DEBT DEBATE: THE HINDU EDITORIAL ON THE IMF'S LATEST INDIA CONSULTATION DETAILS, FINANCE MINISTRY'S RESPONSE

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

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The Finance Ministry, last Friday, issued a statement titled 'Factual position vis-à-vis IMF's Article IV consultations with India'. For context, the International Monetary Fund (IMF), under its Articles of Agreement, holds bilateral discussions with members, usually every year. IMF staffers collect economic and financial information, and discuss policies with top officials, before preparing a report that is discussed by the Fund's executive board. The Ministry statement, four days after the IMF released its latest India consultation details, noted that "certain presumptions have been made taking into account possible scenarios that does not reflect factual position". In particular, the Ministry was referring to an IMF view that adverse shocks could lift India's general government debt to, or beyond 100% of GDP in the medium-term (by 2027-28). The Ministry asserted this was only a worst-case scenario and not a fait accompli, and emphasised that other IMF country reports show much higher extreme 'worst-case' scenarios, for instance, at 160%, 140% and 200% of GDP, for the U.S., the U.K. and China, respectively.

The combined debt of central and State governments stood at 81% of GDP in 2022-23, from 88% in 2020-21. Under favourable circumstances, the IMF reckons this could even go down to 70% by 2027-28. The shocks faced by India so far in this century were global, and affected the entire world economy, be it the 2008 financial crisis or the pandemic, the Ministry pointed out. Reacting to initial news flashes, it further clarified its statement was not a rebuttal to the IMF but "an effort to arrest misinterpretation or misuse" of its comments to imply that General Government debt would exceed 100% of GDP in the medium term. Semantics experts may argue whether the communiqué was confrontational or clarificatory. India's Director on the IMF Board had already placed on record reservations about its staff's conclusions on debt risks ["sounds extreme"], and some other aspects of the economy. In the broader picture, IMF staff's perceptions of India's fiscal position have actually improved over the past year. From arguing in 2022 that India's fiscal space is at risk, they now believe sovereign stress risks are moderate. This is in no small part due to the ability of the Centre, whose debt levels were about 57% of GDP last year, to meet fiscal deficit targets in recent times. Reducing debt and spends to stay the course on its commitment to bring the deficit to 4.5% of GDP by 2025-26 from an estimated 5.9% this year, is critical. While reacting to an adverse detail in a report sometimes ends up drawing more attention to it, actions tend to always speak louder than words.

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