Debt-GDP ratio may dip to 55.1%, fiscal deficit to 4.2%

RUN-UP TO THE **BUDGET** 2026-27

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THE CENTRE'S DEBT-TO-GDP ratio in 2026–27 may be reduced by one percentage point to nearly 55.1%, signalling a structural shift in India's fiscal policy framework.

A one-percentage-point reduction in the debt ratio would translate into a fiscal deficit of around 4.2% of GDP in FY27, compared with the budgeted 4.4% in FY26.

The debt ratio, rather than the fiscal deficit alone, is emerging as the primary anchor of medium-term fiscal management, with the deficit continuing to serve as an operational tool to achieve the broader objective of sustainable public debt.

However, these projections may be subject to revision as the government is set to unveil a new GDP series later next month, which could alter the underlying macroeconomic calculations. In addition, the Centre is expected to factor in the recommendations of the 16th Finance Commission on the appropriate debt-GDP trajectory for the five years ending FY31.

The government's own estimates already point to a gradual consolidation. Central government debt is pegged at 56.1% of GDP in the 2025-26 Budget Estimates, down from 57.1% in 2024-25. Under the new fiscal architecture announced in the 2025 Budget, the Centre has committed to ensuring that annual fiscal deficits are calibrated so that the debt-to-GDP ratio follows a steady downward path, intending to reach around 50%, plus or minus one percentage point, by March 31, 2031.

The central objective now is not merely to meet a single-year deficit target but to ensure a consistent and credible decline in debt over time. This will require a flexible approach to consolidation — stronger adjustment in years of robust growth, and a more measured stance when economic conditions warrant supportive spending.

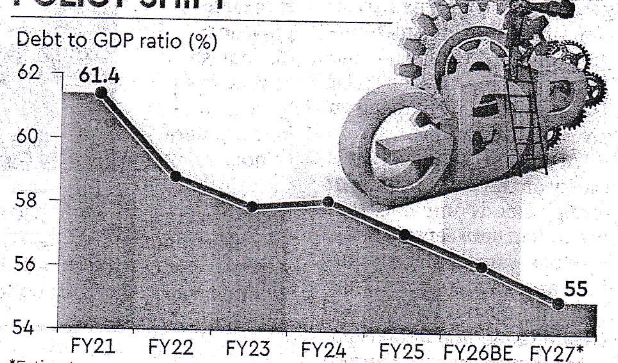
Economists have broadly endorsed the approach. NR Bhanumurthy, director of the Madras School of Economics, said the government should adhere to the debt-to-GDP path announced in Budget 2025. "It managed a 4.4% fiscal deficit in FY26 despite difficulties; so next year, 4% fiscal deficit is a doable thing," he noted.

ICRA Chief Economist Aditi Nayar expects a mild reduction of about one percentage point in the debt ratio, alongside a fiscal deficit of 4.3% of GDP in the upcoming Budget.

India Ratings projects the debt-GDP ratio at 56.3% in FY26, easing to 55.5% in FY27, with the fiscal deficit narrowing to 4.1%.

On the borrowing front, India Ratings estimates gross and net market borrowings of ₹16.14 lakh crore and ₹10.6 lakh crore, respectively, in FY27, compared with a net borrowing of ₹11.54 lakh crore budgeted for FY26.

POLICY SHIFT



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