

CHALLENGES AND OUTLOOK

3.65 In the year 2007-08, the process of fiscal consolidation was carried forward on the strength of buoyant tax revenues and prudent expenditure management. The targets of revenue and fiscal deficits for the year 2007-08, indicated in the Medium Term Fiscal Policy Statement of the Government, in terms of the FRBMA 2003, appear to be well within the reach. Further, as the trends of receipts indicate, it may not be very difficult to achieve the target of 3 per cent fiscal deficit by 2008-09. However, the target of bringing revenue deficit to zero by the end of the 2008-09 would remain a challenge. In this context it is important to note that, to a large extent, the current revenue buoyancy is riding on the performance of the economy which is more globalized than ever before. A closer monitoring of the global economic

developments that have a bearing on India's domestic economy would remain critical.

3.66 The enactment of fiscal responsibility legislation by 26 States has moved the rule-based programme of fiscal reforms further ahead. Notwithstanding the variation across the States, the consolidated revenue balance is budgeted to show a surplus of 0.3 per cent of GDP in 2007-08. Achievement of the targets set under the fiscal responsibility legislations has not only consolidated the fiscal health of the States but it has also improved the credibility of their budgetary operations. However, it is necessary to remain vigilant. The real challenge lies in improving the deficiencies in their targeted expenditure to achieve the goal of inclusive growth envisaged in the Eleventh Five Year Plan.