# India’s Road to a $5 Trillion Economy

The Indian economy is steadily approaching the $5 trillion U.S. dollar mark, currently standing at 3.7 trillion U.S. dollars, while its debt has reached 80% of GDP. This development raises three main questions:

## Is the Indian Economy exposed to and sinking into a debt trap?

No, the increasing debt does not indicate that the Indian economy is deteriorating. This debt is predominantly external, domestic, or public debt. There is minimal likelihood of any significant impact due to global economic imbalances. India's food and deficit management policies are more efficient than before. When compared to other countries, such as the United States with a debt-to-GDP ratio of 121.3%, Japan with 260.1%, and the UK with 101.9%, it is evident that the Indian economy is performing relatively well.

## Does a debt have a positive impact on GDP?

Yes, GDP can indeed be positively influenced by debt. When the government borrows money, it can be invested in infrastructure, education, healthcare, and other areas that boost the economic productivity of the nation. Taking foreign loans can increase the money supply in the domestic economy. As the government spends these borrowed funds on development projects, money is injected directly into the economy. This increase in money supply can stimulate economic activity by boosting demand for goods and services. As businesses respond to increased demand, they expand production, hire more workers, and invest in further growth, all of which contribute to an increase in GDP.

## Can debt be relied for economic growth?

Yes, for a developing country such as India, it is the ideal path for enhanced development. Both large and small business owners understand the prudence of taking loans for productive purposes. However, it is crucial to distinguish between good and bad debt. For instance, obtaining a loan to purchase a car for personal use is not considered good debt because it is a depreciating asset. Conversely, securing a loan to build a house is deemed beneficial as it is an appreciating asset. Similarly, a loan taken for national development is regarded as productive debt, as it has the potential to generate additional income.

All the external debt incurred by India is being allocated towards investments in human development, education, and skill development. These investments are expected to yield returns as the population becomes more skilled and successful in the future. A prime example of investment in infrastructure and public services using foreign debt is Delhi Metro. Delhi Metro, considered the lifeline of the national capital, serves as the primary mode of transportation for millions of residents in Delhi. This project was financed by official development assistance loans from Japan.

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