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**DRG Study No. 43: Some Macroeconomic Impacts of Different Types of Public Expenditure in India - Analysis Using a Computable General Equilibrium Model**

The Reserve Bank of India today released on its website the DRG study\* titled, "[Some Macroeconomic Impacts of Different Types of Public Expenditure in India - Analysis Using a Computable General Equilibrium Model](#)". The study is co-authored by Prof. A. Ganesh-Kumar, Bipul K. Ghosh, Khajjamang Mate and Prayag Singh Rawat.

The study examines the impact of various types of government expenditure on Indian economy using a recursively dynamic computable general equilibrium (CGE) model over the period 2011-12 to 2025-26.

**Main findings of the study:**

- Fiscal expansion in boom period may lead to adverse impact on economy, while in recession, when unemployment prevails, positive impact of fiscal expansion are contingent upon the type of expenditure undertaken and the pattern of financing.
- Amongst alternative types of current expenditure, the expansion of government consumption scores over additional transfers to households in terms of impact on GDP.
- Between additional government current consumption and investment, the choice is not straightforward.
- Additional taxes on households to finance expansion of public investment does not fare well compared to government consumption.
- The shifting of government expenditure from current consumption to investment is not beneficial if the exchange rate regime is neutral.
- Amongst all the policy options considered in this study, shifting of government expenditure from current consumption to investments accompanied by a marginal depreciation of exchange rate of the Indian Rupee turns out to be the best in terms of overall impact on GDP and various other macroeconomic indicators including household real income per capita.

\*: *Development Research Group (DRG) has been constituted in Reserve Bank of India in its Department of Economic and Policy Research to undertake quick and effective policy-oriented research backed by strong analytical and empirical basis, on subjects of current interest. The DRG studies are the outcome of collaborative efforts between experts from outside Reserve Bank of India and the pool of research talent within the Bank. These studies are released for wider circulation with a view to generating constructive discussion among the professional economists and policy makers. DRG Studies are published in RBI web site only and no printed copies will be made available.*