

Beyond Debt-to-GDP: The role of debt maturity in fiscal stability

Fiscal rules focus on debt-to-GDP ratios, but overlook debt maturity structure, crucial for managing refinancing risks. India's subnational governments exhibit varied maturity strategies, with longer maturities offering stability amid fiscal pressures

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debt

In an era of burgeoning public debt—now at above 235 percent of global gross domestic product, as per IMF estimates—fiscal rules

have become indispensable guardrails. Yet, policymakers and analysts too often fixate on headline metrics: debt-to-GDP ratios capped at 60 percent, deficits no wider than 3 percent of GDP. These anchors, enshrined in frameworks like the EU's Stability and Growth Pact or Chile's structural balance rule or in Indian FRBM, rightly curb deficit-debt excesses. But they miss a critical dimension: the maturity structure of public debt. As global interest rates fluctuate and rollover risks loom, how long governments borrow matters as much as how much.

Debt maturity structure shapes fiscal vulnerability in profound ways. Short maturities, while flexible for crisis response, expose the Finance Ministry(s) to frequent refinancing risks, amplifying liquidity squeezes during shocks. Conversely, longer maturities lock in low rates, smoothing interest costs and insulating budgets from rate hikes. A 2025 study estimates that extending U.S. Treasury maturities by one year could shave 130–150 basis points off long-term yields, easing the "bond conundrum" of muted rate responses to policy shifts. This oversight in fiscal rules isn't benign. Emerging markets, where external borrowing dominates, face amplified risks. As spending pressures from aging populations, energy transitions, and defence mount, redesigning fiscal frameworks demands debt maturity-inclusive reforms.

Indian State Finances

Contrary to the global angst over external debt vulnerabilities—where emerging markets grapple with dollar-denominated rollovers—India's subnational governments face negligible external exposure. State borrowings are almost entirely domestic, channelled through market [loans](#), bonds, and central loans under the Fiscal Responsibility and Budget Management (FRBM) Act(s). This insulates states from currency shocks but shifts risks inward: to interest rate volatility and refinancing pressures. The latest data from RBI revealed that the aggregate outstanding liabilities at 28.5% of Gross State Domestic Product (GSDP) as of 2025 (BE), down from a pandemic peak of 31%.

The financing pattern of subnational governments in India revealed that market borrowing has been the dominant source of financing the deficits and it stood at 79 per cent in 2025(BE). The other prominent source of financing the deficits from the National Small Saving Fund (NSSF) financing facility has been stopped, following the 14th Finance Commission recommendations.

India's federal fiscal framework caps state fiscal deficits at 3% of GSDP (with 0.5% leeway for power sector reforms), emphasizing debt management amid market borrowings financing 79% of the gross fiscal deficit (GFD) in 2024-25 budget estimates (BE). RBI categorizes debt maturity into five buckets: less than 1 year (<1Y), 1-5 years, 5-10 years, 10-20 years, and over 20 years (>20Y). Excluding non-interest-bearing loans, and special bonds like UDAY, at the aggregate level, 68.3% of debt is maturing beyond 5 years, reflecting a post-pandemic shift toward longer tenors to mitigate rollover vulnerabilities.

At the aggregate level, short-term debt (<1Y) constitutes a modest 5.7% of total SGS in FY24, signalling low immediate refinancing needs—down from 6.5% in 2023, per RBI trends. The bulk (36.7%) falls in the 1-5Y bucket, followed by 31.8% in 5-10Y, indicating moderate medium-term pressures. Longer maturities are gaining traction: 20.8% in 10-20Y and 5.0% in >20Y, up from 4.2% and 3.8% respectively in prior years. Weighted average yield (WAY) for new issuances averaged 7.52% in 2023-24, with spreads over government securities (G-Secs) at 31 basis points, underscoring cost efficiency.

State-wise variations highlight fiscal heterogeneity. High short-term exposure includes Odisha (18.3% <1Y), driven by aggressive borrowing for capital outlay (up 25% YoY), and Chhattisgarh (8.8%), linked to mining revenues. Conversely, Punjab (3.4% <1Y) and Uttar Pradesh (3.9%) exhibit prudent profiles, with Punjab allocating 39.4% to 10-20Y despite a 48% debt-to-GSDP ratio.

Long-maturity States like Telangana (23.5% >20Y) and Tamil Nadu (19.7% >20Y) benefit from ultra-long bonds (20+ years at 21% of issuances), locking in sub-7.2% rates amid green infrastructure pushes. Northeastern states like Arunachal Pradesh show skewed short-to-medium profiles (53.4% 1-5Y, 42.0% 5-10Y), reflecting limited market access. States like Gujarat and Maharashtra lean heavily on short-term debt, with weighted average maturities (WAM) as low as 2.4–2.5 years. In contrast, Telangana and Tamil Nadu have elongated debt maturity structures offering stability to pitch the States in robust growth path by postponing the refinancing risks. Kerala has

judiciously done 14.9 per cent of the debt in above 20 years bucket. This divergence reflects strategic choices amid fiscal glide paths across different States of India. These patterns reveal trade-offs. RBI flags this heterogeneity, noting 15 states exceed 3% deficits, urging tenor auctions for balance. Any discussion on fiscal rules will be incomplete if we fail to look into the debt maturity structure of public debt.

Credit Rating of Fiscal Pillar

With public debt in advanced economies hovering at 112 percent of GDP, rollover risks are no longer backdoor metrics for the credit rating agencies, and fiscal rules cannot ignore debt maturity structure. Credit rating agencies now scrutinize debt maturity structures—the average time until repayment—as a core variable in fiscal assessments, exposing vulnerabilities beyond raw debt levels. Moody's probes maturity qualitatively in its Fiscal Strength pillar, flagging short tenors as signs of poor debt management that can trigger up to six-notch downgrades. S&P sets explicit thresholds: maturities under three years or amortization exceeding 5 percent of GDP degrade scores by 1-3 categories, undermining a third of the flexibility profile. Fitch embeds it in its 18.8 percent-weighted Public Finances pillar, where short-term concentrations inflate refinancing needs, adjusting ratings by ± 2 notches. This unified view across credit rating agencies highlights procyclical dangers, with short maturities can spike borrowing costs. Therefore “maturity-blind fiscal rules”—like the EU's 60 percent debt cap—risk gaming through short-term debt.

India's fiscal rules may incorporate a fiscal reform related to the debt maturity structure. It is important to assess dispassionately the scope for embedding the debt maturity structure -minimum weighted average maturities - in fiscal rules.

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Views are personal and do not represent the stand of this publication.

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