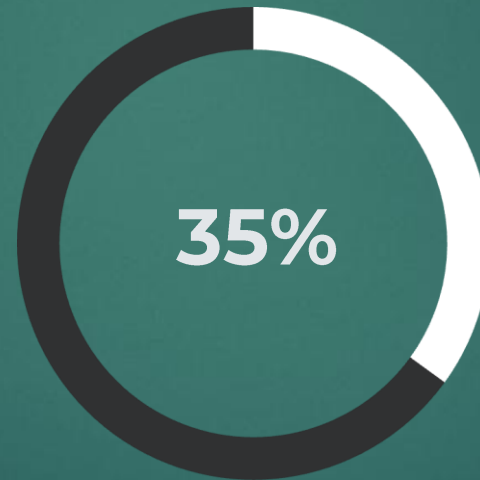


New Registrations 2025

Taxpayer registrations in 2025 alone

Annual Returns Filed

Yearly compliance filings processed

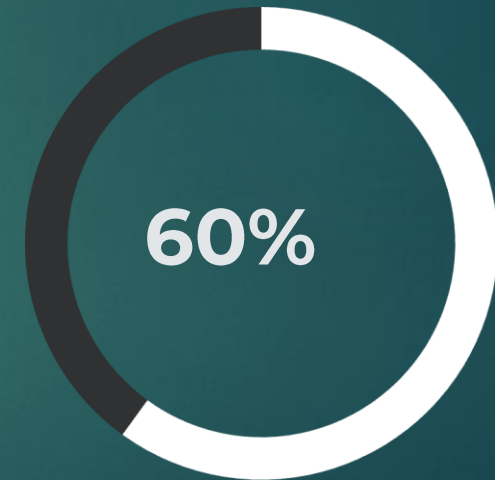


Reduction in Litigation

Decline in tax disputes since 2023

E-Way Bills Generated

Digital documents for inter-state movement



MSME Registrations

MSMEs constitute share of total taxpayers

GST Refunds Processed

Total refunds issued to taxpayers

Recent Reforms: Simplification & Dual-Rate GST

01

September 2025: Dual-Rate System

GST Council adopted simplified dual-rate structure (5% and 18%) replacing multiple tax slabs for easier compliance

02

Luxury Tax Introduction

40% tax on luxury and sin goods introduced to balance revenue and address consumption patterns

03

Reduced Disputes

Fewer tax brackets mean less ambiguity, fewer disputes, and citizen-friendly tax rates

04

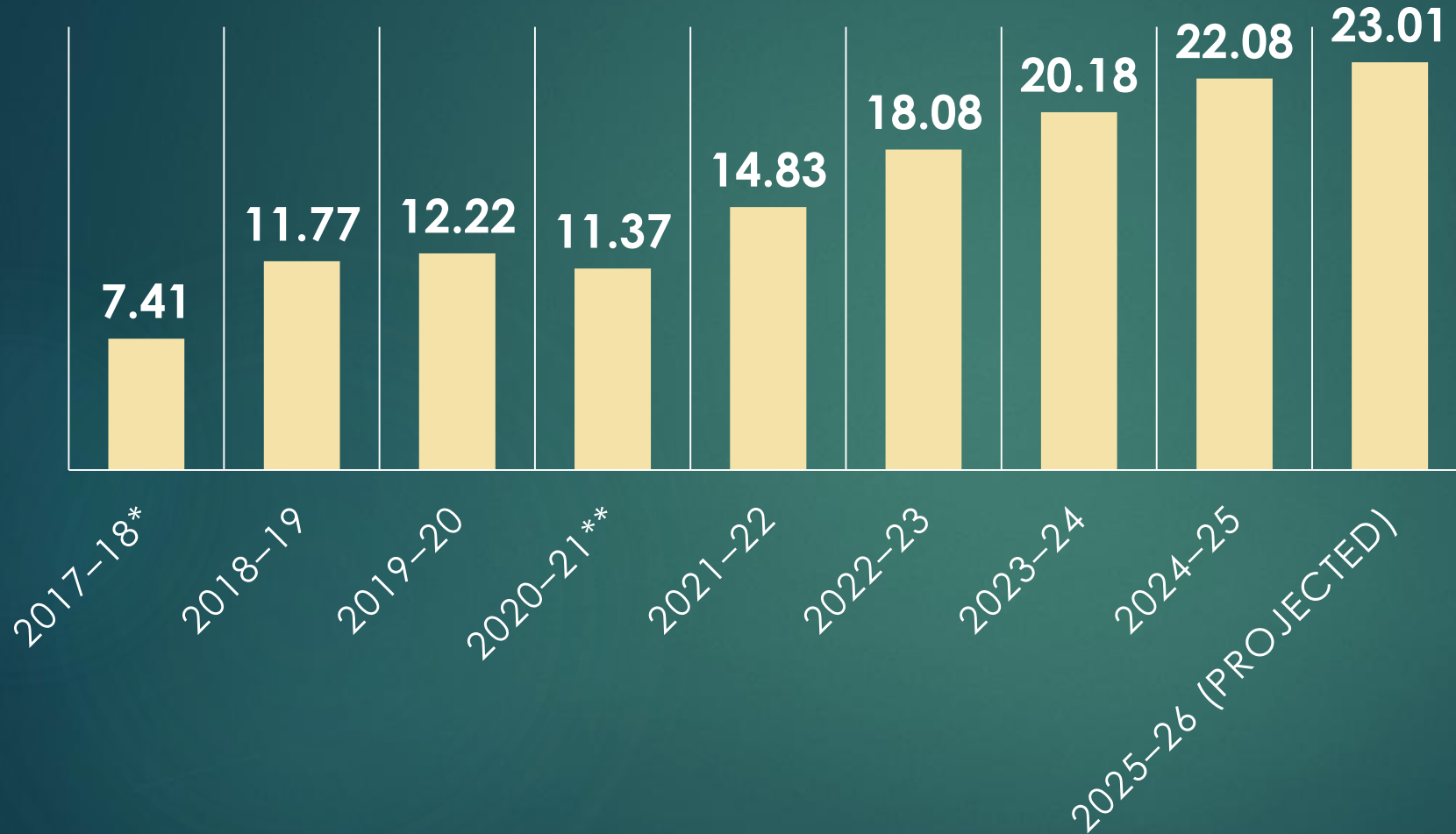
MSME Benefits

Faster registration in 3 days and quicker refunds to support small business growth



GROSS GST COLLECTION (₹ LAKH CRORE)

■ Gross GST Collection (₹ Lakh Crore)



Key Drivers of Growth

- Expansion of e-way bill and e-invoicing systems
- AI-based fraud detection and compliance analytics
- Sector-specific audits and enforcement
- Increased taxpayer base and voluntary compliance

Top Contributing States

- Maharashtra
- Karnataka
- Gujarat
- Tamil Nadu

GST Evolution: Pre-2025 vs. GST 2.0

The proposed GST 2.0 reforms aim to simplify the tax structure, reduce compliance burden, and enhance economic efficiency. By streamlining rate slabs and clarifying the treatment of demerit goods and essentials, these changes are expected to further boost revenue collections and foster a more business-friendly environment.

Feature	Pre-2025	GST 2.0 (from 2025)
Rate slabs	5%, 12%, 18%, 28%	5% & 18%
Demerit goods	Compensation cess on select goods	40% demerit rate
Essentials	Taxed at 5%/12%	Generally at 5%
Compliance	More complex	Simplified structure

GST Revenues: Sustained Growth and Economic Resilience

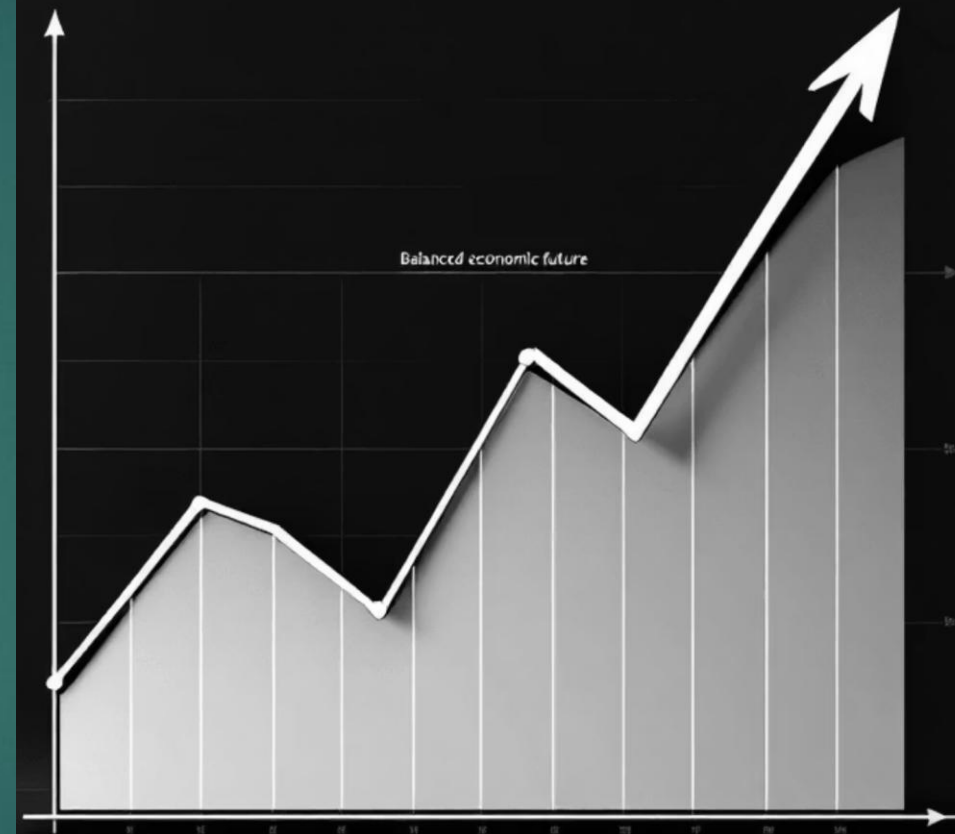
The trajectory of GST collections demonstrates a robust and growing revenue base, signaling improved compliance and a resilient economy.

- **Significant Growth:** Total GST collections have shown remarkable growth, escalating from approximately ₹11.37 lakh crore in Fiscal Year 2021 to an estimated ₹22.08 lakh crore by Fiscal Year 2025.
- **Post-COVID Resilience:** This sustained increase highlights the resilience of the economy following the COVID-19 pandemic. It also indicates enhanced compliance measures and a strong recovery in consumer demand, contributing to higher tax receipts.
- **Fiscal Consolidation:** The establishment of a higher revenue base provides a crucial advantage for fiscal consolidation. This robust growth allows the government to manage its finances more effectively without resorting to drastic expenditure cuts or significant fiscal austerity measures.

The Interplay: Fiscal Deficit vs. GST Revenues



This combined view illustrates the inverse relationship between fiscal deficit and GST revenue trends. As GST collections rise, they provide critical support for narrowing the fiscal deficit, underlining the importance of continued revenue mobilization and expenditure rationalization.



Future Roadmap: GST 3.0 and Public Finance Evolution

The next phase of GST, envisioned as GST 3.0, coupled with advancements in public finance, aims for greater simplicity, technological integration, and a predictable fiscal stance.



Simplified Framework

Moving towards an even simpler legal and procedural framework, fostering trust-based compliance. This includes reducing regulatory burdens and enhancing clarity for all stakeholders.



Data & AI Integration

Deeper integration of diverse data platforms with artificial intelligence and machine learning tools. This will enable predictive analytics, fraud detection, and more intelligent tax administration.



Predictable Fiscal Stance

Under FRBM 2.0, aiming for a predictable and counter-cyclical fiscal stance. This ensures that fiscal policy can effectively respond to economic cycles, providing stability during downturns and promoting sustainable growth.

Questions Please . . .