Raising receipts, accelerating economy's size key to address debt issue

Govt debt as % of GDP had risen by 10 percentage points during 2020-21 over the previous year

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Union Finance Minister Nirmala Sitharaman has said the Centre is looking at ways to reduce government debt to ensure that future generations are not burdened.

She recently said the country's debt was not very high compared to the global average.

Since the Covid-hit year of 2020-21, India's debt (the Centre's and the states') has not come below 80 per cent of gross domestic product (GDP). It touched nearly 90 per cent (89.45 per cent) during 2020-21. Of this, the Centre's liabilities were around 63 per cent.

The Centre's debt had risen by around 10 percentage points of GDP during 2020-21 compared to the previous year.

It took on a wide range of social work and infrastructure projects to help vulnerable sections during the lockdown in the Covid-19 year.

Sitharaman had said the government wanted to follow the "bang for the buck argument", which it did during the pandemic, when it invested heavily in asset-creating infrastructure rather than heed calls to put more money in the hands of the people. Many advanced countries chose to put more money in the hands of the people and are now suffering from higher inflation and growth slowdown, she had said.

According to the data released by the International Monetary Fund (IMF), the general debt of India will not come down below 80 per cent of GDP by 2028-29.

Among BRICS nations, the debt of Russia is lower than that of India. It was 19.16 per cent of GDP during 2020 and is projected to come down to 18.19 per cent by 2028. South Africa had less debt at 68.86 per cent of GDP during 2020.

China also had less debt than India in proportion to GDP during the Covid-19 year of 2020 till 2022. However, it is likely to incur higher debt than India's in the next six years, according to the IMF.

Brazil has always had higher debt than India's since 2019 and it is projected to stay so till 2028.

ILLUSTRATION: BINAY SINHA

HOW BRICS COUNTRIES FARED

General govt debt as % of GDP

	India	Brazil	Russia	China	South Africa
2019	75.33	87.12	13.75	60.46	56.1
2020	89.45	96.01	19.16	70.14	68.86
2021	85.21*	90.01	16.45	71.84	68.8
2022	86.54**	85.33	18.89	76.98	71.12
2023#	81.89	88.08	21.22	82.98	73.67
2024	82.3	90.27	21.81	87.41	75.79
2025	82.18	92.44	21.7	91.8	78.75
2026	81.75	93.92	20.89	95.91	81.62
2027	81.15	95.03	19.77	100.12	84.16
2028	80.5	96.02	18.19	103.34	86.73

*Revised estimate; ** Budget estimate; #IMF projection from 2023 onwards
Note: For India, data is on Apr-March financial year basis
Source: RBI, IMF

How India can cut debt with elections around

The Centre's capital expenditure (capex) grew 48.14 per cent at ₹3.73 trillion in the first five months this financial year against the Budget Estimates (BE) of 33.4 per cent, while revenue expenditure rose 14.1 per cent against 9.6 per cent.

While part of capital expenditure, particularly loans given to the states, was front-loaded and could be balanced out in the remaining period of the financial year, cutting revenue expenditure would be a challenge in the election year.

The solution may lie in increasing tax revenue and also the size of the economy to reduce debt. Bank of Baroda Chief Economist Madan Sabnavis said in an election year the government might not be able to cut revenue expenditure, and hence the axe might be on capex.

"So far tax collection has been good, and, if sustained, this conundrum will not arise. But if the government falls short on disinvestment, for example, then there will be some pushback on capex. This will pressure the fiscal deficit," he said.

On whether switching partly from market borrowing to small savings can reduce debt, he said small savings were more to avoid pressuring the market.

"Small savings typically are more expensive ... Further, when these funds are used, governments pay a premium over the small savings rates," Sabnavis said. But those ensure the government does not compete with the private sector for funds in the market, he added.

Anil K Sood, professor at the Institute for Advanced Studies in Complex Choices, said India's debt was not as worrisome as it was made out to be.

The country's debt was 83.2 per cent of GDP in 2003-04, he said. It rose from there by just 3.3 percentage points during 2022-23 (BE). The main reason behind the increase in debt is a slowdown in GDP growth during the pre-pandemic period, and the post-pandemic growth rate is lower than the earlier trend growth, he said. The decline in debt coincides with a high-growth period (2004-14), he said, adding the question now is: Why is our GDP growth slowing down, and what would it take to accelerate it?

"During the recent years, decisions like demonetisation, the hasty implementation of goods and services tax, and the reduction in corporate tax rates have caused growth in tax revenue to decline."