

FISCAL DEFICIT AND SUSTAINABLE GROWTH IN INDIA

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ABSTRACT

Sustainability of the fiscal policy in India has evoked serious concerns in the recent past. This paper examines the long term profile of fiscal deficit and debt relative to GDP in India, with a view to analyzing debt-deficit sustainability issues for the period 1950-1951 to 2006-2007. Time series relating to fiscal and external deficits are commonly subjected to stationarity and co-integration tests to assess if the deficits are sustainable. This paper has assessed the Indian fiscal trends in terms of inter-temporal budget constraint for the Centre, the State and the combined separately, by employing Gregory and Hansen tests of co-integration with structural breaks. Here the null of no co-integration against the alternative of co-integration is tested in the presence of a possible regime shift. The results show that the fiscal stance of the Central and the State Government are unsustainable, while it is sustainable for the combined finances.