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Fiscal Consolidation and Inclusive Growth in BRICS: A Seemingly Unrelated Regressions (SUR) Analysis of the GDP–Employment–Inequality Nexus

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Abstract

Fiscal consolidation has regained prominence in emerging economies as governments confront rising public debt, limited fiscal space, and heightened macroeconomic vulnerability. In the BRICS countries, these pressures coexist with persistent structural unemployment and high-income inequality, raising critical concerns about whether fiscal consolidation can promote inclusive growth rather than exacerbate social and economic disparities. Against this backdrop, this study investigates the simultaneous effects of fiscal consolidation on economic growth, employment creation, and income inequality in BRICS economies. The primary objective of this study is to investigate whether fiscal consolidation can promote inclusive growth by simultaneously enhancing economic growth, employment, and equality. To estimate the results, the study employed panel data from 2000 to 2023 and seemingly unrelated regression (SUR).

The SUR estimation results indicated that fiscal consolidation, as measured by the FCI, has a positive and statistically significant impact on GDP growth. This finding supports the expansionary fiscal consolidation hypothesis, suggesting that credible and well-structured fiscal adjustments can enhance investor confidence, reduce sovereign risk, and foster macroeconomic stability. The analysis also revealed that government expenditure had a negative impact on economic growth. The results showed a strong negative relationship between fiscal consolidation and employment, indicating that contractionary fiscal measures, although potentially supportive of medium- to long-term growth, tend to reduce employment in the short term. However, results also showed that a higher budget balance and lower public debt were associated with improved employment outcomes. Thus, the employment cost of

consolidation may be short-lived if supported by coherent macroeconomic and institutional reforms. The findings confirmed that fiscal consolidation incurred short-run employment costs, particularly when austerity entailed public wage cuts or retrenchment, and this calls for caution when implementing abrupt fiscal tightening. The most striking finding of the SUR analysis was the strong positive link between fiscal consolidation and income inequality. This suggests that consolidation efforts in BRICS have tended to exacerbate inequality, particularly when austerity measures are implemented without adequate safeguards for redistribution and social protection. SUR results also reported that a higher budget balance, lower government debt, and greater government expenditure were significantly associated with lower inequality. These findings highlight a significant equity trade-off; while fiscal consolidation may restore macroeconomic stability, it risks increasing inequality unless explicitly designed with redistribution in mind.

From a policy perspective, the findings underscore that fiscal consolidation in BRICS must be carefully designed to balance growth, employment, and equity objectives. Consolidation strategies should prioritise expenditure efficiency over indiscriminate cuts, protect and expand productive public investments, and preserve social spending in health, education, and social protection. Active labour market policies are essential to offset short-run employment losses, while progressive taxation and targeted transfers can mitigate inequality during adjustment periods.

Keywords: Fiscal consolidation; Inclusive growth; Employment; Income inequality; Seemingly Unrelated Regressions (SUR); BRICS countries