GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:915
ANSWERED ON:25.11.2011
SUSTAINABLE AND ACCELERATED DEVELOPMENT
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Will the Minister of FINANCE be pleased to state:

(a) whether Reserve Bank of India(RBI) in its monetary policy statement has advised to take fiscal measures to control inflation and promote growth and if so, the reaction of the Government thereto;

(b) whether the Finance Ministry has revised its growth projection for Indian Economy for the financial year 2011-12 and if so, the details thereof and reasons therefor; and

(c) the concrete steps taken or proposed to be taken to bring about sustainable and accelerated development?

Answer

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

(a) The Reserve Bank of India in its Second Quarter Review of Monetary Policy 2011-12, dated October 25, 2011 raised the following concern on fiscal measures: The Government has announced increased market borrowings, which can potentially crowd out more productive private sector investment. The Government has indicated that this will not impact the budgeted fiscal deficit. However, should the fiscal deficit slip from the budgeted level, it will have implications for domestic inflation. The large fiscal deficit has been an important source of demand pressure. Clearly, the impact of tightening monetary policy has been diluted by the expansionary fiscal position, which is a sub-optimal outcome."

(b) Given the GDP growth of 7.7 per cent in the first quarter (April − June, 2011) of 2011-12 and persistent inflationary pressure and monetary tightening together with deceleration in IIP, the growth is expected to be below the forecast of 9 per cent (+ /- 0.25 per cent) for the current fiscal, as projected in the Economic Survey 2010-11.

(c) The macroeconomic fundamentals of the economy are strong. However, the Government has taken a number of steps to promote investment and productivity and thereby growth of the economy. These, inter-alia include fiscal consolidation to release more resources for investment and production, public expenditure reprioritization to increase human capital development, lower tax rates to improve competitiveness, initiatives to bridge the infrastructure deficit through public private partnership and improving regulatory systems for various market segments.