

Development, fiscal constraint and the risk of a public debt trap

The case of India seen through a macro-
econometric model

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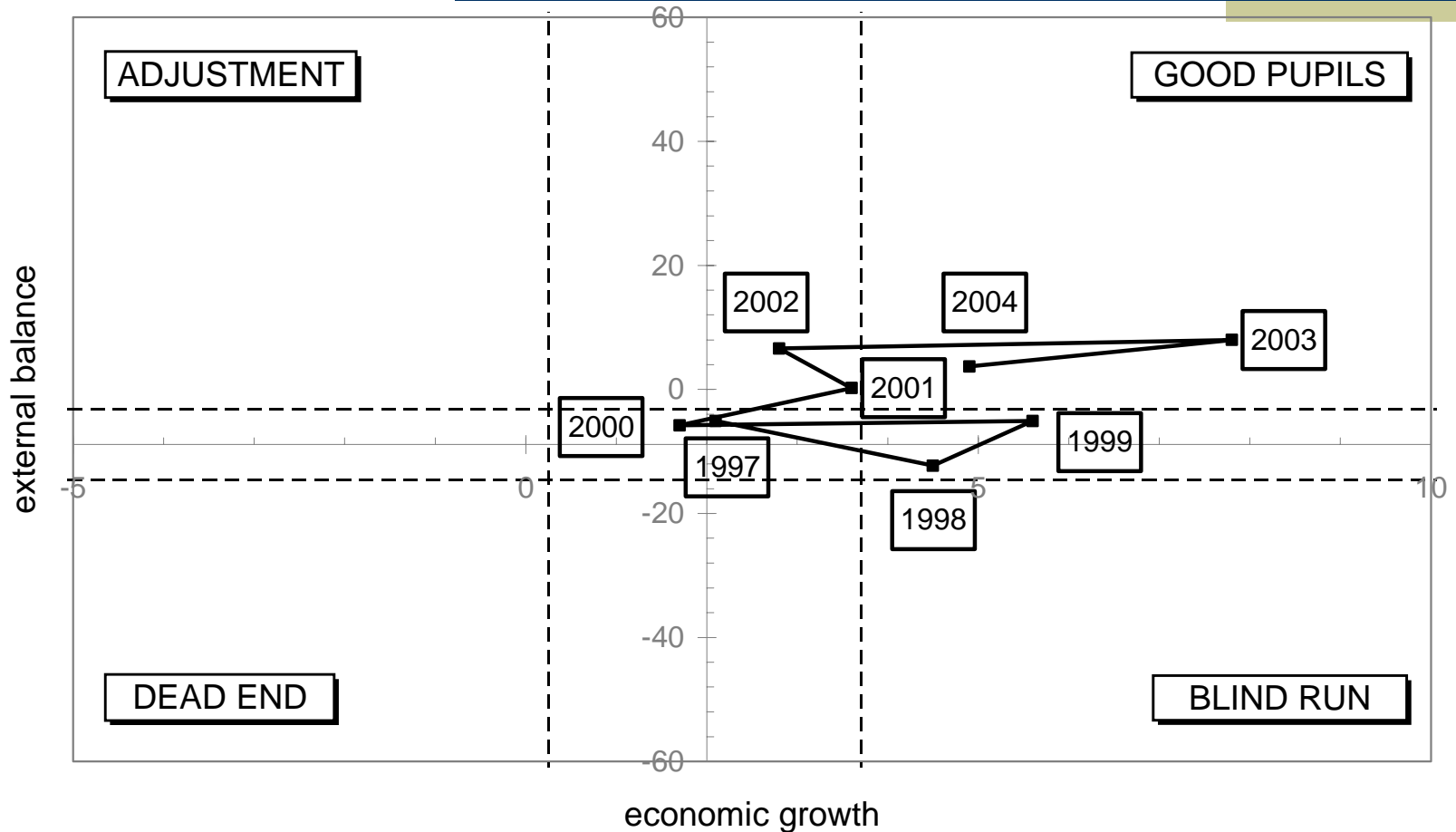
8th ISINI Conference
Wageningen, August 25-26, 2005

Development and fiscal constraint: the case of India

- ◆ Why worry, since « India is shining » ?
- ◆ The Indian fiscal situation faces many constraints
- ◆ Growth – interest rate differential may not be sustainable
- ◆ Simulation to 2015: a fiscal shock will occur if no adjustment takes place

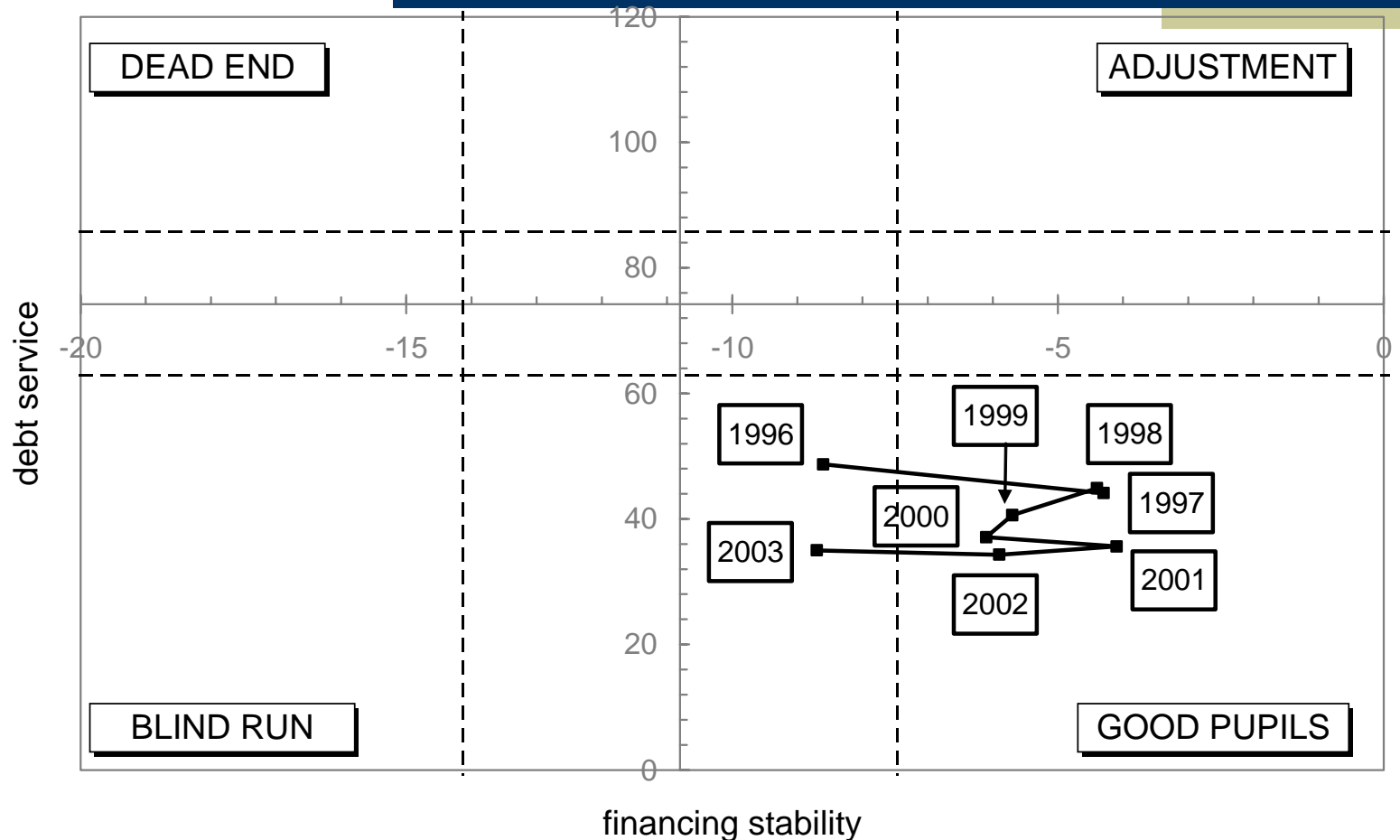
Why worry, since « India is shining » ?

1 - Growth Balance



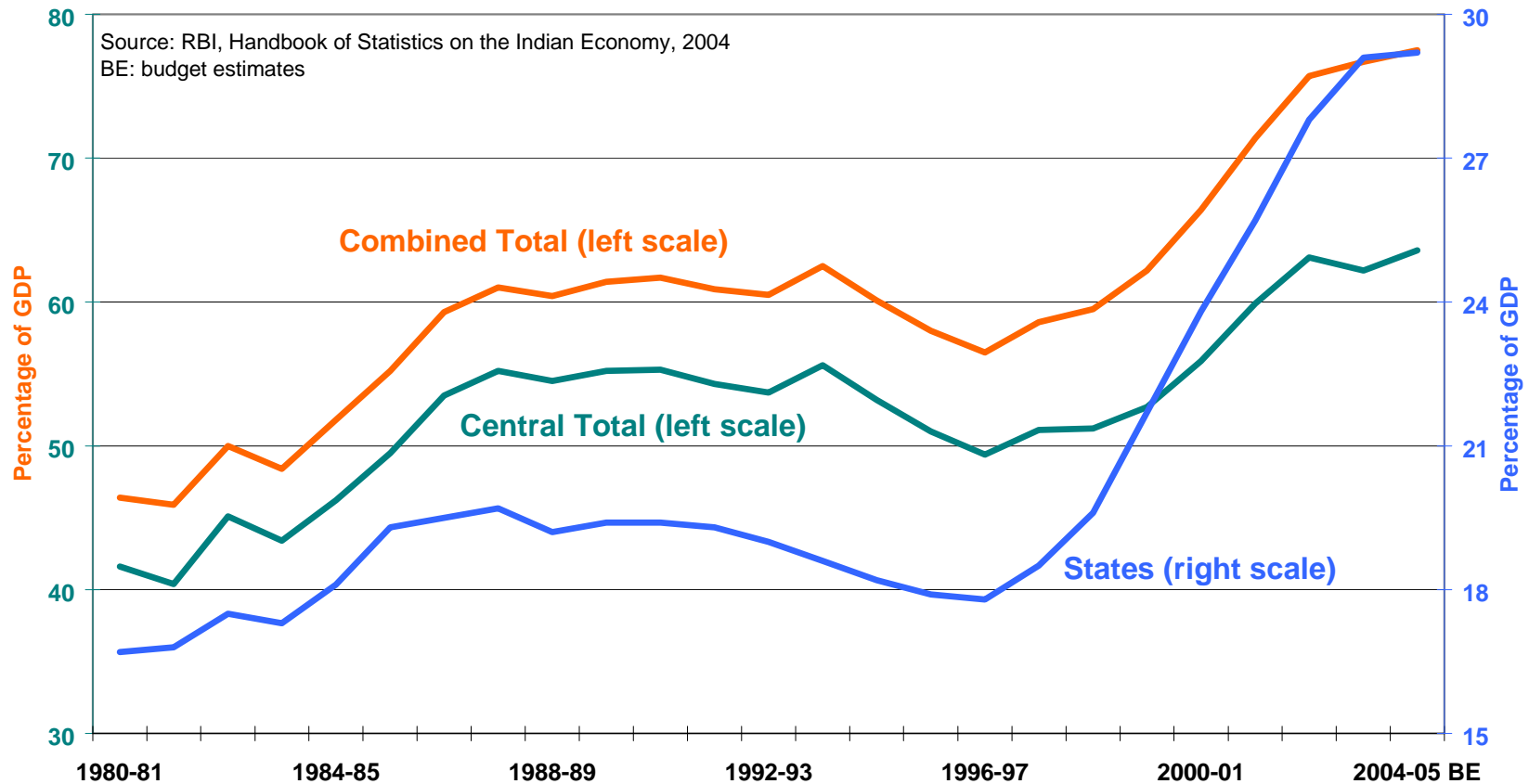
Why worry, since « India is shining » ?

2 - Debt Balance



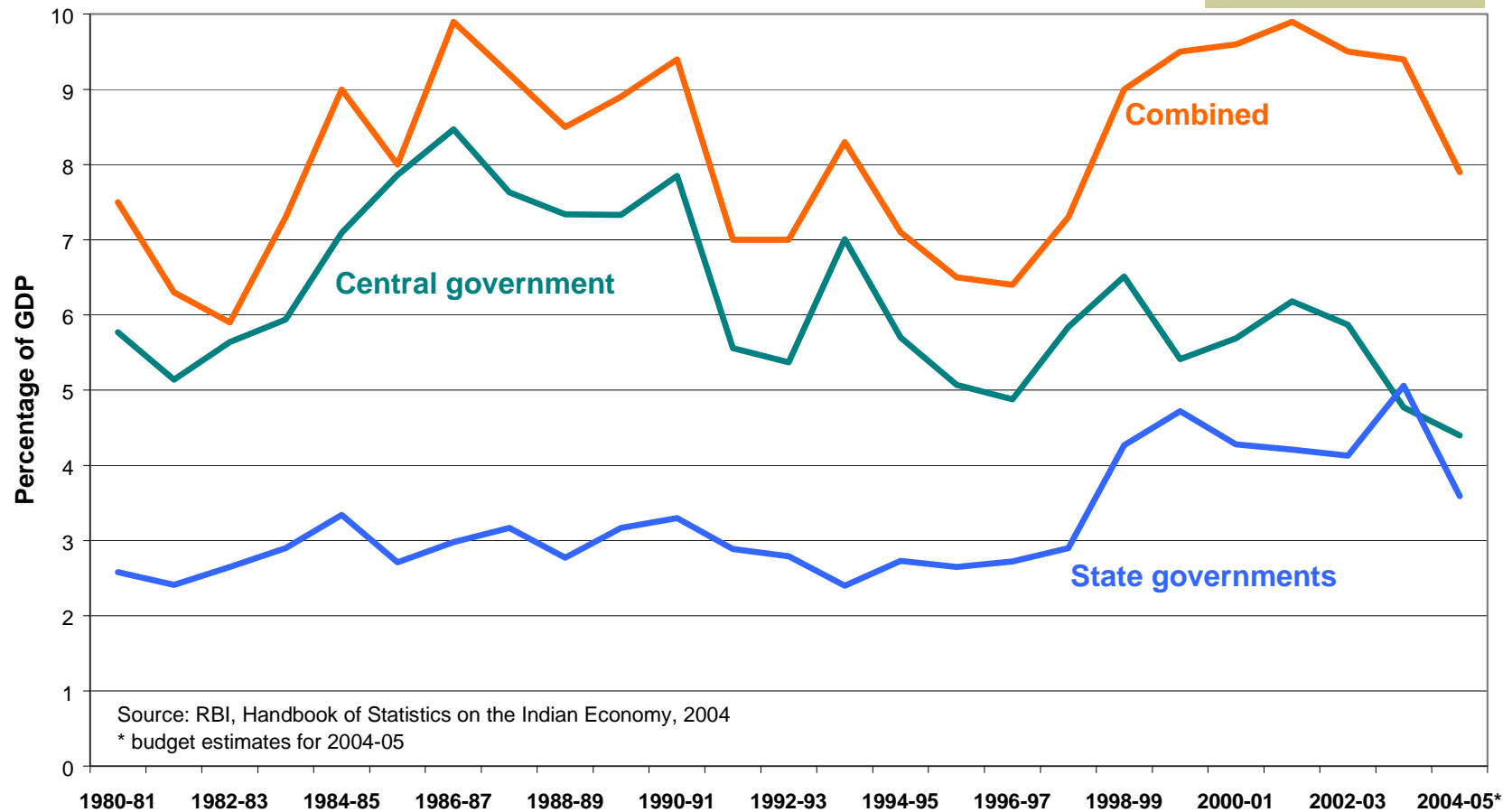
Constraints in India's fiscal situation

Liabilities of Central and State governments: 1980-2005

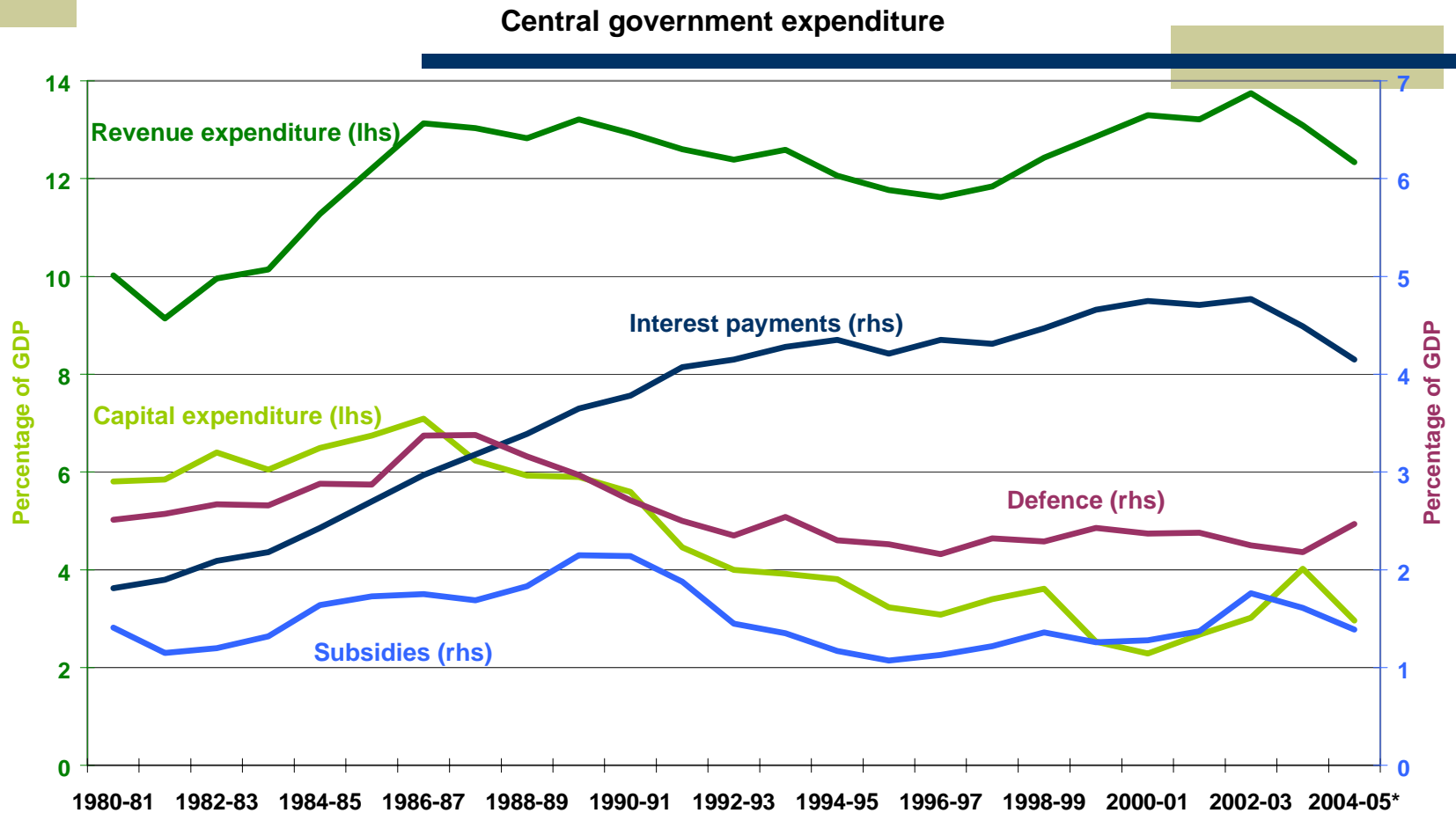


Constraints in India's fiscal situation

Gross fiscal deficit: 1980-2005



Constraints in India's fiscal situation



Source: RBI, Handbook of Statistics on the Indian Economy, 2004

* budget estimates for 2004-05

Growth – interest rate differential

Condition for public debt sustainability:

$$\frac{PFD_t}{Y_t} \leq \frac{(g - r) D_{t-1}}{(1 + g) Y_{t-1}}$$

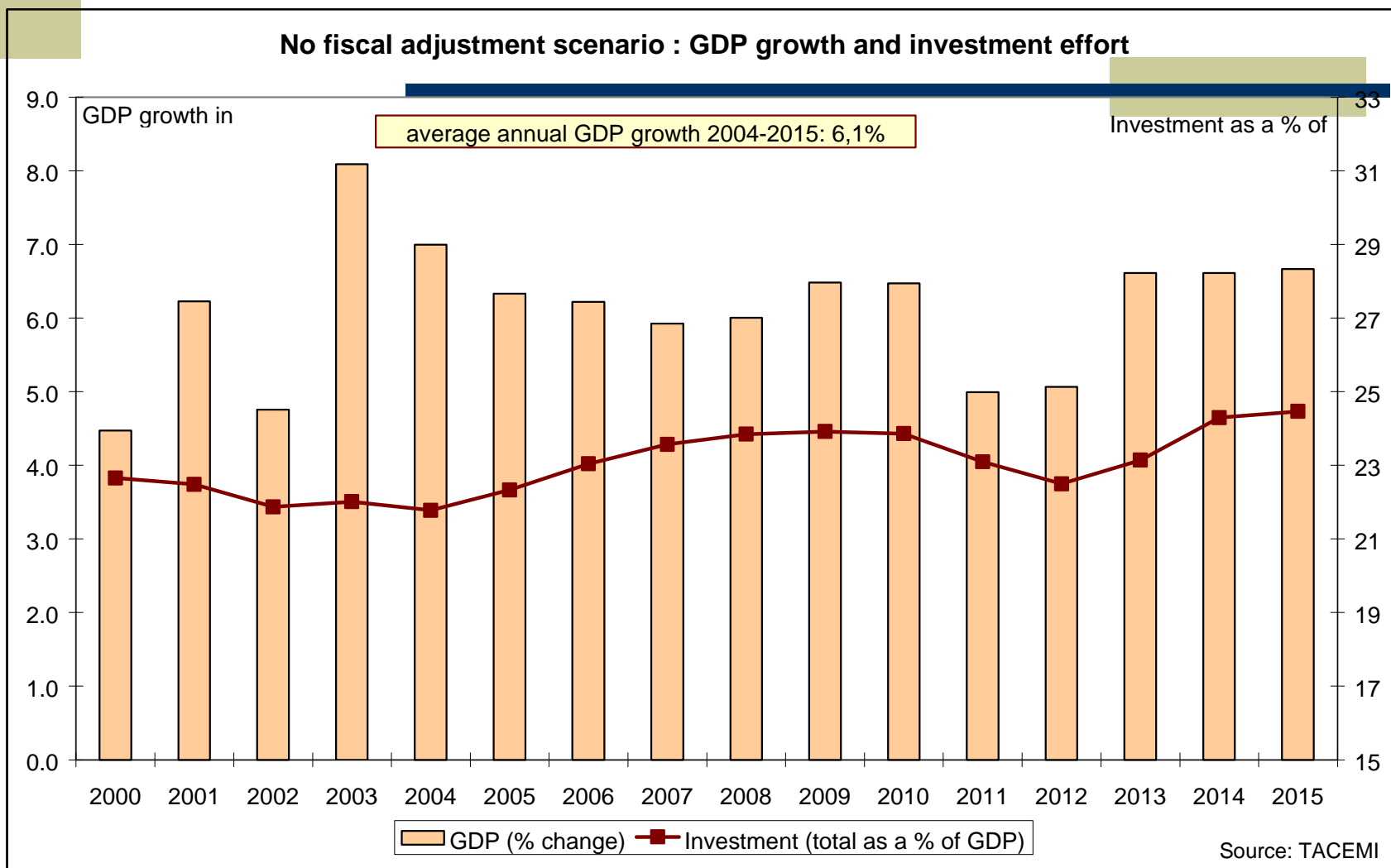
	GDP	Real interest rates	gap
1980-2004	5.8	2.2	3.5
1990-2004	5.7	3.3	2.5
1995-2004	6.1	4.2	1.9
2000-2004	5.6	4.4	1.2

Simulations to 2015

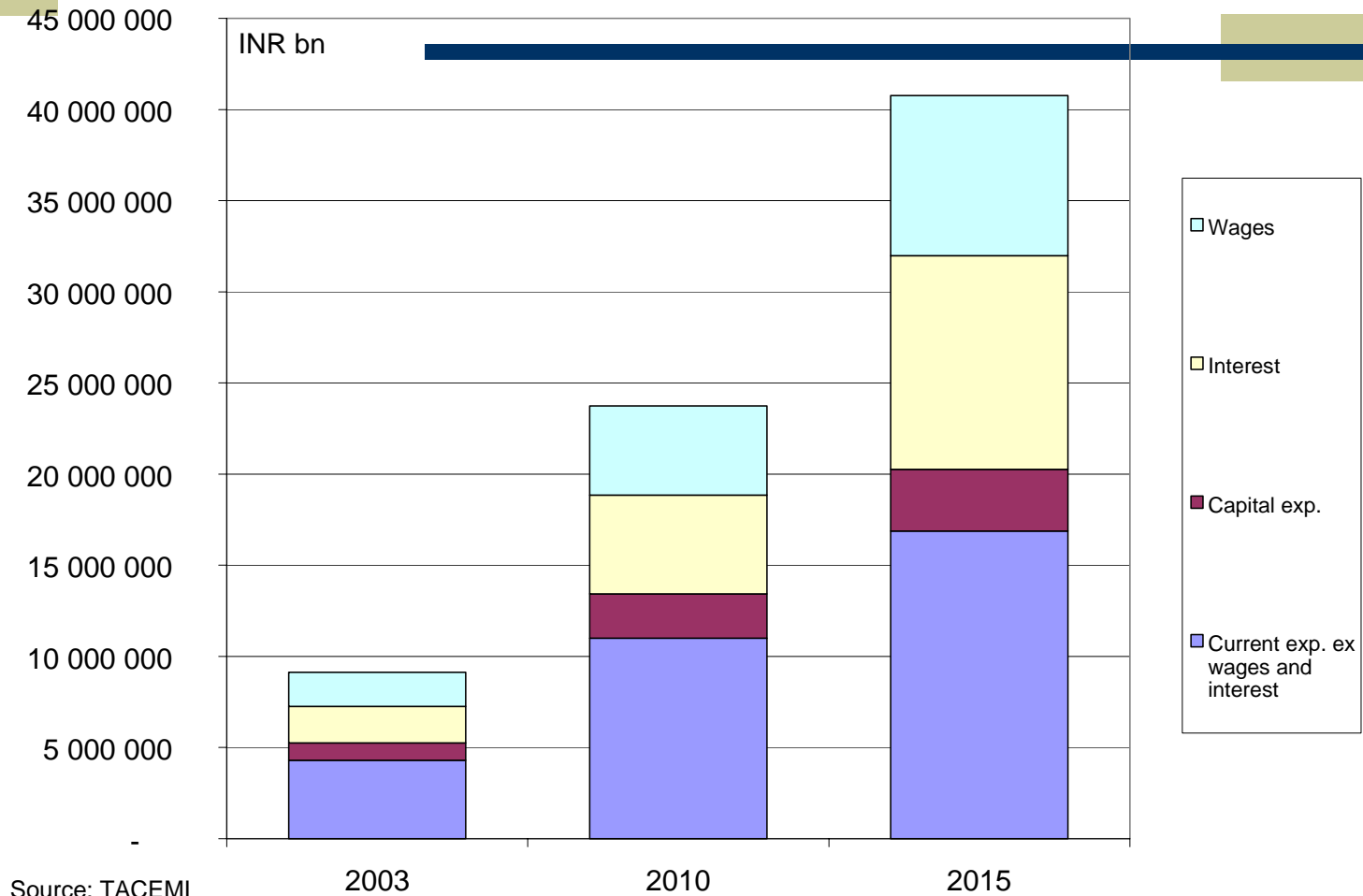
The TAC Econometric Model on India (TACEMI)

- estimated using annual data from 1970 to 1999
- 12 estimated equations (without the identities and accounting equations)
- more than 40 variables
- The econometric equations include :
 - household investment and consumption
 - corporate investment
 - profits
 - productivity
 - prices,
 - exchange rate
 - real interest rate

Simulations to 2015



Simulations to 2015



Simulations to 2015

