

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3455
ANSWERED ON:16.04.2010
FISCAL DEFICIT
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Will the Minister of FINANCE be pleased to state:

- (a) the present status of fiscal deficit in the country over the last three years;
- (b) the measures taken by the Government to reduce fiscal deficit and the estimated percentage of fiscal deficit during the current financial year out of the Gross Domestic Product;
- (c) the target for reduction of fiscal deficit during the coming financial year, 2010-11; and
- (d) the details of the scheme of the Government to balance the economic growth and fiscal health?

Answer

MINISTER OF STATE FOR FINANCE IN THE MINISTRY OF FINANCE(SHRI NAMO NARAIN MEENA)

a) The fiscal deficit (as percentage of GDP) for the last three years is as follows:

2007-08 - 2.6 per cent

2008-09(Provisional) - 6.0 per cent

2009-10(RE) - 6.7 per cent

b) The various measures taken by the Government including inter-alia tax reforms and expenditure management have resulted in reduction in fiscal deficit from 4.5 per cent of GDP in 2003-04 to 2.6 per cent in 2007-08. Subsequent to the global meltdown in the second half of 2008-09, there was a compelling need to adjust the fiscal policy to take care of exceptional circumstances through which the economy was passing. The Government had to take various fiscal measures to insulate the economy from the adverse impact of global slowdown. Accordingly, fiscal deficit in 2008-09 and RE 2009-10 went up to 6.0 per cent and 6.7 per cent of GDP respectively. The above decision of the Government was guided on the principles of insulating the vulnerable sections of society and sectors of economy from the impact of economic downturn and at the same time ensure revival of the economy with higher growth. However, the medium term objective of the Government is to revert to the path of fiscal consolidation with emphasis on structural fiscal reforms encompassing all aspects of budget making. With improvement in prevailing economic conditions, the process of fiscal consolidation is back on track in the year 2010-11. Despite no significant increase in tax to GDP ratio and additional expenditure commitments arising on account of the 13th Finance Commission recommendations, the fiscal deficit with the help of disinvestment proceeds and reforms in expenditure management including subsidies, has been reduced from 7.8 per cent in 2008-09 (including securities issued in lieu of subsidies to Oil and Fertilizer Companies) to 5.5 per cent in BE 2010-11.

c) The estimated fiscal deficit during the financial year 2010-11 is 5.5 per cent of GDP.

d) During the year 2008-09 and 2009-10, the country was facing a difficult economic situation, the cause of which was not emanating from within its boundaries. If left un-attended, the impact of this crisis would have affected the growth prospects of the Indian economy in medium to long term. The Government had two policy options before it. In view of falling buoyancy in tax receipts, the Government could have taken a decision to reduce expenditure and thereby live within the mandated deficit for the year as per the Fiscal Responsibility and Budget Management Rules. However, this could have resulted in an adverse impact on the growth of the economy in the absence of desired level of investments, thereby putting at risk the revival process. The second option was to increase public expenditure, even with lower revenue receipts, and stimulate the economy by creating demand to maintain the growth trajectory. The Government took a conscious decision in favour of the second option of undertaking fiscal measures to increase public expenditure in order to boost demand and increase investment in rural and urban infrastructure. These measures have started showing results. In the year 2009-10 the estimated growth in Indian economy is 7.2 per cent and the projected growth for 2010-11 is 8.5 per cent. With the change in economic situation, the Government has decided to revert back to the path of fiscal consolidation and has projected to

reduce the fiscal deficit from 7.8 per cent of GDP (including securities issued in lieu of subsidies to Oil and Fertilizer Companies) in 2008-09 to 5.5 per cent of GDP in BE 2010-11.