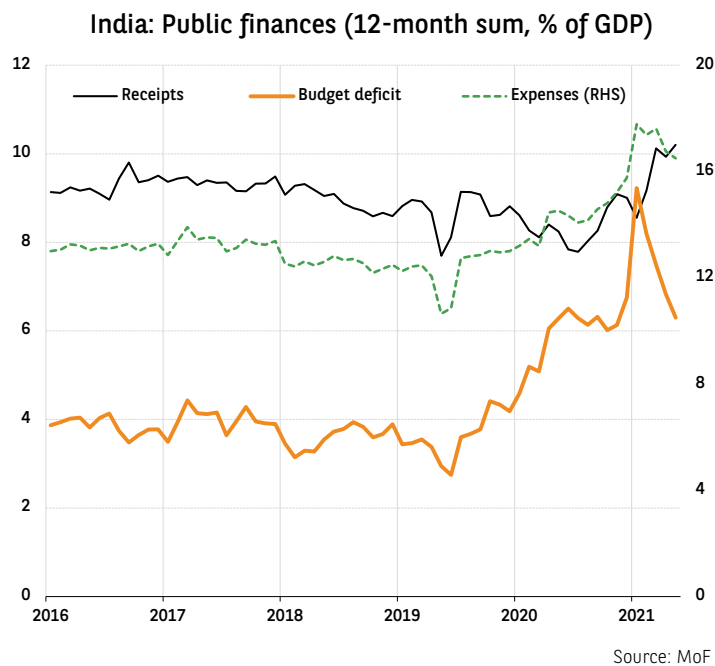


29 September 2021

## INDIA: A SMALL FISCAL CONSOLIDATION

Johanna Melka



India's public finances remain fragile, though strengthening over the first four months of the current fiscal year (to 31 March 2022).

The central government's fiscal deficit hit a high of 9.2% of GDP at the end of the 2020-21 fiscal year from an average of 3.8% of GDP over the previous five years. Over the same period, public debt has steeply risen, and is estimated to have reached a high of 88% of GDP in March 2021. The rapid deterioration of the public finances is the result of increased public spending in response to the Covid-19 crisis, but is also due to an extremely low fiscal base (total government's receipts only reached 8.6% of GDP even before the pandemic).

Under such circumstances, one might have feared a deterioration of the India's sovereign rating. To date, this prospect has receded slightly. For the first time since the 2011-12 fiscal year, the deficit only reached 21.4% of the full year target (6.8% of GDP) over the first four months of the current fiscal year. This good performance was the result in part of lower than expected spending, but more significantly of a substantial increase in receipts. At an annualised rate, these were equivalent to 9.2% of GDP, having averaged only 8.7% of GDP over the previous three years. Confirmation of this consolidation over the rest of the year would be fairly encouraging news.

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