



MACRO ECONOMICS

Borrowing and crowding out

How the Government borrows and repays, who lends to it, and when its borrowing can squeeze other borrowers

Budget 2026-27; borrowing calendar of 25 September 2026; RBI bond-ownership data as on 31 March 2026

For training and education only. Not investment advice.

The Government repays maturing bonds mostly by selling new ones, and usually borrows more on top.

So the questions that matter are whether its debt grows slower than the economy, how much revenue goes on interest, and whether its borrowing crowds out other borrowers.

Four terms to know first



Gross borrowing

The total value of new bonds sold in a year. Budgeted at ₹17.20 lakh crore for 2026-27.



Net borrowing

Gross borrowing minus bonds repaid or bought back. Budgeted at ₹11.73 lakh crore for 2026-27.



Rollover

Repaying a maturing bond with money from a new one. Here about ₹5.47 lakh crore: $17.20 - 11.73$.



Debt-to-GDP

Debt as a share of the economy's yearly output. Centre: 55.6% estimated for 2026-27.

Sources: Statements of Fiscal Policy under the FRBM Act, Feb 2026, paras 31, 33, 46; Budget Speech 2026-27, paras 92-93. Borrowing figures are for dated securities.

Why the debt ratio can fall as debt rises

THE SET-UP (ASSUMED)

An imaginary government owes ₹60. Its economy produces ₹100 a year, so debt-to-GDP is 60%.

Next year it borrows ₹4 more, and GDP grows 10% in rupee terms.

- 1 Debt rises from ₹60 to $60 + 4 = ₹64$.
- 2 GDP rises from ₹100 to $100 \times 1.10 = ₹110$.
- 3 New ratio: $64 \div 110 = 58.18\%$. The debt grew, yet the ratio fell from 60%.
- 4 If GDP grew only 5%: $64 \div 105 = 60.95\%$. The same borrowing now raises the ratio.

The debt ratio falls when debt grows more slowly than the economy in rupee terms.

Illustration with assumed, round figures. Not a forecast.

How the Government services its debt

1

Revenue pays the interest

Interest is ₹14.04 lakh crore in 2026-27 (BE), 39.7% of revenue receipts. In 2025-26 (RE) it was 38.1%.

2

New bonds repay old ones

Maturing bonds are mostly repaid from new borrowing, so gross borrowing covers repayments plus the year's new debt.

3

Switches push dates out

Bonds due soon are swapped for longer ones. After ₹1.14 lakh crore of switches, 2026-27 gross borrowing fell from ₹17.20 to ₹15.99 lakh crore.

4

Buybacks smooth humps

In 2025-26 the Government bought back ₹86,775 crore of bonds that were due in 2026-27.

5

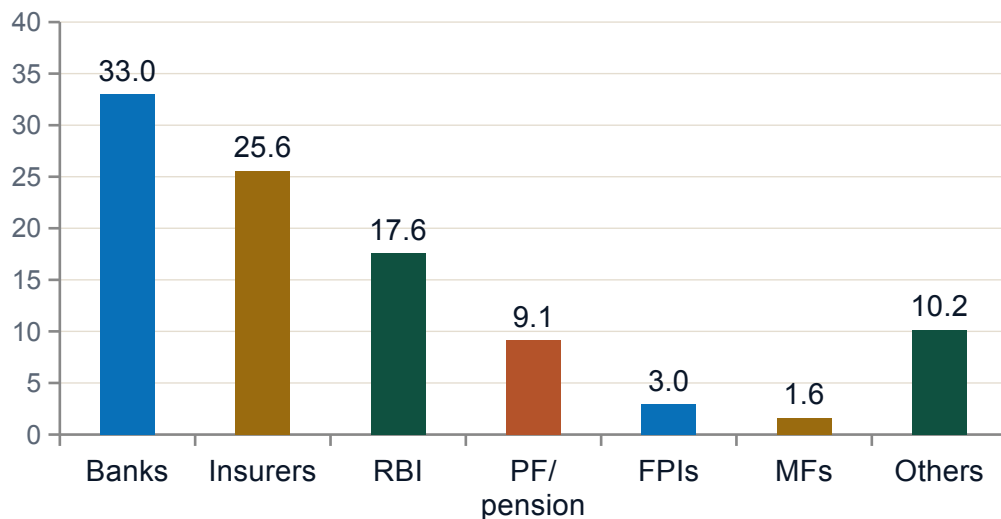
A deficit adds to debt

A fiscal deficit is financed by borrowing, so it adds to debt in rupees. The 2026-27 Budget has a fiscal deficit of 4.3% of GDP.

Sources: Budget at a Glance 2026-27; FRBM Statements, Feb 2026, paras 46-49; Finance Ministry statement of 25 Sep 2026, as reported by PTI (switches, revised gross borrowing).

Who lends to the Government

% of central government bonds, March 2026



Read the chart

- Total held: ₹125.67 lakh crore of central government dated securities.
- Banks and insurers hold 58.6%. PF: provident funds. FPIs: foreign portfolio investors.
- RBI's share rose from 12.78% to 17.59% in the year to March 2026.
- Mutual funds (MFs) hold 1.60% of these bonds but 16.75% of Treasury bills.

Source: RBI Bulletin, August 2026, Table 47, 'Ownership Pattern of Central and State Governments Securities' (end-March 2026).

Crowding out: the mechanism

The steps describe how it can happen. They are not a forecast for any year.

1

The Government borrows more

It sells more bonds to the same lenders that companies use: banks, insurers, pension and provident funds.

2

Lending capacity is limited

Savings available to lend in a year are finite. More government bonds take a larger share of them.

3

Yields can rise

To sell more bonds, the Government may have to offer a higher yield. Company loan and bond rates often price off it.

4

Private borrowing shrinks

Some firms borrow less or postpone projects. Economists call this crowding out.

What the evidence says, and the limits



Evidence from India

An RBI working paper (2022) found that as government borrowing rises and banks hold more government bonds, a crowding-out channel operates.



RBI can soften it

The paper found RBI's market operations can mitigate the effect to an extent, and that it is lower for banks with better asset quality and capital.



Crowding in

Public spending on roads, ports and power can raise returns on private projects and draw private investment in. Economists call this crowding in.

Working paper views are the authors', not necessarily RBI's.

Source: RBI Press Release 2022-2023/493, 7 Jul 2022, on RBI Working Paper 09/2022, 'Banks' Credit and Investment Dynamics: Assessing Portfolio Rebalancing and Crowding-out'.

Where things stand

Budget plans, RBI's borrowing calendar and RBI's holding of government bonds, as published.

NET BORROWING (BE)

11.73

₹ lakh crore through dated securities, 2026-27 Budget Estimate.

OCT-MAR AUCTIONS

7.86

₹ lakh crore over 23 weekly auctions, Oct 2026–Mar 2027.

INTEREST / REVENUE

39.7%

Share of 2026-27 revenue receipts going on interest (BE).

10-YEAR G-SEC YIELD

6.96%

6.94% GS 2036, on 1 September 2026.

Sources: FRBM Statements, Feb 2026, para 46; RBI press release on the issuance calendar for Oct 2026-Mar 2027, 25 Sep 2026; Budget at a Glance 2026-27; RBI Bulletin, Aug 2026, Table 47.

If you learnt this from older material

What older decks say

- Debt is repaid mainly from taxes and sales of public sector companies.
- The rule: deficit at 3% of GDP, central debt at 40% of GDP by March 2025.
- Crowding out is explained only as theory.

What holds now

- Repayment is mostly rollover. Switches and buybacks reshape when bonds fall due.
- Central debt: 55.6% of GDP estimated for 2026-27. The aim is $50 \pm 1\%$ by 2030-31.
- A 2022 RBI working paper found evidence of crowding out in Indian bank data.

Debt targets and borrowing plans change with each Budget. Check the year before you quote one.

Sources: FRBM Statements, Feb 2026 (FRBM Act targets; switches and buybacks); Budget Speech 2026-27, paras 92-93; RBI Press Release 2022-2023/493.

Four things people get wrong



'The Government never repays its debt.'

Bonds are repaid when they mature. The money mostly comes from selling new bonds, which is called rollover.



'More debt means a higher debt ratio.'

Not if the economy grows faster in rupee terms. Central debt is estimated at 55.6% of GDP for 2026-27, against 56.1% for 2025-26.



'Gross and net borrowing are the same.'

Gross includes money raised to repay old bonds. For 2026-27, gross is budgeted at ₹17.20 lakh crore and net at ₹11.73 lakh crore.



'Any borrowing crowds out business.'

The effect varies. An RBI working paper found RBI's operations and healthier banks reduce it. Public capex can also crowd in.

Check yourself

Q1

A government sells ₹900 crore of bonds this year, and ₹300 crore of old bonds mature (assumed figures). What is its net borrowing?

Q2

Debt is ₹80 and GDP ₹200. The government adds ₹6 of debt and GDP grows 8% in rupee terms (assumed). What happens to debt-to-GDP?

Q3

Name two things that can reduce crowding out.

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Gross and net borrowing, switches, buybacks, FRBM Act targets: Statements of Fiscal Policy under the FRBM Act, Ministry of Finance, Feb 2026, paras 31 and 46-49.
- Interest, revenue receipts, fiscal deficit, GDP assumption: Budget at a Glance 2026-27, 1 Feb 2026. Debt ratio and aim: Budget Speech 2026-27, paras 92-93.
- H2 2026-27 issuance calendar (₹7.86 lakh crore): RBI press release, 25 Sep 2026. Revised gross borrowing and switches: Finance Ministry statement, 25 Sep 2026, as reported by PTI.
- Ownership of government securities, end-March 2026: RBI Bulletin, August 2026, Table 47.
- Crowding-out evidence: RBI Press Release 2022-2023/493, 7 Jul 2022 (Working Paper 09/2022; views of the authors).
- Treasury-bill ownership (mutual funds 16.75%, end-March 2026): RBI Bulletin, August 2026, Table 47.

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