Fiscal consolidation will be tough for new Finance Minister: Deutsche Bank

Stagnant revenue and sticky expenditure, coupled with a likely tight monetary policy by the Reserve Bank, would make further fiscal consolidation difficult and the job of the new finance minister tough, German brokerage Deutsche Bank has said.

"If the new finance minister chooses to expedite capital spending to orchestrate a cyclical turn in the investment cycle and boost long-term growth, the short-term casualty will be the debt/GDP ratio, which has improved massively in the recent years...

"This will become more difficult, if RBI continues its quest to tame inflation by pursuing positive real rates, debt service will become substantially more onerous, leading to the risk of a conflict of interest between the government and RBI in the post-poll landscape," Deutsche Bank India Chief Economist Taimur Baig said.

The country's debt-to-GDP ratio is one of lowest among its BRICS peers and it has been on a steady decline, going down from 84 per cent of GDP in 2005 to 69 per cent in 2012.

Going forward, this will not be easy due to increasingly sticky expenditure owing to large increases in wages and subsidies and stagnant revenue growth, he said.

Through financial repression and broadly accommodative monetary policy, nominal interest rates have been kept low even while inflation was high. The resultant negative real interest rate has kept the government's debt issuance and service burden under check.

Still, the debt burden is not trivial and risks around debt sustainability are substantial, Baig said.

(Economic Times)