

## Outlook

2.58 The process of realising the full growth potential of the economy through appropriate fiscal adjustment is a long haul requiring perseverance with the extant policies and strategy. While in many other countries the experience of successful fiscal adjustment process has essentially been achieved through expenditure compression, the fiscal correction in the country since 2003-04 has been achieved on the strength of higher revenues. In the current year, with a growth of 18.8 per cent in gross tax revenues in the first nine months, which is the highest in the last five years, the outlook for achieving the targets for gross tax revenue remains bright, though some pressure points are there in the form of below par performance in excise and corporate tax. While some down side risks of not achieving BE under revenue receipts remain, the fact that there is room for some expenditure compression with tight financial discipline, the fiscal and revenue deficits budgeted could be met.

2.59 The challenge of achieving fiscal adjustment as mandated by the FRBMA lies in the medium term process and strategy pursued. It is critical to raise the tax-GDP ratio to 13 per cent by 2008-09 and effect shift in the composition of expenditure in favour of those creating productive assets. The average annual growth in gross tax revenue

at around 22 per cent is predicated on the strength of broad based and high growth in real GDP, particularly in manufacturing, and deepening the tax reforms through wider tax payer base, withdrawal or grand fathering tax exemptions, moderate rates, taxpayer facilitation, reliance on voluntary compliance with an effective and fast penal mechanism, and simplification and digitization of tax administration. While public expenditure as a proportion of GDP is low by international comparison, fiscal expansion is not a solution that is sustainable given the large body of international evidence and the nation's own experience in the not too distant past. While the fiscal space opened up through higher tax to GDP ratio could be used to bridge the deficits in social infrastructure and other development needs, there is much scope to increase the productivity of public expenditure through convergence of schemes with similar objectives, cutting down time and cost overruns, collecting appropriate user charges, realising value for money in subsidies, and ensuring better outcomes. With dissavings of the public sector going down through the fiscal adjustment underway, in both Centre and States, the savings and investment rates have been climbing up promising richer growth dividends in the medium term. The policies promoting this virtuous and mutually reinforcing process need to continue.