During late seventies and early eighties many developing countries experienced the problem of fiscal imbalance. Alongwith high fiscal deficit, deficit on balance of payments accounts, high inflation and indebtedness have turned the problem into a severe crisis. In India, problem of fiscal stabilization incepted in the early eighties and reached to a crisis proportion by the end of the decade. There is wide agreement among economists that stagnant revenue receipts as a ratio to GDP coupled with rapidly growing public expenditure and excessive borrowings were important factors responsible for the problem of fiscal imbalance. Government of India under the guidance of IMF and World Bank introduced fiscal adjustment/stabilization measures in 1991-92, which states that government should discourage wasteful public expenditure and conspicuous consumption and reform tax structure to increase the buoyancy of the taxes. These measures have been considered necessary to ensure viable and sustainable fiscal stability.

With this background, this study attempts to evaluate the factors responsible for the fiscal imbalance in India. Fiscal correction measures and its impact have also been reviewed and analysed. The analytical approach in this thesis affirms that growing mismatch between revenue receipts and expenditure alongwith non-performance of public sector undertakings, collectively aggravated the fiscal crisis. Analysis of the effect of fiscal stabilization measures reveals that government succeeded partially in the restoration of fiscal stabilization. Though, the growth of expenditure has been compressed marginally, the tax revenue as
a ratio to GDP declined after the introduction of reforms. By the end of nineties, due to government's reluctance for deficit financing, inflation has been brought down at its lowest level whereas the revenue deficit increased sharply as a result of interest payments becoming single largest component of expenditure, which was due to greater reliance on market borrowings for the financing of the fiscal deficit.

Finally, it may be concluded that, the fiscal corrective measures already initiated by the government, needs more time in order to ensure sustainable fiscal stability.

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