Debt Dilemma

Why in news?

The elevated levels of India’s fiscal deficit and public debt have been a matter of concern for a long time in India.

Debt to GDP ratio	The debt-to-GDP ratio is the ratio of a country's public debt to its gross domestic product.
Fiscal deficit	It is the indication of the total borrowings made by the government as expenditure is more than revenue.

What is the picture of India’s debt?

- **Debt ratio** - As per International Monetary Fund, India's debt ratio projected to be *84% of its GDP in 2022.*
- **Fiscal Deficit** - The fiscal deficit stands at *6.4% of GDP*, India aims to keep the same fiscal deficit in 2023.
- The fiscal deficit in 2020-21 increased to 13.3% and the aggregate public debt to 89.6%.
- As the economy recovered after the pandemic, the deficit and debt ratios have receded to 8.9% and 85.7%, respectively.
- **External debt** - India’s External debt stands at 18% of GDP as per RBI for the FY 2023.
- Loans remained the largest component of external debt, with a share of 32.5%, followed by currency and deposits (22.6%), trade credit and advances (19.9%) and debt securities (16.7%)

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What are the issues associated with India’s debt?

- **Financial repression**- When the interest rate on government debt is lower than the growth of GDP, the debt may decline but the financial market gets distorted.
- **Electoral budget cycle-** With elections to a number of States scheduled in 2023 and the general election for 2024, this could push the debt ratio further.
- **Large interest payments-** It constitutes over *5% of GDP and 25% of the revenue receipts* which is more than the government expenditure on education and health care put together.
- This reduces the expenditure capability in physical infrastructure, human development and emerging priorities to make the green transition.
- **High levels of debt-**This make it difficult to calibrate counter-cyclical fiscal policy and reduces the ability of the government to respond to shocks.
- **Captive debt market**- This is due to the participation of commercial banks and

insurance companies in reserve and priority lending requirements.

Commercial bank requirements	Percentage
Cash Reserve Ratio	4.5%
Statutory Liquidity Ratio	18%
Priority sector	40%

- The resources available for lending to the manufacturing sector gets squeezed, driving up the cost of borrowing of the sector.
- **Low sovereign ratings**- Rating agencies keep low sovereign ratings if deficit and debts are high, this will drive the cost of borrowings of the manufacturing sector.
- **Tax burden-** As today's borrowing is taxing tomorrow' and the burden of large deficits and debt will have to be borne by the next generation, this will increase the tax burden of the people.

Every individual in the country already bears a debt burden of Rs 1,64,000.

What lies ahead?

- Fiscal consolidation is of critical importance to reduce the fiscal deficit.
- After six years, Goods and Services Tax (GST) has stabilised and has shown high growth potential.
- Technology stability is expected to maintain high buoyancy in the medium term.
- India can privatise telecom to the private sector, so that India can invest positively in reducing fiscal deficit of the country.
- Redistribution of resources is best with direct cash transfers rather than providing subsidies.
- The states can be allowed to borrow through the enforcement of Fiscal Responsibility and Budget Management (FRBM) rules.
- It is the primary duty of the union government to enforce rules on the states effectively for macroeconomic stabilisation

References

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3. The Hindu| India's External debt