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PUBLIC DEBT AND ECONOMIC SUSTAINABILITY IN INDIA

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ABSTRACT

Public debt is an important instrument of fiscal policy because it enables governments to finance infrastructure, social welfare, economic stabilisation and development expenditure when current revenues are insufficient. In India, the sustainability of public debt has become increasingly important because borrowing requirements remain substantial at both central and state government levels. This study examines the relationship between public debt, fiscal management and long-term economic sustainability in India, with particular attention to debt accumulation, fiscal deficits, interest payments, economic growth and the quality of public expenditure. Recent evidence indicates that India's general government debt remained high, although fiscal consolidation has improved the fiscal position after the pandemic. The Reserve Bank of India reported general government debt at 81.6 percent of GDP in 2023-24, compared with 82.5 percent in 2022-23 (RBI, 2024). The Union Government's fiscal deficit was estimated at 4.8 percent of GDP in 2024, while central government debt was estimated at 57.1 percent of GDP (Government of India, 2024). Empirical studies provide differing assessments of sustainability. Deheri and Nag (2023) found evidence of debt-stabilising fiscal behaviour, whereas Shanmugam and Renjith (2023) identified relatively restrictive debt thresholds for the Centre and states. More recent research by Ram and Kumar (2024) suggests that India's debt sustainability has benefited from a favourable interest-growth differential. The study argues that debt itself is not necessarily harmful when borrowing finances productive investment and economic capacity. However, persistent revenue deficits, rising interest obligations, contingent liabilities and inefficient expenditure can weaken fiscal sustainability. Strengthening fiscal rules, improving revenue mobilisation, maintaining expenditure quality, developing transparent debt management and coordinating Centre-state fiscal policies are therefore essential for sustaining India's growth while preserving macroeconomic stability.

Keywords: *Public Debt, Fiscal Sustainability, Economic Growth, Fiscal Deficit, Government Borrowing, India.*

INTRODUCTION

Public debt represents the accumulated financial obligations of governments arising mainly from borrowing to finance fiscal deficits and development expenditure. For a developing economy such as India, borrowing can support infrastructure, human capital, social protection and countercyclical fiscal intervention. However, excessive debt can increase interest obligations, restrict fiscal space and transfer financial burdens to future generations. India's debt structure is distinctive because both the Union and state governments contribute substantially to general government liabilities. The Reserve Bank of India reported general government debt of 81.6 percent of GDP in 2023-24 (RBI, 2024). At the Union level, fiscal consolidation has continued, with the fiscal deficit estimated at 4.8 percent of GDP in 2024 and central government debt at 57.1 percent of GDP (Government of India, 2024). Consequently, assessing the quality, composition and sustainability of public borrowing is central to India's long-term economic development.

STATEMENT OF THE PROBLEM

India requires substantial public expenditure to support infrastructure, employment, social development and economic transformation, but financing these requirements through persistent borrowing can increase debt and interest obligations. High public debt may reduce fiscal flexibility during economic shocks and constrain productive expenditure if interest payments absorb increasing government revenues. Although recent fiscal consolidation has reduced deficits, concerns remain regarding combined Centre-state debt, revenue expenditure, contingent liabilities and the long-term debt burden. Therefore, examining whether India's present borrowing pattern can support sustained economic growth without creating excessive future fiscal pressure is an important economic policy problem.

SCOPE OF THE STUDY

The study covers public debt and fiscal sustainability in India, focusing on the Union and state governments, debt-to-GDP ratios, fiscal deficits, interest payments, economic growth and expenditure quality. It uses secondary information from government publications, RBI reports and academic research to assess major debt trends and sustainability concerns.

OBJECTIVE OF THE STUDY

To examine the relationship between public debt and economic sustainability in India by analysing debt trends, fiscal deficits, interest obligations, economic growth and the quality of public expenditure.

RESEARCH METHODOLOGY

The study uses secondary data from RBI, Union Budget documents, Economic Surveys and peer-reviewed research, applying descriptive and analytical interpretation to evaluate debt sustainability and fiscal risks.

1. Trends, Structure and Changing Pattern of Public Debt in India

Public debt in India has evolved alongside the country's development strategy, fiscal institutions and changing macroeconomic conditions. Government borrowing has historically been used to finance infrastructure, social programmes, defence, public administration and development expenditure. The structure of Indian public debt includes internal debt, external debt and other liabilities of the government. Internal borrowing forms the dominant component, reducing direct exposure to foreign currency fluctuations. This characteristic distinguishes India's debt profile from economies that rely heavily on foreign-currency sovereign borrowing. The Economic Survey has noted that India's public debt profile is relatively stable because of comparatively low currency and interest-rate risks, with a substantial share of government debt held domestically (Government of India, 2023). However, a stable composition does not eliminate the need for fiscal discipline because the absolute size of liabilities and annual interest obligations remain important determinants of fiscal sustainability. The debt-to-GDP ratio is particularly significant because economic growth increases the government's capacity to service debt. When nominal GDP grows faster than the effective interest burden on outstanding debt, the debt ratio can decline even when the government continues borrowing. Conversely, weak growth combined with high interest costs can produce rapid debt accumulation.

The pandemic period represented a major turning point in India's fiscal position. Government revenues weakened while expenditure increased substantially to support households, businesses, health systems and economic recovery. Consequently, deficits and debt ratios increased. Fiscal consolidation after the pandemic has gradually reduced the central fiscal deficit. The Union Government's fiscal deficit declined from the pandemic-era elevated levels to 5.8 percent of GDP in 2023-24 and was estimated at 4.8 percent in 2024 (Government of India, 2024). Central government debt under the FRBM definition was estimated at 57.1 percent of GDP in 2024, with a budgeted decline to 56.1 percent in 2024 (Government of India, 2024). These figures demonstrate that fiscal consolidation has become an important policy objective. Nevertheless, the central government's position cannot be evaluated independently from state finances because states undertake substantial expenditure on health, education, agriculture, infrastructure and welfare. RBI data indicate that state government finances have improved compared with the immediate post-pandemic period, although outstanding liabilities remain above pre-pandemic levels (RBI, 2024).

A broader assessment therefore requires consideration of general government debt rather than central government debt alone. RBI estimates placed general government debt at 81.6 percent of GDP in 2023-24, down from 82.5 percent in 2022-23 (RBI, 2024). This decline indicates some improvement, but the ratio remains substantial for an emerging economy with large developmental requirements. Kaur, Mukherjee and Ekka (2018), examining 20 Indian states over 1980-81 to 2015-16, found that state-level debt was sustainable in the long run under their empirical framework. More recent research has generated more cautious assessments. Shanmugam and Renjith (2023) estimated debt sustainability thresholds of about 40 percent for the Centre and 22 percent for all states, suggesting that debt beyond these levels could become growth reducing under their analytical framework. These differences show that debt sustainability cannot be determined by a single ratio. The maturity structure, interest rate, economic growth, primary balance, revenue capacity and purpose of borrowing all matter. India's relatively high domestic share and long maturity structure provide important protection, but sustained fiscal consolidation remains necessary to prevent debt servicing from competing with development expenditure.

2. Public Debt, Fiscal Deficit and Economic Growth

The relationship between public debt and economic growth is complex because government borrowing can generate both positive and negative effects. Borrowing used for productive infrastructure can increase the economy's productive capacity, improve connectivity, reduce transaction costs and stimulate private investment. Expenditure on roads, railways, ports, power systems, digital infrastructure, irrigation and urban development can generate economic returns over several years. Similarly, borrowing that finances education, health and skill development can strengthen human capital and improve long-term productivity. Therefore, judging public debt only by its numerical size may provide an incomplete picture. The economic return generated by borrowed resources is equally important. If the rate of economic growth generated by public investment exceeds the effective cost of government borrowing, debt can remain manageable. Blanchard (2019) emphasised that the relationship between interest rates and economic growth is central to understanding debt sustainability. India's strong nominal growth performance has historically provided an important mechanism through which debt ratios can stabilise.

Fiscal deficits are closely connected with debt accumulation because persistent deficits require continued borrowing. India's fiscal consolidation strategy has therefore focused on reducing the deficit while protecting productive capital expenditure. The fiscal deficit was estimated at 4.8 percent of GDP in 2024 and budgeted at 4.4 percent in 2024 (Government of India, 2024). At the same time, the Union Government budgeted capital expenditure of ₹11.21 lakh crore, equivalent to approximately 3.1 percent of GDP, in 2024 (Government of India, 2024). This combination is significant because reducing borrowing exclusively through cuts in capital expenditure could weaken future growth and ultimately make debt sustainability more difficult. A better strategy is to control unproductive revenue expenditure while protecting high-return investment. RBI's

assessment of state finances similarly emphasises the importance of maintaining fiscal prudence while prioritising growth-enhancing capital expenditure (RBI, 2024).

Empirical evidence concerning India's debt-growth relationship is not uniform. Kumar and colleagues' recent work has shown that debt sustainability can be supported by a favourable interest-growth differential, meaning that economic growth can outpace the effective burden of interest costs (Ram & Kumar, 2024). Their study covering 1980 to 2022 found that India's public debt remained sustainable under the fiscal reaction framework, with sustainability supported particularly by the interest-growth relationship rather than a consistently positive primary balance. Deheri and Nag (2023), using data from 1980-81 to 2019-20, found that the primary surplus responded positively and significantly to previous-period debt in both the short and long run, indicating debt-stabilising fiscal behaviour. However, Arjun (2024), using nonlinear models for 1980-81 to 2020-21, stresses the importance of fiscal regimes in assessing sustainability rather than assuming a uniform relationship across all periods. These findings suggest that India's debt can support development when borrowing is disciplined, growth remains strong and fiscal authorities respond to increasing debt. Problems emerge when borrowing finances recurring consumption without generating sufficient economic returns. Consequently, debt policy must be connected with growth policy, expenditure efficiency and fiscal credibility.

3. Interest Burden, Fiscal Space and Risks to Economic Sustainability

Interest payments represent one of the most important channels through which public debt affects fiscal sustainability. When government debt rises, a greater portion of public revenue may be required to service existing liabilities, leaving fewer resources for infrastructure, education, healthcare and social development. According to the provisional Union Government accounts for 2024, interest payments were approximately ₹11.16 lakh crore, compared with total revenue receipts of about ₹30.36 lakh crore (Government of India, 2024). This means that interest payments absorbed a substantial share of revenue receipts. The fiscal implications are significant because interest payments cannot easily be reduced in the short term. They represent contractual obligations arising from past borrowing. If interest payments rise faster than revenue, the government may need additional borrowing to finance existing obligations, potentially creating a debt-interest spiral. India's relatively long average maturity of government securities helps reduce refinancing risk because large amounts of debt do not mature simultaneously. Nevertheless, higher interest rates can gradually increase the cost of new borrowing and refinancing.

Fiscal space is particularly important for India because governments must respond to economic shocks while continuing long-term development programmes. A government with moderate debt and strong revenue capacity can increase expenditure during recessions, natural disasters or financial disruptions without immediately creating doubts about solvency. In contrast, a government with high debt and high interest obligations may have less capacity to undertake countercyclical intervention. The COVID-19 experience demonstrated the value of fiscal flexibility. India's recovery was supported by public spending, credit support and investment, but the

fiscal cost contributed to higher debt. The challenge is therefore to rebuild fiscal buffers during periods of strong growth. RBI has recommended a risk-based fiscal framework, a medium-term expenditure framework and a clear, transparent and time-bound glide path for debt consolidation (RBI, 2024). Such a framework can help distinguish between temporary borrowing undertaken during economic shocks and structural borrowing arising from persistent fiscal imbalances.

State-level fiscal risks also require greater attention because state governments account for a large share of public expenditure and have their own liabilities and guarantees. RBI's State Finances report indicates that although state finances have shown greater prudence, outstanding liabilities remain above pre-pandemic levels (RBI, 2024). The Economic Survey reported that the combined debt-to-GSDP ratio of 28 states was approximately 28.1 percent in FY2024, while the interest payments-to-revenue receipts ratio was approximately 12.6 percent, with considerable variation among states (Government of India, 2024). These differences demonstrate that debt risk is uneven across India. States with weak own-revenue mobilisation, large committed expenditure and high interest obligations have less flexibility to increase development spending. Guarantees and off-budget liabilities can further obscure the actual fiscal position. Therefore, debt sustainability should incorporate explicit liabilities, guarantees, public-sector borrowing and other contingent obligations. Better disclosure and coordinated debt management between the Union and states are essential for preventing hidden fiscal risks from becoming significant economic liabilities.

4. Fiscal Consolidation, Debt Management and Policy Measures for Sustainable Development

Fiscal consolidation in India should focus on improving the quality rather than simply reducing the quantity of government expenditure. A reduction in the fiscal deficit achieved through cuts in infrastructure investment may temporarily improve fiscal indicators but could reduce potential growth. Conversely, expenditure on productive capital assets can increase future income and government revenue, thereby improving the government's capacity to service debt. The Union Government's continued emphasis on capital expenditure reflects this approach. In 2024, capital expenditure was budgeted at ₹11.21 lakh crore, or 3.1 percent of GDP (Government of India, 2024). The appropriate fiscal strategy is therefore to control low-productivity revenue expenditure, improve targeting of subsidies, strengthen tax administration and protect investment with high social and economic returns. Improved expenditure efficiency can generate more development from every rupee borrowed. This is particularly relevant in India because the country requires sustained investment in transport, energy, urban infrastructure, climate resilience, health and education.

Revenue mobilisation is another major component of debt sustainability. Stronger tax buoyancy reduces dependence on borrowing and creates fiscal space for development expenditure. India's tax system has undergone substantial changes through the introduction and expansion of the Goods and Services Tax, improved digital compliance and greater use of data analytics. Continued efforts to widen the tax base, reduce evasion and simplify compliance can strengthen government revenues without relying excessively on higher tax

rates. At the same time, public asset management and non-tax revenue can contribute to fiscal consolidation. The objective should not be maximum taxation but stable and predictable revenue growth consistent with economic expansion. At the state level, stronger own-tax revenue, improved property taxation, better user charges and efficient public-sector asset management can reduce dependence on transfers and borrowing. RBI (2024) has emphasised strengthening state fiscal capacity while maintaining expenditure quality. This approach can improve the capacity of states to finance development while keeping debt within manageable limits.

Debt management also needs a medium-term perspective. India can reduce fiscal risks by maintaining a diversified maturity profile, developing the government securities market, improving transparency concerning contingent liabilities and coordinating borrowing across levels of government. The favourable interest-growth differential identified by Ram and Kumar (2024) provides support for India's current debt dynamics, but such favourable conditions cannot be assumed permanently. Shanmugam and Renjith (2023) provide a more cautious perspective by identifying relatively low debt thresholds beyond which debt can become growth reducing. These contrasting findings indicate that fiscal policy should maintain a safety margin rather than targeting the maximum debt level that appears sustainable under current conditions. Fiscal rules should be flexible enough to permit temporary countercyclical borrowing during severe downturns but sufficiently credible to prevent persistent deficits during normal periods. Greater transparency in public accounts, regular publication of debt sustainability assessments and comprehensive reporting of guarantees and off-budget liabilities would strengthen market confidence. India's objective should therefore be to maintain a debt trajectory consistent with strong economic growth, manageable interest costs and adequate fiscal space for future shocks, while ensuring that public borrowing contributes directly to productive capacity and social welfare.

CONCLUSION

Public debt is an essential instrument for India's economic development, but its sustainability depends on how much is borrowed, why it is borrowed and whether economic growth remains sufficient to service it. Recent fiscal consolidation has improved India's fiscal position, while strong domestic growth and a predominantly domestic debt structure provide important support. Nevertheless, general government debt, interest obligations and state-level liabilities require continuous monitoring. Sustainable debt management should combine prudent fiscal rules, stronger revenue mobilisation, efficient expenditure, productive capital investment and transparent reporting of contingent liabilities. The evidence indicates that India can maintain sustainable public finances when borrowing is linked with productive investment and fiscal authorities respond appropriately to rising debt. Long-term fiscal credibility will remain essential for preserving economic stability and development capacity.

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