Outlook

42. The process of fiscal correction received a serious setback during 1997-98 largely on account of major shortfalls in tax collections and disinvestment receipts. There is need to persevere with the process of prudent fiscal management. In the short run, the scaling down of fiscal deficit is primarily for demand management purposes. In the long run, the reduction in the fiscal deficit is required to keep the growth of public debt within the manageable limits. This calls for phasing out revenue deficit over the medium term and keeping the rate of growth of revenue expenditure well below that of net revenue to the centre. This will have a favourable impact on the levels of domestic interest rates as borrowing requirements of the central government will come down, thereby reducing the possible crowding out effect of huge government borrowings. The discontinuation of the system of ad hoc treasury bills as a means of financing the budget deficit is a significant step that will further strengthen fiscal discipline while providing greater autonomy to RBI in its conduct of monetary policy. In the backdrop of slowdown in the overall economic growth and industry it is imperative to reactivate investment and growth. The reduction in the levels of direct taxation effected in the previous budget is expected to increase the disposable income of both individuals and corporations and also domestic savings. The scaling down of peak import duty rate and import tariffs on a wide range of inputs, intermediates, and capital goods is likely to strengthen the competitive environment and yield productivity gains in the future.