1. What is deficit financing? What are the different types of deficits? Examine their implications and significance.

Introduction

Deficit refers to the excess of total expenditure over receipts (excluding borrowings) during the particular year. It is a budgetary situation where expenditure is higher than the revenue. The expenditure revenue gap is financed by either printing of currency or through borrowings.

Body

Purpose of "deficit financing"

- To enable government to obtain necessary resources for the plans.
- The levels of outlay laid down cannot be met by taxation and borrowing from public.

Different types of deficits:

Primary deficit= fiscal deficit- Interest payments

Primary deficit is defined as fiscal deficit of current year minus interest payments on previous borrowings. Fiscal deficit indicates borrowing requirement inclusive of interest payment, primary deficit indicates borrowing requirement exclusive of interest payments.

Implications:

- If a primary deficit of a country is shrinking it means fiscal health of economy is improving,
- A zero primary deficit means that government has to resort to borrowing just to make payment interest.
- If primary deficit is equal to fiscal deficit, then there is no interest payments
- Any government that doesn't borrow to consume is considered to be prudent in fiscal management.

Significance:

- It is a narrower concept, because it includes interest payments.
- It is basic measure of fiscal responsibility.

Fiscal deficit= total expenditure- total receipts except borrowings

Fiscal deficit is defined as excess of total budget expenditure over total budget receipts except borrowings during fiscal year. It is a measure how much government needs to borrow from market to meet its expenditure when its resources are inadequate.

Implications:

- A larger fiscal deficit implies large amount of borrowing.
- Unnecessary expenditure: high fiscal deficit leads high expenditure which in turn leads to inflation.
- Pressure of inflation: deficit financing may lead to printing of currencies which have effect of inflation.
- Debt traps: fiscal deficit is financed by borrowing. It has an effect of repayment of loans and payment of interest can increase.

Significance:

- Fiscal deficit shows the borrowing requirements of government during the budget year.
- Global investors are much interested because high fiscal deficit may push the out of market due to high inflation and interest rate regime can impact profitability.

Revenue deficit= total revenue expenditure- total revenue receipts

Revenue deficit is excess of total revenue expenditure of government over its total revenue receipts.

Implications:

- Government spends more than what it collects.
- It leads to reduction of assets that is either borrowing or selling its existing assets.
- With more and more borrowings it leads to larger revenue deficit.

Significance:

- It impacts credit rating of government because consistent running a deficit implies that government is unable to meets its current and future recurring obligations.
- Increase in revenue deficit is places many government expenditure in jeopardy.

Effective revenue deficit= revenue deficit- grants for the creation of capital assets

It is the difference between revenue deficits and grants for the creation of capital assets. This excludes those revenue expenditures which are done in form of grants for creation of capital assets.

Implication:

- Help in reducing the consumptive component of revenue deficit.
- It creates space for increased capital spending.

Significance:

- It was introduced to ascertain actual deficit in revenue account after adjusting for expenditure of capital nature.
- It intended to cure the distortions caused by large scale transfers to other entities for the creation of capital assets.

1. **Monetized fiscal deficit= borrowing from RBI**
   It is that part of deficit financing which is supported by the RBI. This includes two things: 1) Borrowings from the RBI. 2) Decrease of government's balance in RBI (for the sake of simplicity just know that government maintains some balance with RBI).

Conclusion

Deficit financing can be achieved through borrowings from market, borrowing from RBI or drawing from government. The government should ensure that resources mobilized through deficit financing are channelized for capital formation and economic development.

2. What is the significance of digital literacy in a cashless economy? How does it help in financial inclusion? Explain with the help of suitable examples.

Introduction:

Digital literacy is the ability to navigate various digital platforms and understand, assess and communicate through them. Digital literacy, by this definition, encompasses a wide range of skills, all of which are necessary to succeed in an increasingly digital world.

Body:

Significance of digital literacy in cashless economy:

- A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal.
- The modes of transaction in cashless economy can be optimally utilised only when people are aware of these technologies. Digital literacy is the key to more effective e-payments and cashless transaction.
- In addition, it is important to dispel doubts and fears that senior citizens have about digital money and the security of their transaction and equally important to induct the younger generation in digital payment space at an early age.

- Post demonetisation, both customers and business owners are seriously considering digital payments mode. To tap these, digital literacy needs to be pushed more among the masses.

How does digital literacy help in financial inclusion:

- Financial inclusion can only happen concurrently with digital literacy, which are twin pillars to mitigate poverty. For ex: 32.4 crore accounts having been opened under the PMJDY but if the account holders do not know how to optimise the financial options open to them, policies, schemes and financial instruments mean little.
- In the era of smart phones, people are performing banking operation on their smart phones itself, for which digital literacy is a must. For ex: Digital platforms like YONO by SBI, AEPS, UPI, etc., deliver financial services to both the unbanked and the under banked population, especially in rural/remote regions, at a low cost, and subsequently increase digital financial access to the vast swathes of the country's population.
- There is gender imbalance in use of digital payments, this is due to insufficient focus on digital literacy. Inclusion of women into formal financial system can bring structural changes to the economy.
- Often the vulnerable sections like differently abled, transgender, tribals etc. are not part of the formal economy. Digital literacy missions must target these sections on priority.

Some of the government initiatives to promote digital literacy:

- National Digital Literacy Mission ('NDLM') has been initiated with the vision to empower at least one person per household with crucial digital literacy skills by 2020.
- The Pradhan Mantri Gramin Digital Saksharta Abhiyan (PMGDISHA) being initiated under Digital India Programme would cover 6 crore households in rural areas to make them digitally literate.
- Vittiya Sakshartha Abhiyan (VISAKA), the purpose of which is to actively engage the youth/ students of Higher Education Institutions to encourage and motivate all payers and payees to use a digitally enabled cashless economic system for transfer of funds.

Conclusion:

As print medium begins to die out, the ability to comprehend information found online becomes more and more important especially in the financial domain. India being a major economy must reap benefits of digital age for which digital literacy is inevitable.

3. What is 'inflation targeting'? Discuss the tools that are used for inflation targeting. How effective have they been in India? Discuss.

Introduction

Inflation targeting is a monetary policy strategy used by Central Banks for maintaining price level at a certain level or within a range. It indicates the primacy of price stability as the key objective of monetary policy.

Body

- The argument for price stability stems from the fact that rising prices create uncertainties in decision making, adversely affecting savings and encouraging speculative investments.
- Inflation targeting brings in more predictability and transparency in deciding monetary policy.
- If the central banks could ensure price stability, households and companies can plan ahead, negotiating wages on the basis of expecting low and stable inflation.
- Various advanced economies including United States, Canada and Australia have been using inflation targeting as a strategy in their monetary policy framework.

India adopted inflation targeting based on Urjit Patel Committee Report. Under this RBI would aim to contain consumer price inflation within 4 percent with a band of (+/-) 2 percent.

Tools for inflation targeting:

- Liquidity Adjustment Facility- With this RBI controls the money supply in the economy. These interest rates and inflation rates tend to move in opposite directions.
- Open Market Operations- RBI buys or sells short-term securities in the open market, thus impacting money available with the public.
- Variable Reserve Requirement- Cash Reserve Ratio (CLR) and the Statutory Liquidity Ratio (SLR) are increased or decreased in accordance with inflation or deflation respectively.
- Bank rate- It is the rate at which RBI lends money to commercial banks without any security. When bank rate is increased interest rate also increases leading to inflation.
- Moral Suasion- If there is a need RBI can urge the banks to exercise credit control at times to maintain the balance of funds in the market.

The tools of inflation targeting have been effective

- Inflation contained- For the last year, inflation remained in the desired bracket of 4%, giving good real returns to the people.

- Impact on growth- Though inflation was within limits, but the growth could not be spurred because of the mandate of RBI to stay within the target.
- Better prediction and stability- With each monetary policy review, RBI provides a 'neutral', 'accommodative', or 'calibrated tightening' stance giving an indication to businesses and banks about the trends in future interest rates.

Conclusion

Inflation targeting thus had tremendous success in controlling inflation through monetary policy. However, growth suffered due to this, thus its advisable to not look at just one indicator, rather at multiple indicators and making financial stability as the underlying theme.

4. Why is inclusive economic growth imperative for a sustainable future? Analyse.

Introduction:

Inclusive growth is a concept that advances equitable opportunities for economic participants during economic growth with benefits incurred by every section of society and creates opportunities for all, especially the most disadvantaged, and distributes the gains from prosperity more equally.

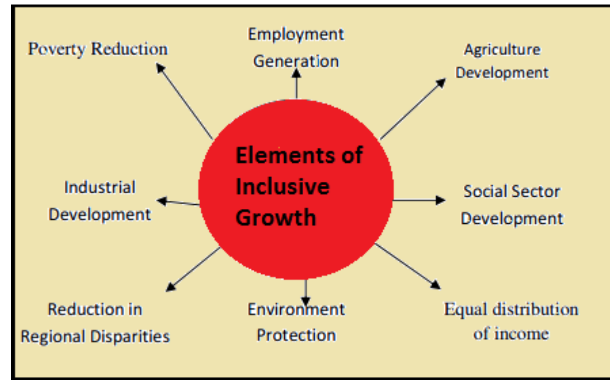
Body:

- The push for economic growth in recent decades has led to substantial increases in wealth for large numbers of people across the globe. But despite huge gains in global economic output, there is evidence that our current social, political and economic systems are exacerbating inequalities and volatility, rather than reducing them. According to the Oxfam Report, in India, the top 1% holds 51.53% of the national wealth, while the remaining 99% make do with almost 48%.
- Inclusion and economic growth go hand in hand and one leads to another and both leads to a sustainable future.

Inclusive economic development will include poor, vulnerable, marginalized, women, youth and people from every stratum of society in economic activity for a sustainable future. Let's see a few sections in detail:

- **Women:** Women account for 49.5 % of the population of the country and their inclusion in the workforce and economic activities will greatly contribute to the growth and sustainability of the economy.
- **Farmers:** In India, more than half of the population is dependent on agricultural activities; in this case, the inclusion of farmer by providing them with the benefit of growth is a must for food security and development of food processing industries. This will also lead towards doubling farmer's income by 2022.
- **Youth**: The working age group 15-59 years account for 62.5% of India's population. These population parameters indicate the availability of demographic dividend in India, which will last till 2055-56. Inclusion of youth in countries economic journey by providing them with skills and employment will contribute greatly in the long term economic growth and fruits of this dividend can be enjoyed by this generation and generations to come. Otherwise, it will be a demographic disaster.
- **Tribal:** In tribal areas where the development programs for economic growth come in conflict with the cultural sentiments of the tribal population, which hampers social sustainability.
- **Poor:** Food security and employment opportunity lead to better nutrient intake which ultimately provides a healthy workforce to the nation.
- **Regional Inclusivity:** Some social groups and territories have been left out for decades and need support. This leads to extremist and secessionist tendencies to create volatility and are not in favour of economic growth. With the right policies and investments in essential public services, we can build more cohesive societies and bridge the divides that threaten our future economic prosperity.

In other words, inclusive economic growth is not only about expanding national economies but also about ensuring that dividends reach the most vulnerable people of societies. In order to boost growth and counter the slowdown in emerging markets in long terms, we need to ensure that its benefits reach everybody in society.



Economic Inclusion leads to:

- **Increases investment and Industrial development:** A stable and predictable operating environment with skilled youth available for work is a prerequisite for private sector investments.
- **Overall Development of nation:** The inclusive economic portion of our work is deeply interconnected with other areas of our action, namely food security and nutrition, water and sanitation, sustainability, gender equality and public-private partnerships.
- **Economic development**: Universal access to education and health services, access to financial services, new technologies and affordable bank loans, gender equality, equal opportunity and more equal distribution of resources can all support economic development.
- **Giving everyone a stake in growth:** People would feel more motivated and involved in the benefits of economic growth were allowed to flow into the pockets of lower strata of society.
- **Building trust:** Large segments of the population have faith in their government due to equality and avoid going towards Left-wing extremism, which is good for sustainability.

Therefore, Sustainability and inclusive growth can't be achieved in isolation and they supplement each other. In this way, economic inclusion will lead to financial, social, cultural, political and environmental sustainability.

Conclusion:

Goal 8 of Sustainable Development Goals specifically aims to promote inclusive and sustainable economic growth. We should work together toward expanding opportunities and reducing vulnerabilities with the hope to ensure sustainable economic growth for all, leaving nobody behind to achieve “Sabka Sath, Sabka Vikas, Sabka Vishwas” for New Inclusive India.

5. Delve upon the factors that have led to different levels of economic growth in different states of India. What measures have been taken to ensure that the backward states catch up the growth wagon? Discuss.

Introduction:

The pattern of economic growth across the states in India has been a matter of policy evaluation due to various factors from many years. In the context of 'balanced regional development', the trickle-down of growth from one region to another and the spill over effects has a wide gap in India.

Body:

Factors that have led to different levels of economic growth across states:

- **Major policy shifts of 1991 and structural adjustments programmes**: Impacted the nature of Centre-state relations and inter-relationship of economies of states due to stabilization measures and strategic changes incorporated as a result of globalisation.
- **Industrial reform policy** did not encourage similar growth momentum in all states as investment expenditures undertaken by individual states differed.
- **Transfer of power** from government controls in favour of markets in deciding the location and level of investment resulting in varied investments across regions. For ex: States like Bihar, MP, Rajasthan etc. lagged behind as compared to significantly growing states like Gujarat, Maharashtra etc.
- **Growth experience of states**: Inability of states to sustain higher growth as a result of dependency on agriculture only. Ex: Steady acceleration of agricultural growth was seen only in Karnataka, Kerala and WB whereas industrial growth fuelled states like Gujarat, Punjab etc. Maharashtra and West Bengal were the only states which witnessed high growth rates across all 3 sectors of agriculture, industry and services.
- **Uni-directional growth spill over** among states: States like Rajasthan and WB are considered growth-inducing states as they subsequently help in growth of other states when they grow, but vice-versa was not observed.
- **Local factors**: Availability of human and natural resources and conducive environment across different states.
- **Quality of state-specific institutions**: Varied investment models, policy implementation techniques etc.
- **Access to markets, communication and transport**: Coastal states like GJ, MH, KL, Andhra Pradesh etc have efficient port facilities for transport and export/import of goods while several states in the hinterland and North-

Eastern region suffer from lack of infrastructure as a result of difficult or non-conducive terrain.

- **Social and physical factors**: The socio-economic fabric and the reception of economic factors, barriers due to naxal-affected areas, less attraction to investors due to underdeveloped social indices etc.
- **Distribution of outputs** attributed to growth unequally due to high population in some states.

Measures taken to ensure backward states catch up to the growth wagon:

- **Constitutional provisions**: Special provisions and attention to regions with special needs ensured by Article 371(A-J) which include creation of development boards, facilities for technical education, vocational training, employment in public services etc. most of them directed by the President of India.
- **Implementation of policies** w.r.t the NITI Aayog's Aspirational Districts Programme with a focus on 115 districts which fare poorly in health, education, skill development etc, especially in backward districts of BH, UP and MP.
- **Encouraging outcomes through competition rather than by allocating additional funds:** The states have been asked to be considered as sites of potential transformation rather than poor or backward areas.
- **Higher central financial assistance in schemes**: 90:10 ratios in North-Eastern states to strengthen capacity.
- **Setting up of IITs and other higher quality professional institutions**: For ex: IIT in North Karnataka region.
- **Increasing regional connectivity in transport infrastructure**: UDAN scheme, expressway, Industrial corridors etc.
- **Facilitation of incentives and attractions to private sector:** To avoid shunning out from investment in backward areas.
- **Schemes:** Increasing penetration of Gram Swaraj Abhiyan aimed at improving socio-economic indices in villages lagging behind in key indices.
- Concentration of Mudra loan scheme in underprivileged districts to help create jobs.
- Other schemes like Pradhan Mantri Ujjwala Yojana, DDUGJY, Saubhagya scheme, Swachh Bharat Abiyan directly or indirectly help in mainstreaming some of the most backward areas in India.

Conclusion:

Natural endowments and constraints, initial stages of development, mobility of resources, and a host of other such factors influence growth patterns of regions

within national economies. Effective target-based, region specific measures can ensure mainstreaming all regions in the economic growth of India, with reduced disparities.