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MACRO DETERMINANTS INFLUENCING INDIA'S FISCAL DEFICIT: AN ECONOMETRIC TEST

Dikshita Kakoti

Assistant Professor, Department of Economics, Mahapurush Srimanta Sankardeva Vishwavidyalaya, Haladhar Bhuyan Path, Kalangpar, Nagaon, Assam, India

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ABSTRACT

The growth performance of any country is determined by its strong fiscal policy, which plays a key role in stabilizing the economy. With the increasing rate of fiscal deficit in India, it has become the great concern for the policy makers as it stood at 5.54 lakh crores at the end of August 2018(approximately reaching 70.1 percent of the budgetary estimate), reaching 3.4 % of the total gross domestic product of the country. This deficit is also coined by imbalances in various macro indicators both from theoretical and empirical grounds. The motivation of this paper is to empirically examine the interrelation between India's fiscal deficit with some macro indicators by recognizing four factors namely- total government expenditure, gross domestic product (GDP), real effective exchange rate (REER), Board money (M3) as a component of money supply, Inflation in terms of consumer price index (CPI) and real interest rate (RIR) by coveringtime period 1980 to 2018. This study has been used various econometric tools like Augmented Dicky-Fuller (ADF) unit root test for checking the stationary, Autoregressive distributive lag model (ARDL) bound test and Error correction Mechanism (ECM) is later on used for testing both long run as well as short run dynamics of the model. The result shows that all the selected variables have significant influence on Fiscal deficit in India.

KEYWORDS: *Fiscal Deficit; Government Expenditure; Inflation; ARDL*