AN ANALYSIS OF INDIA’S PUBLIC DEBT

Introduction

Public finance deals with the income and expenditure of the public authorities. The word ‘public’ is used to signify the government or the state. Public authorities include various governments. Hence it could be said that it deals with the finances of all the forms of Government – the Central, the State and the Local- that are studied in the science of public finance. Prof. Dalton had defined public finance as “a branch of economics which is concerned with the income and expenditure of the public authorities and with the adjustment of one on the other”.

Obviously, public finance also deals with the problems of adjustment of the incomes and expenditures of the government. The methods of expenditure and the incomes of the public bodies as also the borrowings by the public bodies are referred to as the operations of public finance. They are also known as fiscal operations, as they relate to the operations of the fiscal or the public treasury. Hence, fiscal problems and fiscal policies constitute integral parts of a study of public finance. The fiscal operations and the fiscal policies will have their effects on the national output and income, the national standard of living, the distribution of wealth and income, the money markets and such other things, which in turn affect the economic
life of the nation. Hence every individual in a country is concerned with the methods and operations of public finance.

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.

Almost all the underdeveloped countries resort to public borrowing for financing their developmental activities. Hence Government borrowings, assume a great significance and it needs scientific management.

Need for the Study

Not only the Indian Government, but also the other world economies had been forced to face the problem of debt. However the degree of the intensity of the problem varies between different countries. The study will help us to know the debt position of a nation and it could pinpoint the factors, which influence a country to borrow more and more.
A periodical assessment of the debt position of a country is essential and it would help the planners to safeguard the interests of a nation before it falls into debt trap conditions. Further, the researcher is keenly interested in knowing about the economic background of a nation through an analysis for the sake of enhancing his knowledge. This study could give a few guidelines for the promising researchers to make an in-depth analysis of these problems. This study could disclose, about the changes in the debt conditions that had taken place due to the introduction of the new economic policy.

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. Developing countries like India are confronted with the difficult problem of generating a high rate of economic growth so as to tackle the problems of poverty and unemployment.
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. Hence there is an urgent need to study the different dimensions of public debt.

**Statement of the Problem**

The burgeoning public debt is a formidable issue in the Indian economy. In 1992, the World Bank had described the structure of India’s position as a ‘debtor’. It could be pointed out that inspite of the terms of loans being concessionary; the loans had exceeded India’s debt servicing capacity.

India is very close to the debt trap. Dr. Raja Chelliah had shown that even with favourable assumptions, the present trends in India’s public debt could be described as unsustainable. The excessive use of any financing mode of deficit results in macro economic imbalances and it leads to inflationary pressures in the
economy, internal debt financing leads to credit squeeze through higher interest rates (or) when interest rates are fixed through credit allocations; ever more stringent financial repression and the crowding out of private investment and consumption takes place. The excessive financing of deficit through the external debt might lead to current account deficits and the appreciation of the real exchange rate, leading to the balance of payment crisis or an external debt crisis.

Besides facing enormous other difficulties, India had been forced to face the issue of public debt. This feature had motivated the researcher to take up the phenomena of public debt for this research study.

**Objectives of the Study**

The study is set to meet out the following objectives:

1. To study the growth and composition of the public debt in India.
2. To examine the trend and growth rates of the different components of the internal debt of India.
3. To analyse the change in the growth rates of the different components of external debt of India under new economic reforms.
4. To study the position of the different debt indicators.
5. To suggest the remedial measures to improve India’s public debt position.
Methodology

Collection of Data

This study had been carried out with the help of the secondary data only. The required data for the analysis were collected from the various published sources. The main sources were collected from various issues of the Reserve Bank of India Bulletin, Report on Currency and finance, Economic Survey, Annual Report, Hand Book of Statistics on Indian Economy and the like. The study had also made use of the data published from the Centre for Monitoring Indian Economy and other national and international sources. There were variations in the data provided by the many agencies both at the national and at the international levels. Since the RBI was the authority in providing data related to external sector variables, the study relied heavily on RBI data sources.

Choice of the Study Period

The study period constitutes an important aspect in respect of the fiscal operations and the fiscal management. In the evolutionary process of fiscal reform in India several discretionary measures have been resorted to during the period of reforms by the central administration in respect of structural changes in fiscal reforms. Complete and comprehensive data was also available for this period to
make the study a scientific and fruitful one. Hence the researcher preferred to choose twenty-six years for his study.

A period of twenty-six years from 1981-82 to 2006-07 had been selected for the study. This period had been specifically chosen only after ascertaining about the availability of data. For the purpose of analysis, this period had been divided into two sub periods. The first period covers a period of ten years from 1981-82 to 1990-91 and the second sub period covers a period of 16 years from 1991-92 to 2006-07. In the present study, therefore, much emphasis had been paid to the period 1991-92 to 2006-07, that is the period, which was subsequent to the introduction of New Economic policy.

To analyse India’s Public debt, the following tools had been used.

**Tools of Analysis**

The following statistical tools had been used to analyze the collected data to enable a meaningful interpretation of the results obtained.

The researcher had analyzed the collected data with the basic objectives of the study in mind. Some of the tools involved in the study include

1. Index Numbers
2. The Time Series Analysis
3. The Semi – log Model
4. ‘t’ test
5. The Ratio analysis and
6. The Multiple Regression Model
**Layout of the Study**

The present study “*An Analysis of India’s Public Debt*” has been presented in six chapters.

Chapter I is the introductory chapter which introduces the concept of public debt, and deals with the causes of public debt, the current debt position, and the role of public debt. Apart from that, the statement of the problem, the need for the study, the objectives of the study, the limitations of the study and the layout of the study have also been presented in this chapter.

Chapter II is devoted to a review of the related literature and the methodology adopted in this study.

Chapter III discusses the trend and growth of the different components of internal debt.

Chapter IV analyses the different patterns of external debt. In particular, it portrays the various debt related ratio and emerging trends.

Chapter V deals with the trend, composition and determinants of India’s public debt.
The last chapter presents the findings of the study and in the light of the empirical analysis draws some policy conclusions by way of supportive measures for enhancing the benefits of public debt.