

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:565
ANSWERED ON:09.07.2004
FISCAL DEFICIT
Satpathy Shri Tathagata

Will the Minister of FINANCE be pleased to state:

- (a) whether International Monetary Fund has warned that India`s high fiscal deficit is not sustainable;
- (b) if so, the details thereof and the reasons for such high deficit; and
- (c) the steps taken or to be taken by the Government to tackle the issue?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a) & (b): The International Monetary Fund (IMF) has been sharing its concern about the sustainability of high fiscal deficits in India in its annual reviews. In its recent issue of World Economic Outlook (April 2004), the IMF has emphasised the urgency of fiscal consolidation in the context of economic recovery. The factors that contributed to high fiscal deficit in India are, inter alia, relatively higher levels of expenditure on salaries, unfunded pensions, mounting interest payments, improperly targeted subsidies and the deterioration in the tax-GDP ratio.

(c) The Government is conscious of the need for addressing the problem of high fiscal deficits. An important step taken in this direction is the enactment of the Fiscal Responsibility and Budget Management Act in 2003, which was notified on July 2, 2004 and came into force from July 5, 2004. The Act mandates the Government to take appropriate steps to reduce the fiscal deficit and the revenue deficit so as to eliminate revenue deficit by March 31, 2008.