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INDIA'S DEBT-TO-GDP BETTER THAN OF U.S., OFFICIAL'S RIPOSTE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

T.V. Somanathan

Finance Secretary T.V. Somanathan hit out at global rating agencies' comments about India being the most indebted emerging market and about the lack of clarity on a fiscal consolidation path in the Union Budget, arguing they appeared to adopt 'double standards' in their assessments of emerging economies and developed markets.

"I say this with a sense of seriousness and responsibility, not in a flippant way, that rating agencies do have double standards between emerging and non-emerging countries. Fitch [Ratings] has said that we have one of the highest debt-to-GDP ratios in emerging market countries," Mr. Somanathan said, asserting that India had 'one of the best' debt-to-GDP ratios when compared with higher-rated countries.

"Our debt-to-GDP ratio is far lower than the United States, Japan, and other such highly-rated countries in Europe. Our denominator in terms of GDP has a natural tendency, even in the worst of times, to grow faster than those AAA-rated countries. Even if you forget India's inherent fundamentals and go by pure mathematics, with a nominal growth rate of 10% to 12% and a 4% inflation rate, our deficits are far less worrying than some of the deficits of much higher-rated countries," the Finance Secretary told *The Hindu.*

'Ratio will decline'

"Ultimately it boils down to the debt dynamics, the numerical dynamics... We are very clear that the debt-to-GDP ratio must decline and it will decline," he asserted.

Fitch, which maintains a negative outlook on India, had said the country had limited fiscal space to respond to shocks, with the highest general government debt ratio of any 'BBB'-rated emerging market sovereign at just under 90% of GDP'. The Budget, offered 'less clarity' on the medium-term fiscal outlook and 'few details' on how the 4.5% of GDP fiscal deficit target would be achieved by 2025-26, it said.

Moody's Investors Service, which termed the Budget a 'credit positive' for India's sovereign rating, said the path towards the medium-term deficit target was undefined, even as government debt would increase to about 91% of GDP next year. Mr. Somanathan, however, pointed out there was no need to assume 'ambiguity' on this front.

"The glide path has already been provided in last year's Budget, that we will reach a deficit of 4.5% of GDP in FY26 with an approximately even path of consolidation, and this Budget reiterated we are committed to that path," he said, asserting that a statement by the Finance Minister in Parliament was as visible a glide path as one could get. To get from 6.9% in 2021-22 to 4.5% by '25-26, entails an approximately 60-basis points reduction a year on average.

"In 2022-23, we are consolidating by 0.5%. So we may be 0.1% off that trajectory... but marginal adjustments have been made that seem to be desirable in terms of promoting growth now," he said. "So, there is a path that is stated, is feasible and we are on course to meeting it," he underlined.

The Finance Secretary said bond yields spiking was a ‘normal response’ to an expanded borrowing programme in a ‘well-run and efficient’ market, but emphasised that part of the spike in yields had happened even ahead of the Budget in response to global conditions such as high oil prices, inflation and the U.S. Federal Reserve’s taper programme to replace quantitative easing.

“Yes, an additional supply of bonds will affect yields... but the balance that the government had to strike was at the margin,” he said, referring to the dilemma between fretting about a small increase in yields and tightening fiscally at a juncture where some more expenditure is desirable to promote growth.

‘Savers will be happy’

While the Centre’s borrowing costs would rise sharply in FY23, the Finance Secretary said this was not at unprecedented levels. “Of course, we would like them to be as low as possible. But let me also remind you savers will be very happy when these rates go up. So everything has a positive side.”

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