• What makes governments borrow?

GOVERNMENTS HAVE LARGE financial needs as they seek to expand their economies. These financial needs can be met either by imposing high/additional taxes or by borrowing or a combination of the two. In theory, government/public borrowing is an effective tool for generating economic growth by expanding the production and consumption choices of current and future generations and fairly distributing the debt burden between current and future generations of taxpayers. Thus when government's expenditure exceeds its receipts, it borrows to finance this gap. This gap between expenditure and receipts called the fiscal deficit is financed through borrowing, which adds to the country's outstanding debt-stock.

• Components of the Centre's outstanding debt

THE CENTRAL GOVERNMENT'S DEBT comprises: (i) Total outstanding liabilities on the security of the Consolidated Fund of India. This is called public debt and comprises internal and external debt; (ii) Total outstanding liabilities in the Public Account of India, (i.e, Other Liabilities), including liabilities on account of State Provident Funds, Reserve Funds and Deposits, etc. (iii) Liabilities on account of extra budgetary resources raised by issuing Government of India fully serviced bonds.

FISCAL FRAMEWORK

The challenge of public debt and deficit

Finance minister Nirmala Sitharaman has said the priority of the government for the next decade should be to reduce the debt burden. ***Manish Gupta*** looks at the indicative debt path recommended by the 15th Finance Commission

• Internal debt vs external debt

INTERNAL DEBT CONSISTS of (a) marketable debt comprising government dated securities and Treasury Bills issued via auctions, and (b) non-marketable debt consisting of Intermediate Treasury Bills issued to state governments and the RBI, special securities issued against small savings, special securities issued to public sector banks/ EXIM Bank, securities issued to international financial institutions, compensation and other bonds.

External debt refers to debt raised by the Centre from non-domestic sources as in multilateral institutions like Asian Development Bank, International Bank for Reconstruction and Development, etc. External debt is also raised directly from foreign countries.

58.6%

FY25 DEBT-GDP RATIO FOR CENTRAL GOVT PRESCRIBED BY 15TH FINANCE COMMISSION

OUTSTANDING LIABILITIES OF THE CENTRE AND THE STATES PEAKED DURING THE PANDEMIC YEARS

80.2%

FY25 BUDGETED DEBT-GDP RATIO FOR GENERAL GOVT AGAINST HIGH OF 89% IN FY21

• What is state government debt?

STATE GOVERNMENTS CAN borrow only from internal sources. Further, states have to take consent of the Centre to raise any loan, if there is still outstanding any part of a loan which has been made to the state by the government of India. Si[…] to the central government, states als[…] incur liabilities in the public accoun[…] through accumulations of providen[…] fund, reserve funds, deposits, etc.

• Total debt of the government secto[…]

GENERAL GOVERNMENT DEBT is the consolidated debt of the central government, state governments and Union Territories (UT) with legislature. It basically represents the indebtedness of the government sector and is arrived at by aggregating the liabilities of the central and state governments and UTs with legislature and netting out inter-governmental liabilities; namely, (i) Centre's loans to states and UTs; (ii) securities issued by states/UTs to National Small Savings Fund (NSSF) (iii) investment in treasury bills by states/UTs which represents lendin[…] states/UTs to the Centre.

This consolidated debt position i[…] important from the point of view of analysing sustainability of debt of th[…] government sector as a whole.

OUTSTANDING LIABILITIES (% of[…]

	2019-20	2020-21	2021-22	2022-23	2023-24RE	2024-[…]
Centre	50.8	60.8	57.4	56.5	57.1	
States	25.2	29.6	27.7	26.8	27.3	
General Government	75.1	88.9	83.1	81.2	82.0	
15th FC prescribed path						
Centre		62.9	61.0	61.0	60.1	
States		31.1	30.7	31.3	31.1	
General Government		89.8	88.3	89.6	89.1	

• Current status of government debt

THE OUTSTANDING LIABILITIES of the Centre and the states which increased during the pandemic year 2020-21 have substantially declined and are budgeted to be around 55.7% and 27.4% respectively in 2024-25, well within the limit prescribed by the 15th Finance Commission. The general government debt also spiked to 89% in 2020-21. It has gradually come down since then, but still remains elevated at over 80% as budgeted for 2024-25 (*See table*).

The 15th Finance Commission recommended an indicative debt pa[…] for the central, state and general government for its award period 20[…]26. For 2024-25, it prescribed the de[…] GDP ratio for the central, state and general government to be 58.6%, 3[…] and 87.8% respectively.

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