GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

LOK SABHA
STARRED QUESTION NO.*24
TO BE ANSWERED ON05.02.2024

Impact of Government's Debt on Economy

***24. SHRI SUBBARAYAN K:**

Will the Minister of FINANCE

be pleased to state:

a) Whether it is a fact that the combined Government debt of the country is 86.5 per cent of GDP despite our claim that India is the fastest growing economy in the world;
b) if so, the details thereof and the reaction of the Government thereto;
c) whether the high debt level of the Government has resulted in low level of total investments in the economy which is 32 per cent of GDP in 2022-23compared to 38-39 per cent in 2011-12;
d) if so, the details thereof and the reaction of the Government thereto; and
e) the measures taken/being taken by the Government for debt reduction and sustained public and private investment in the economy?

ANSWER

THE FINANCE MINISTER
(SMT NIRMALA SITHARAMAN)

(a) to (e):A statement is laid on the Table of the House.

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Statement referred to in reply to the Lok Sabha starred question no. 24 on "Impact of Government's Debt on Economy" raised by Shri Subbarayan K due for answer on 05.02.2024

(a) and (b): After a sharp rise in government debt in 2020-21 on account of the revenue shortfall and additional spending requirements due to the pandemic, the general government debt relative to GDP has gradually declined over the last two years to reach around 81 per cent at the end of March 2023 (Prov.). Buoyant revenue collection, rebalancing of spending from revenue to capital expenditure and robust real GDP growth in the post-pandemic years has led to a decline in the Government debt relative to GDP.

(c) to (e): As per the National Statistical Office (NSO) estimates, the investment rate (Gross Fixed Capital formation as a per cent of GDP) in the economy, which stood at 34.3 per cent in 2011-12, gradually came down over the next few years. This decline was on account of the unsustainable investments made by the corporates from 2004-2012, which later resulted in bad loans, creating high stress in the corporate and banking systems. Consequently, the Gross Non-Performing Assets as a per cent of Gross Advances (GNPA ratio) for the Scheduled Commercial banks went up.

The combined efforts of the Government and the RBI after 2014-15 reduced the stress in the corporate and banking systems. The measures adopted included transparent identification of non-performing assets through Asset Quality Review, budgetary support to the public sector banks for strengthening their balance sheets, and implementation of the Insolvency and Bankruptcy Code (IBC) to resolve the bad debts. As a result, the GNPA ratio of banks declined to reach a record low of 3.2 per cent in September 2023.

In addition to strengthening the financial system, the Government has more than doubled its effective capital expenditure from Rs 6.57 lakh crore in 2020-21 to Rs 13.71 lakh crore and Rs 14.97 lakh crore in 2023-24 (BE) and 2024-25 (BE), respectively, to crowd in private investments. Simultaneously, the State Governments have been incentivised to increase their capital spending through measures such as 50-year interest-free capex loans and front-loading of tax devolution instalments. Various other measures, such as reduction of the corporate tax rate, liberalisation of foreign direct investment, and enhancement of ease of doing business, have created supportive conditions for sustained growth in private investment. As a result, the overall investment rate in the economy consolidated at 29.2 per cent of GDP in 2022-23 and has further improved to 29.8 per cent in 2023-24 as per the advance estimates by NSO.

The emphasis of the Government on increasing capital expenditure will not only boost the investments but also return a higher GDP growth to lower the debt burden. Increasing the buoyancy of tax revenue through improved compliance, enhancing efficiency and effectiveness of public expenditure, commitment to reduce fiscal deficit to below 4.5 per cent of GDP by 2025-26, and augmenting the productive efficiency of the economy are some other important measures taken by the Government to bring down the debt burden and strengthen the economy.