

## CHALLENGES AND OUTLOOK

3.66 The uncertainty surrounding the macroeconomic developments world over in 2009-10 and the need for minimizing the second round impact of the global shock call for a continued fiscal policy stimuli. While in 2008-09 fiscal expansion in an overall sense helped arrest the decline in growth, given the relatively weaker automatic stabilizers in operation in the country, a more selective discretionary fiscal policy was used to address the affected sectors and sections of work force in a sustainable manner and promote investments that would not only boost demand in the short run but

yield long run growth dividends. Within the proposed fiscal expansion, the mix of expenditure and tax cuts would be critical in the context of its impact on overall macroeconomic fundamentals like growth, interest rates and exchange rate. A commitment to return to FRBMA mandate at the earliest and quick reversibility of expansionary policies are critical for markets to synchronize their expectations with that of Government and work in a coordinated manner towards the restoration of the high growth momentum. The long-term fiscal policy stance beyond 2010-11 would emerge later this year when the Thirteenth Finance Commission presents its report.