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**RBI Working Paper Series 4:  
Further Reforms and Binding Framework Necessary to  
Enable Fiscal Policy Withstand Business Cycles**

The Reserve Bank of India today placed on its website a Working Paper titled "[Quantifying the Cyclically Adjusted Fiscal Stance for India](#)" under the Reserve Bank of India Working Paper Series\*. The paper has been authored by Smt. Sangita Misra and Dr. Saurabh Ghosh.

The fiscal stance of a sovereign has been generally classified in terms of headline fiscal balance. However, considering the pivotal role of business cycles on fiscal policy and vice-versa, this practice is being criticised in policy literature. IMF has been constantly encouraging economies to adopt and publish fiscal stance in terms of cyclically adjusted/structural balances. Many countries are adopting this into their fiscal rules as well. Taking cue from this recent debate in the literature, the paper attempts to identify and separate the business cycle adjusted fiscal stance for India using the IMF methodology and a range of potential output estimates, with focus on the period since 2000.

The empirical findings indicate that after initial success in containing the adjusted fiscal stance for India, it increased considerably during the crisis period. The subsequent years saw only a part of this stimuli being withdrawn even though output gap turned positive (2009-11) and inflation increased. Although the fiscal stance remains expansionary post 2008-09, the fiscal impulse, i.e. the change in fiscal stance, has tapered in the recent period, which is a positive development. The paper calls for further reforms and binding framework so as to enable fiscal policy withstand business cycles.

*\*The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the Reserve Bank and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.*