



India's Public Debt Ratio

Why in News

As per the [International Monetary Fund \(IMF\)](#), India's public debt ratio is **projected to jump by 17 percentage points to almost 90%** because of an **increase in public spending due to Covid-19**.

- India's public debt ratio has **remained stable at about 70% of the Gross Domestic Product (GDP)** since **1991**.

Key Points

▪ Increase in Public Debt Ratio:

- The increase in **public spending**, in response to Covid-19, and the **fall in tax revenue and economic activity**, will make the public debt ratio jump by 17 percentage points.
- The ratio is **projected to stabilise in 2021**, before slowly declining up to the end of the projection period, in 2025.

- The **pattern of public debt in India is close to the norm around the world**.

- This debt-to-GDP ratio is the metric **comparing a country's public debt to its Gross Domestic Product (GDP)**. It is often **expressed as a percentage**.
- By comparing what a country owes (debt) with what it produces (GDP), the debt-to-GDP ratio reliably **indicates a particular country's ability to pay back its debts**.
- A **country with a high debt-to-GDP ratio** typically has **trouble paying off public debts**.

▪ Assessment of Fiscal situation (relating to taxation, public spending, or public debt):

- India has been an **important source of growth in the world since the 1991 economic liberalisation reforms**.
- **Real GDP growth** averaged **6.5%** between **1991 to 2019**, and **real GDP per capita was multiplied by four** over that period.
 - Real GDP is calculated in a way such that the goods and services are evaluated at some constant set of prices. **Nominal GDP**, on the other hand, is simply the value of GDP at the current prevailing prices.
- This impressive growth performance helped **lift millions of people out of extreme poverty**.
 - The extreme poverty rate, **measured as the proportion of people whose income is less than \$1.90 a day at purchasing power parity** (the international poverty line), fell from 45% in 1993 to 13% by 2015.
 - India **achieved the millennium development goal of halving poverty by 2015** (from its 1990 level).
- India has made astonishing progress in other areas. **Education** enrollment is nearly universal for primary school. [Infant mortality rates](#) have been halved since 2000. **Access to water and sanitation, electricity, and roads** has been greatly improved.

Way Forward

- In the near-term, **additional fiscal action should be deployed** as needed to support the poor and the vulnerable. This should be **accompanied by a credible medium-term fiscal consolidation plan** that can reinforce market confidence and structural reforms that boost India's growth potential.
- The effects of Covid-19 on health, education, poverty and nutrition render progress towards the Sustainable Development Goals even more urgent. **Macroeconomic and financial stability** are important necessary conditions for **sustainable development**.

[Source: TH](#)

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