Debt Metrics

[Source: IE]

Why in News?

Household debt in India rose from **36.6% of GDP** to **42.9%** between June-2021 and June 2024, signaling a macroeconomic shift and underscoring the need to examine key debt metrics such as **Debt-to-GDP ratio, public debt, and internal vs external debt.**

What are the Key Debt Metrics?

- **Debt-to-GDP Ratio:**
  - It is the ratio of a **country's total debt** to its **Gross Domestic Product (GDP).**
  - It indicates the **country's ability to repay its debt**. A h**igh ratio suggests a potential risk to fiscal sustainability**, while a moderate ratio is manageable if economic growth is strong.
  - **India's Context**: For the central government, the debt-to-GDP ratio is estimated to be **57.1% in 2024-25** and **56.1% in 2025-26.**
    - Government aims to bring it down to **50 ± 1% by 2030–31.**
    - **State governments** account for nearly **one-third of total public debt** and contributed to o**ver 50% of the rise in overall public debt** between **2014-15 and 2019-20.**
- **Public Debt:**
  - **About: Public debt** refers to the **total liabilities incurred by the government** to finance its developmental and fiscal needs.
    - It is repaid from the **Consolidated Fund of India** and includes **both internal and external borrowings.**
  - **Constitutional Basis**: As per **Article 292** of the Constitution, the Union government defines public debt as liabilities contracted against the **Consolidated Fund of India** within such limits, if any, as may be fixed by Parliament by law.
  - **Classification**:
    - **Debt under the Consolidated Fund of India** (includes market borrowings like G-Secs and T-Bills).
    - **Public Account Liabilities** (like provident funds, small savings, etc.).
- **Internal vs External Debt**:
  - **Internal Debt** refers to public loans raised **within the country**, primarily from domestic sources like individuals, banks, and financial institutions. It is denominated in Indian Rupees.
    - It forms over **93%** of the **centre's public debt** and is divided into **marketable** (G-Secs, T-Bills) and **non-marketable** (special securities, etc.).
  - **External debt** refers to the obligations of the country to **foreign governments**, **international institutions**, or **foreign investors**, usually denominated in foreign currencies.
    - It includes loans from foreign sources and multilateral institutions.
    - The **external debt to GDP ratio** stood at **19.4%** as of September 2024.

Key Provisions Related to Debt Management in India:

- **Article 292 & 293:**
  - **Article 292**: Allows the **Union government to borrow money** on the security of the **Consolidated Fund of India,** within limits set by Parliament.
  - **Article 293**: Enables **State governments to borrow money domestically** upon the security of the Consolidated Fund of the State, with prior Centre approval if they owe existing loans to the Union.
- **RBI Act, 1934**: **RBI Act, 1934** authorizes the **Reserve Bank of India** to **manage public debt o**n behalf of the Central Government.
- **FRBM Act, 2003**: The **FRBM Act, 2003** aims to **institutionalize fiscal discipline, reduce fiscal deficits, and ensure long-term macroeconomic stability** by setting targets for deficits, enhancing transparency, and ensuring timely fiscal reporting.

Factor	Effect on Public Debt	Explanation
Fiscal Deficit Increase	**Increase**	A higher fiscal deficit requires borrowing to meet the gap between revenue and expenditure.
Revenue Increase (Taxes)	**Decrease**	Higher revenue reduces the need for borrowing and public debt.
Expenditure Increase (e.g., Welfare Schemes)	**Increase**	Increased government spending leads to higher borrowing to finance the deficit.
Interest Rate Increase	**Increase**	Higher interest rates increase the cost of servicing debt, leading to more borrowing or higher debt.
Privatization/Asset Sales	**Decrease**	Proceeds from asset sales can reduce the fiscal deficit and thus lower the need for borrowing.
Foreign Borrowing	**Increase**	Borrowing from foreign sources increases external debt.
Currency Depreciation	**Increase**	Depreciation increases the cost of repaying foreign-denominated debt, leading to higher overall debt.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims:

Q. Consider the following statements: (2018)

1. The Fiscal Responsibility and Budget Management (FRBM) Review Committee Report has recommended a debt to GDP ratio of 60% for the general (combined) government by 2023, comprising 40% for the Central Government and 20% for the State Governments.
2. The Central Government has domestic liabilities of 21% of GDP as compared to that of 49% of GDP of the State Governments.
3. As per the Constitution of India, it is mandatory for a State to take the Central Government’s consent for raising any loan if the former owes any outstanding liabilities to the latter.

Which of the statements given above is/are correct?

(a) 1 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2 and 3

Ans: C