IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

Current Scneario Of Public Debt In India

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Abstract: Public debt can be strategically used as a counter-cyclical measure to stabilize the economy during economic downturns. Increased government spending through borrowing can stimulate economic activity. In India, public debt includes the Union government's total liabilities that must be paid from the Consolidated Fund of India (Article 292). SDG 17, focusing on "Partnerships for the Goals," recognizes the importance of global cooperation and financial resources for achieving sustainable development, including addressing public debt sustainability, a key aspect for India. India's stance on SDG 17 includes promoting a fair and equitable trading system and assisting developing countries in achieving long-term debt sustainability. Public Debt in India, today, is raised to meet the government's revenue deficits (the difference between the income of the government and money spent to run the government) or to finance public works (capital formation). As of March 2024, the Central government's outstanding debt stood at ₹175 lakh crore, more than double the ₹96 lakh crore recorded in March 2020. India's debt-to-GDP ratio stands at approximately 83.1% as of 31.03.2024. It marks a significant increase from pre-pandemic levels, where the ratio hovered around 69% until 2018. The World Bank is an international development organization owned by 187 countries. Its role is to reduce poverty by lending money to the governments of its poorer members to improve their economies and to improve the standard of living of their people. In this study investigated the impact of public debt from 2019 to 2026 in India.

Keywords: India, Public Debt, GDP, SDG 17, Article 292.

I. INTRODUCTION

Public debt can serve as a tool for managing liquidity within the financial system, allowing governments to control the money supply and interest rates. In 2016, the India Finance Ministry initiated the Public Debt Management Cell as a preliminary step towards forming a Public Debt Management Agency (PDMA). Public debt is the total amount, including total liabilities, borrowed by the government to meet its development budget. It has to be paid from the Consolidated Fund of India. The term is also used to refer to overall liabilities of central and state governments, but the Union government clearly distinguishes its debt liabilities from the states. Public debt is expressed as a percentage of the country's Gross Domestic Product (GDP), known as the debt-to-GDP ratio. A higher ratio indicates a larger debt burden relative to the size of the economy. While no country is entirely debt-free, some nations have extremely low debt-to-GDP ratios. Examples include Brunei, Timor-Leste, and Hong Kong.

II. Need and Importance of the Study

According to the International Bank for Reconstruction and Development (IBRD) report 2024, part of the World Bank system, distributed billions in loans to middle-income and creditworthy low-income countries in 2023. India is the largest fiscal borrower, borrowing over 4.3 billion U.S. dollars from the IBRD. As per the Reserve Bank of India Act, 1934, the RBI serves as both the government's banker and public debt manager. There is a greater need for the Centre and all States to control their debt levels as they are currently growth-reducing.

III. Review of Literature

Hakura (2020) The public debt is the total debt (or liabilities) accumulated of debt over the years. Many economists believe that debt is one way to raise money for development. Borrowing can enable the government to finance important development programs/projects.

According to the Economic Survey of India (2021-22), the Centre's debt relative to GDP would reach 60.2%, and all States' debt ratio would reach about 30% at the end of 2022-23. The New Fiscal Responsibility and Budget Management (FRBM) Review Committee suggested a 40% debt-GDP limit for the Central Government and 20% for all States together. Studies such as Srivastava et al. (2021) and Tiwari (2012) show that the combined debt of Central and State Governments in India today is unsustainable.

A Reserve Bank of India occasional paper by Kaur and Mukherjee (2012) pointed out that there is a negative impact of public debt on economic growth at higher levels. They observed that the threshold level of the government debt-GDP ratio for India is 61 per cent, beyond which the debt will adversely affect growth.

The latest annual consultation report from the IMF has projected a balanced outlook for India's economic growth. The report has acknowledged India's effective inflation management, but it has also expressed concerns about the long-term sustainability of India's debts. The report emphasizes the need for a sensible approach to managing debt in the long run. India's government debt could reach 100% of GDP by 2028 under adverse circumstances.

IV. Objectives of the study.

To evaluate the nature of India's public debt management practices and identify areas for improvement.

To provide some recommendations for managing public debt effectively and promoting sustainable economic growth.

V. Research Methodology of the Study

A research methodology describes the techniques and procedures used to identify and analyse information regarding a specific research topic. Secondary data such as Government reports and publications, Academic journal articles, News articles, and Books, journals, or other print media are used in this study.

VI. Status of India's debt

External Debt: This is the portion of a country's debt owed to foreign creditors, including foreign governments, international organizations, and private entities outside the country.

Internal Debt: This is the debt owed to lenders within the country, including individuals, banks, and other domestic institutions.

The Union government's debt was ₹155.6 trillion, or 57.1% of GDP, at the end of March 2023, and the debt of State governments was about 28% of GDP. As stated by the Finance Ministry, India's public debt-to-GDP ratio has barely increased from 81% in 2005-06 to 84% in 2021-22, and is back to 81% in 2022-23. This, however, is way higher than the levels specified by the Fiscal Responsibility and Budget Management Act (FRBMA). The 2018 amendment to the Union government's FRBMA specified debt-GDP targets for the Centre, States, and their combined accounts at 40%, 20, % and 60%, respectively. The government debt is estimated to reach over 423 trillion in 2030. Here's a summary of India's internal debt, external debt, and total debt from 2010 -2020 to 2025-2026.

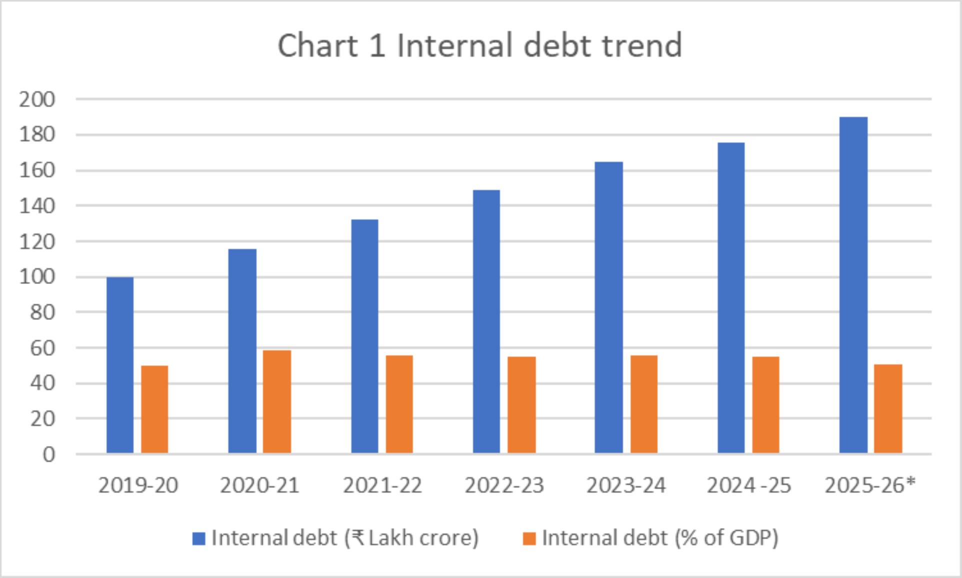
Table No: 1 Summary of India's internal debt, external debt, and total debt from 2019 -2020 to 2025-2026.

Financial Year	Internal debt		External debt		Total debt		Interest Payment
	(₹ Lakh crore)	(% of GDP)	(₹ Lakh crore)	(% of GDP)	(₹ Lakh crore)	(% of GDP)	(₹ Lakh crore)
2019-20	99.66	49.6	5.44	2.7	105.1	52.3	6.12
2020-21	115.71	58.3	6.15	3.1	121.86	61.4	6.80
2021-22	132.08	56.0	6.58	2.8	138.66	58.8	8.05
2022-23	148.64	55.1	7.48	2.8	156.12	57.9	9.29
2023-24	164.79	55.9	6.40	2.2	171.19	58.1	10.64
2024 -25	175.56	55.2	6.18	1.9	181.74	57.1	11.6
2025-26*	190.15	50.4	6.64	5.7	196.79	56.1	12.6*

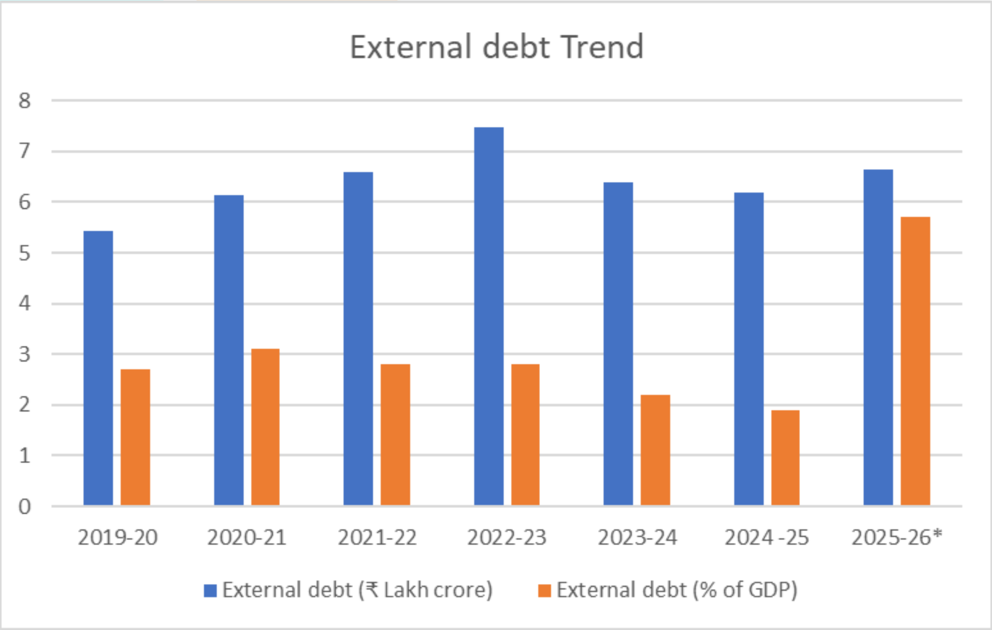
Source: RBI Report 2024 & Compiled Data*

The above table shows that the total debt-to-GDP ratio is expected to decline gradually from 58.8% to 57.0% by 2025. It requires a concerted effort from both the Central and State governments to ensure economic stability and sustainable growth. Historically, internal debt constitutes approximately 89.8% of public debt, with external debt accounting for about 10.2%. Applying these proportions to the projected total debt. Internal Debt: Approximately 50.4% of GDP, External Debt: Approximately 5.7% of GDP These estimates are based on historical averages; actual figures may vary depending on economic conditions and fiscal policies.

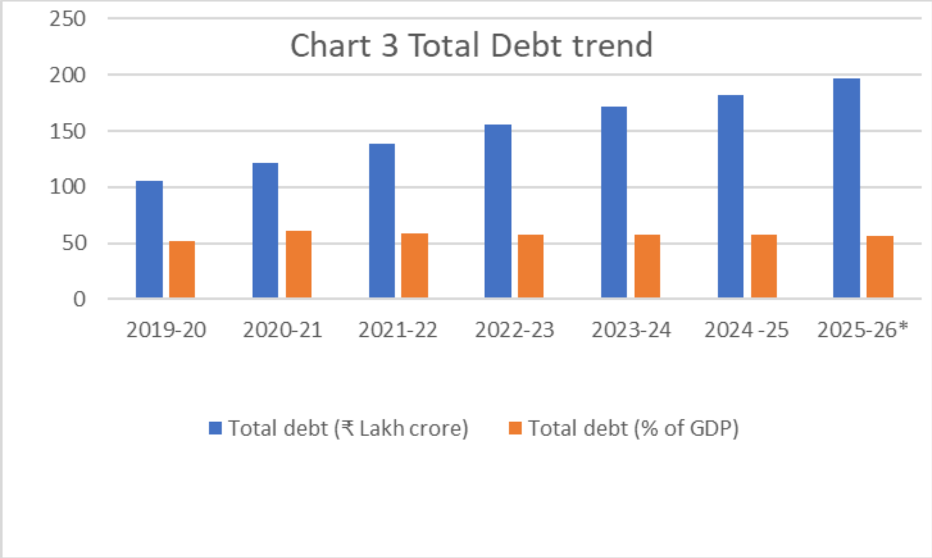
Over the past six years, data reveal a shift from survival-focused borrowing to one driven by aspirations, entrepreneurship, and long-term investments. The central government spends 26% of total revenue on interest payments.



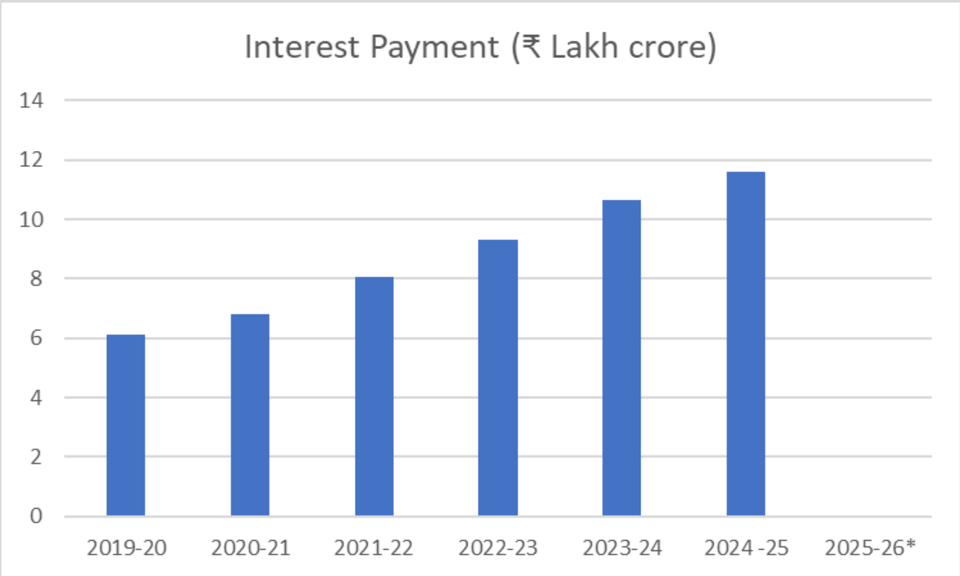
The above chart reveals that as of March 2025, the Central government's outstanding debt stood at ₹175.56 lakh crore and ₹96.66 lakh crore recorded in March 2020.



The above chart reveals that as of March 2025, the Central government's outstanding debt stood at ₹6.18 lakh crore, more than double the ₹5.44 lakh crore recorded in March 2020.



According to the above chart the central government's debt-GDP ratio is 57.1% in FY 2024-25 and 56.1% in Financial Year 2025-26.



Interest payment of the government has increased to 3.1% of the GDP to Rs 7.31 lakh crore in 2021-22. In the current financial year, the Centre is set to spend 20 percent of its expenditure on paying interest on its debt.

VI. i Governments borrow money for several reasons:

1. Budgetary Needs- This budget deficit can occur due to various reasons like infrastructure projects, social welfare programs, defence spending, etc. Borrowing allows governments to cover these deficits without cutting essential services or raising taxes immediately.
2. Smooth Economic Cycles- During economic downturns or recessions, governments might stimulate the economy by increasing spending. Borrowing allows them to inject money into the economy to create jobs, boost demand, and support businesses.
3. Capital Expenditure- Governments often invest in long-term projects like building roads, bridges, schools, and hospitals.
4. Cash Flow Management- Governments might borrow to manage short-term cash flow mismatches.

VI. ii Advantages of borrowing by the governments.

1. Funding Infrastructure- Borrowing allows governments to fund large-scale infrastructure projects that have long-term benefits for society, such as building roads, bridges, airports, and utilities. These projects often stimulate economic growth and productivity.

2. Investment in Social Programs- Governments borrow to invest in social programs like education, healthcare, and welfare to improve the quality of life for their citizens. For instance, due to sustained demand for employment under MGNREGA, a sum of ₹79,770 crore has already been spent till December 19, 2023, as against the budgeted ₹60,000 crore, and an additional sum of ₹14,520 crore has been allocated. Public debt is issued by the country, making it one of the safest forms of investment. Bonds, Treasury bills, and obligations are backed by the country, minimizing the risk of default. Fixed return, Portfolio diversification, and easy accessibility. A large debt burden for a government can led to various issues such as: Low profitability, Interest rate risk, and Liquidity.

VI, iii What should be the way forward?

Managing public debt burdens requires a combination of prudent fiscal policies, responsible borrowing practices, and strategic debt management. Sustainable Economic Growth Policies are encouraging policies that foster sustainable economic growth can expand the tax base, increase revenue, and reduce the relative size of the debt burden. By implementing these measures, the government can strike a balance between meeting its financing needs for development and infrastructure while ensuring that public debt remains at sustainable levels to safeguard the economy and future generations from excessive debt burdens.

VII. Findings and suggestions of the study

Public debt is a key area of focus for understanding India's fiscal health and economic policies. A large debt may discourage expansion of economic activity because of the fear of high taxes in the future and the realization that the large debt may prevent borrowing for urgently needed local improvements. public debt is considered a promising way of putting funds into the development of the country. This is much better than the FDI from foreign countries. If used correctly and efficiently, it can enhance the standard of living of the people in a country. But on the other side, public debt is deemed bad due to high-interest rates, expensive economic expansion, and its use in gaining votes by the political parties. So, to avoid these conflicting viewpoints, the government locates that sweet spot of public debt that doesn't prove to be bad for the economy. World Bank loans help countries: Supply safe drinking water, build schools and train teachers, increase agricultural productivity, manage forests and other natural resources, Build and maintain roads, railways, and ports, extend telecommunications networks, expand health care, Generate and distribute energy.

VIII. Conclusion

The Global Goals or Sustainable Development Goal (SDG 17) can only be met if we work together. International investments and support are needed to ensure innovative technological development, fair trade, and market access, especially for developing countries like India. To build a better world, we need to be supportive, empathetic, inventive, passionate, and above all, cooperative. In India, public debt is used to finance government spending, including infrastructure projects, social programs, and addressing revenue deficits, with the Public Debt Management Cell overseeing its management.

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