Public Debt to GDP Ratio

October 15, 2020
In News

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.**

More About Debt to GDP Ratio

- A country able to continue **paying interest on its debt, without refinancing, and without hampering economic growth**, is generally considered to be stable.
- When a country defaults on its debt, it often triggers financial panic in domestic and international markets alike. As a rule, the **higher a country's debt-to-GDP ratio climbs, the higher its risk of default becomes.**
- A study by the World Bank found that countries whose **debt-to-GDP ratios exceed 77% for prolonged periods, experience significant slowdowns in economic growth.**
- This phenomenon is even more pronounced in emerging markets, where each additional percentage point of debt over 64%, annually slows growth by 2%.
- If a country were a household, GDP is like its income. Banks will give you a bigger loan if one makes more money. In the same way, **investors will be happy to take on a country's debt if it has a relatively higher level of economic output.**

India's Public Debt to GDP Ratio

- India's public debt ratio, which remarkably remained **stable at around 70% of the GDP since 1991, is projected to jump by 17 percentage points to nearly 90%** because of increase in public spending due to Covid-19, the IMF has said.

- Going forward it is projected to stabilise in 2021, before slowly declining up to the end of the projection period, in 2025. Broadly speaking the pattern of public debt in India is close to the norm around the world.
- **Government debt stood at 66.4% of GDP in FY 2000 and 66.6% in FY15. Since then, it has been heading north at a faster pace, reaching 75% in FY20.**
- The report says unless private spending picks up strongly, real GDP growth over the next decade will be slower, averaging at 5-6% as against 7% in the 2010s. While real GDP growth averaged at 6.8% between FY14 and FY20, real fiscal spending grew at an average of 9% during the period.