Central Bank spelt out the Government's fiscal policy in their 1996 annual report

The report states the objective of the fiscal strategy is to move to a sustainable budget deficit reduction path within a medium-term fiscal consolidation framework to provide the basis for private sector-led non-inflationary economic growth with external viability. The fiscal reform program includes broadening the tax base, improving tax administration and compliance, rationalizing fiscal incentives, closing of tax loopholes, reforming public enterprises, simplifying the import tariff structure and reducing tariff protection. The 1996 budget anticipated further progress in fiscal policy reforms and a reduction in the budget deficit to 6.6% of GDP (8.9% before grants). The deficit was expected to be financed through non- bank sources.

Significant progress was made on the fiscal policy front in 1996. The realized overall fiscal deficit of 7.8% of GDP (8.9% before grants) was lower than in 1995, but fell short of the 1996 budgetary expectation due to a sharp rise in defense expenditure, a steep increase in international wheat prices adding to the cost of the wheat flour subsidy, a shortfall in privatization proceeds and the adverse effects of the prolonged drought and the power cuts on government revenue. Resource constraints on the domestic front and delays in project implementation, particularly in the areas of energy, road, telecommunication and water supply, reduced the inflow of foreign resources for budgetary purposes. The appreciation of the rupee against the yen by 7% also reduced the domestic currency value of yen proceeds. Hence 82% of the deficit was financed through domestic borrowings, including 21% through bank financing. Meanwhile, the 1997 Budget re emphasized the need for urgent fiscal consolidation and has set a medium-term budget deficit target of 3.5% of GDP (4.5% of GDP before grants) for 1999, with a target of 6.1% of GDP (7.3% of GDP before grants) for 1997.