

Press Release

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CSEP-IMF Roundtable Discusses India's Fiscal Response to the COVID Crisis and Heightened Risks

Vitor Gaspar, Director of the International Monetary Fund's (IMF) Fiscal Affairs Department, supported India's fiscal response in the face of COVID-19, stating that "fiscal support in India has prevented severe contractions". He stressed the importance of being ready to provide agile and flexible policy support as appropriate to respond to COVID-19 related developments. Looking ahead, Gaspar believed that it was equally important to avoid premature withdrawal until the recovery is entrenched. Given the unprecedented rise in deficit and debt across countries, he also noted the importance for countries to manage heightened risks and rebuild sustainability in their medium-term fiscal frameworks.

Gaspar was speaking at the [High-Level Roundtable](#) organised by the IMF in association with the Centre for Social and Economic Progress (CSEP) on "Securing Sustainable Finances and Medium-term Fiscal Frameworks: International Experience and Relevance for India."

Moderated by Anoop Singh, Distinguished Fellow at CSEP, the Roundtable featured Anne-Marie Gulde-Wolf, Deputy Director of IMF's Asia and Pacific Department, Alfred Schipke, IMF's Mission Chief for India, Vitor Gaspar, N.K. Singh, Chairman of the 15th Finance Commission of India; Niels Thygesen, Chairman of the European Fiscal Board; Montek Singh Ahluwalia, Distinguished Fellow at CSEP, and Rakesh Mohan, President and Distinguished Fellow, CSEP.

Welcoming the speakers, Anne-Marie Gulde-Wolf said that fiscal support is playing a critical role in saving lives and livelihoods and preventing more severe economic contractions. At the same time, fiscal deficits have increased and public debt levels have reached almost 100 percent of GDP globally. She added, "The latest and unfortunately ongoing surge in new cases in India is a stark reminder of significant uncertainty about the path of the pandemic and the economic recovery."

Alfred Schipke talked about the potential of large scarring effects in the medium-term. He asked the participants how best can countries formulate fiscal strategies that balance near-term fiscal accommodation and the imperative to protect social support, with medium-term consolidation needs. Noting the recommendations of the 15th Finance Commission, he asked for global experience in rebuilding the fiscal architecture and the lessons for India.

N.K. Singh highlighted some of the key issues with regard to rebuilding medium-term fiscal rules, observing that, in some ways, India is in the third phase of building its fiscal rules. "In this regard, the Finance Minister in her recent budget speech did mention her intention to appoint another group to revisit the medium-term fiscal framework in light of the pandemic and the continuing need for greater fiscal forbearance and support," he said. Regarding India's tax revenue potential, he mentioned, "At least 4 per cent of GDP is a lost potential in terms of India's revenue and if some part of it could be realised it would help greatly in aligning not only inevitable expenditure needs, pandemic needs, and health needs, but also help find convergence between sustainable development and the medium-term fiscal policy statement."

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On the current status, he added, “Right now, given the ongoing pandemic, for understandable reasons, talk of issues of medium-term fiscal policy will occupy a backseat until such time as we have been able to get a much better hold of this pandemic and we can reckon what it has cost in terms of the recovery process ... Looking ahead, the challenge is to closely align India’s medium-term fiscal policy with the imperatives faced by the political leadership.” He added that India’s commitment to climate change will also need to be carefully built into the medium-term fiscal framework.

Montek Singh Ahluwalia touched on various issues, including the implications of a slower recovery due to the second surge of the pandemic, especially for the informal sector, the need now to tolerate a larger fiscal deficit, and to avoid any premature withdrawal of fiscal support. Among the issues discussed, he asked what role a fiscal council could play in the present environment, and also the interventions needed to tackle rising inequality and address climate change.

He understood that, while experts are thinking about fiscal rules and institutions during this pandemic, “I don’t think anyone in Government is able to worry about fiscal rules during this pandemic.” He continued, “We have to assume that the pandemic will be brought under control, and then we will get down to the business of how India will recover and the kind of growth rate it should expect, and then we can relook at fiscal rules and institutions.”

Speaking about the possibility of a fiscal council helping institution-building, as has been the global experience, he said, “My view is that it would be a good idea. It would create an independent way for people to know what the true fiscal position is. But will that help? Fiscal councils have an impact only if Parliament wants to debate these things and impose discipline.”

Bringing the European perspective to the discussion, Niels Thygesen said that the evolution of the European Union’s fiscal policy, deficits and debts could offer important lessons for India. Institution-building has been a critical part of the process and, toward this, simple steps such as strengthening budgetary processes, the finance ministry, and the quality of data have played critically important roles in recognising the fiscal problem and dealing with it.

He added, “The most important innovation is the role of Independent National Fiscal Councils...One major motive was to protect macro-economic forecasts, on which budgets are based, from political influence. There was an optimism bias, in particular in the years prior to the financial crisis, which made countries slip into deficits too easily. One role of the national fiscal councils is to monitor the quality of the macro-economic forecasts...they have improved significantly in recent years.”

Anoop Singh pointed to the multiple phases fiscal policy will need to play as India goes from crisis to stabilisation and then to recovery. The immediate imperative is to deal with the health emergency and resist the scarring of the social and economic structure, before building the medium-term fiscal framework. He agreed that some pillars of fiscal architecture could be put in place before others, to manage scarce resources better, and thereby convince markets of India’s commitment to sustainability.

Concluding this timely and insightful discussion, Rakesh Mohan said, “One of the consequences of the fiscal problem that we have been forced to manage is that of financial repression, and that also lies behind many problems in the financial sector as well.” He singled out, in particular, the lost potential of as much as 4-5 percent of GDP in India’s low and stagnant tax ratio, and the inability over the decades to raise its buoyancy even during periods of rapid economic growth. “The key problem really is to try and understand that, despite the longstanding discussions of tax reform, and everything in some sense that the IMF has recommended in this area for 30 years, we have not been able to capture lost revenue. The question is, why is there no buoyancy, is there a compliance problem or what is it?”

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