

Outlook

49. A major area of concern continues to be the persistence of high and unsustainable level of fiscal deficits in the recent past. Unsustainable fiscal deficits pose a threat to macroeconomic stability and growth through pre-emption of scarce financial resources on repayment and interest obligations. Along with the increase in gross fiscal deficit, revenue deficit has soared. Over the years, revenue deficit as a percentage of gross fiscal deficit has risen from an average of about 32 per cent in 1985-86 to 1989-90 to 53 per cent in 1998-99 (BE). This trend is reflective of the fact that borrowings are increasingly being used to finance current expenditure. Capital expenditure which accounted for an average of one-third per cent of total expenditure in 1985-90 has declined to 22 per cent in 1998-99 (BE).

50. There is an urgent need to improve the overall quality of fiscal adjustment as well by changing the composition of expenditure towards investment and restraining the growth in revenue expenditure. Capital expenditure needs to be focussed more on non-tradable infrastructure sectors like transport, communications and energy. These sectors are capable of stimulating private investment through "crowding in" effect by improving the marginal productivity of capital.

51. Identification and reduction in wasteful expenditure in Government organisations and programmes remain both essential and difficult. Nevertheless, it is imperative to strive towards strict containment and prioritisation and public expenditure. Besides, it is essential that expenditure, subsidies, and transfers reach the intended beneficiaries, by : targeting subsidies to the poor and making the rest pay at least the operational cost of public services and; phasing out programmes which do not serve any social objective or purpose.

52. High fiscal deficits increase the risk premia that a country faces, and translate into higher financing costs, which may deter investment particularly in the infrastructure sectors where borrowing requirements are typically huge. Hence the process of fiscal correction needs to be sustained and strengthened with due regard to the quality of fiscal adjustment. The level of public debt would be unsustainable if the interest rate on debt is higher than the growth rate of the economy. Public debt and associated interest burden on the central budget need to be stabilized as a share of GDP and then to be gradually reduced. To put the economy on a sustainable fiscal path will require determined efforts to mobilise tax revenues, as well as strict containment and prioritization of public expenditure.