MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS
LOK SABHAUNSTARRED QUESTION NO. 4866
TO BE ANSWERED ON FRIDAY, THE 31st March, 2017Chaitra 10, 1939 (SAKA)

Internal Debt Trap

4866,Shri Sadashiv Lokhande:

Will the Minister of Finance be please to state:

(a) Whether the Government is aware of the growing internal debt in the country?
(b) If so, the details thereof and its likely impact on the Indian economy?
(c) Whether the rising ratio of revenue receipts and loans has led to the increase in internal debt?
(d) If so, the details thereof; and
(e) The corrective measures taken by the Government in this regard?

ANSWER

Minister of State for Finance (ShriArjun Ram Meghwal)

(a and b) Yes Madam. The internal debt grew from Rs. 60.45 lakh cr in 2014-15 to Rs. 66.92 lakh cr in 2015-16 (a rise of Rs. 6.47 lakh cr or say increase of 10.70 per cent compared to 2014-15). The internal debt was at Rs. 33.96 lakh cr in 2009-10 and at Rs. 19.34 lakh cr in 2004-05.

The internal debt to GDP ratio of India increased from 45.40 per cent in 2014-15 to 46.50 per cent in 2015-16. However, this ratio was 46.70 per cent in 2009-10 and 39.40 per cent in 2004-05.

Developing countries like India need to resort to internal debt to finance all its needs as revenue is generally not sufficient to meet all financial needs of a growing economy. As per March 2015 study by International Monetary Fund (IMF), India's public debt remains sustainable given manageable interest rate costs and expected recovery in the economy's growth rate.

In case it is decided to fund the Govt. requirements from the Govt. revenues only, creating infrastructure and achieving the desired rate of growth will take a much longer time. Internal debt fastens the process of infrastructure availability and leads to enhanced rate of economic growth.

(c and d) No Madam. The internal debt to the revenue receipt ratio [*internal debt as proportion of the revenue receipts*] of the Govt. of India has decreased over the years. The internal debt as a proportion of revenue receipts was 79 per cent in 2004-05 which has gradually fallen to 51 per cent in 2015-16. This shows that though internal debtis rising but the revenues are rising much more than the debt, as shown in the table below:

	2004-05	2009-10	2014-15	2015-16
borrowings during yr （Rs. Cr.）	2,42,990	3,59,744	5,98,967	6,04,964
Revenue Receipts （Rs. Cr.）	3,09,322	5,72,811	11,26,294	11,95,025
Borrowing to Revenue Receipts ratio	79%	63%	53%	51%

(e) The Govt. has been repaying the internal debt as and when it falls due and loans are being serviced regularly. Decreasing Gross Fiscal Deficit (GFD) ratio and a broadly stable debt to GDP ratio also shows the Govt. intention towards fiscal consolidation. The Government is adhering to a fiscal consolidation path in terms of the provisions of the FRBM Act with the objective to reduce fiscal deficit and Government debt. In this process, the GFD ratio for next financial year, 2017-18, has been reduced to 3.2% from 3.5% in current financial year. The Medium Term Debt Management Strategy (MTDS) also aims to reduce the cost of borrowing, mitigate risk to the Government and develop bond market in India. The Government is also pursuing an active debt management strategy under which short term bonds are switched with longer tenor securities through buy-backs to spread the redemption pressure on the Government evenly. All these steps ensure that internal debt will be kept within the sustainable limits.

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