

'India has improved its fiscal credibility'

STABLE OUTLOOK. Global rating agency Fitch has given BBB minus rating to India

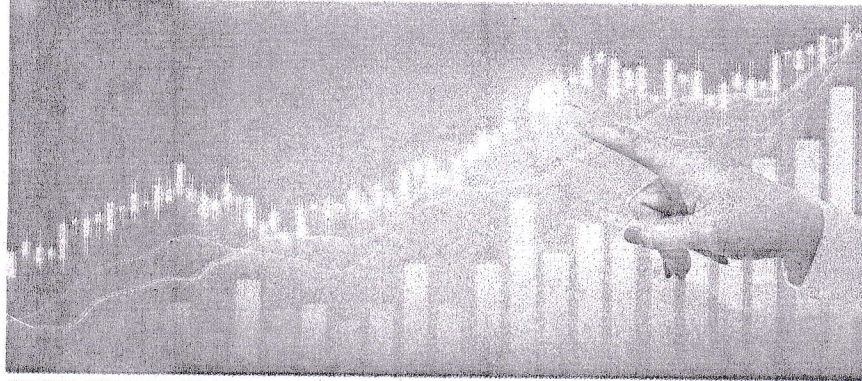
Our Bureau
New Delhi

Global rating firm Fitch has said that India has improved its fiscal credibility. However, it cautioned on the higher debt-to-GDP (Gross Domestic Product) ratio compared with similar sovereign rated countries.

India has 'BBB minus' sovereign rating with stable outlook from Fitch.

FISCAL CONSOLIDATION

"India has achieved or outperformed its budget deficit targets in the last few years and is improving its fiscal credibility. Its use of a recent central bank dividend to lower its deficit target for the fiscal year ending March 2025 reinforces our view that it prefers fiscal consolidation over additional spending," the agency said in its report on fiscal consolidation in Asia-Pacific coun-



FISCAL PRUDENCE. The agency said India's use of a recent central bank dividend to lower its deficit target reinforces that it prefers fiscal consolidation over additional spending

tries. "India's deficit and interest-to-revenue and debt ratios remain high compared with 'BBB' category sovereign peers," it said.

FRBM ADHERENCE

Further, India has faced few challenges financing its large deficits, but "we believe its government remains com-

mitted to reducing the budget deficit over the medium term, even amid the demands that governing in coalition will impose on the newly elected administration - and despite the government's sustained focus on supporting economic growth through higher public capex," it said. Fitch high-

lighted that India's adherence to the Fiscal Responsibility and Budget Management Act (FRBM), effective since 2004, reduced the central government's deficit in the first few years and India was upgraded to investment grade in 2006 as a result.

However, the Centre only

once met the Act's deficit ceiling of below 3 per cent of GDP, just before the global financial crisis of 2008.

"The 3 per cent deficit and 60 per cent debt targets under the FRBM no longer appear to be medium-term fiscal anchors. Instead, in its recent budget, the government signalled a desire to shift to a medium-term focus of putting debt on a downward trend," Fitch said.

DEBT-TO-GDP RATIO

The agency has placed India along with Japan and Malaysia where it expects debt to GDP ratio to fall between 2024 and 2026.

However, it will remain well above the respective sovereign medians in 2026 in these cases.

"Shocks that challenge the fiscal consolidation trend under our baseline could put downward pressure on the rating," it said.