IMF Warns India's Rising Debt Govt Disagrees

Why In News

- The **Indian government's debt-to-GDP ratio** projection by the International Monetary Fund (IMF) exceeding **100% by 2027-28 is "misconstrued**", the Union finance ministry said while adding that the predictions by the UN's financial body correspond to a worst-case scenario which is not a **"fait accompli",** or not something that cannot be revived.

What It's All About

- Following reports of **the International Monetary Fund** cautioning India on alleged government **debt vulnerabilities**, the Centre on Friday said that certain presumptions have been made, which do not reflect the factual position.

- One of the key points that the **finance ministry** has raised is that a majority of India's general government debt, which includes those of the **Centre and states, is in rupees,** and external borrowings make up only a small portion. It pointed out that the rollover risk is low for domestic debt.

वित्त मंत्रालय
MINISTRY OF
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सत्यमेव जयते

- In **its Article IV consultations with India**, the IMF had said that, under adverse shocks, the country's general government **debt could be 100% of debt** to GDP ratio by FY 2028. The ministry has clarified that this was mentioned as an extreme possibility like **"once-in-a-century Covid-19"** and was among various favourable and unfavourable scenarios that were listed.
- The ministry has emphasised that in that instance, the IMF was talking only of a worst-case scenario and this is not a **"fait accompli".**

FAIT

- The IMF report for India also indicates that, under favourable circumstances, the General Government Debt to GDP ratio may decline to below **70 per cent in the same period**, the ministry said.

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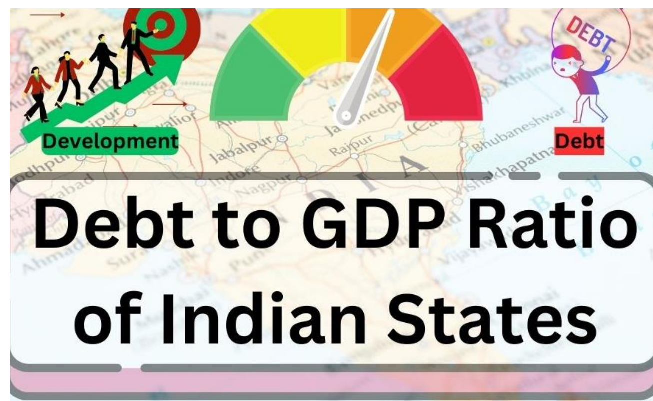
- The ministry said that shocks like **Covid-19 and the Russia-Ukraine war** have uniformly impacted the global economy. Despite this, it said, India has done relatively well and is still below the debt level of 2002.

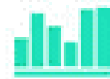
- "Therefore, any interpretation that the report implies that General Government debt would **exceed 100% of GDP in the medium** term is misconstrued," the ministry added. It also emphasised that the general government debt has reduced significantly from approximately **88% in FY 2020-21** to about 81% in 2022-23 and that the Centre is on track to "achieve its stated fiscal consolidation target (to reduce fiscal deficit below 4.5 per cent of GDP by FY 2025-26)".



Debt To GDP Ratio

- The The debt-to-GDP ratio is the **metric comparing** a country's **public debt to its gross domestic product** (GDP).
- By comparing what a country owes with what it produces, the debt-to-GDP ratio reliably indicates that **particular country's ability to pay back its debts**.
- Often expressed as a percentage, this ratio can also be interpreted as the number of years needed to pay back debt if GDP is dedicated entirely to debt repayment.

$$\text{Debt to GDP Ratio} = \frac{\text{Total Debt of a Country}}{\text{Total GDP of a Country}}$$



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