# India's debt-to-GDP ratio may rise from FY24: IMF

## Combined fiscal deficit will continue to moderate, says Fiscal Monitor report

**ASIT RANJAN MISHRA**
New Delhi, 12 April

After declining for two consecutive years till FY23, India's debt-to-GDP ratio is set to follow an upward trajectory for the next four financial years starting FY24, the International Monetary Fund (IMF) said on Wednesday.

In its latest Fiscal Monitor report, the IMF said India's debt-to-GDP ratio (Centre and states) will rise a tad to 83.2 per cent in FY24. It is set to hit a high of 83.8 per cent in FY27 before it starts to moderate.

As the pandemic hit the economy — substantially reducing revenues and increasing government expenditure — India's public-debt-to-GDP ratio shot up from 75 per cent in FY20 to 88.5 per cent in FY21.

However, it gradually reduced to 83.1 per cent in FY23 as revenues and expenditure stabilised.

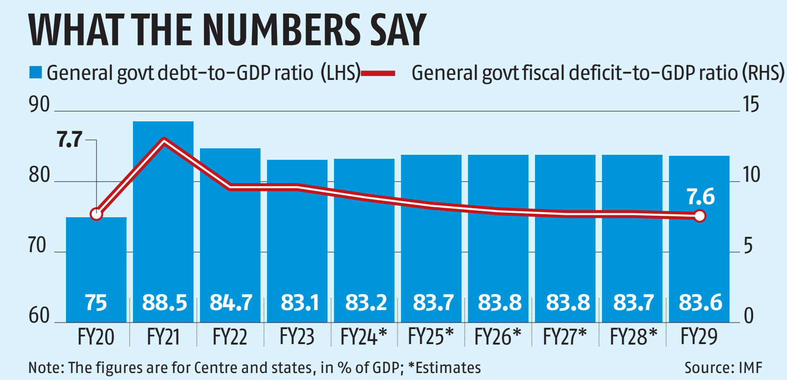
The IMF projected that India's combined fiscal deficit (Centre and states), which hit a high of 12.9 per cent in FY21, will continue to moderate and touch 7.6 per cent in FY29.

Without naming India, the report said under current projections, the envisaged gradual and moderate fiscal tightening will not be sufficient to prevent public debt ratios from resuming an upward trend. This comes as nominal GDP slows, driven by some large advanced and emerging market economies.

"Interest payments as a share of revenues in emerging market economies and low-income developing countries are expected to remain higher over the medium term than before the pandemic," it added.

However, Paolo Mauro, deputy director, fiscal affairs department at the IMF said debt-to-GDP ratio in India would remain stable in the medium term unlike some other large economies where the Fund sees a continued increase.


ILLUSTRATION: BINAY SINHA




"The debt ratio in India right now is 83 per cent, so it's high. The good news is that it is largely in domestic currency held domestically. It's also fairly long maturity, so those are the positives. The other positive is that because we project very strong economic growth into the medium term, that is going to allow the debt to remain stable," he added.

The IMF said the role of inflation surprises in debt reduction during 2022 was shaped by individual countries' debt size and composition.

"Countries with high initial levels of debt, combined with large inflation surprises and strong growth, experienced significant debt declines (Greece). In some emerging market economies, on the other hand, rising interest rates almost fully offset the impact of inflation surprises (India)," it added.

The report clarified that IMF's estimates differ from the Indian government, particularly regarding disinvestment and licence-auction proceeds, net versus gross recording of revenues in certain minor categories, and some public sector lending.

"Starting with FY20-21 data, expenditure also includes the off-Budget component of food subsidies, consistent with the revised treatment of food subsidies in the Budget. The IMF staff adjusts expenditure to take out payments for previous years' food subsidies, which are included as expenditure in Budget estimates for FY20-21," it added.