ISSN (Online): 2455-3662
EPRA International Journal of Multidisciplinary Research (IJMR) - Peer Reviewed Journal
Volume: 12| Issue: 5| May 2026|| Journal DOI: 10.36713/epra2013 || SJIF Impact Factor 2026: 8.753 || ISI Value: 1.188

A STUDY ON THE OUTSTANDING LIABILITIES OF CENTRAL GOVERNMENT IN INDIA: AN ANALYSIS OF THE TREND BETWEEN 1996-1997 TO 2025-2026

Dr. Anna Abraham Pachayil[1], Dr. Pradeep Kumar B[2]
[1]*Associate Professor of Economics, Maharaja's College (Government Autonomous), Ernakulam*
[2]*Professor of Economics and Principal, Government Arts & Science College for Women, Malappuram*

Article DOI: https://doi.org/10.36713/epra27482
DOI No: 10.36713/epra27482

ABSTRACT
This paper looks into the changes in the structure of the outstanding liabilities of the Central government in India over the period 1996-97 to 2025-26. Based on RBI data on the outstanding liabilities, the study has found that during this period total internal liabilities has been higher than the external liabilities, showing a secular decline in the reliance on external aid and loans for development in recent times. The structure of internal liabilities has undergone significant changes during this period. There has been an increase in the share of market loan in the internal liabilities of the central government which shows the efficacy and strength of the Indian financial market.

INTRODUCTION
It is imperative to fathom over the outstanding liabilities of Central Government in India as like many other emerging developing economies, India has been indulged in expanding its arms of development in an overwhelming attempt to materialize its long-standing objective of making it a developed country by 2047. It is perhaps true that India has emerged as one of the fastest growing economies of the world in terms of the growth rate of GDP, that particularly thanks to the opening up of the economy coupled with the building up of large infrastructure both physical and digital in recent times. At this juncture, it would be pertinent to look into the outstanding liabilities of the central government mainly to examine the changes in the components of total internal liabilities of the government. A study on outstanding liabilities would be helpful to understand the fiscal and debt position of the government. Hence, a study of outstanding liabilities of Central Government in India appears to be highly important at this stage. Before we turn to the analysis and discussion, it important to glance through some theoretical concerns related to increasing liabilities of the government.

Gauging into the issue of increasing outstanding liabilities
Economic history has a lot of narrative about how countries fail on account of huge debt burden more particularly external debt burden which is very hard for economies to honour in the event of major systemic or seasonal crisis. India herself has showcased before the world how it really escaped from a severe and unprecedented foreign exchange crisis which actually disturbed long standing economic views and policies. Looking through the lens of macroeconomic stability that each and every country seeks to accomplish, the study of outstanding liabilities of a government assumes particular significance. Skyrocketing of liabilities particularly external liabilities even for the sake of fostering economic growth by way of investing in the infrastructure and productive capacity of nations may boomerang at least in the immediate short run if appropriate care is not taken at the policy level. Hence, it is quite imperative to note that for economic growth to be sustainable, containing outstanding liabilities of government without seriously damaging the growth impulses of the country appears to be highly relevant. Leaving aside the enormous advantages that increasing liability may bring forth, it is evident that increasing liability, if remains unabated, may push the economy to the edge of debt trap which has untoward ramifications including the fuelling of inflationary pressures if the monetization of fiscal deficit is resorted to continuously by the governments. In addition to this, increasing liability entails an intergeneration effect for it carries over the present financial burden to the future generations (Barro, 1974).

Theoretically speaking, burgeoning internal liability being created via borrowing from the market ends up in escalating general interest rates in the economy owing to increase in the demand for funds. This results in drying up of private investment as the cost of investment itself skyrockets which may neutralize the increase in the net investment of the economy. This process of crowding out of private investment due to increase in internal liability of the government by way of borrowing has been empirically observed in many cases (Gjini & Kukeli, 2012). Interestingly, some India specific studies on this reveal certain contradictions as well. For instance, some studies show that during the period 1950 to 2012 in India increasing public investment led to the crowding out of private investment while the trend somewhat got reversed after 1980s (Misra & Ghate, 2018).

Yest another pertinent fiscal issue that mounting liability is expected to create is increasing cost of servicing the debt in the form of interest payments. It is perhaps astonishing to believe that approximately 20 percent of the money spent by the Central government is for the purpose of interest payments only. Obviously, high interest payments narrow down the scope for development expenditure like spending on education,

ISSN (Online): 2455-3662
EPRA International Journal of Multidisciplinary Research (IJMR) - Peer Reviewed Journal
Volume: 12| Issue: 5| May 2026|| Journal DOI: 10.36713/epra2013 || SJIF Impact Factor 2026: 8.753 || ISI Value: 1.188

agriculture, infrastructure etc. Moreover, it may erode the international confidence in the macro management of the country in general, and in course of time these incidences coupled with other factors may push the economy into political instability. Hence, it is obvious that growing outstanding liability can turn out to be heavy burden on the economy irrespective of the nature and the level of economies.

Previous Studies

Rangarajan and Srivastava analysed how persistent fiscal deficit in India became a prime driver of growing liabilities of the Central government. They cited high debt as responsible for large interest burden of the government which led to reducing public savings. In their study, they recommended prudent fiscal discipline on the part of the government to tackle the issue of growing liabilities of the government (Rangarajan & Srivastava, 2005).

Buiter and Patel in their study examined the relation between public debt, budget deficit and inflation in India. They found inflation as the effect of growing budget deficit in India. High budget deficit leads to monetization of deficit, leading to the creation of inflationary pressures in India (Buiter & Patel, 1992).

Pattnaik and Thakur in their RBI occasional paper made an attempt to test whether India's debt path was sustainable or not. They used different fiscal indicators for this and concluded that persistent high borrowing would become a challenge for the country if growth did not pick up to accommodate the pressure of hgih deficit (Pattnaik & Thakur, 2003).

Using data from 1990-90 to 2020-21, studies found that centres' debt reached around 40 percent of GDP in India. They viewed that this debt level would scale down India's growth in the long term, and therefore suggested cutting down of India's fiscal deficit to a manageable level (Shanmugam & Rejith, 2023).

A study on the long term sustainability of outstanding liabilities of the government was condcuted in a study and the study found that in India in the post reform period debt was considerably imrpoved in the aftermath of the reforms in India. The study alos underlined the importance of legislating fiscal responsibility laws to bring the worsening fiscal position under control (Balbir, Atri, & Anand , 2018).

Studies have also highlighted the importance of policy certainty in an economy in maintaining lower debt to GDP ratio. Growth per se does not qugrantee lower debt to GDP ratio. For growth to have considerable effect on debt there must be a standard economic policy certainty. Under this condition, however, adverse changes could worsen the public debt position of the goverment (Joumard, Hoeller, Fournier, & Morgav, 2017).

It is true that debt sustainability is a key element of economic growth. A balance between debt sustainability and economic growth must be established. Rising liabilities of governments in India stemmed from welfare and development initiatives. The study also unequivocally stated that the Reserve Bank of India has had a role in managing the public debt of India (Jain & Gupta, 2019). Studies have found that the global financial crisis of 2008 and outbreak of Covid-19 pandemic led to the shooting up of fiscal defiicts in many nations to an unmanageable level. The study also developed a sustainability index which could be used to study the debt sustainability of state governments in India (Kumar, Thekkedath, & Meena, 2024).

RBI as the regulator of the bond market or the market for government borrowing took a number of measures to enable the market more efficient. This led Central and state governments able to finance their fiscal deficit through market borrwings (Dimple, Abhishek , & Kunal, 2026).

Conceptual Note and Methodology

Outstanding liabilities of the Central Government cover both internal liabilities and external liabilities. Internal liabilities include marketable liabilities like treasury bills, market borrowings, borrowing from small savings accounts, and other borrowings whereas the external liabilities mainly encompass external loans. The key components of outstanding liabilities are: Public Debt that comes via Consolidated Fund of India, Other Liabilities (Public Accounts of India), and Extra Budgetary Resources ((EBR). Public Debt consists of both internal debt and external debt. Internal debt includes marketable securities and treasury bills while external debt covers loans from foreign nations and international lending institutions like ADB and IBRD.

The present study uses the data on variables relating to the time period 1996-97 to 2025-26. For the analysis, time graphs, tables, YoY growth rate, CAGR, mean, SD and Coefficient of Variation have been used.

Analysis and Discussion

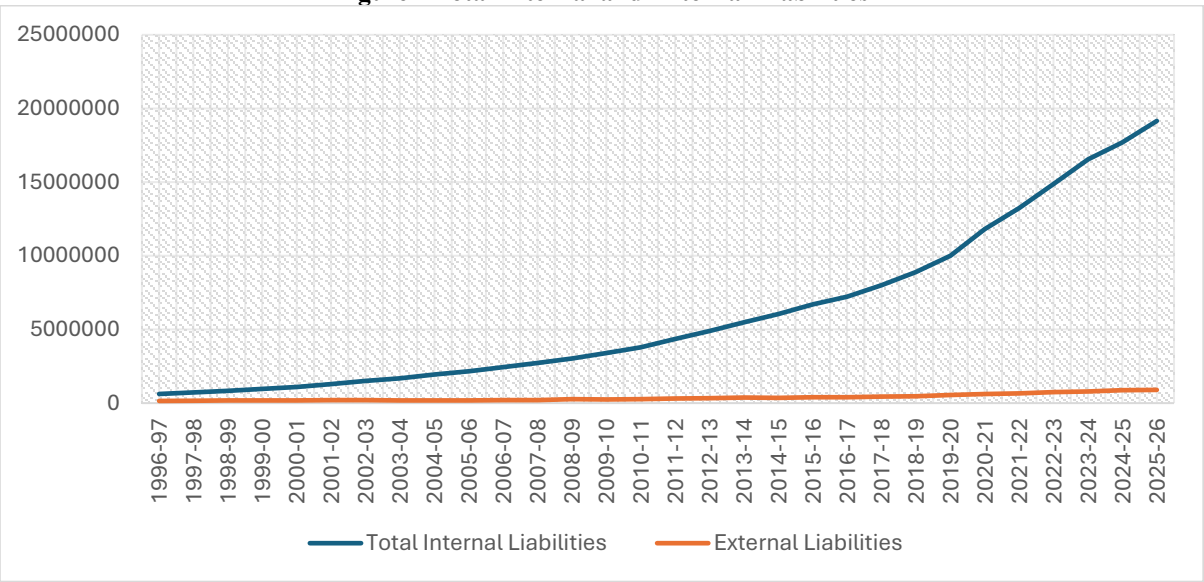
The time period under consideration is 1996-97 to 2025-26 for which data is available from the website of Reserve Bank of India on outstanding government liabilities. This period exhibits significant movements in Indian economy for several reasons. First of all, this is the post-reform period as India had introduced neo-liberal policies in 1991 making the economy open in many respects. The impact of such policies began to be really felt by different sectors of the economy by the midst of 1995. Apart from this, this period encompasses many turnarounds and unprecedented challenges like the financial meltdown and the Covid-19 pandemic.

It is interesting to note that during the 1996-97 to 2025-26, the total internal liabilities of India has been higher than the external liabilities (Figure No.1) It implies that India has been able to scale down its dependence on foreign sources for borrowing funds since the onset of economic reforms in 1991. The financial sector reforms might have made it possible to garner more reliable resources from domestic sources instead of heavily relying on high risk and volatile external sources of funding. In a way, it could be inferred that India has been able to get a kind of autonomy in taking different macro-economic policy decisions and designs. Increasing of external reliance on different sources relative to internal sources could have put India in a quite disadvantages position as most of the external sources happen to be tied assistance. The global financial and

ISSN (Online): 2455-3662
EPRA International Journal of Multidisciplinary Research (IJMR) - Peer Reviewed Journal
Volume: 12| Issue: 5| May 2026|| Journal DOI: 10.36713/epra2013 || SJIF Impact Factor 2026: 8.753 || ISI Value: 1.188

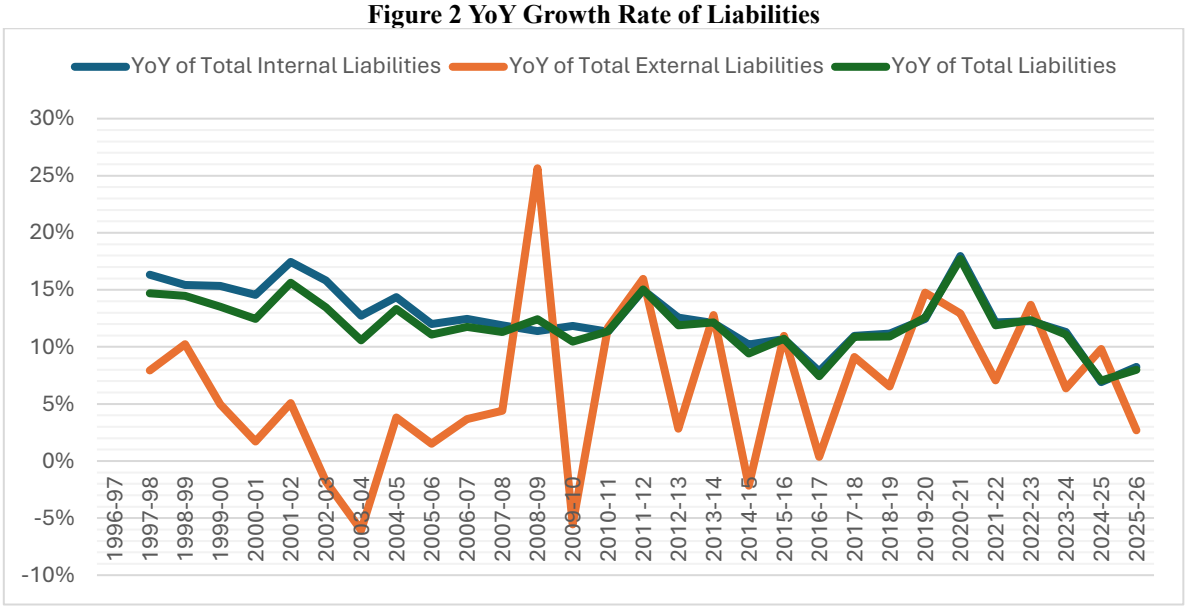
economic turmoil has had negligible impact on India during this period particularly during the period of financial meltdown that literally rattled many western economies in 2008. India could escape herself from such untoward spillover effects mainly on account of its reduced reliance on external sources of borrowing. However, an increase in internal liabilities mainly in the form of borrowing from domestic market by way of selling government securities and treasury bills might have put upward pressure on domestic rate of interest, leading to the possibility of crowding out of private investment. That said, nonetheless, studies have shown that India has experienced both crowding out and crowding in of private investment during this period. To conclude it is pretty obvious that the strengthening of Indian domestic financial market has had a stimulating effect on internal borrowing, which really culminated in making internal liabilities higher than external liabilities of the central government. Moreover, the CAGR of the total internal obligation (12 percent) is twice that of the total external obligation (6 percent) of the central government during the whole period under the consideration of this study.

Figure 1 Total Internal and External Liabilities



Looking at the figure no.2 based on the Year on Year (YoY) growth rate of total liabilities, internal liabilities, and external liabilities, it is quite obvious that the external liabilities has been more volatile during the period whereas the trend in total internal liabilities has been normal without much frequent ups and downs (Figure No.2). The volatility observed in total external liabilities is a clear pointer towards the uncertainties that have existed in the foreign market during this period.

Figure 2 YoY Growth Rate of Liabilities



ISSN (Online): 2455-3662
EPRA International Journal of Multidisciplinary Research (IJMR) - Peer Reviewed Journal
Volume: 12| Issue: 5| May 2026|| Journal DOI: 10.36713/epra2013 || SJIF Impact Factor 2026: 8.753 || ISI Value: 1.188

Total Internal Liabilities: A Component Wise Analysis

The discussion on total liabilities of the government deserves to be centred around internal liabilities as changes in the nature and pattern of internal liabilities bear more elements of macroeconomic ramifications compared to the total external liabilities. Hence, in the present papers the emphasis is given to the analysis of the different components of internal liabilities of the government. First, we consider internal debt and its sub components.

Internal Debt and its sub components

There are four basic components in total internal liabilities: the Internal Debt, small savings, deposits and provident funds, other accounts, and reserve funds and deposits. Internal debt in turn consists of market loans, 91-day treasury bills and 182/364-day treasury bills. The Year on Year (YoY) growth rate of internal debt over years shows that there has been no considerable volatility barring the initial period while its components have exhibited wide volatility in YoY growth rates (Figures 3, 4, 5 and 6). It is curious to note that volatility has been more pronounced and frequent in the case of both 91 day and 182/364-day treasury bills (Figure 5 and 6). The YoY growth rate of market loan plummeted to a low level in 2004-2005 from a historic peak in 1998-99. Thereafter, it started raising and touched a high level in 2010-11. In recent times, market loan as a component of internal debt of total internal liabilities has shown a remarkable decline in its growth rate.

Figure 3 Internal Debt YoY Growth Rate

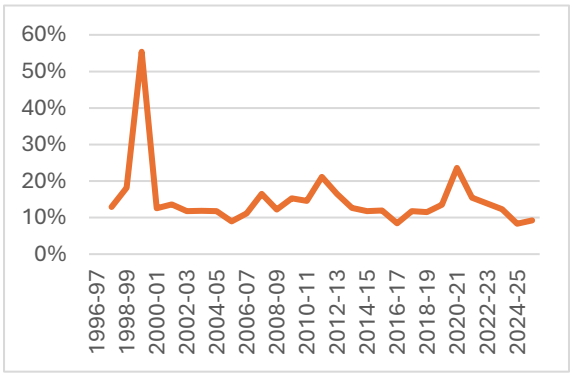


Figure 4 Market Loan YoY Growth Rate

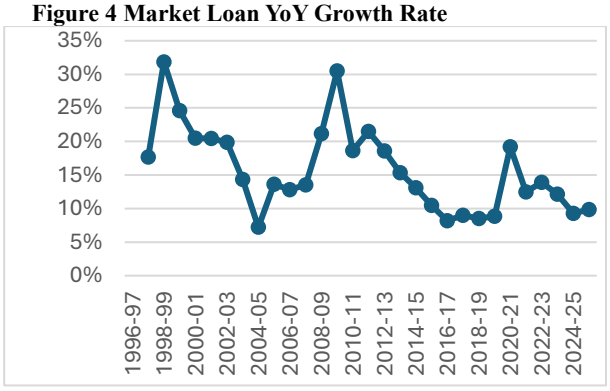


Figure 5 91 Day TB YoY Growth Rate

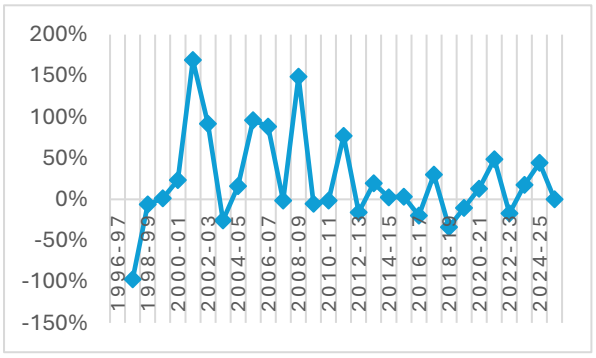


Figure 6 182/364-day TB YoY Growth *Rate*

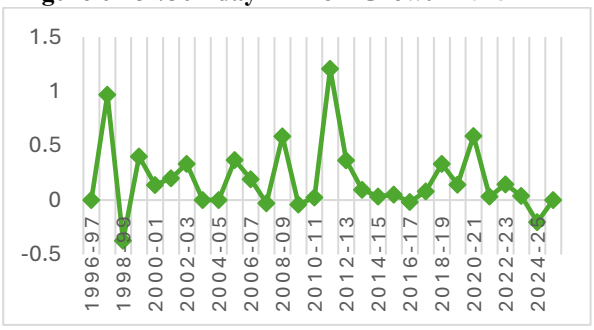


Table 1 Volatility Measures

Variables	Mean Growth Rate (%)	Standard Deviation	Coefficient of Variation (%)
Internal Debt	14.83	8.48	57.17
Market loan	15.76	6.46	41.01
91-day TB	22.66	55.59	245.36
182–364-day TB	19.55	32.65	166.98

The most volatile YoY growth rate has been observed in the case of 91-day TB whereas in the case of 182/364 TB it appears to be high as its coefficient of variation is close to 167 compared to 245 in the case of 91-day TB (Table No.1). Market loan has shown the lowest volatility among the components of internal debt. Although there could be many reasons for these variations in volatility of different components of internal debt, the current paper does not intend to focus on such reasons. The CAGR of the internal debt during the period has been estimated to be 14 percent while the same for market loan hovers around 15 percent.

Small saving deposits and provident funds

Small saving deposits and provident funds are two main non-market components of the internal liabilities of India government. The funds that accrue to this arise predominantly out of the savings-both mandatory and non-mandatory savings-of households and workers in India. The instruments of small

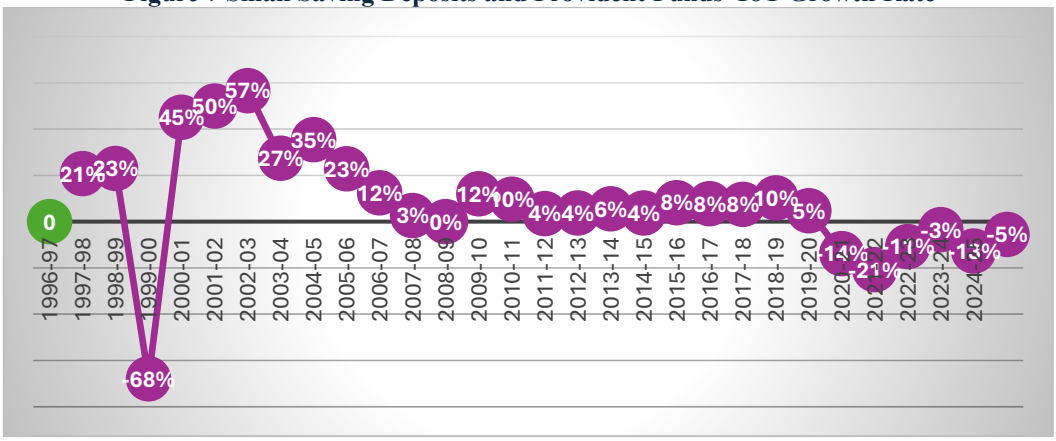
ISSN (Online): 2455-3662
EPRA International Journal of Multidisciplinary Research (IJMR) - Peer Reviewed Journal
Volume: 12| Issue: 5| May 2026|| Journal DOI: 10.36713/epra2013 || SJIF Impact Factor 2026: 8.753 || ISI Value: 1.188

savings in India include: Post office savings accounts, National Saving Certificate (NSC), Kisan Vikas Patra (KVP), and Sukanya Samrdhi Yojana, Governments borrow from the funds accumulated through the savings of households and institutions. As non-market instruments these are not traded in the financial market but bears a rate of interest fixed by the government from time to time considering various macroeconomic circumstances. These are considered as stable and relatively predictable and assured source of finance for the governments. Reliance on this source insulates the government from the problems created by the excess dependence on volatile and uncertain market borrowings. But the flipside of the excess dependence on this source lies in the possibility of increasing interest rate burden of the government in future which may have serious fiscal implications. As these instruments of small savings offer relatively attractive interest rate for ultimate savers, it may crowd out bank deposits, and the nature of setting up of administrative interest rates may have some counter effects in the form of distorting the financial market which by assumption is expected to engage the free play of market participants to decide the interest rate in response to supply and demand for funds.

On the other hand, public provident funds are long term mandatory savings which are undertaken by the government with the intention of providing social security to those who contribute to such funds. Mainly there are three types of provident funds: Public Provident Fund, General Provident Fund and Employee's Provident Fund. These are normally compulsory savings of salaried people in India, and interest rate on this is fixed by the government. These are long term deferred liabilities of the government although they offer relatively stable and a captive type of source for internal fund mobilization of the government.

The YoY growth rate of small savings and provident funds as shown in figure no.7 exhibits relatively moderate variability in the trend barring the sharp decline to the tune of -68 percent recorded in 1999-2000 (Figure 7). In 2008-09, on the eve of global financial meltdown, the YoY of this variable became zero and although thereafter it improved slightly, the YoY growth rate had not been as good as it should have been. It needs to be noted that since 2020 the YoY growth rate of small savings and provident has been negative which clearly shows the declining importance of this component in the kitty of internal liability of the central government. The trend over years of this variable shows that it has been moderately stable (Table no.2).

Figure 7 Small Saving Deposits and Provident Funds-YoY Growth Rate

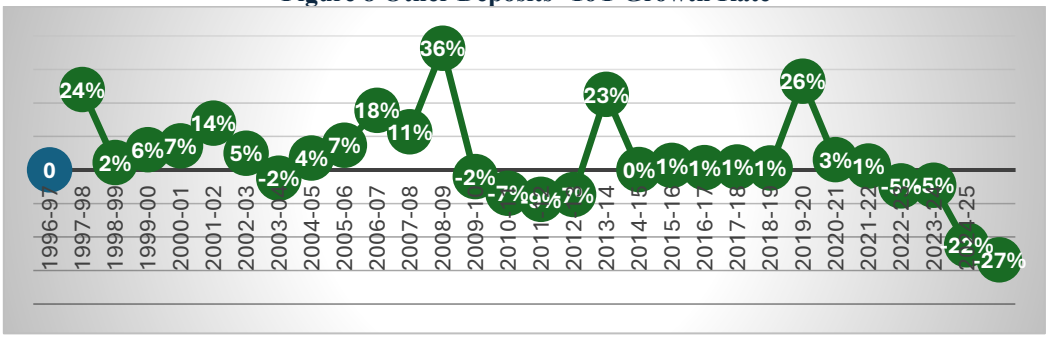


Other Accounts

Other accounts include an array of miscellaneous obligations that generally do not come under market borrowings, small savings and provident funds. As they constitute a part of the liabilities of the government they represent a claim on the resources of the government. In effect these are liabilities that arise out of government transactions and accounting adjustments.

The YoY growth rate of other accounts appears to have been only moderately stable during the period of analysis. At many times it entered into negative region. However, it needs to be noted that in the year of financial meltdown, it peaked the level of 36 percent YoY growth rate (Figure no.8).

Figure 8 Other Deposits- YoY Growth Rate



ISSN (Online): 2455-3662
EPRA International Journal of Multidisciplinary Research (IJMR) - Peer Reviewed Journal
Volume: 12| Issue: 5| May 2026|| Journal DOI: 10.36713/epra2013 || SJIF Impact Factor 2026: 8.753 || ISI Value: 1.188

Reserve Funds and Deposits

Reserve funds and deposits are non-market component of the internal liabilities of the government. Reserve funds are funds created by the government for its own specific purposes. Governments often uses these funds for meeting its own expenditures. In accounting terms, they represent the obligations of government to itself. In some sense, they provide a captive resource for the government to meet immediate expenditures without abruptly resorting to market borrowings.

Deposits are funds received and kept by the government on behalf of others which the government can use for necessary purposes. These funds are repayable on demand or on the basis of certain predetermined specific conditions. These deposits encompass civil deposits, deposits of local bodies and institutions, judicial and court deposits.

It is quite interesting to note that the trend in reserve fund and deposits in terms of YoY growth rate over the years appears to have been too much instable. Although it has not been as negative as many other sources of internal liability of the central government, its volatility has been quite abnormal in many ways (Figure No.9). The severity of the volatility can be inferred from the fact that its coefficient of variation stood at 93 percent during the period under this study (Table no.2).

Figure 9 Reserve Funds and Deposits-YoY Growth Rate

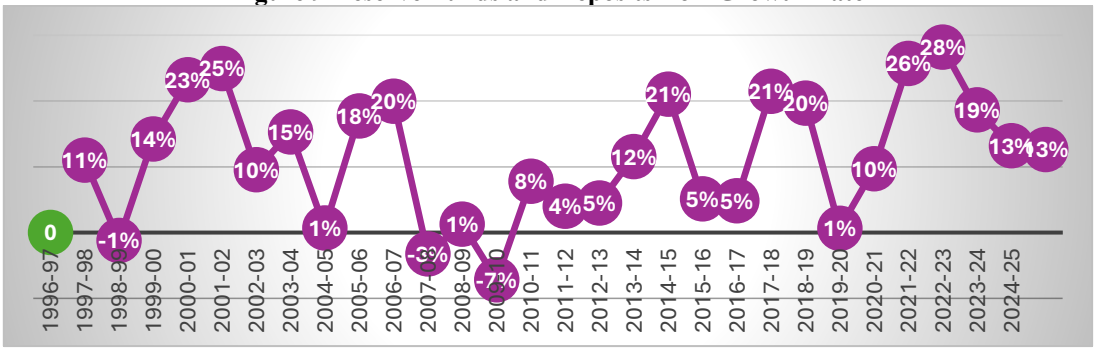
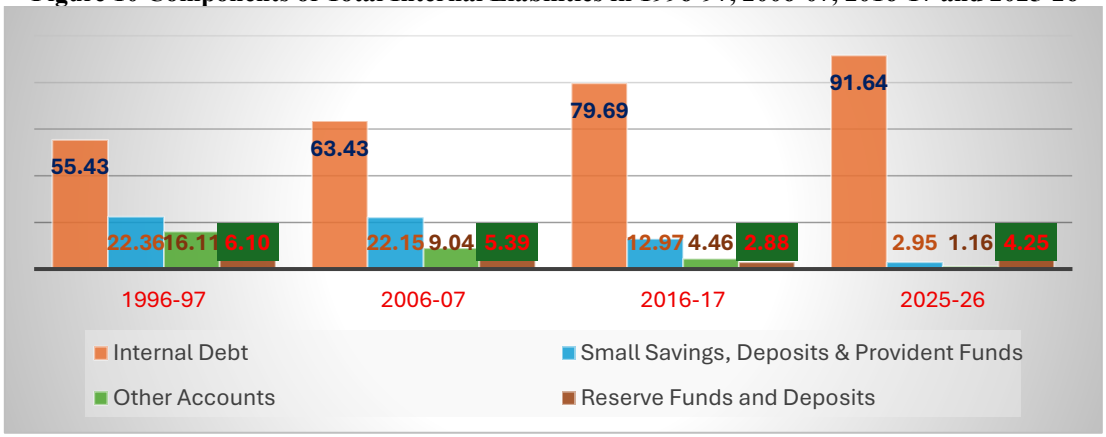


Table 2 Volatility Measures

Variables	Mean (Crore)	Standard Deviation (Crore)	Coefficient of Variation (%)
Small Savings, & Provident Funds	313363.3	586549.1	53
Other Accounts	99526.16	266075.9	37
Reserve Funds and Deposits	207614.3	222080.8	93

As discussed at the outset, total internal liabilities are decomposed into three: Internal debt, small savings, Deposits and Provident Funds, Other accounts and Reserve Funds and Deposits. Of these, it is interesting to note that over the years the component of internal debt has been showing a steady increase. For instance, in 1996-97, 55.43 percent of the total internal liabilities was accounted for by the internal debt (Figure No.10), and in 2006-07, it went up to 63.43 percent, to 79.69 percent in 2016-17, and culminated into 91.64 percent in 2025-26. This clearly shows a persistent decline in other components particularly in the case of small savings and provident funds which in 1996-97 constituted 22.36 percent of the total internal liabilities but by 2025-26 it plummeted to very dismal figure of 2.95 percent. This clearly shows that India has been relying more on financial market in recent times particularly since 1991, and it has evidently got reflected in the change in the components of total internal liabilities. Partly it could be attributed to the successful implementation of financial sector reforms in India.

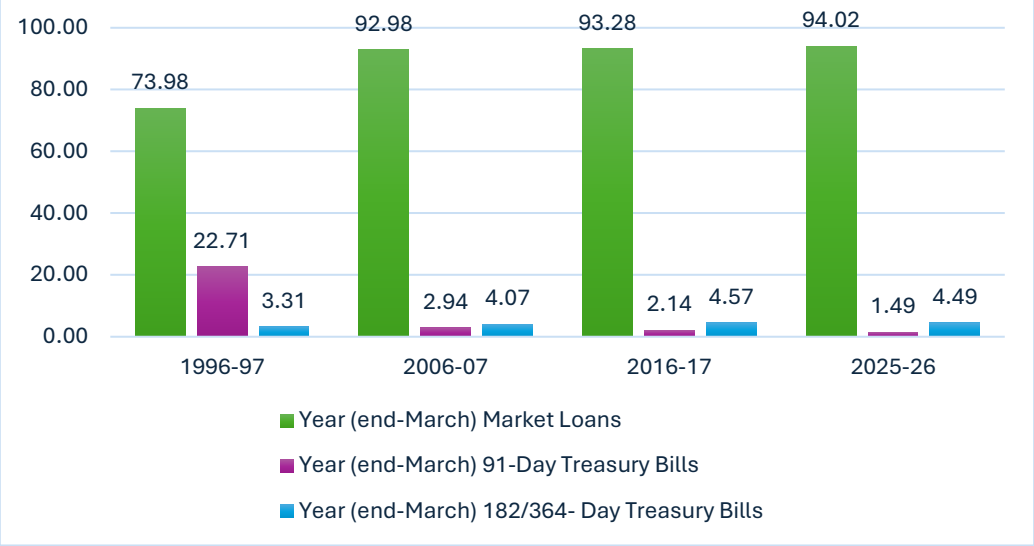
Figure 10 Components of Total Internal Liabilities in 1996-97, 2006-07, 2016-17 and 2025-26



ISSN (Online): 2455-3662
EPRA International Journal of Multidisciplinary Research (IJMR) - Peer Reviewed Journal
Volume: 12| Issue: 5| May 2026|| Journal DOI: 10.36713/epra2013 || SJIF Impact Factor 2026: 8.753 || ISI Value: 1.188

Having observed the growing importance of internal debt in the total internal liabilities of the central government, it is pertinent to look at the component wise analysis of internal debt which would be helpful to understand the ever-increasing importance of financial market in contributing to the internal liabilities of the central government. Internal debt has mainly three components: Market Loans, 91-day TBs and 182/364-day TBs. In 1996-97, 91-day TBs had a relatively good role as it formed 22.71 percent of the internal debt although 73.98 percent came from market loans. Perhaps what is quite amazing is the persistent rise in the share of market loans to 94.02 percent by 2025-26 and sharp decline in the share of 91-day TB from 22.71 percent in 1996-97 to a meagre 1.49 percent in 2025-26.

Figure 11 Component of Internal Debt in 1996-97, 2006-27, 2016-17 and 2025-26



Concluding Remarks

To conclude, India has been able to reduce its dependence on foreign sources for borrowing funds thank to the increasing efficiency of the Indian financial market in recent times. This market borrowing and market participation of government has had a good effect on creating efficiency in the financial market. Theories and evidences have proved that too much dependence on captive financial market and the system of administrative interest rate in the case of many financial products distort the market rather than helping it. Obviously, it could be inferred that increasing importance of market loan as a component of internal liabilities of central government is a clear indication of improvement in the efficiency of Indian financial market in recent times which of course has been achieved thanks to the implementation of financial sector reforms.

REFERENCES

1. *Balbir, K., Atri, M., & Anand , P. E. (2018). Debt Sustainability of States in India: An Assessment. Indian Economic Review, 93-129.*
2. *Barro, R. J. (1974). Are Government Bonds Net Wealth? Journal of Political Economy, 1095-1117.*
3. *Buiter, W., & Patel, U. (1992). Debt, Deficits and Inflation: An Application to India. Journal of Public Economics.*
4. *Dimple, B., Abhishek , K., & Kunal, P. (2026). Role of RBI in the Government Debt Market. PRAJNAN: Journal of Banking and Financial Management.*
5. *Gjini, A., & Kukeli, A. (2012). Crowding-Out Effect of Public Investment on Private Investment: An Empirical Investigation. Journal of Business & Economics Research, 269-276.*
6. *Jain, S., & Gupta, A. (2019). Management of Public Debt and Inclusive Approach of the RBI. Global Journal of Enterprise Information System.*
7. *Joumard, I., Hoeller, P., Fournier, J. M., & Morgav. (2017). Public Debt in India: Moving Towards a Prudent Level? OECD.*
8. *Kumar, P., Thekkedath, R., & Meena, N. R. (2024). Construction of a Composite Indicator for Debt Sustainability Analysis. Indian Public Policy Review.*
9. *Misra, P., & Ghate, C. (2018). Crowding-out or crowding-in? Public and private investment in India. World Development, 323-333.*
10. *Pattnaik, R. K., & Thakur, S. (2003). Sustainability of Public Debt in India. RBI Occasional Paper.*
11. *Rangarajan, C., & Srivastava, D. K. (2005). Fiscal Deficits and Government Debt in India. Economic and Political Weekly.*
12. *Shanmugam, K. R., & Rejith, P. S. (2023). Sustainability and Threshold Value of Public Debt of Centre and All State Governments in India. Indian Public Policy Review. doi:https://doi.org/10.55763/ippr.2023.04.03.002*