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REVIEWER'S REPORT

Manuscript No.: IJAR-58663

Title: Fiscal Policy and Financial Behaviour in India: The Role of Institutional Context.

Recommendation:
Accept as it is ………………………………
Accept after minor revision………………
Accept after major revision ………………
Do not accept (*Reasons below*) ………

Rating	Excel.	Good	Fair	Poor
Originality		✓		
Techn. Quality		✓		
Clarity		✓		
Significance		✓		

Reviewer's ID: JPR-130

Detailed Reviewer's Report

1. Overall Evaluation

The manuscript examines how India's 2019 expansionary fiscal policy influenced saving and borrowing behaviour across states with different levels of institutional density. The study uses state-level Scheduled Commercial Bank deposits and credit for 2018–19 to 2021–22 and uses recognised higher-education institutions per 1,000 sq. km. as a proxy for institutional capacity. The topic is relevant and has good policy importance because financial behaviour may differ across Indian states depending on institutional and financial conditions. The manuscript has a clear structure covering literature review, data, methodology, analysis, discussion, limitations, and conclusion. The findings indicate that medium-density states showed the greatest behavioural adjustment, while high-density states remained conservative and low-density states showed limited change. However, the main limitation is that the study uses a simple pre–post comparison and does not establish a causal relationship between the 2019 fiscal policy and changes in financial behaviour. The post-policy period also overlaps with COVID-19, making it difficult to separate the effect of fiscal policy from pandemic-related changes. The manuscript itself acknowledges this limitation.

2. Strengths

2.1 Relevant Research Topic - The study addresses an important issue linking fiscal policy, financial behaviour, and institutional development in the Indian context.

2.2 Clear Research Gap - The manuscript identifies a useful gap by combining fiscal policy, institutional variation, and saving–borrowing behaviour at the state level in India.

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2.3 State-Level Analysis - Using Indian states as the unit of analysis helps identify regional differences that may not be visible in national-level data.

2.4 Use of Banking Indicators - The use of SCB deposits, SCB credit, and the credit–deposit ratio provides simple and understandable indicators of saving and borrowing behaviour.

2.5 Comparative Institutional Groups - The classification into low, medium, and high institutional density states provides an interesting framework for comparing financial behaviour across regions.

2.6 Useful Findings - The finding that medium institutional density states experienced the largest change in behaviour is interesting. Their credit–deposit ratio declined from 95.70% to 84.61%, indicating that deposits increased faster than credit.

2.7 Transparency About Limitations - A major strength is that the authors clearly acknowledge limitations related to aggregate data, small observations, informal finance, proxy measurement, and the lack of causal identification.

2.8 Policy Relevance - The study provides useful policy implications, particularly the need to improve banking access, financial literacy, and institutional capacity in weaker regions.

3. Areas for Improvement

3.1 Strengthen the Methodology - The biggest concern is the pre–post research design. The study compares 2018–19 with 2021–22 but does not use a formal identification strategy. Therefore, the results should not be interpreted as the causal impact of fiscal policy.

3.2 Address the COVID-19 Effect More Strongly - The post-policy period includes the COVID-19 shock. Changes in savings and borrowing could therefore be caused by pandemic uncertainty rather than fiscal policy alone.

3.3 Improve the Institutional Density Proxy - Using higher-education institutions per 1,000 sq. km. as a proxy for financial literacy and institutional capacity is interesting but has limitations. Higher education institutions do not directly measure financial literacy.

3.4 Increase the Sample Size - The analysis uses a relatively small number of state-level observations, particularly after grouping states. The manuscript correctly notes that this limits the reliability of statistical relationships.

3.5 Strengthen Statistical Testing - The paper uses group averages, scatter plots, and simple regression analysis. The reported high R^2 values should be interpreted carefully because they are based on a small number of grouped observations.

3.6 Clarify the 2019 Fiscal Policy Shock - The manuscript refers to India's 2019 expansionary fiscal policy, but the exact policy components and transmission mechanisms could be explained more clearly.

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3.7 Improve the Literature Review - The literature review contains relevant studies, but it could be strengthened by including more recent empirical studies, particularly research published after 2020 on:

- Fiscal policy and household saving
- Financial inclusion
- Institutional quality
- Regional fiscal transmission
- COVID-19 and household financial behaviour

3.8 Clarify the Hypothesis - The original hypothesis expects stronger institutional environments to show more pronounced behavioural changes. However, the findings show that medium-density states, rather than high-density states, were the most responsive.

3.9 Improve Presentation of Tables and Figures - The tables and figures are useful, but the manuscript could provide clearer captions and more explanation of what each figure demonstrates.

3.10 Strengthen the Conclusion - The conclusion is clear, but it could more explicitly separate:

- Findings
- Policy implications
- Limitations
- Future research directions