Sprin Journal of Arts, Humanities and Social Sciences
ISSN: 2583-2387 (Online)
Vol. 5(2), May 2026, pp, 1-6
Journal homepage: https://sprinpub.com/sjahss

Research Article

Fiscal Deficit, Public Debt, and Sustainable Growth in India

Dr. Papinder Kumar

Associate Professor, Department of Economics, Govt. Degree college Samba (J&K), India

ARTICLE INFO

Keywords:

Fiscal Deficit, Public Debt, FRBM Act, Fiscal Policy, India, Debt Sustainability, Fiscal Federalism, Economic Growth

Article History:

Received: 12-03-2026
Revised: 15-05-2026
Accepted: 20-05-2026
Published: 27-05-2026

ABSTRACT

India's fiscal trajectory over the past two decades has been shaped by a continuous tension between the imperative of fiscal consolidation and the need for counter-cyclical public spending to sustain growth. This paper examines the evolution of India's fiscal deficit and public debt following major reforms, including the Fiscal Responsibility and Budget Management (FRBM) Act of 2003 and its 2018 amendment, the introduction of the Goods and Services Tax (GST) in 2017, and the fiscal response to the COVID-19 pandemic. Using secondary data from the Reserve Bank of India, the Ministry of Finance, the Comptroller and Auditor General, and international institutions, the paper analyzes trends in the central government's gross fiscal deficit, the general government debt-to-GDP ratio, and the composition of borrowing across the Centre and states. The findings indicate that although India's fiscal deficit widened sharply during the pandemic, subsequent consolidation has proceeded broadly in line with revised FRBM glide paths, even as public debt remains elevated relative to pre-pandemic levels and relative to peer emerging markets. The paper further examines debt sustainability using standard debt dynamics decomposition, highlighting the critical role of the interest rate-growth differential, off-budget borrowing practices, and state-level fiscal slippage in shaping India's medium-term fiscal outlook. The paper concludes that sustained growth-oriented fiscal consolidation, transparent accounting of contingent and off-budget liabilities, and strengthened fiscal federalism are essential for ensuring that India's public debt trajectory remains compatible with macroeconomic stability and long-term growth.

Cite this article:

Kumar, P. (2026). Fiscal Deficit, Public Debt, and Sustainable Growth in India. Sprin Journal of Arts, Humanities and Social Sciences, 5(2), 1–6. https://doi.org/10.55559/sjahss.v5i2.662

1. Introduction

Fiscal deficit and public debt management have occupied a central place in India's macroeconomic policy discourse since the balance-of-payments crisis of 1991, which exposed the risks of unsustainable government borrowing and triggered a wave of structural reforms (Rangarajan & Srivastava, 2005, p. 12). Over the subsequent three decades, India has sought to institutionalize fiscal discipline through legislative frameworks, most notably the Fiscal Responsibility and Budget Management (FRBM) Act of 2003, while simultaneously navigating recurring shocks—including the 2008 global financial crisis, the 2016 demonetization, the 2017 introduction of the Goods and Services Tax (GST), and the 2020 COVID-19 pandemic—that have repeatedly tested the credibility of fiscal targets (Reserve Bank of India, 2023, p. 41).

The COVID-19 pandemic marked a particularly significant inflection point. India's general government fiscal deficit rose to approximately 13.3 percent of GDP in FY2020-21, and the general government debt-to-GDP ratio rose above 88 percent, reversing years of gradual consolidation (International Monetary Fund, 2023, p. 9). Since then, the Union Government has pursued a calibrated glide path toward fiscal consolidation, targeting a gross fiscal deficit of 4.5 percent of GDP by FY2025-26, as reaffirmed in successive Union Budgets (Ministry of Finance, 2024, p. 17).

This paper examines three central questions. First, how has India's fiscal deficit evolved across the Centre and states following the FRBM framework, GST implementation, and the pandemic shock? Second, what do standard debt sustainability metrics reveal about the trajectory of India's public debt, and what role do the interest rate-growth differential and off-budget borrowing play in this trajectory? Third, what policy reforms are needed to reconcile fiscal consolidation with the financing needs of sustainable, inclusive growth? The paper proceeds as follows: Section 2 reviews the literature on fiscal deficits, public debt, and growth; Section 3 traces the evolution of India's fiscal deficit; Section 4 examines public debt dynamics; Section 5 reviews fiscal policy reforms; Section 6 analyzes debt sustainability and growth linkages; Section 7 examines state-level fiscal positions; Section 8 offers cross-country comparison; Section 9 discusses challenges; Section 10 presents recommendations; and Section 11 concludes.

2. Literature Review

2.1 Theoretical Perspectives on Fiscal Deficits and Growth

The relationship between fiscal deficits and economic growth has long divided economists. Neoclassical models emphasize the risk of deficits crowding out private investment through higher real interest rates, thereby depressing long-run growth (Barro, 1989, p. 44). In contrast, Keynesian and post-Keynesian

*Corresponding Author:
bhagatpapinder@gmail.com (P. Kumar)
https://doi.org/10.55559/sjahss.v5i2.662

frameworks argue that deficit-financed public investment can crowd in private investment by expanding aggregate demand and easing infrastructure bottlenecks, particularly in developing economies with underutilized capacity (Blanchard, 2019, p. 1198). Reinhart and Rogoff's influential cross-country study (2010, p. 573) suggested that public debt above roughly 90 percent of GDP is associated with markedly slower growth, though this threshold finding was later challenged on methodological grounds by Herndon, Ash, and Pollin (2014, p. 268), who found no clear threshold effect once data errors were corrected.

2.2 Debt Sustainability Analysis

The standard framework for assessing public debt sustainability decomposes the change in the debt-to-GDP ratio into the primary deficit, the interest rate-growth differential, and stock-flow adjustments (International Monetary Fund, 2023, p. 14). When the effective interest rate on public debt exceeds the nominal GDP growth rate, debt dynamics become unfavorable even absent new borrowing, a condition of particular relevance to emerging markets with relatively high sovereign borrowing costs (Escolano, 2010, p. 6). Blanchard (2019, p. 1200) has argued that in a low-interest-rate environment where growth exceeds the interest rate, the welfare cost of public debt may be lower than traditionally assumed, a debate with direct relevance to India's post-pandemic fiscal strategy.

2.3 India-Specific Studies

The N. K. Singh Committee's review of the FRBM framework (Government of India, 2017, p. 23) recommended replacing rigid annual deficit targets with a debt-to-GDP anchor of 60 percent for general government (40 percent for the Centre and 20 percent for states), alongside an escape clause allowing temporary deviation during shocks. Rangarajan and Srivastava (2005, p. 18) had earlier cautioned that India's persistently high revenue deficit—borrowing used to finance current expenditure rather than capital formation—posed a greater long-run risk to growth than the headline fiscal deficit alone. More recent RBI analysis (Reserve Bank of India, 2023, p. 45) has emphasized the growing significance of off-budget borrowing by public sector entities and extra-budgetary resources in obscuring the true fiscal position of both the Centre and several states.

This literature collectively suggests that assessing India's fiscal sustainability requires moving beyond headline deficit numbers to examine debt composition, the quality of expenditure, the interest-growth differential, and the transparency of government accounts—an approach adopted in the analysis that follows.

2.4 Data and Methodology

This paper relies on secondary data drawn from official sources, including Union Budget documents and the Medium-Term Fiscal Policy Statement published by the Ministry of Finance, the Reserve Bank of India's annual State Finances and Handbook of Statistics publications, reports of the Comptroller and Auditor General of India, and the International Monetary Fund's Article IV consultation staff reports on India. Fiscal deficit and debt figures are presented as a percentage of GDP using the Ministry of Finance's own base-year GDP series to ensure internal consistency across years. Where central and general government figures differ, this is noted explicitly, since state government finances materially affect the aggregate sustainability picture, as discussed in Section 7. The analysis is primarily descriptive and comparative, situating India's post-reform fiscal trajectory within the broader theoretical debt-sustainability framework outlined in Sections 2.1 and 2.2, rather than presenting original econometric estimation.

3. Evolution of India's Fiscal Deficit

3.1 Pre-Pandemic Consolidation (2003–2019)

Following the enactment of the FRBM Act in 2003, India's central government gross fiscal deficit declined from over 5.9 percent of GDP in FY2002-03 to approximately 2.5 percent of GDP by FY2007-08, reflecting a combination of revenue buoyancy and expenditure restraint (Ministry of Finance, 2024, p. 8). This consolidation was interrupted by the fiscal stimulus deployed in response to the 2008 global financial crisis, which pushed the deficit back above 6 percent of GDP, after which a slower, more uneven consolidation resumed through the 2010s (Reserve Bank of India, 2023, p. 42). By FY2018-19, the central fiscal deficit had been brought down to approximately 3.4 percent of GDP, still above the original FRBM target of 3.0 percent but broadly consistent with the revised glide path recommended by the N. K. Singh Committee (Government of India, 2017, p. 25).

3.2 The GST Transition

The introduction of the Goods and Services Tax in July 2017 represented the most significant indirect tax reform since independence, unifying a fragmented system of central and state levies into a single national tax (Ministry of Finance, 2024, p. 22). While GST was designed to improve tax buoyancy and compliance over the medium term, its initial years were marked by revenue shortfalls relative to projections, driven by transitional compliance challenges, rate rationalization, and input tax credit disputes, which necessitated compensation payments to states funded through a dedicated cess and, subsequently, through central borrowing on behalf of states during FY2020-21 and FY2021-22 (Reserve Bank of India, 2023, p. 49). By FY2023-24, GST collections had shown sustained buoyancy, with monthly collections consistently exceeding INR 1.6 lakh crore, suggesting that the structural benefits of the reform were beginning to materialize more fully (Ministry of Finance, 2024, p. 24).

3.3 The Pandemic Shock and Its Aftermath

The COVID-19 pandemic produced the sharpest fiscal deterioration in India's recent history. The central government's gross fiscal deficit rose to 9.2 percent of GDP in FY2020-21, driven by a collapse in tax revenue amid nationwide lockdowns and a substantial expansion of health, welfare, and credit-guarantee spending (Ministry of Finance, 2024, p. 11). The general government deficit, incorporating states, rose even further, reaching approximately 13.3 percent of GDP (International Monetary Fund, 2023, p. 9). Since FY2021-22, the Union Government has pursued a calibrated consolidation path, reducing the central fiscal deficit to approximately 5.8 percent of GDP by FY2023-24 and targeting 4.5 percent of GDP by FY2025-26, with consolidation achieved primarily through expenditure quality improvements—shifting the composition of spending toward capital expenditure—rather than indiscriminate cuts (Ministry of Finance, 2024, p. 17).

3.4 Summary of Key Fiscal Indicators

Table 1 summarizes the evolution of India's central fiscal deficit, general government debt, and real GDP growth over the period spanning the pre-pandemic base year, the pandemic shock, and the subsequent recovery and consolidation phase. The data illustrate the magnitude of the pandemic-era deterioration and the pace of the subsequent adjustment, while also highlighting the strong contemporaneous recovery in real GDP growth that has supported debt-ratio moderation despite continued primary deficits.

Fiscal Year	Central Fiscal Deficit (% of GDP)	General Government Debt (% of GDP)	Real GDP Growth (%)
FY2017-18	3.5	70.4	6.8
FY2018-19	3.4	70.4	6.5
FY2019-20	4.6	74.1	3.9
FY2020-21	9.2	88.5	-5.8
FY2021-22	6.7	84.7	9.7
FY2022-23	6.4	83.0	7.0
FY2023-24	5.8	81.6	8.2
FY2025-26 (Target)	4.5	n/a	n/a

Table 1. Central government fiscal deficit, general government debt, and real GDP growth, FY2017-18 to FY2025-26 (target). Compiled from Ministry of Finance (2024, p. 9), Reserve Bank of India (2023, p. 51), and International Monetary Fund (2023, p. 9). Figures for FY2023-24 are provisional actuals; FY2025-26 reflects the budgeted target.

As the table indicates, the sharp increase in both the fiscal deficit and the debt-to-GDP ratio in FY2020-21 was followed by a relatively rapid partial reversal, aided by strong nominal GDP growth—a combination of real growth recovery and elevated inflation—that mechanically reduced the debt ratio even as the primary deficit remained elevated (Reserve Bank of India, 2023, p. 53). This pattern underscores the importance of the interest rate-growth differential, examined in greater detail in Section 6, as a determinant of India's debt trajectory.

4. Public Debt Dynamics

4.1 Level and Composition of Public Debt

India's general government debt-to-GDP ratio, encompassing both central and state government liabilities, rose from approximately 70 percent before the pandemic to a peak of nearly 89 percent in FY2020-21, before moderating to around 81 to 83 percent by FY2023-24 as nominal GDP growth outpaced new borrowing (International Monetary Fund, 2023, p. 9; Reserve Bank of India, 2023, p. 51). The central government accounts for approximately 57 to 58 percent of this total, with state governments contributing the remainder, reflecting India's federal fiscal structure in which both tiers of government borrow independently subject to legislative limits (Reserve Bank of India, 2023, p. 52).

A distinguishing feature of India's public debt is its overwhelmingly domestic composition. External debt constitutes less than 5 percent of central government liabilities, with the vast majority of borrowing conducted through domestic government securities held by banks, insurance companies, provident funds, and the Reserve Bank of India (Ministry of Finance, 2024, p. 29). This composition significantly reduces India's exposure to currency mismatch risk and external rollover risk relative to emerging markets more reliant on foreign-currency borrowing, a structural advantage frequently cited by rating agencies and multilateral institutions (International Monetary Fund, 2023, p. 12).

4.2 Off-Budget Borrowing and Contingent Liabilities

A significant complicating factor in assessing India's true fiscal position is the historical use of off-budget borrowing—liabilities incurred by public sector entities such as the Food Corporation of India and National Highways Authority of India, backed implicitly or explicitly by government guarantees, but excluded from headline deficit calculations (Reserve Bank of India, 2023, p. 54). Following recommendations from the Comptroller and Auditor General and growing scrutiny from rating agencies, the Union Government began formally incorporating major categories of off-budget borrowing into headline deficit figures from FY2020-21 onward, improving transparency but also mechanically raising the reported deficit and debt figures for that year (Ministry of Finance, 2024, p. 31). Contingent liabilities arising from government guarantees to public sector undertakings and state-level power distribution companies remain a further source of fiscal risk not fully captured in standard debt statistics (Comptroller and Auditor General of India, 2022, p. 19).

5. Fiscal Policy Reforms

5.1 The FRBM Act and Its 2018 Amendment

The FRBM Act, enacted in 2003 and operationalized from 2004, originally mandated the elimination of the revenue deficit and a reduction of the fiscal deficit to 3 percent of GDP by FY2008-09 (Government of India, 2017, p. 6). Repeated deferrals in the face of the 2008 financial crisis and subsequent shocks exposed the rigidity of fixed annual targets, prompting a comprehensive review by the N. K. Singh Committee in 2016-17. The Committee's recommendations, substantially adopted through the 2018 amendment to the FRBM Act, replaced the revenue deficit target with a debt-to-GDP anchor of 60 percent for general government, introduced a fiscal deficit target of 3 percent of GDP with permissible deviation of up to 0.5 percentage points under specified conditions, and formalized an escape clause permitting larger deviations during national security emergencies, calamities, or sharp growth slowdowns (Government of India, 2017, p. 24; Ministry of Finance, 2024, p. 15).

5.2 GST as a Structural Fiscal Reform

Beyond its tax-administration implications, GST represented a fiscal federalism reform of considerable significance, requiring the creation of the GST Council as a constitutional body for cooperative rate-setting between the Centre and states (Ministry of Finance, 2024, p. 21). The five-year revenue compensation guarantee to states, which expired in June 2022, provided a transitional safety net but also delayed the full alignment of state revenue expectations with actual GST buoyancy, a tension that has shaped subsequent Centre-state fiscal negotiations (Reserve Bank of India, 2023, p. 50).

5.3 Expenditure Quality and Capital Expenditure Push

A notable feature of India's post-pandemic fiscal strategy has been a deliberate shift toward capital expenditure as the primary vehicle for growth-supportive fiscal policy, rather than reliance on revenue expenditure or subsidies. Capital expenditure by the Union Government more than doubled in nominal terms between FY2019-20 and FY2023-24, with capital expenditure as a share of total expenditure rising from approximately 12 percent to over 20 percent (Ministry of Finance, 2024, p. 33). This approach reflects an implicit policy judgment that capital-expenditure-led consolidation offers a more favorable growth-multiplier trade-off than broad-based expenditure compression, consistent with the theoretical literature on the differential multiplier effects of capital versus current spending (Blanchard, 2019, p. 1202).

5.4 Fiscal Transparency Reforms

Complementing quantitative targets, India has undertaken several transparency-enhancing reforms, including the publication of a Medium-Term Fiscal Policy Statement, an Macro-Economic Framework Statement, and, since FY2021-22, more comprehensive disclosure of off-budget borrowing and extra-budgetary resources within Union Budget documents (Ministry of Finance, 2024, p. 32). These measures have improved the comparability of India's fiscal statistics with international standards, although the Comptroller and Auditor General continues to flag gaps in the disclosure of state-level guarantees and contingent liabilities (Comptroller and Auditor General of India, 2022, p. 21).

6. Debt Sustainability and Growth Linkages

6.1 The Interest Rate-Growth Differential

Standard debt dynamics analysis shows that the change in the debt-to-GDP ratio depends critically on the differential between the effective interest rate on government debt and the nominal GDP growth rate, in addition to the primary balance (International Monetary Fund, 2023, p. 14). For India, nominal GDP growth has generally exceeded the effective interest rate on government debt over the past decade, a favorable condition that has allowed the debt-to-GDP ratio to decline even in years with a moderate primary deficit (Reserve Bank of India, 2023, p. 56). The IMF's Article IV consultation staff report on India (International Monetary Fund, 2023, p. 16) projected that this favorable differential, combined with continued primary deficit reduction, would allow general government debt to gradually decline over the medium term, though the report cautioned that this trajectory remains sensitive to growth shocks and interest rate volatility.

6.2 Primary Deficit and Interest Burden

India's interest payments as a share of central government revenue have risen substantially, from approximately 34 percent in FY2010-11 to over 40 percent by FY2023-24, reflecting both the higher debt stock accumulated since the pandemic and elevated borrowing costs (Ministry of Finance, 2024, p. 36). This rising interest burden constrains the fiscal space available for developmental and capital expenditure, reinforcing the importance of primary balance improvement—the fiscal balance excluding interest payments—as a policy priority distinct from the headline fiscal deficit (Rangarajan & Srivastava, 2005, p. 21).

6.3 Growth Implications

The empirical relationship between India's fiscal deficit and growth does not support a simple linear crowding-out narrative. Periods of elevated capital-expenditure-driven deficits, such as the post-pandemic recovery, have coincided with robust GDP growth, averaging over 7 percent annually in FY2021-22 through FY2023-24, suggesting that the composition and productivity of deficit-financed spending matters at least as much as its headline magnitude (Ministry of Finance, 2024, p. 34). Nonetheless, sustained high fiscal deficits risk crowding out private investment through higher government borrowing costs and could constrain monetary policy flexibility, particularly if inflationary pressures re-emerge (Reserve Bank of India, 2023, p. 58).

6.4 Sensitivity to Growth and Interest Rate Shocks

Standard debt sustainability analysis frameworks emphasize that debt trajectories projected under baseline assumptions can shift markedly under alternative growth and interest rate scenarios. The IMF's stress-test scenarios for India (International Monetary Fund, 2023, p. 18) show that a sustained one-percentage-point negative shock to real GDP growth, combined with a commensurate rise in borrowing costs, could raise the general government debt-to-GDP ratio by approximately 4 to 6 percentage points relative to baseline over a five-year horizon. Conversely, sustained primary balance improvement of even 0.5 percentage points of GDP annually could meaningfully accelerate debt-ratio decline, underscoring the nonlinear sensitivity of India's medium-term debt path to relatively modest changes in underlying fiscal and macroeconomic assumptions (International Monetary Fund, 2023, p. 19).

These sensitivities highlight why debt sustainability assessments should be treated as probabilistic rather than deterministic exercises, and why maintaining fiscal buffers and credible consolidation commitments carries value beyond their immediate arithmetic effect on the debt ratio, particularly in preserving market confidence and containing sovereign risk premia (Escolano, 2010, p. 9).

7. State-Level Fiscal Position

India's fiscal federalism structure means that overall public sector sustainability depends significantly on state government finances, which collectively account for over 60 percent of general government expenditure (Reserve Bank of India, 2023, p. 60). State-level fiscal deficits, which had been broadly contained around 2.5 to 3 percent of Gross State Domestic Product (GSDP) in the years following the FRBM-equivalent state legislation, widened sharply during the pandemic before moderating to approximately 3.1 percent of GSDP in aggregate by FY2023-24 (Reserve Bank of India, 2023, p. 62).

Considerable heterogeneity exists across states. RBI's State Finances report (Reserve Bank of India, 2023, p. 65) identified a subset of states—including Punjab, Rajasthan, and West Bengal—with debt-to-GSDP ratios exceeding 35 percent, substantially above the 20 percent anchor recommended by the N. K. Singh Committee, driven in part by legacy power sector liabilities, elevated subsidy commitments, and pension obligations linked to the reversion to the Old Pension Scheme in several states. This heterogeneity raises concerns about moral hazard and the adequacy of existing borrowing-limit enforcement mechanisms under Article 293(3) of the Constitution, through which the Centre can restrict state borrowing (Reserve Bank of India, 2023, p. 67).

Power sector distribution company (discom) losses represent a particularly significant contingent liability for several states, with cumulative discom losses and associated state guarantees estimated in the range of several lakh crore rupees, despite successive restructuring schemes such as UDAY (Ujwal DISCOM Assurance Yojana) (Comptroller and Auditor General of India, 2022, p. 24). Addressing these quasi-fiscal liabilities remains central to improving the overall transparency and sustainability of India's general government debt position.

8. Cross-Country Comparison

India's general government debt-to-GDP ratio of approximately 81 to 83 percent is elevated relative to the median emerging market economy, which the IMF estimates at closer to 65 percent of GDP, but remains substantially below advanced-economy averages exceeding 110 percent of GDP (International Monetary Fund, 2023, p. 20). Compared to fellow large emerging markets, India's debt ratio is higher than Indonesia's (approximately 39 percent) but broadly comparable to Brazil's (approximately 85 percent) and lower than several advanced economies facing similar post-pandemic fiscal legacies (International Monetary Fund, 2023, p. 21).

India's favorable debt composition—predominantly domestic-currency, long-maturity, and held by a stable domestic institutional investor base—distinguishes its risk profile from emerging markets more exposed to external and foreign-currency debt, a factor consistently cited by credit rating agencies in assessments of India's sovereign risk (Reserve Bank of India, 2023, p. 70). Nonetheless, India's general government interest payment burden as a share of revenue remains among the highest in the G20, reflecting the combination of a large debt stock and comparatively higher domestic borrowing costs relative to advanced economies (International Monetary Fund, 2023, p. 23).

9. Challenges to Fiscal Consolidation

Elevated interest burden: Rising interest payments as a share of revenue constrain fiscal space for capital and social expenditure, creating a structural drag on consolidation efforts (Ministry of Finance, 2024, p. 36).

Off-budget and contingent liabilities: Despite improved disclosure, quasi-fiscal liabilities linked to public sector undertakings, discoms, and state guarantees continue to understate the true fiscal position (Comptroller and Auditor General of India, 2022, p. 19).

State-level fiscal slippage: Divergent fiscal discipline across states, exacerbated by reversion to defined-benefit pension schemes in some states, threatens aggregate debt sustainability despite central consolidation (Reserve Bank of India, 2023, p. 67).

Revenue mobilization constraints: Direct tax buoyancy, while improving, remains constrained by a narrow taxpayer base, and GST revenue potential is not yet fully realized due to rate structure complexity and compliance gaps (Ministry of Finance, 2024, p. 25).

Subsidy and welfare expenditure rigidity: Politically sensitive subsidies on food, fertilizer, and fuel, along with expanding welfare transfer programs, limit the flexibility available for expenditure-side consolidation (Rangarajan & Srivastava, 2005, p. 24).

Global interest rate and growth uncertainty: India's favorable interest rate-growth differential is not guaranteed to persist, and a global monetary tightening cycle or domestic growth slowdown could adversely affect debt dynamics (International Monetary Fund, 2023, p. 17).

10. Policy Recommendations

10.1 Anchor Consolidation to the Debt-to-GDP Target

Fiscal policy should continue prioritizing the general government debt-to-GDP anchor recommended by the N. K. Singh Committee over rigid annual deficit targets, allowing for counter-cyclical flexibility while maintaining a credible medium-term trajectory (Government of India, 2017, p. 26).

10.2 Strengthen Off-Budget and Contingent Liability Disclosure

Comprehensive and timely disclosure of off-budget borrowing, guarantees, and contingent liabilities across both Centre and states should be institutionalized, potentially through an independent fiscal council empowered to audit and publish consolidated general government liability statistics (Comptroller and Auditor General of India, 2022, p. 26).

10.3 Prioritize Capital Expenditure Quality

Consolidation should continue to prioritize protecting and enhancing capital expenditure over current expenditure compression, given the more favorable growth-multiplier effects associated with productive public investment (Blanchard, 2019, p. 1202).

10.4 Reform State-Level Fiscal Governance

Strengthening enforcement mechanisms under Article 293(3), harmonizing state FRBM legislation, and addressing legacy discom and pension liabilities through structured reform programs are essential to containing state-level fiscal risk (Reserve Bank of India, 2023, p. 68).

10.5 Broaden the Tax Base and Improve GST Efficiency

Continued GST rate rationalization, base broadening, and compliance simplification can improve revenue buoyancy without raising effective tax burdens, supporting consolidation through revenue growth rather than expenditure compression alone (Ministry of Finance, 2024, p. 26).

10.6 Establish an Independent Fiscal Council

Building on the N. K. Singh Committee's original recommendation, India should consider operationalizing an independent fiscal council with a statutory mandate to assess the realism of budget projections, monitor compliance with the debt anchor, and publish independent long-term fiscal sustainability assessments (Government of India, 2017, p. 28). Such an institution, common across OECD economies and increasingly adopted among emerging markets, could enhance the credibility of India's fiscal framework by providing an external check on both central and state fiscal reporting, complementing the audit function already performed by the Comptroller and Auditor General (Comptroller and Auditor General of India, 2022, p. 27).

11. Conclusion

India's fiscal trajectory since the FRBM Act of 2003 illustrates both the value and the limits of rules-based fiscal governance. The pandemic-induced fiscal deterioration of FY2020-21, followed by a calibrated, capital-expenditure-oriented consolidation, demonstrates that India's fiscal institutions have shown meaningful resilience and adaptability. The favorable composition of India's public debt—predominantly domestic, long-maturity, and supported by a generally favorable interest rate-growth differential—provides a degree of insulation from the debt sustainability risks facing more externally exposed emerging markets.

Nonetheless, elevated interest burdens, incomplete disclosure of off-budget and contingent liabilities, and pronounced heterogeneity in state-level fiscal discipline represent material risks to India's medium-term fiscal sustainability. Realizing the growth dividends of fiscal consolidation will require sustained commitment to the debt-anchor framework recommended by the N. K. Singh Committee, deeper transparency reforms, and a strengthened architecture of fiscal federalism that aligns incentives across the Centre and states. If pursued consistently, such reforms can enable India to reconcile the twin objectives of fiscal sustainability and high, inclusive growth over the coming decade.

References

Barro, R. J. (1989). The Ricardian approach to budget deficits. Journal of Economic Perspectives, 3(2), 37–54.

Blanchard, O. (2019). Public debt and low interest rates. American Economic Review, 109(4), 1197–1229.

Comptroller and Auditor General of India. (2022). Report on state finances: Audit observations on contingent liabilities and guarantees. Government of India.

Escolano, J. (2010). A practical guide to public debt dynamics, fiscal sustainability, and cyclical adjustment of budgetary aggregates. IMF Technical Notes and Manuals, No. 10/02. International Monetary Fund.

Government of India. (2017). Report of the Committee to review the FRBM Act (N. K. Singh Committee report). Ministry of Finance.

Herndon, T., Ash, M., & Pollin, R. (2014). Does high public debt consistently stifle economic growth? A critique of Reinhart and Rogoff. Cambridge Journal of Economics, 38(2), 257–279.

International Monetary Fund. (2023). India: 2023 Article IV consultation—Staff report. IMF Country Report No. 23/386.

Ministry of Finance, Government of India. (2024). Union Budget 2024–25: Receipts budget and medium-term fiscal policy statement.

Rangarajan, C., & Srivastava, D. K. (2005). Fiscal deficits and government debt: Implications for growth and stabilisation. National Institute of Public Finance and Policy Working Paper.

Reinhart, C. M., & Rogoff, K. S. (2010). Growth in a time of debt. American Economic Review, 100(2), 573–578.

Reserve Bank of India. (2023). State finances: A study of budgets of 2023–24. RBI Publications.