DAYS AFTER IMF'S WARNING

100% general debt-to-GDP ratio 'not fait accompli', says FinMin

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The Union finance ministry on Friday noted that the general government debt, comprising both central and state debt, as a share of gross domestic product declined from about 88 per cent of gross domestic product (GDP) in 2020-21 to 81 per cent in 2022-23. Stating its position on the International Monetary Fund's (IMF's) latest Article IV consultations, the ministry asserted that the Centre was on track to achieve its stated fiscal consolidation target.

The IMF earlier had warned that India's general government debt could exceed 100 per cent of GDP in the medium term. The Fund also cautioned that long-term debt sustainability risks were high due to the significant investment required to meet India's climate change mitigation targets.

The finance ministry in a press statement noted that among the various favourable and unfavourable scenarios presented by the IMF, under one extreme possibility, like the once-in-a-century Covid-19 pandemic, it stated that the general government debt could be "100 per cent of debt-to-GDP ratio" under adverse shocks by FY28. Turn to Page 6

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"It talks only of a worst-case scenario and is not fait accompli," the ministry stressed. Stating its position, the finance ministry underscored that India's general government debt was overwhelmingly rupee-denominated, with external borrowings from bilateral and multilateral sources contributing a minimal amount.

Domestically issued debt, it highlighted, was largely in the form of government bonds -- mostly medium- or long-term with a weighted average maturity of roughly 12 years for central government debt.

"Therefore, the rollover risk is low for domestic debt, and the exposure to volatility in exchange rates tends to be at the lower end," the finance ministry said. It said the shocks experienced this century by India were global in nature, such as the global financial crisis, taper tantrum, Covid-19, the Russia-Ukraine war. "These shocks uniformly affected the global economy and barely few countries remained unaffected. Therefore, any adverse global shock or extreme event is expected to unidirectionally impact all the economies in an interconnected and globalised world," the statement added.