

China-India Government Debt: A Comparative Perspective

July 9, 2026

Key Points

Institutional Framework

- India operates a three-tier autonomous fiscal system with a statutory Finance Commission granting local governments independent taxing powers, while China adopts a five-tier centrally coordinated system relying on large-scale transfers to balance regional disparities.

Revenue-Expenditure Structure and Deficit Characteristics

- India's revenue is heavily tax-dependent and inelastic (recurrent spending accounts for over 80%, while interest payments consume approximately 23% of total revenue), but high GDP growth helps absorb the burden.
- China strictly limits its statutory debt to capital expenditures, supplementing fiscal resources with non-tax revenues such as land transfer fees. Nevertheless, recent slowdowns in both tax and land revenues have exerted pressure on local government finances.

Debt Risks

- By the end of 2025, China's total government debt stood at approximately \$13.6 trillion—roughly four times that of India as of March 2025—with debt-to-GDP ratios of 68.5% and 82%, respectively.
- India: Despite high transparency, heavy interest burdens and high funding costs crowd out infrastructure and social spending, creating a medium-term tension between leverage control and capital expenditure expansion.
- China: Statutory leverage is moderate, but implicit and LGFV debts significantly elevate the overall ratio. While past off-balance-sheet financing fueled infrastructure expansion, it also accumulated massive hidden liabilities. Currently, large-scale debt swaps, banking sector participation, and tighter oversight are steadily improving transparency and mitigating fiscal risks.

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India is currently growing at a relatively high GDP rate, and markets often compare it with China during its high-growth period. In FY2024-25, India's GDP reached approximately USD 3.8 trillion, while China's 2025 GDP was approximately USD 19.6 trillion—roughly five times India's size. The gap in economic scale is substantial, yet how do the two countries' fiscal and debt performances compare?

This report examines the operational logic of the two fiscal systems and the substantive differences in debt risks from the perspectives of fiscal institutions, revenue-expenditure structures, deficit formation, debt scale, and use of funds.

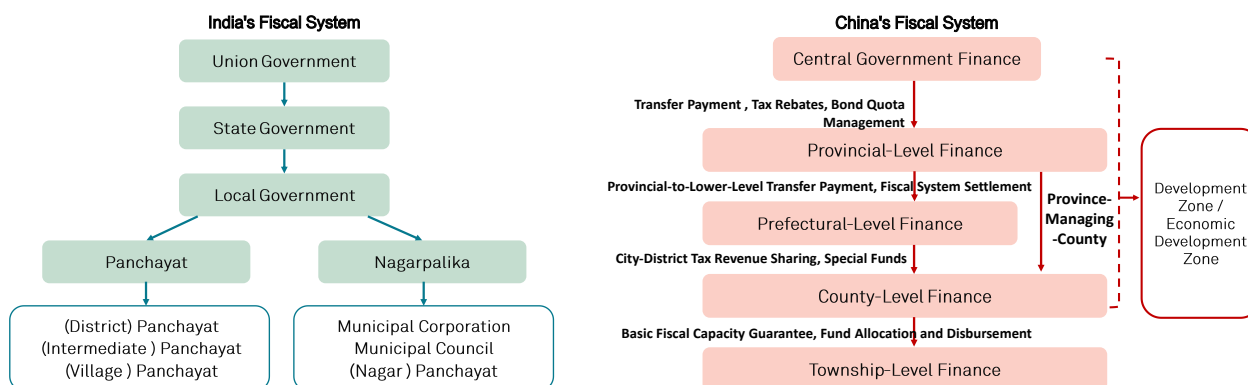
Part 1 Comparison of China-India Fiscal Systems: Institutional Architecture and Central-Local Fiscal Power Allocation

Both China and India operate central-local tax-sharing systems, yet they differ fundamentally in hierarchical structure, division of fiscal powers and responsibilities, taxing authority, and fiscal balancing mechanisms. These differences directly shape the operational models, autonomy space, and risk constraints of local finances.

1.1 Fiscal Hierarchical Architecture: Three-Tier Federal Autonomy System versus Five-Tier Administrative Subordination System

India operates a three-tier fiscal system comprising the federal (Union), state, and local levels. Its administrative divisions consist of three main tiers: the first is the Union Government; the second comprises state-level governments, including 28 states and 8 Union Territories (including the National Capital Territory of Delhi), which enjoy a high degree of autonomy and serve as the core intermediate entities in India's fiscal operations; the third is local government, structured along the urban-rural divide. Urban areas have municipal corporations, municipalities, and nagar panchayats at the grassroots level; rural areas comprise approximately 247,000 village-level local entities (Panchayats), the vast majority located in rural regions.

Chart 1



Source: Publicly available information

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China has a five-tier administrative fiscal system (central-provincial-municipal-county-township) with vertically subordinate local governments that lack constitutional autonomy. Urban and rural finances are integrated, and grassroots governments primarily implement higher-level policies, with weaker fiscal autonomy than Indian states. In practice, “one-level government, one-level budget” applies with special township arrangements: central, provincial, municipal, and county levels each have independent treasuries, while townships—due to their small fiscal scale—generally follow the “township finance managed by county” model, often lacking independent treasuries and budgets, with township finance offices mainly performing reimbursement and execution functions.

Both countries have development zones, but their fiscal arrangements differ. India's SEZs, NIMZs, industrial corridors, and state-level industrial parks do not have independent fiscal powers.

China's development zones (economic development zones, high-tech zones, etc.) are special functional entities, not administrative divisions. They are managed by government-dispatched administrative committees that exercise delegated administrative and fiscal management powers. Zones with independent fiscal management operate with reference to the fiscal practices of a corresponding level of government in budgetary matters, with their budgets incorporated into the overall budget of that level and submitted to the local people's congress for approval. Zones

without separate fiscal institutions have their budgets managed as a separate line item within the same-level government's departmental budget.

1.2 Tax Power Allocation and Local Fiscal Capacity Balancing: From Central-Local Sharing to Transfer Payments

The division of tax powers and allocation of fiscal resources between central and local governments is the starting point for understanding local fiscal behavior in both countries. Both operate tax-sharing systems under which the center concentrates mobile, high-yield taxes (e.g., income taxes and customs duties) while localities rely on taxes tied to local economic activity (stamp duties and land revenue tax in India; property tax and land appreciation tax in China). However, their institutional logics differ fundamentally.

India operates a federal framework with relatively separate tax powers, granting states autonomous tax bases and rate-setting authority. China centralizes tax powers, leaving localities with no tax legislative powers—only collection and administration functions.

- India: State fiscal autonomy under the federal framework.** Under its constitutional framework, India maintains a clear separation between union and state tax sources. The central government controls about 65% of national tax revenue, encompassing corporate income tax, personal income tax, customs duties, and the central GST—reflecting its authority over macro regulation and cross-regional tax bases. States rely on local taxes such as excise duties on alcohol, stamp duties, vehicle taxes, and state GST, with stable own-source revenues and the flexibility to adjust certain rates.
- China: Central coordination.** Local governments have no substantive tax legislative authority; they merely perform collection and administration. The establishment of central taxes, shared taxes, and local taxes, along with rate-setting and distribution mechanisms, are all determined through unified national legislation. Local tax sources are strictly controlled by the central government, leaving virtually no room for local tax policy adjustment.

Table 1

Comparison of Tax Sources of Local Governments and Central Governments in China and India

Item	India	China
Central Government	Direct taxes: personal income tax, corporate tax Indirect taxes: customs duties, CGST (Central GST) Other: non-tax revenue (e.g., Reserve Bank dividend)	Customs duties, portion of consumption tax, vehicle purchase tax Shared taxes (main source): VAT (50:50 sharing), corporate income tax (60:40 sharing); personal income tax (deposit interest portion), resource tax, urban maintenance and construction tax, central portion of stamp tax
State / Local Government	SGST (State GST) , stamp duty, land tax, vehicle tax	Property tax, urban land use tax, land appreciation tax, deed tax, vehicle and vessel tax, etc., plus local portions of VAT, personal income tax, corporate income tax, resource tax, urban maintenance and construction tax, and stamp tax

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The two countries also differ significantly in the scale and structure of tax revenue. At the same time, India's fiscal revenue is more heavily dependent on taxation, while in China, non-tax revenue (such as land transfer fees) plays an important role in balancing regional fiscal capacity.

In FY2024-25, India's national tax revenue was approximately USD 710 billion, while China's 2025 tax revenue reached about USD 2.47 trillion—roughly 3.5 times India's level. As a share of GDP, however, India's tax-to-GDP ratio was 18.9%, compared with China's 12.6%—with tax revenue contributing relatively less to China's national economy, while non-tax revenue (such as land transfer fees and other income) plays an important role in balancing regional fiscal capacity.

On tax structure, China's revenue is dominated by VAT (a turnover tax), followed by corporate income tax, with personal income tax and consumption tax ranking third and fourth, respectively. Land and real estate-related taxes serve as an important supplement to local revenue. In India,

GST and income taxes carry roughly equal weight; GST, personal income tax, and corporate tax are the top three categories.

On the vertical distribution of tax revenue, India’s local share is higher. The central government directly collects about 63–64% of national tax revenue, of which approximately 20% is returned to states as shareable taxes. Combining own-source revenues with central transfers, states’ disposable tax revenue accounts for roughly 56–58% of the national total. In China, local governments receive less than 50% of national tax revenue—a consequence of its centrally coordinated system, which prioritizes unified policy implementation and regional fiscal balance through transfer payments.

Chart 2

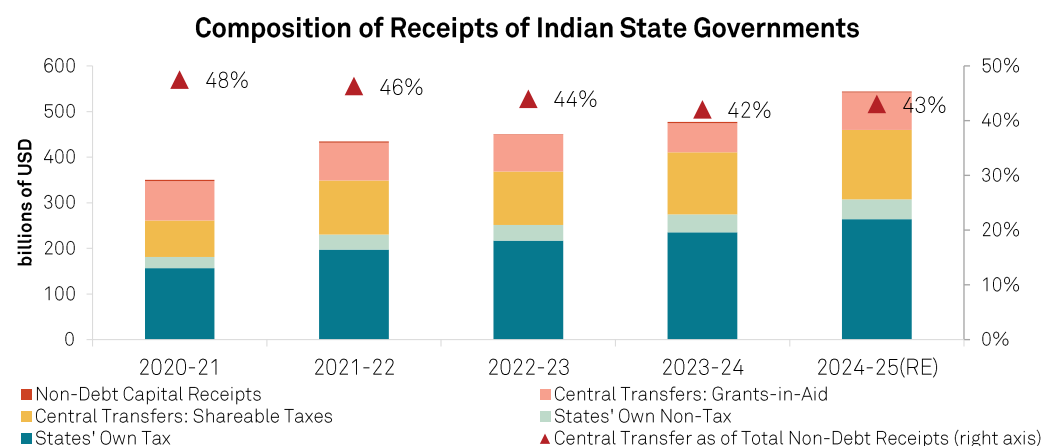


Note: The 2024-25 data for Indian State Governments represent the Revised Estimates (RE). The RE is an updated forecast based on actual fiscal receipts from the first three quarters of the fiscal year, adjusting the initial Budget Estimates (BE). It closely approximates the actual fiscal outcomes for the year but does not constitute the final audited actuals.
Sources: iFinD; Receipt Budget 2026-2027 and other publicly available documents.
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A common challenge in both countries is the mismatch between tax revenue attribution and expenditure responsibilities: central governments concentrate major tax sources while local governments bear the bulk of spending on livelihoods and infrastructure. Both have therefore established large-scale transfer payment mechanisms to close local fiscal gaps.

In India’s state-level fiscal system, revenue is dominated by revenue receipts (own-source taxes, non-tax revenue, and central transfers). In FY2024-25, total state revenue receipts reached INR 45.8 trillion (about USD 540 billion), or 14% of GDP. Of this, own-source taxes accounted for INR 22.3 trillion (USD 260 billion), while central transfers amounted to INR 19.8 trillion (USD 230 billion)—approximately 43% of total state revenue. Within transfers, tax devolution was INR 12.9 trillion (28%) and grants were INR 6.9 trillion (15%), underscoring the critical stabilizing role of central transfers for subnational finances.

Chart 3



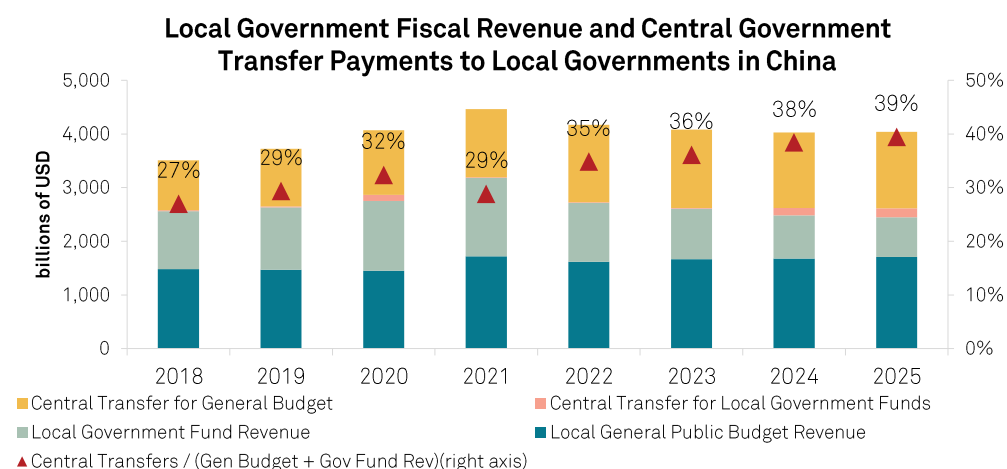
Note: 2024-25 (RE) stands for Revised Estimates (revised budget figures).

Source: Receipt Budget 2026-2027.

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China faces a similar situation in which the central government concentrates core tax sources while local governments shoulder the main responsibility for livelihood security and infrastructure. Central transfer payments to local governments have become one of the core instruments for closing local fiscal gaps. In 2025, such transfers are projected to reach RMB 10.19 trillion (USD 1.4 trillion). Against the backdrop of declining land transfer revenue and pressure on local own-source tax growth, the share of transfer payments in local comprehensive fiscal revenue (including government-managed funds) has been trending upward overall. Transfer payments have become the most important supporting force—second only to local government bonds—for maintaining stable local fiscal operations.

Chart 4



Source: iFinD, Report on the Execution of the Central and Local Budgets.

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Both countries' local governments exhibit high dependence on transfer payments, yet their fiscal balancing mechanisms follow markedly different paths.

India's constitutionally mandated Finance Commission sets central-state tax devolution rules free from administrative interference. The 14th Commission (2015-2020) raised states' share from 32% to 42%; the 15th (2020-2025) maintained this while eliminating deficit grants to enforce fiscal discipline.

China adopts a central administrative coordination model. The central government adjusts regional disparities through general equalization transfers and specific transfers, with budget plans executed after NPC approval. Administrative tools such as debt ceilings and fiscal performance assessments reinforce national fiscal unity.

The essential difference: India institutionalizes fiscal resource allocation rules through constitutional procedures, reducing space for administrative intervention, while China leverages its administrative system to maintain flexibility and execution capacity in fiscal regulation.

Part 2 China-India Government Fiscal Deficits and Revenue-Expenditure Balance: Two Different Borrowing Logics

China and India differ fundamentally in fiscal deficit formation and debt-use efficiency. India has developed a fiscal inertia of “borrowing to sustain operations”—debt funds are largely absorbed by recurrent expenditure and interest, leaving little room for capital investment. China, by contrast, has built a “stable operations through revenue, borrowing for construction” model, with statutory debt earmarked exclusively for capital expenditure to drive growth through effective investment and service debt with incremental fiscal resources.

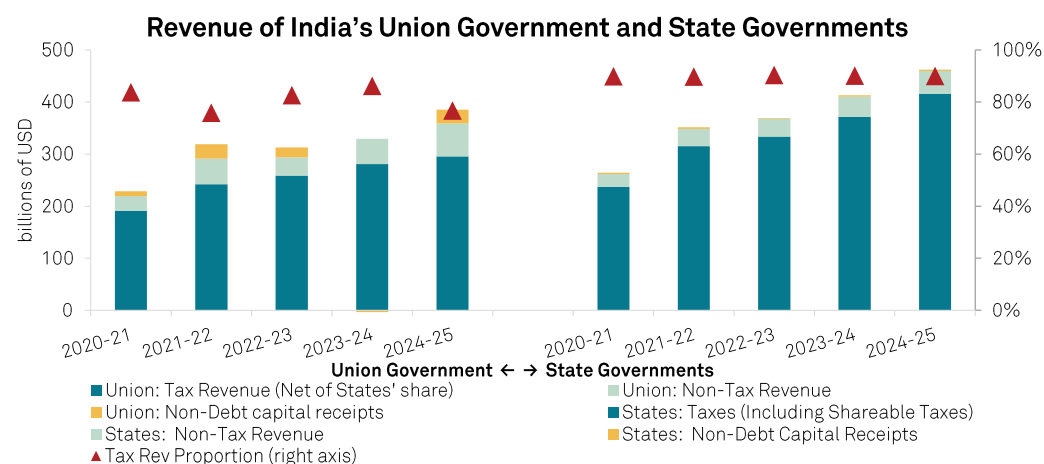
2.1 India: Dual-Account Accounting and the Fiscal Inertia of Borrowing to Sustain Operations

India's fiscal accounting splits revenues and expenditures into Revenue and Capital Accounts, and are subject to the FRBM Act and state-level fiscal responsibility legislation. The Revenue Account tracks recurrent items (taxes, non-tax revenue, interest, subsidies, and administration), while the Capital Account records asset-creating or liability-reducing activities (borrowing, disinvestment, infrastructure investment, and loan repayments). State governments follow a similar structure.

Revenue side remains heavily tax-dependent. India's fiscal revenue is dominated by revenue receipts, of which tax revenue accounts for over 80%. At the central level, net tax revenue has long accounted for about 80% of total central revenue, while state governments exhibit even higher tax dependence, with tax revenue (including central tax devolution) accounting for approximately 90% of total state revenue. By contrast, non-tax revenue and non-debt capital receipts are extremely limited—the latter accounting for only about 2% of state revenue on a sustained basis.

India's heavy reliance on tax revenue is not inherently a vulnerability, as the system offers a high degree of transparency and predictability. Against a backdrop of sustained high GDP growth, the tax-dominated revenue structure can provide stable and predictable fiscal cash flows sufficient to support core fiscal operations. However, this monolithic revenue structure also means that the Indian government must rely on debt to fill fiscal gaps and support economic construction. In the event of economic volatility or a slowdown in tax growth, the fiscal position would face adjustment pressure due to the lack of sufficient buffers.

Chart 5



Note: Excludes Union transfer grants to avoid double-counting.

Source: Receipt Budget 2026-2027

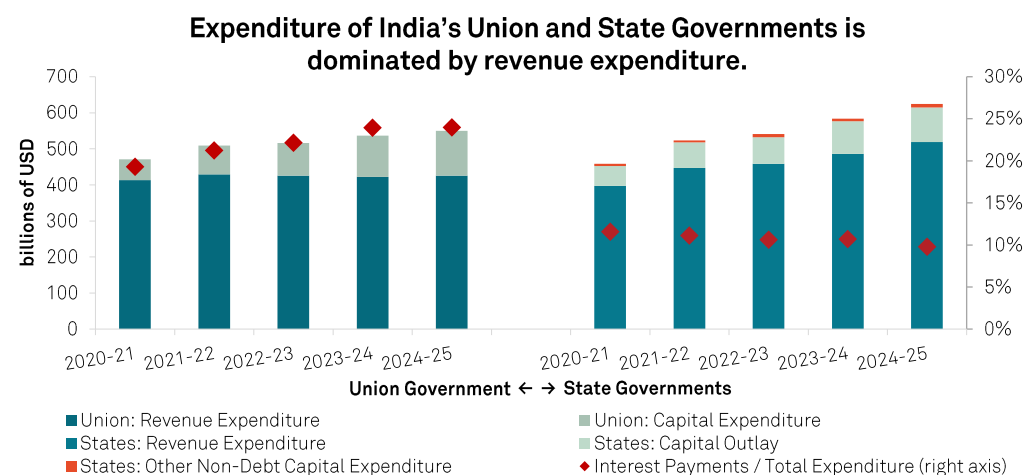
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India's expenditure side features a high share of rigid items and a heavy interest burden. To accurately measure actual government resources devoted to infrastructure and fixed-asset formation, one should focus on capital expenditure, particularly the capital outlay. On an account basis, central government revenue-account expenditure accounts for 78% and capital account expenditure for 22% of total central expenditure, respectively.

State government expenditure is skewed toward non-capital areas, with states accounting for roughly 56% of total national expenditure in FY2025-26, surpassing the central government as the primary user of fiscal resources. State revenue-account expenditure has long exceeded 80% of total state spending (81.9% in FY2024-25), while capital outlay accounts for only about 15%—even including other capital items, the share remains below 18%. This reflects that a large portion of state fiscal resources is consumed by day-to-day operations, with limited allocation to infrastructure and equipment investment.

Meanwhile, interest expenditure further pressures fiscal space at both the central and state levels. Between FY2020-21 and FY2024-25, the central government's interest payments rose from 19% to 24% of total expenditure; at the state level, the ratio remained stable at 10%–12%. Measured by interest payments as a share of total revenue, combined central and state interest expenditure reached approximately 23% of total revenue in FY2024-25—nearly one-quarter of fiscal revenue consumed by interest payments. Together with already-high recurrent spending, this further compresses discretionary fiscal space at both levels of government.

Chart 6



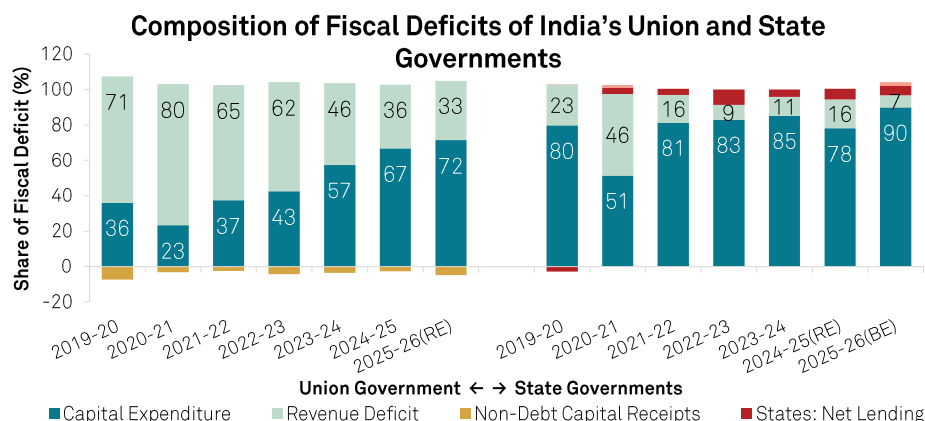
Source: Receipt Budget 2026-2027, Study of Budget, and other publicly available documents.
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Deficit and Revenue-Expenditure Balance: high interest and rigid spending keep revenue accounts in deficit, forcing debt to fill operational gaps and squeezing capital expenditure. India's tax-dominated revenue structure lacks flexibility, while high rigid spending and interest burdens have made debt largely non-productive—most non-debt revenue is consumed by operations, and debt proceeds must also cover revenue gaps rather than finance investment, leaving capital expenditure reliant on deficit financing.

This has improved recently. The central revenue deficit fell from 7.1% of GDP in FY2019-20 to an estimated 3.3% in FY2025-26, while capital expenditure rose from 3.6% to 7.2% of GDP over the same period.

However, non-debt capital receipts remain minimal or negative, and capital expenditure still depends heavily on deficit financing. Accumulated debt has pushed overall deficit and debt ratios beyond statutory ceilings. Under the FRBM Act, state fiscal deficit is capped at 3% of GSDP and public debt at 20% of GDP—levels that states have consistently breached, constraining the government's ability to expand capital expenditure amid debt constraints and compliance pressures.

Chart 7



Note: Net Lending refer to net loans and advances extended by State Governments in the fiscal year.

RE = Revised Estimates; BE = Budget Estimates

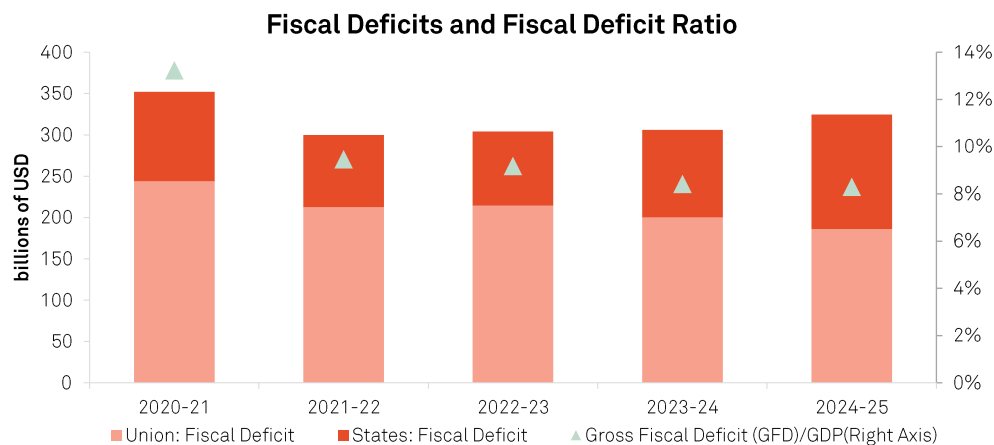
Source: Receipt Budget 2026-2027

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Aggregating central and state deficits, India's broad fiscal deficit ratio fell from 13.2% in FY2020-21 to 8.3% in FY2024-25, narrowing nearly 5 percentage points. In absolute terms, the total deficit rose only 4% from INR 26.3 trillion (about USD 310 billion) to INR 27.4 trillion (about USD 320 billion), reflecting economic recovery, improved expenditure structure, and stronger fiscal discipline.

However, central and state trajectories have diverged. The central deficit narrowed from INR 18.2 trillion (about USD 240 billion) to INR 15.7 trillion (about USD 190 billion), while state deficits expanded from INR 8.1 trillion (about USD 110 billion) to INR 11.7 trillion (about USD 140 billion)—a nearly 30% increase over five years—partially offsetting central consolidation gains. The central government has led deleveraging, while states remain constrained by rigid expenditures and limited revenue-raising space.

Chart 8



Source: Study of Budgets of 2025-26, Handbook of Statistics on the Indian Economy, compiled by S&P Global Ratings

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2.2 China: Statutory Debt Corresponds to Capital Expenditure

Unlike India—where fiscal revenue largely covers revenue disbursements and debt must fill both investment and operational gaps—China ring-fences local government statutory debt for productive investment only, prohibiting its use for day-to-day operations. Borrowing drives growth, which in turn generates resources for debt service. At the local level, central transfers and local government bonds are the primary tools for closing fiscal gaps; nationally, shortfalls are funded by treasury and local government bonds.

China’s fiscal framework comprises four budgets, with analysis focusing on the general public budget and the government-managed fund budget.

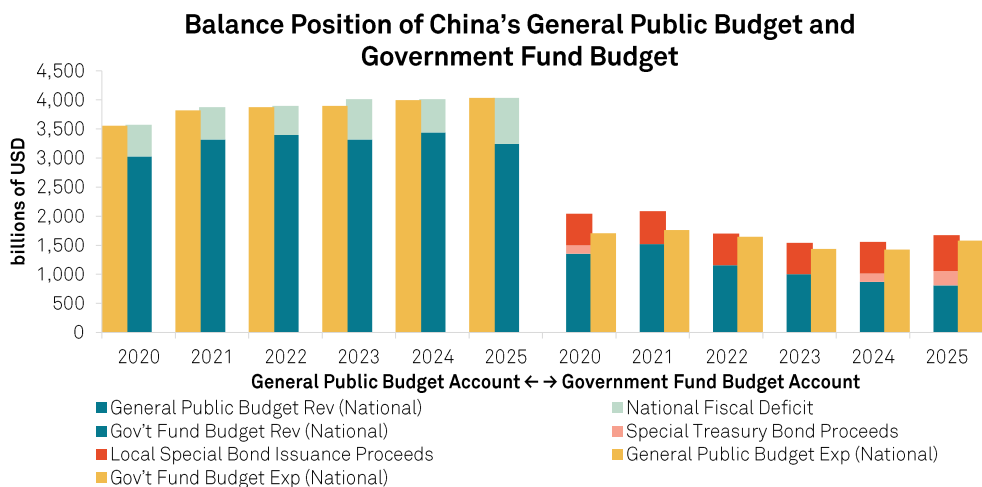
The **general public budget**, financed mainly through tax and non-tax revenues, covers both recurrent spending for government operations and capital outlays for infrastructure and public welfare projects. Its deficit—the official fiscal deficit—is funded by treasury bonds and local government general bonds. Unlike India’s strict separation between revenue and capital accounts, China’s deficit already includes a portion of capital expenditure.

The **government-managed fund budget** is raised from designated sources in accordance with laws and regulations (chiefly land transfer fees) and earmarked for specific public utilities and infrastructure development.

Based on 2025 budget execution data:

- General public budget: Revenue totaled RMB 23.2 trillion (USD 3.2 trillion), primarily from taxes (76%) and non-tax revenue (17%). Expenditure stood at RMB 28.8 trillion (USD 4.0 trillion), yielding a deficit of RMB 5.66 trillion (USD 790 billion)—financed by RMB 4.86 trillion (USD 680 billion) in treasury bonds and RMB 0.8 trillion (USD 110 billion) in local government general bonds.
- Government-managed fund budget: Revenue reached RMB 5.77 trillion (USD 800 billion), with land transfer fees contributing 72%. Together with RMB 1.8 trillion (USD 250 billion) in special treasury bonds and RMB 4.4 trillion (USD 620 billion) in local special bonds, total funds covered expenditure of RMB 11.3 trillion (USD 1.6 trillion), achieving self-balancing.

Chart 9



Source: Ministry of Finance of China, compiled by S&P Global Ratings
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Unlike India’s model of heavy reliance on tax revenue, a distinctive feature of China’s fiscal revenue is its diversification—in addition to tax revenue, non-tax revenue such as land transfer fees and income from state-owned capital operations also constitute an important supplement, providing China with a more diverse source of funding for capital expenditure. That said, in practice, when the economy faces downward pressure, fiscal revenue is systematically affected regardless of the number of revenue sources—tax revenue declines with slower economic activity, while land transfer fees shrink with real estate market adjustments. China is currently experiencing fiscal pressure from the sustained decline in land transfer fees.

In addition, China’s local governments operate under a statutory budget framework that imposes strict restrictions on the use of debt proceeds:

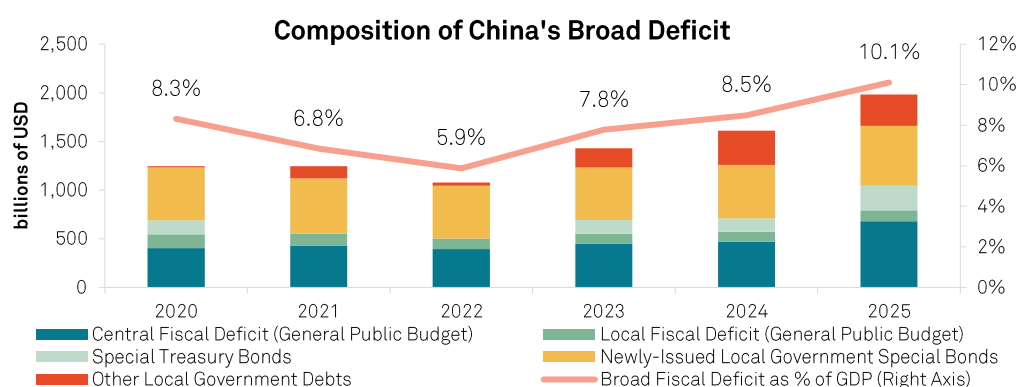
Local government debt is legally required to be used for public-welfare capital expenditure, not recurrent spending—debt proceeds are channeled into transport, water conservancy, and municipal infrastructure, expanding effective investment to drive growth. In practice, some special

bond projects have seen inflated revenue projections and idle assets, and the conversion of debt-funded assets into cash flows for debt service is not always assured. Nonetheless, this “borrowing for construction” model has broadly supported local infrastructure development and economic growth, providing a fundamental underpinning for local fiscal operations.

China’s broad fiscal deficit (including the government-managed fund account) rose from 5.9% of GDP in 2022 to 10.1% in 2025, driven largely by the central general public budget deficit—which expanded from RMB 2.65 trillion (USD 390 billion) to RMB 4.86 trillion (USD 680 billion), up over 70%, reflecting tax cuts and rising spending. Local special bond and swap bond issuances also contributed, with new special bonds reaching RMB 4.4 trillion (USD 620 billion) in 2025 and other bond issuance totaling RMB 2.31 trillion (USD 320 billion), mainly for debt swaps.

We view this rise not as an increase in fiscal risk, but as a shift toward greater transparency—implicit debt is being converted into explicit local government bonds. Meanwhile, lower average issuance yields compared with previous high-interest implicit debt are steadily reducing the overall interest burden and improving the debt structure.

Chart 10



Note: Other local government debts include special refinancing bonds and the RMB 2 trillion replacement bonds issued in 2024 and 2025. Special refinancing bonds utilize unused debt quota balances, with proceeds raised to replace implicit government debts. As such instruments effectively increase explicit government debt, they are incorporated into the broad fiscal deficit calculation.

Source: Ministry of Finance of China, Enterprise Early Warning Platform, etc., compiled by S&P Global Ratings
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Part 3 Advantages and Disadvantages under Different Borrowing Logics: Debt Scale, Interest Burden, and Debt Risk

Having outlined the distinct borrowing logics underlying the fiscal revenue-expenditure and deficit patterns of China and India, we now turn to a further comparison of the two countries’ debt stocks, financing costs, and debt structures.

3.1 Scale and Cost Comparison

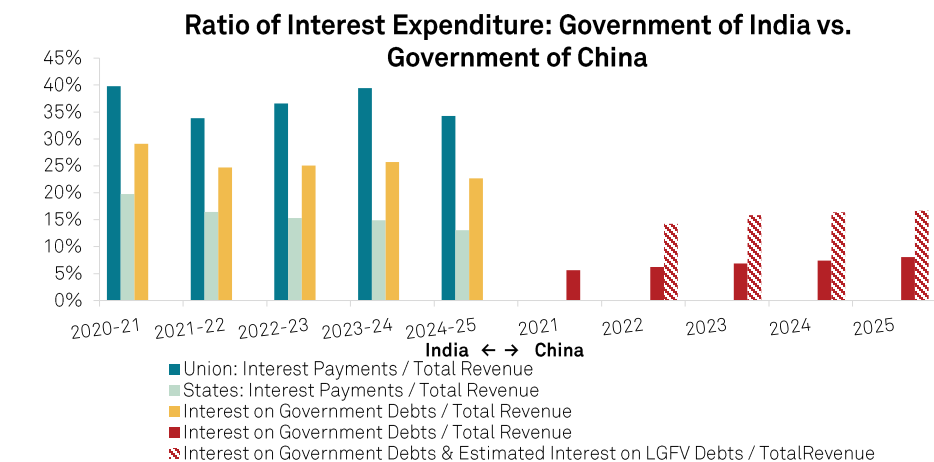
At end-2025, China’s government debt stood at approximately USD 13.6 trillion, roughly four times India’s USD 3.2 trillion—while China’s 2025 GDP (approximately USD 19.6 trillion) is roughly five times India’s (FY2024-25: approximately USD 3.9 trillion)—with India’s broad debt-to-GDP ratio slightly higher than China’s: 68.5% and approximately 82%, respectively.

Interest burdens differ markedly. Since FY2022-23, India’s central government interest expenditure as a share of total revenue has ranged between 34.3% and 39.4%, while states’ share stood at approximately 13.0%–15.3%; in FY2024-25, combined interest expenditure of all levels of government accounted for about 23% of total revenue. Heavy interest payments continue to crowd out spending on infrastructure and livelihoods, and with India maintaining a relatively high policy rate floor, rollover costs on outstanding debt remain elevated.

In China, statutory government bond interest expenditure as a share of total fiscal revenue rose from about 6.9% in 2023 to about 8.1% in 2025; including LGFV debt interest brings the broad share to approximately 15%–17%. Even on a broad measure, China’s interest burden remains

lower than India's—though LGFV interest is theoretically covered by operating revenue and does not constitute direct government obligations.

Chart 11



Note: China's government revenue = total general public budget revenue + government fund budget revenue. Interest on China's implicit debts and LGFV debts is estimated based on an average interest rate of 4.5%. Source: Receipt Budget 2026-2027, Government of India; Ministry of Finance of China, compiled by S&P Global Ratings. Copyright © 2026 by S&P Ratings (China) Co., Ltd. All rights reserved.

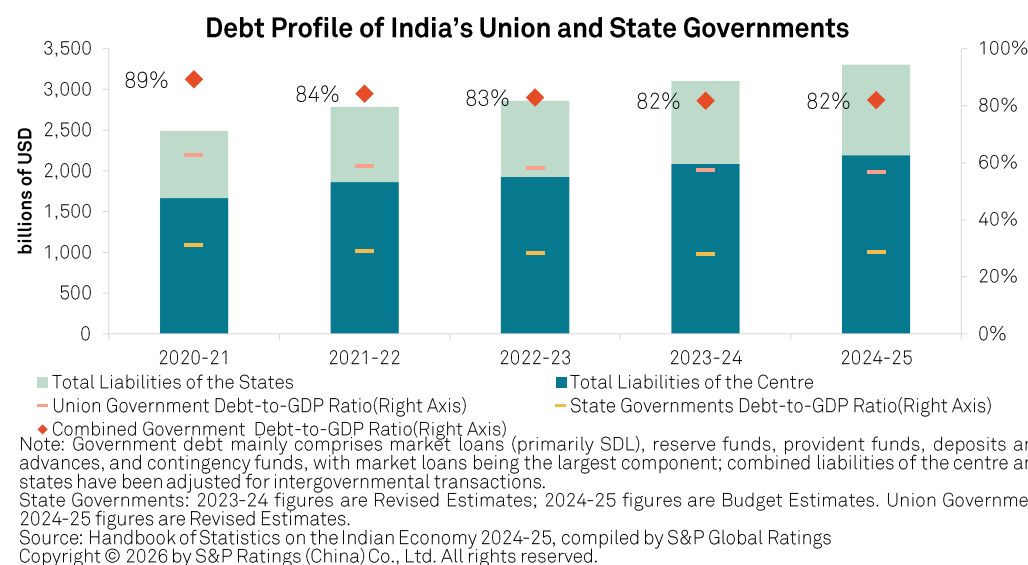
In our view, the high interest expenditure ratio in India is underpinned by structurally elevated funding costs. India's 10-year government bond yield currently stands at approximately 6.73%, with long-term government borrowing costs remaining above 6%. The root cause of this high-rate environment lies in India's inflation structure—the CPI basket carries a high weight for food, making headline inflation highly sensitive to supply-side shocks. To anchor inflation expectations, the RBI is compelled to maintain a relatively high policy rate.

By contrast, China's inflation structure is different (with a lower weight for food), and its 10-year government bond yield currently stands at approximately 1.74%, keeping government funding costs significantly below India's. This means that India's effective interest burden is far higher than China's, making elevated funding costs a key vulnerability for India's fiscal sustainability.

Under India's model, total debt remains within a defined range, but debt proceeds must serve both capital formation and operational shortfalls. The resulting interest burden continues to accumulate, crowding out space for productive borrowing. Over the medium to long term, this creates a structural tension between debt-leverage control and the need for capital expenditure to sustain growth.

In recent years, India's combined central and state debt (measured on a broad liability basis, which includes not only government debt but also small savings, provident and pension funds, reserve funds, fiscal deposits, and external liabilities) has continued to grow in absolute terms. However, benefiting from relatively rapid GDP growth, the total debt/GDP ratio has declined from 89% in FY2020-21 to approximately 82% in FY2024-25, indicating some fiscal repair. As of end-March 2025, India's broad government debt stood at approximately INR 267 trillion (about USD 3.2 trillion). Nevertheless, the current leverage ratio of about 82% remains well above the FRBM Act's 60% medium-term target, underscoring continued fiscal consolidation pressure.

Chart 12



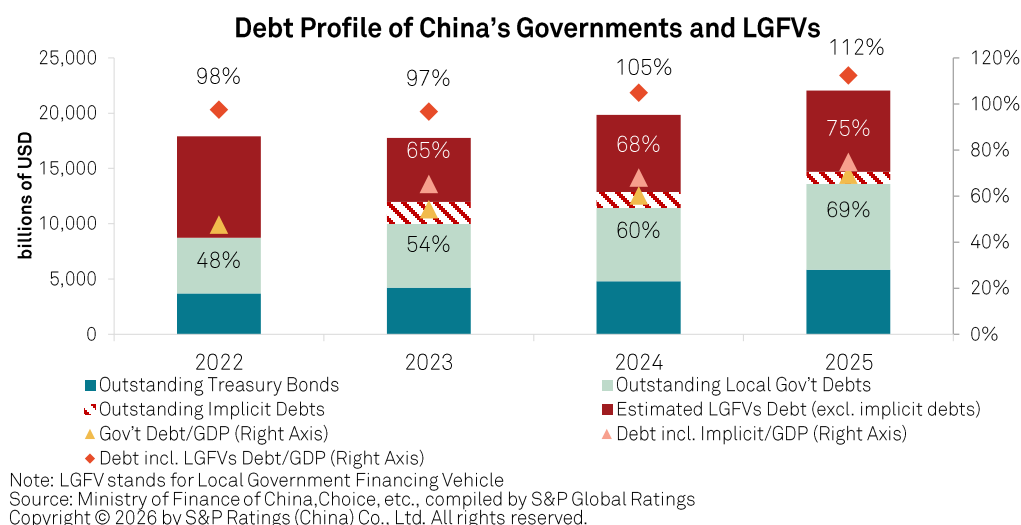
China's statutory government debt remains manageable, though broader measures including implicit and LGFV debt push the leverage ratio significantly higher. Relying on national credit, deep banking-sector involvement, and large-scale debt swaps, risks are being steadily mitigated, platform debt is contracting, and overall debt structure is becoming more transparent.

China operates a centrally unified fiscal-debt management system. Local governments have no independent tax legislative power or autonomous borrowing authority; deficit ratios and debt ceilings are set by the National People's Congress, ensuring unified national fiscal order. However, the mismatch between local fiscal powers and expenditure responsibilities gave rise to a large number of LGFV platforms that operated outside budget constraints. Localities injected land and state assets as collateral to obtain bank loans or issue bonds, financing urban infrastructure and livelihood projects—supporting development but accumulating sizable off-balance-sheet debt. According to government statistics, implicit debt (for which the government bears repayment responsibility) stood at approximately RMB 10.5 trillion (about USD 1.5 trillion) at end-2024.

We divide China's debt into three layers: statutory debt (treasury and local government bonds), implicit debt, and other LGFV debt. As of end-2025, total government debt stood at RMB 96 trillion (about USD 13.6 trillion), roughly four times India's level (India: approximately INR 267 trillion, about USD 3.2 trillion, as of end-March 2025), broadly matching the GDP ratio. Statutory debt rose from RMB 46.6 trillion (USD 7.1 trillion) in 2020 to RMB 96.1 trillion (USD 13.6 trillion) in 2025, with local government debt as the main driver (RMB 25.7 trillion to RMB 54.8 trillion). The debt-to-GDP ratio rose from 45.0% to 68.5% over the same period.

Implicit debt declined from RMB 14.3 trillion (USD 2.0 trillion) at end-2023 to RMB 10.5 trillion (USD 1.5 trillion) at end-2024, with further reduction to approximately RMB 7.7 trillion (USD 1.1 trillion) expected by end-2025. Including implicit debt, China's debt ratio at end-2025 stood at approximately 74%—about 5.5 percentage points above the statutory measure. IMF and other institutions use a broader measure that includes LGFV debt; on this basis, we estimate total debt/GDP exceeds 100%.

Chart 13



China's broad debt stock is large, but national credit, institutional governance, and debt-swap mechanisms provide a foundation for orderly risk mitigation. Local government debt carries institutional credit backing, with pricing anchored to treasury yields and no default history. LGFV public bonds have seen "zero substantive defaults," though non-standard products and offshore bonds have occasionally defaulted.

China is implementing a "6+4" RMB 10 trillion debt-resolution package. By end-April 2026, approximately RMB 7.6 trillion had been issued, lowering financing costs and optimizing maturities. Meanwhile, financing platforms have been cut by over 70% from early 2023 levels, net LGFV bond financing turned negative, and broad debt risks continue to converge.

Banks hold the majority of local government debt and LGFV liabilities, providing strong rollover capacity and cost control. Even when LGFVs face liquidity pressure, they can typically negotiate bridge financing or grace periods with local institutions.

3.2 Comparison of Local Financing Mechanisms between China and India

When analyzing local debt risks, the financing mechanisms of subnational governments constitute another critical dimension. We note a common feature between China and India—local government financing in both countries benefits to some extent from central government credit backing, and financing cost differentials between regions with vastly different economic strengths are not significant. The underlying institutional arrangements for subnational borrowing explain this:

Under India's State Development Loan (SDL) system, SDL bonds are centrally auctioned by the RBI, with the central government setting issuance ceilings for each state. More critically, at maturity settlement, the RBI effectively performs a fronting function—it first pays principal and interest to investors and then recoups the funds from the state government's designated account at the RBI. If the state's account balance is insufficient, it can also settle on an average daily balance basis through overdraft arrangements with the RBI, deferring repayment. This institutional arrangement leads market participants to treat SDL bonds as de facto quasi-sovereign debt, with bond yields across states exhibiting virtually no credit spread. We note that market borrowings by Indian states are predominantly SDLs, and issuance rate differentials among states are not significant.

China's provincial government bonds are similarly subject to central government quota management, bearing a high degree of institutional similarity to India's SDL system—local government bond spreads tend to converge, with little credit differentiation. This means that subnational governments in both countries benefit from institutional credit support from the center, obtaining credit backing broadly comparable to sovereign credit at the financing level.

Nevertheless, credit quality differentials among subnational governments in the two countries remain. Indian states' fiscal revenue is heavily dependent on tax revenue and central transfers, with rigid expenditure on the spending side; combined with persistently elevated interest rates,

high deficits, high debt, and a heavy interest burden constitute common fiscal vulnerabilities. By contrast, most Chinese provinces enjoy relatively ample liquidity. In our view, the primary driver of this differential lies in the gap in economic development levels between the two countries; at the same time, Chinese local governments also receive important supplementary cash flows through land-based finance and revenue from local state-owned enterprises.

3.3 Causes of Differences in Borrowing Models between China and India

China and India differ fundamentally in how local governments mobilize funds to close fiscal gaps and finance construction. China has long relied on a dual-pillar model of land-based finance and LGFV financing to expand fiscal capacity and support infrastructure; with land market adjustments and tighter LGFV regulation in recent years, special bonds have gradually taken over as the core instrument for stabilizing investment and shoring up weaknesses. India, lacking asset-based fiscal sources, relies on direct government borrowing to fill fiscal gaps, which offers less flexibility than China's approach. However, Indian states benefit from relatively ample financing channels such as SDLs, and all such debt is recorded on the government balance sheet, providing a high degree of transparency.

Root cause: China's land-based finance underpins local financing

China's dual urban-rural land system allows local governments to monopolize the primary land market and obtain transfer revenue. At its peak, land transfer revenue accounted for over 40% of national fiscal revenue, creating a closed loop of "land mortgage – platform borrowing – infrastructure development – land appreciation to service debt." In addition, China's LGFV platforms, during rapid urbanization, leveraged social capital at scale—supporting decades of high-speed development while accumulating stock debt that now pressures local finances.

3.4 Whose Debt Risk Is Higher?

The above analysis compares the two countries' debt-risk profiles along three dimensions: debt scale, interest burden, and borrowing model. Sovereign ratings by international rating agencies provide an intuitive benchmark.

As of now, S&P Global Ratings maintains China's sovereign credit rating at "A+" with a stable outlook, Moody's at "A1" with a stable outlook, and Fitch at "A" with a stable outlook. In the same period, India's sovereign ratings stand at "BBB" (stable) from S&P, "Baa3" (stable) from Moody's, and "BBB-" (stable) from Fitch. This serves as an intuitive indicator of the different assessments international markets hold of the two countries' credit profiles.

On the Indian side, debt risk stems from a dual squeeze of high debt and high interest costs. Under India's borrowing model, total debt is relatively modest in scale, and government debt is highly transparent—liabilities of both the central government and state governments are clearly presented on the balance sheet, and market participants have clear visibility into debt size and use of proceeds. This transparency is an institutional strength of India's fiscal system, facilitating market-based risk pricing and early warning.

However, India's structural weaknesses are equally pronounced: government debt stands at about 82% of GDP. While rapid economic growth provides some mitigation of the debt ratio, infrastructure construction relies heavily on borrowing, making it difficult to substantively reduce debt scale. More critically, interest payments consume about 23% of fiscal revenue, severely limiting fiscal flexibility. Although India is pursuing gradual fiscal consolidation and sustaining high growth—with broad government deficits expected to narrow gradually over the next few years—the debt ratio is likely to remain elevated for an extended period, though rapid economic growth will help stabilize the debt/GDP ratio.

On the Chinese side, the fiscal situation has clearly weakened due to real-estate deleveraging and the decline in land transfer revenue, with local finances under sustained pressure. However, China possesses strong policy tools and a clear debt-resolution path, with ample fiscal space providing robust buffers. China's borrowing model has created large-scale infrastructure assets and rapid urbanization, but it has also been accompanied by a larger stock of debt, declining marginal returns, and some disorderly expansion in certain areas—precisely the implicit costs accumulated over the long operation of the LGFV system.

It should be noted that China's sustained land market boom in the early period effectively supported this financing system, offsetting some risks; currently, the central government is working to resolve the stock of debt in an orderly manner through a series of institutional policy tools. In recent years, the central government has implemented a RMB 10 trillion debt-resolution package to swap local implicit debt, with policy effects already visible and average debt interest costs having declined. At the same time, LGFV reform is accelerating; many platforms are gradually shifting toward market-oriented businesses, which to some extent has improved debt transparency and alleviated direct government pressure from LGFV debt. Furthermore, China's government bond interest expenditure as a share of fiscal expenditure is far lower than India's, and debt rollover costs are manageable, providing more ample space for fiscal consolidation.

The two systems represent different institutional equilibria and development-path choices. China's core challenge lies in digesting and managing its stock of debt—yet China's high savings rate, ample foreign exchange reserves, and strong government-bank coordination capacity provide both funding and institutional safeguards for debt resolution. India's core challenge is that debt sustainability is highly dependent on sustained high growth—its revenue-expenditure structure, combined with the interest burden, leaves limited fiscal space, though its deep financial markets provide some support for debt rollover.

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