

## Outlook

2.45 The most pressing issue confronting us is that of the fiscal prudence. The various aspects of the fiscal problem namely the fiscal deficit, the revenue deficit, unproductive expenditures and unsustainable subsidies and their implications for financial and forex markets are now fairly well known. Apart from the macroeconomic effects, public expenditures also affect the overall long-term rate of growth through various channels. For instance expenditure on education affects human capital formation and; expenditure on physical infrastructure impacts productivity of private capital. In contrast, expenditure on current consumption leads to faster debt accumulation without any investment and improvement in capacity to service debt. With the exception of the initial success achieved in 1991-92 under the pressure of the balance of payments crisis, subsequent improvements have alternated with setbacks and reversal. During the current year the fiscal situation has come under tremendous strain arising out of certain post budgetary expenditure commitments. There has been a larger outgo

on account of defence and pension payments that could not be fully anticipated at the time of budget formulation. Besides, the disinvestment proceeds have been modest compared to the target set for 1999-2000. On the revenue side, the growth in tax collections is running below the target. These factors are cause of concern for the fiscal situation.

2.46 India's tax structure has undergone significant changes in the 1990s. The number and dispersion of duty rates in excise and customs have been drastically reduced. Nevertheless, peak customs tariff at 40 per cent is still very high by international standards. Both personal and corporate tax rates are now at the lower end of the international scale. However, direct taxes remain replete with incentives. The efficiency or development effects of these tax breaks/incentives remain uncertain and weak. From tax administration perspective, there is still scope to expand the universe of tax payers and also expand the base by streamlining/rationalising exemptions and incentives.