Q) Market borrowings of the government do not always squeeze credit for ~~private~~ Private Sector in india. In the Context of Crowding out effect Analyse?

Govenment meets it demand by borrowing locally some times globally, mostly they depend the last resort (RBI) by over draft. If government takes lion share from banking system, the Private players don't have much sum to perform, this effect known as "Crowding Out Effect" (Financial)

Government borrowings and GDP growth

- Local borrowings of government does not impact the economy, and neither makes changes on
  - *) Cost / fund availability of Private players
  - *) Inflation

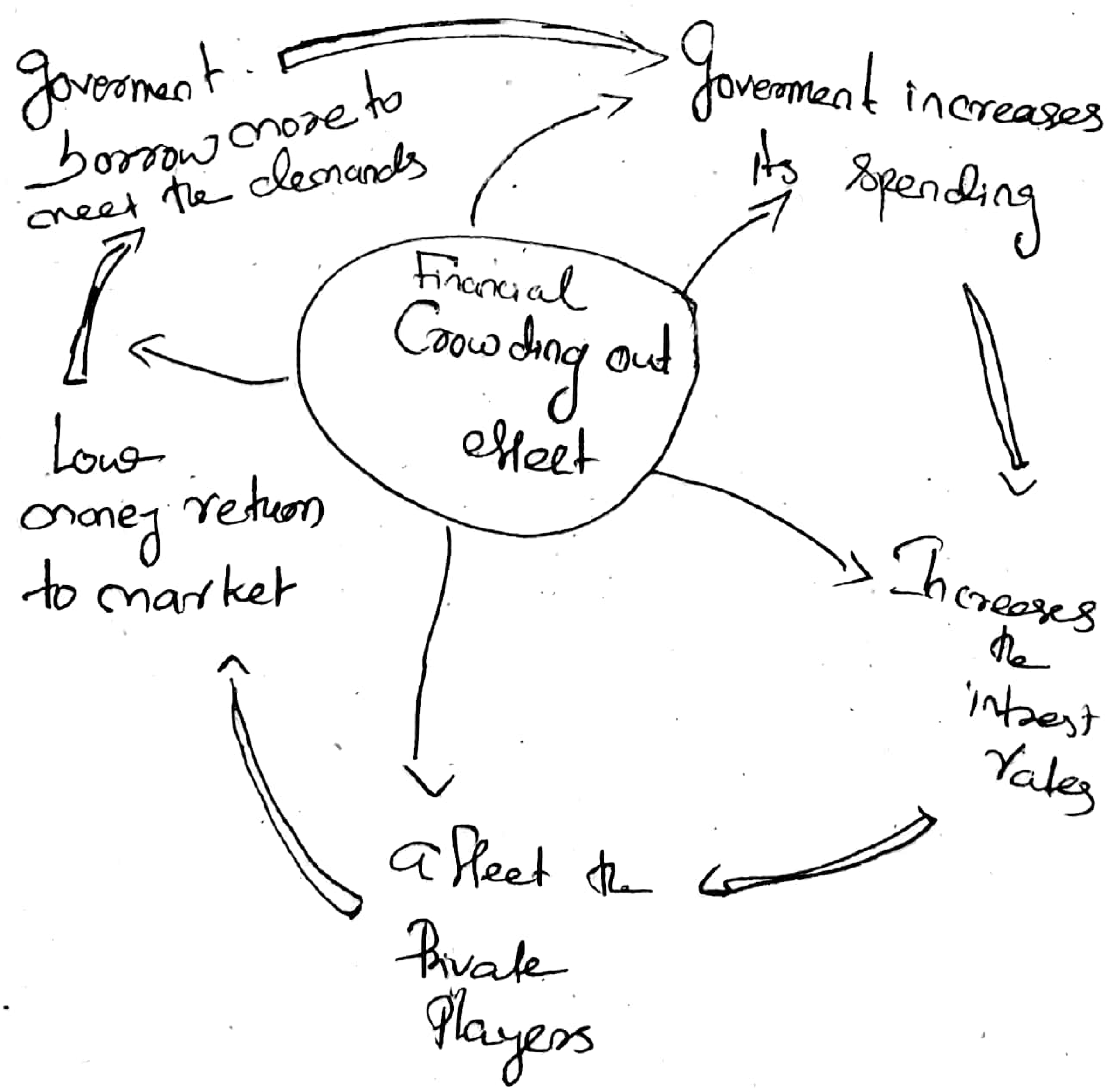
*) Global borrowings

·) Increase foreign Currency inflow leads to inflation and pressure on interest rates

*) Borrowing from Bond Market

Raise the interest rates of government itself

Borrowing and spending of government actually drives the growth. The sum borrowed return to market immediately



The other kind of Crowding Out effect known as Resource Crowding out: which means, the government borrowing from Private players then they have less room to invest in business.

Both Financial and Resource Crowding Out effect negatively impact on Private Sector growth, and further impact on our gdp growth also. By Fiscal Responsibility and Budget Mangement (FRBM) act, the aim to reduce fiscal deficit to 3% Gross domestic Product is Challangable due to "Crowding out effect". Further government Should Care about how much borrow and Spend to reduce the negative effects of Crowding out effect.