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India's Public Debt: A Practical Analysis

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ABSTRACT

Public debt has a crucial role to play in the progress of the developing countries. Realising by this fact, more and more countries resort to borrowing and this had increased at an alarming rate. This had created an enhanced desire to study the problem of public debt with a view to understanding whether the public debt had given more advantages or disadvantages to an economy over a period of time. The amount of public debt had given rise to many economic problems and of late there had been a concern for minimising the nature and the role of the public debt in the Indian economy. This paper is an attempt to measure the average level and stability of public debt during 1950-51 to 2010-11 of India. The objectives of the present study are:

1. To study public debt and source of revenue
2. To list out the average level and stability of public debt during 1950-51 to 2010-11 of India.

The study based on secondary data from 1950-51 to 2010-11. The secondary data collected through internet, books, newspaper, journals records and brochures. The tools used for the study were percentage analysis, mean, standard deviation and coefficient of variation. Public debt is not a source of revenue comparable to that of the revenues from taxes. Of course, in a wider sense, the term public revenue should cover all types of sources of income. Hence, public revenue should include the money borrowed by a government also as a source of income. The amount borrowed by the government during any given year is considered as the income for that year. Therefore, we may consider the public debt as source revenue for the government. Public debt has a very significant role to play in mobilizing the resources for undertaking a larger volume of investments, which would not be possible otherwise. The internal borrowings, unlike the external borrowings, would not lead to an increase in the total quantity of the resources available and provide more resources for the Government. Hence, this method of financing the developmental activity is a non-inflationary method. If the Government borrows to finance its various investment projects, it would in its turn not only

add to the productive potential of the economy, but would also create its own means of repayment. Hence, this method might not add to the total debt burden of the government.

Keywords: economic problems, public expenditure, national income, New Economic Policy

INTRODUCTION

The modern governments have significant roles in promoting the welfare of the people in the country. The high growth rate of the population, the increasing economic activities of the government, and the introduction of a number of welfare programmes force the governments, to spend more and more, in general and in a continuous way. However, the Governments often find it difficult to mobilise the additional revenues required by them. Under these circumstances, the Governments attempt to raise the required resources through public borrowings.

Public debt has a crucial role to play in the progress of the developing countries. Realising by this fact, more and more countries resort to borrowing and this had increased at an alarming rate. This had created an enhanced desire to study the problem of public debt with a view to understanding whether the public debt had given more advantages or disadvantages to an economy over a period of time.

The amount of public debt had given rise to many economic problems and of late there had been a concern for minimising the nature and the role of the public debt in the Indian economy. Since Independence, the poverty level had not been brought down to any appreciable extent in India. The aim of the government is to eradicate poverty and achieve a speedy rate of economic growth. To achieve this end, the government had been making investments in a number of welfare activities and they have to be increased, and much care has also to be taken in ensuring that the government could incur such an enhanced volume of expenditure.

A continuous increase in public expenditure is one of the reasons for the increasing public debt of India. The public debt plays an important role in promoting the economic growth of the developing countries. The problem of debt was essentially concerned with the problem of achieving a growing rate of national income (B.B. Bhattacharya, 1992).

The debt in the form of promises by the treasury to pay to the holders of these promises a principal sum and in most instances an interest on that principle (Phillip. E. Taylor, 1992). India’s external debt implied a debilitating effect on the economy, which involved a substantial human cost (Raghunath Pradhan, 2003). Indian foreign exchange reserves provided a cover of a little over 100 per cent of total external debt outstanding as on March 31, 2003 (Reserve Bank of India, 2003-04).

In terms of trade related reserve adequacy indicators, India foreign exchange reserves are more than 15 months imports and higher than several other emerging economies in Asia (Reserve Bank of India, 2005). This paper is an attempt to measure the average level and stability of public debt during 1950-51 to 2010-11 of India.

OBJECTIVES

The objectives of the present study are:

1) To study public debt and source of revenue
2) To list out the average level and stability of public debt during 1950-51 to 2010-11 of India.

METHODOLOGY

The study based on secondary data from 1950-51 to 2010-11. The secondary data collected through internet, books, newspaper, journals records and brochures. The tools used for the study were percentage analysis, mean, standard deviation and coefficient of variation.

PUBLIC DEBT: A SOURCE OF REVENUE

Public debt is not a source of revenue comparable to that of the revenues from taxes. Of course, in a wider sense, the term public revenue should cover all types of sources of income. Hence, public revenue should include the money borrowed by a government also as a source of income. The amount borrowed by the government during any given year is considered as the income for that year. Therefore, we may consider the public debt as source revenue for the government.

The loans raised or any debt incurred or received amounts in a year constitute the income of the government for that year like other taxes levied or collected during a year. But the basic difference between the public debt and the other sources of revenue of the government is that while public debt has to be paid back by the government to the creditors; the other types of incomes need not be paid back. The government collects taxes from the public without any commitment or promise by the way of a quid pro quo. But public loans or debts are collected by the treasury or the government from banks, institutions and individuals under certain conditions given in writing that these would be repaid along with interest and would be paid regularly either annually or half yearly or as per the terms of raising the loan.

In modern times public debt is regarded as an instrument of economic development as also a device for maintaining economic stability. Less developed countries have to spend more and more on development oriented programmes and for a long period of time. But they cannot increase their revenue up to that extent. Hence they are forced to raise additional funds from internal as well as external sources.

For developed countries, the main problem is to maintain economic stability. These countries try to eradicate fluctuations in their economic system by internal borrowings. For instance, during times of inflation, the government withdraws the excess of purchasing power in the hands of the people through borrowings from them, so that the inflationary trend could be arrested. During the period of depression, the government encourages credit expansion through the central bank of the country and the banking system is to create additional purchasing power in the hands of the public.

THE ROLE OF PUBLIC DEBT

Public debt has a very significant role to play in mobilizing the resources for undertaking a larger volume of investments, which would not be possible otherwise. The internal borrowings, unlike the external borrowings, would not lead to an increase in the total quantity of the resources available and provide more resources for the Government. Hence, this method of financing the developmental activity is a non-inflationary method. If the Government borrows to finance its various investment projects, it would in its turn not only add to the productive potential of the economy, but would also create its own means of repayment. Hence, this method might not add to the total debt burden of the government.

The growth of public debt helps to develop the money market and the capital market, which are important characteristic features of the development of an economy. A growing public debt also provides an opportunity to make the monetary policy an effective instrument in the overall economic policy of a country. It provides the monetary authorities with sufficient assets which they could manipulate to make the monetary policy more effective.

TREND OF GOVERNMENT OF INDIA’S PUBLIC DEBT (Rs. in Crores)

Year	Internal Debt	% to Total	External Debt	% to Total	Total Public Debt

1950-51	2022	98.44	32	1.56	2054
1960-61	3978	79.90	1001	20.10	4979
1970-71	7464	53.16	6577	46.84	14041
1980-81	30864	73.20	11298	26.80	42162
1990-91	154004	83.01	31525	16.99	185529
2000-01	803698	92.42	65945	7.58	869643
2010-11	2738106	96.70	93521	3.30	2831627

Source: RBI Annual Report, Various Issues, Reserve Bank of India, Mumbai.

The table shows that the actual values of the total public debt, which had increased continuously during the period of 1950-51 to 2010-11. In 1950-51, the total outstanding internal debt was the order of Rs. 2054 crores and it rose to the level of Rs. 4739 crores in the year 1960-61. And it had increased to Rs. 8009 crores in 1965-66. Further it had rapidly increased to reach the level of Rs. 16932 crores in 1973-74. In the year 1980-81, it was Rs. 40,325 crores. The external loans were at a nominal level of Rs. 32 crores only at the end of 1950-51.

The rate of growth of the external debt was somewhat slower in the beginning of the post-independence period though it had gathered momentum after a few years. In 1960-61, India's external indebtedness stood at the level of Rs. 761 crores. During this period of the first two Five Year plans, the import requirements of India had increased as a faster rate and the increasing cost of external debt-servicing had made the situation deteriorate further. By the end of the third plan, India's external debt had reached the level of Rs. 2091 crores. This trend continued during the post Third Five Year Plan period also and the external public debt figure stood at Rs. 5824 crores at the end of 1973-74 (H.L. Bhatia, 1981).

From the above Table, it could also see that the trend of India's public debt shows a higher proportion of external debt in 2010-11 during the period 1950-51 to 2010-11. The proportion ranges from 1.56 percent during the year 1950-50 to 3.30 percent during the period 2010-11. The proportion of internal debt, which is 79.70 percent in 1960-61, had increased to 96.70 percent during 2010-11.

In the Indian context, the debt dynamics had become more adverse in the 1980's as the debt to GDP ratio had witnessed a rapid increase from 44 per cent in 1981 to 59 per cent in the year 1991 due to a sharp rise in the level of the primary deficit. It would be clear that the values of India's public debt had undergone a steady increase during the period 1980-81 to 1990-91.

In the year 1980-81, the value of public debt stood at the level of Rs. 42165 crores. It started to increasing year by year and it reached the level of Rs.185529 crores in the year 1990-91. In that decade, the total public debt had increased nearly 3 times. After the fiscal crisis of 1991, it started to increase the level of Rs. 209698 crores in the year 1991-92 and reached the level of Rs.1187830 crores in the year 2003-04. The India's public debt in the year 2006-07 according to the budget estimate was Rs. 1598746 crores.

The growth of primary deficit since 1997-98, had however led to a reversal of the declining trend in the earlier years debt to GDP ratio, raising concerns about the sustainability of the public debt in future year (RBI , 2000). The primary deficit to GDP was remained below 2.5 per cent in the year 1993-94 and the change in the debt-GDP ratio was modest till 1999-2000 because, growth rate exceeds interest rate. The debt-GDP ratio had started rising from 2000-01 because of the combined effect of primary deficit and the negative difference between the growth rate and the interest rate.

The high level of fiscal deficit of the Central Government had led to the steady accumulation of public debt and it was reflected in the rise in the debt to GDP ratio. In 1999, the debt to GDP ratio was 50.6 per cent and it had increased to the level of 52.9 per cent as at the end 1999-2000. A high level of domestic public debt poses serious challenges to debt management attempt from two major angles.

Fiscal and primary deficits along with growth rate and interest rate may be considered as interdependent. Particularly, fiscal deficits may affect interest rates and also the level of primary expenditure may affect growth rates. For future projections of the behaviour of debt, the interrelationship among the related variable would be kept in view. First, there is little flexibility left for the debt management authorities to minimize the borrowing cost of the debt in the face of a continuous increase in the supply of bonds.

This may lead to an increased background in the interest rate premium on fresh borrowings resulting in the hardening of the yields. Secondly, a high stock of domestic market debt will raise further the interest burden. As a result, there might emerge the problem of concentration of public debt towards short term debts and leading to the bunching of redemptions and the roll over problems connected with the management of public debt.

It could be summarized that the total public debt of India had been increasing tremendously over a period of years. Before the New Economic Policy was adopted, the Public debt, which was at the level of Rs. 42, 162 crores in the year 1980-81, rose to the level of Rs. 140,244 crores in the year 1989-90. In the ten-year period, the total public debt had increased by nearly three times. After the fiscal crisis of 1991, the public debt had increased by more than eight times from 1990-91 to 2004-2005. In 1990-91, the volume of outstanding public debt was Rs. 161,536 crores which had gone up to the level of Rs. 1,32,4641 crores in the year 2004-2005. The dynamics of public debt, which had turned adverse in the 1980s, was reflected in a sharp deterioration in the fiscal deficit of the Government of India.

The debt to GDP ratio of the Central Government rose from 41.6 per cent in 1980- 81 to 53.3 per cent in 1990-91. This had three major implications: First, the concomitant rise in the interest burden absorbed an increasing proportion of the revenue receipts thereby raising the revenue deficits. The interest payments to revenue receipts ratio had increased from 21.0 per cent in 1980-81 to 48.7 per cent in the year 1993-94. Second, the increasing levels of borrowings exerted an upward pressure in the interest rates, reducing the interest sensitive private investments in the short run and thereby adversely affecting the rate of economic growth. Third, the large borrowings had added to the repayment burden of the central government resulting in the problem of frequent debt rollovers.

The fiscal compression measures initiated by the Central Government in the year 1991 and the consequent control of the net market borrowings had facilitated a reduction in the debt to GDP ratio from 55.3 per cent in 1990-91 to 49.3 per cent by the end of 1996-97. Furthermore, the interest payments to revenue receipts ratio had also declined to the level of 45.4 per cent in the year 1995-96.

However, a reversal in the fiscal consolidation process took place during the second half of the 1990s and the consequent increase in the market borrowings had pushed up the central government’s debt to GDP ratio. The interest payments to revenue receipts ratio, however, continued to decline to the level of 41.8 per cent in 2004-2005, reflecting that an economy has become buoyant to mobilize additional revenue.

The total debt service for India as a proportion of the exports of goods and services stood at 26.8 per cent and was found to be marginally lower than the average for the Moderately Indebted Low Income Countries (MILICs) and the Moderately Indebted Middle

Income Countries (MIMICs). It was however, found to be marginally higher than the averages of the Severely Indebted Low Income Countries (SILICS), Severely Indebted Middle Income Countries (SIMICs) (Reserve Bank of India Bulletin, 1992).

The average amount of internal debt over a period and stability of performance of external debt during the period 1950-51 to 2010-11 presented in the below Table.

Average level and stability of public debt during 1950-51 to 2010-11

Particulars	**Internal Debt**	**External Debt**	**Total**
Mean (X)	534305.1429	29985.5714	564290.7143
Standard Deviation (S.D)	1014028.80346	36438.78289	1047365.51612
Co-efficient of Variation (C.V)%	1.8978	1.2152	1.8561

It inferred from Table that trend of India's public debt, on an average over a period was found to be higher. The average amount over the period from 1950-51 to 2010-11 was 564305.1429 for internal debt. The average amount over the period from 1950-51 to 2010-11 was 29985.5714 for external debt. The average amount over the period from 1950-51 to 2010-11 was 564290.7143 for total debt.

The value of the coefficient of variation indicates that India's public debt was relatively stable over a period of 70 years from 1950-51 to 2010-11.

CONCLUSION

The main problem of India is that the growth rate of national income is very low as against the rapid increase of public debt. Therefore, it is absolutely necessary to speed up the rate of growth of Indian economy so as to make the burden of debt service less onerous. India has come a long way from the days of crisis of the early 1990's.

Its pragmatic and gradual approach to reform seemed to have paid reasonably well. It has emerged almost unscathed from various crises like East Asian Crisis, drought or sanction like situation. There are strong reasons to believe that India would be on a higher growth trajectory in the coming decades. At the same time, a lot of needs are to be done to improve the quality of life. While the proportion of the poor in total population has come down, the absolute number of poor people remains high. India's rank in terms of human development index and gender development index continues to be low compared to many developing countries. There is a need for linking growth with development and fill the gap between macro-economic performance and social sector development.

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