

## FISCAL CONSOLIDATION



vEcoSys

**Understanding “Fiscal  
Consolidation”**  
– By Prof. *Simply Simple*™



## FISCAL CONSOLIDATION



**Fiscal Consolidation is one word that often appears in columns of pink papers. So I thought we should bust this jargon**

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Let me tell you a story of 2 brothers  
Karan and Arjun both of whom were  
educated and did well in their jobs  
respectively.



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However, two years back Karan lost his job. All of a sudden his world changed. He had to start making compromises in his day to day life. He was also considering to discontinue the education of his children



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**But, fortunately Arjun came to his rescue. He agreed to share his salary so that Karan's life did not get disrupted.**

**As a consequence Arjun had to postpone many of his plans such as purchasing a car for his family.**



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**For the next 6 months Karan got financial support from Arjun and managed to keep his problems at bay.**

**However, after 6 difficult months Karan finally got a job and his cash flow situation improved significantly.**

**Hence, his need for assistance also reduced**



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Hence, Arjun decided to discontinue the financial support to Karan. Having discontinued this financial support Arjun was in a good position to fulfill his plans of purchasing the car for this family.





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The financial support that Arjun provided Karan was like the fiscal stimulus that governments /central banks provided to industry during the financial crisis whereas his decision to discontinue the support once Karan's position improved is nothing but the financial consolidation of Karan's account.



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**So when we talk of financial consolidation what is meant is that because the Indian economy is back on track, a time has come to withdraw the fiscal support that was provided during the financial meltdown in 2008 so that the money could be put to better use from the economy**



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Hope this lesson has succeeded in clarifying the meaning of “Fiscal Consolidation” approach to investing



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