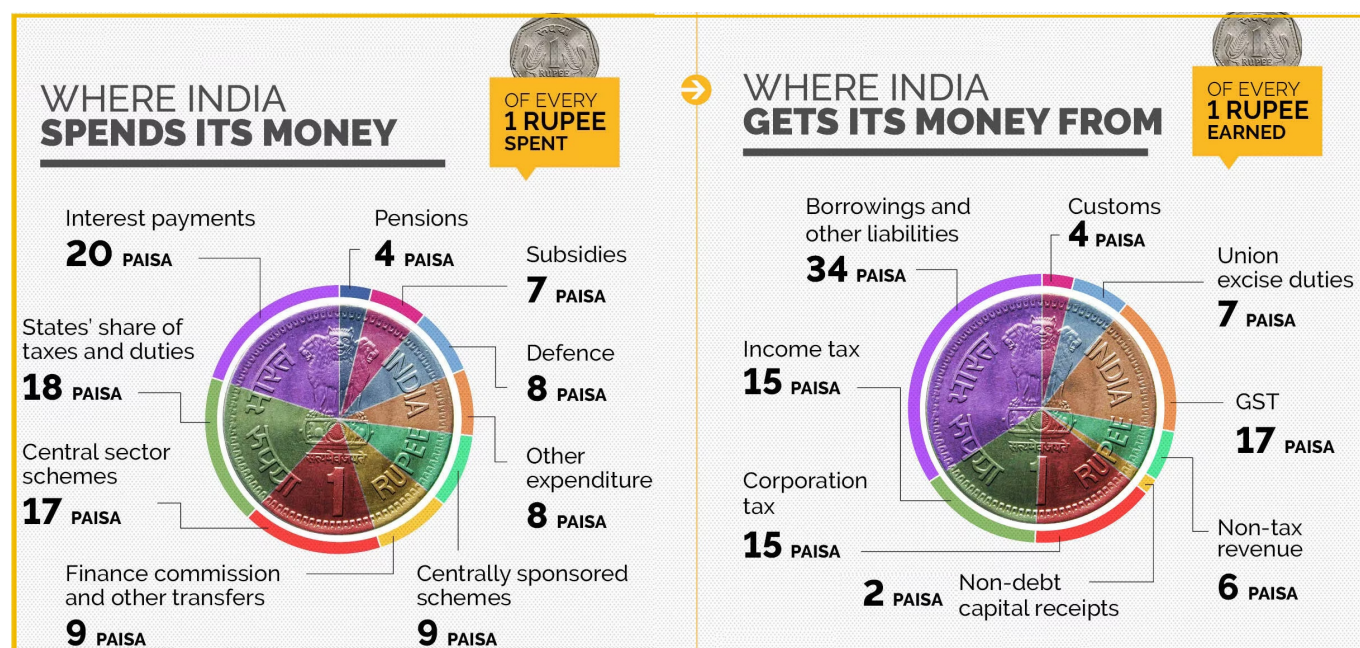


## Interest Payments in India's Expenditure

### Why in news?

For the third year in a row, interest payments continue to be the single largest component of Centre's total expenditure.

### How is the picture of Centre's expenditure?



- **Interest expense** is the cost incurred by an entity for borrowed funds it is a non-operating expense shown on the income statement.
- It represents interest payable on any borrowings—bonds, loans, convertible debt or lines of credit.
- When compared to 2018, the Centre's interest expenditure went up by 52% to Rs 8.05-lakh crore as of FY22.
- Interest payment of the government has increased to **3.1% of the GDP** to Rs 7.31 lakh crore in 2021-22,
- **Interest payments** accounts for **20%**, the single largest component of the Centre's total expenditure.
- **Market borrowings** through G-Secs & Treasury Bills accounts for 68% of the total sources of financing the fiscal deficit.

*The Government has announced its commitment to reduce the fiscal deficit to a level below 4.5 % of GDP by FY 2025-26.*

## What are the factors that holding interest expenditures so high?

- **COVID led disruption** - With the pandemic-led fiscal disruption forcing the government to borrow more, the proportion of interest expenditure also went up proportionately.
- **Fiscal deficit** - Market borrowings through G-Secs & Treasury Bills accounts for 68 % of the total sources of financing the fiscal deficit.
- **Market borrowings** - Not the only source that adds to the interest burden but the small savings collections also carries higher interest burden for the government.
- **External debt** - It accounts for less than 2% of the government's total source of funding.
- **Higher projections** - Higher projections of the Government's public finances, including a contraction in GDP/denominator.

## What has the FRBM act mandated?

- **The Fiscal Responsibility and Budget Management (FRBM) Act, 2003** requires the central government to progressively reduce its outstanding debt, revenue deficit and fiscal deficit.
- **Targets** - The central government gives three-year rolling targets for these indicators when it presents the Union Budget each year.
- The government was supposed to achieve fiscal deficit of 3.1% by 2022-23.
- In 2021-22, the government has not provided target for the next three years, and will amend the FRBM Act to accommodate the higher fiscal deficit.

## Objectives

1. Reduction of fiscal deficit and revenue deficit
2. To achieve inter-generational equity in fiscal management by reducing the debt burden of the future generation
3. Achieving long-term macroeconomic stability
4. Better coordination between fiscal and monetary policy
5. Transparency in fiscal operations of the Government

## References

1. [The Hindu Businessline|Interest costs account for a fifth of Centre's total expenditure](#)
2. [Business Standard|Interest payment by govt rises 3.1% of GDP](#)