CHAPTER I

INTRODUCTION

“Blessed are the young for they,
Shall inherit the national debt”

- Herbert C. Hoover.

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”.¹

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

¹Quoted in K.P.M. Sundaram, Public Finance, Sultan Chand and Sons, New Delhi, 1997, p.43.
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.
Public Debt

In general, public debt refers to the funds raised by a government both from within the country as well as from outside the country. Every government, just like the individuals, is obliged to borrow when its expenditure exceeds that of its revenue. The borrowing within the country is called internal debts and from the outside of the country is referred to as external debts.

The Government of India, like all other governments had also borrowed in the past and still it continues to borrow. But the Union and the State governments are being empowered to borrow under certain conditions and limits. The Indian government has borrowed mainly for the purposes of war before independence.

During the Second World War, India’s public expenditure had increased due to war expenditure including capital expenditure on defence and the creation of the rupee counter parts for the repatriated sterling debt. The government was able to borrow a large proportion of these loans at low rates of interest.

The classical economists, Adam Smith, Ricardo and Pigou had considered all public debt as a burden. According to Domar’s celebrated article “The Burden of the Debt and the National Income,” the problem of debt was essentially concerned with the problem of achieving a growing rate of national income.²

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 a 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.
Philip E. Taylor defines public debt as; “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”.

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 upto 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.

**Why Public Debt?**

The reasons for raising public debt could be briefly stated as follows:

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1. A government like any other economic unit collects revenue and spends as per the requirements. When its revenue is not enough to meet out its requirements, debt may arise. When its receipt exceeds its expenditure or the expenditure surpasses the revenue, they are bound to be given periods or intervals.

   Unless and otherwise the government adopts a policy of spending too much or too less compared to its total receipts it would generally attempt to equate these two. In other words, the deficits and surpluses would tend to counter balance each other so that over a long period of time interval there would generally be a tendency for the budget to balance.

2. There might be a sudden spurt in the government’s expenditure. There may be wars, or natural calamities and the government might be forced to incur a large amount of expenditure and might be compelled to run into a debt.

3. Modern governments do not believe in the philosophy of avoiding a surplus or a deficit budget for its own sake. Rather they are interested in using them as a method of budgetary policy. This approach is sometimes referred to as that of the functional finance approach in which the government is ready to permit repeated surplus or repeated deficit budgets for the sake of achieving a variety of objectives, including those of economic growth and economic stabilisation.
4. In modern time, it is widely believed that the government of an underdeveloped country should play a very active role in the development of the economy. In this view, the budgetary policy had become an important and effective tool in accelerating the process of capital formation and economic growth. This could be resorted to through borrowing and investing these borrowed funds in various development projects. Loans might even be set apart for carrying out certain projects.

In this context the government should be taken care to adopt a deficit budget policy, it need not necessarily result in an addition to its debt position also. This is due to the fact that the government might decide to finance its budgetary deficits by one or more of the following alternative methods:

a) It may reduce its cash reserves.

b) It may sell away some of its assets like its properties and investments and the like.

c) It may create more currency and use it for its expenses.

d) It may borrow and spend the money.

It could be seen that certain methods adopted by the government for meeting the budgetary deficit need not increase the indebtedness of the government automatically, though a government seldom adopts such approaches. The methods of reducing its cash reserves and the creation of more currency
increase the supply of currency of the government in the market, and whether it increases to public debt or not depends upon whether the currency obligations of the government are included in the public debt or not depends upon the definition of public debt. As regards the method of resorting to borrowings, the government may borrow from the open market or it may borrow from the central bank of the country. In the former case, there is obviously an increase in the amount of the total outstanding public debt. Borrowings from the central bank of the country would increase the government’s indebtedness only if the central bank’s borrowings are included in the government’s total borrowings.

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.

**Necessary Conditions**

The success of the method of financing economic development programmes through raising public debt requires the fulfillment of the following three conditions.

Firstly, the projects financed through public debt must be commercially viable so that they could bring sufficient revenue surpluses to the government after they are redeemed.

Secondly, the projects financed through public debt should have a high level of linkage and spread effects so that they could create large employment and income generating effects, which are necessary to widen the tax base of the economy;
Thirdly, the tax structure of the economy should be elastic so that as the employment and the national income levels increase, the tax revenues of the government would also automatically increase which would enable the government to redeem its debt.

**Causes for Public Debt**

In the earlier times, government had a minimum role to play. Hence they followed the balanced budget approach. In fact, the balanced budget was considered as a financial virtue.

However, the modern government is considered as a welfare state and it is obliged to cater more for the welfare of the backward and the weaker sections of the society. Therefore, to meet the growing expenses, the government had to depend on public borrowings.

To bridge the gap between public revenue and public expenditure, public debt had been used as one of the important instruments for quite a long time. Unforeseen emergencies like floods, wars, earthquakes and the like force the government to raise more revenues. Under these situations, besides raising taxes, the government also borrows money both internally and externally. Public borrowing during the times of demand pull inflation helps to reduce the purchasing power in the hands of the people.
Further, for promoting massive investments in building up the infrastructural facilities and in promoting the heavy capital goods industries, the government has to resort to public borrowings.

The government was fully dependent on public debt in meeting the expenditure on the welfare schemes. The important causes for the extraordinary increase in public debt in modern times are, as follows:

a) The adoption of development planning
b) Unpopularity in raising the levels of taxation
c) Mitigating the effects of natural calamities
d) Waging wars
e) Bridging temporary budget imbalances
f) Fighting depression and Controlling inflation
g) Financing programmes of economic development
h) To cover budget deficits
i) To finance public enterprises
j) To create and promote infrastructural facilities
k) For the creation of productive assets.
The following are the objectives of raising public debt.

1. To fill up the gap between the anticipated public expenditure and current public revenue.
2. To absorb the excessive purchasing power from the public during an inflationary period.
3. To overcome depression by spending more on welfare measures through the creation of public debt.
4. To finance developmental plans.
5. To meet war finance.
6. To reduce the unpopularity of high taxation levels.

Categories of Public Debt

Public debt is categorised into two types:-

i) Internal debt

ii) External debt.
1. Market Loans
2. Market loans in the course of repayment
3. 91 days Treasury Bills
4. 91 days Treasury Bills funded into special securities
5. Other special securities issued to the RBI
6. 364 days Treasury Bills
7. Compensation and other bonds
8. Special Bearer Bonds
9. Securities issued to International financial Institutions
10. Ways and means Advances
11. 14 days Treasury Bills
12. Small Savings

Long Term Debt
1. Multilateral
2. Bilateral
3. International Monetary fund
4. Trade Credit
5. Commercial Borrowings
6. NRI and FC deposits
7. Rupee debt

Short Term Debt
Internal Debt

It is formerly referred to as permanent or funded debt. These are raised by the government in the open market within the territory which comprise market borrowings and loans.

Internal debt also includes treasury bills issued by the Government of India to the Reserve Bank of India, State Governments, Commercial Banks and other institutions and individuals. It also includes special securities issued to the Reserve bank of India and other types of loans. Besides, there are non-negotiable, non-interest bearing securities issued to the international financial institutions, namely the IMF, the IBRD, the IDA and the International Fund for Agricultural Development Bank. These loans were formerly considered as temporary loans or floating loans. Thus treasury bills, special securities issued to the RBI or other floating loans under the new classification are those loans which were formerly termed as temporary or floating debt. These borrowings of the Government of India are of a temporary nature.

External Debt

External debt includes loans taken by the Government of India against the non-negotiable, non-interest bearing securities issued to the various international financial institutions such as the International Monetary Fund, International Bank for Reconstruction and Development, International Development Association,
International Fund for Agricultural Development and Asian Development Bank, and the like. Besides, the Government of India had also raised loans from friendly countries outside India. External debt also includes the loans taken from the IMF Trust fund.

**Figure 1.2**

**Debt Stock and Its Components**

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  Total Debt Stock
    \-- Short-Term Debt
    \-- Long-Term Debt
    \-- Use of IMF Credit

      \-- BY DEBTOR
          \-- Private Non-Guaranteed
          \-- Public and Publicly Guaranteed

            \-- BY CREDITOR
                \-- Official Creditors
                    \-- Multilateral
                    \-- Bilateral
                \-- Private Creditors
                    \-- Commercial Banks
                    \-- Bonds
                    \-- Others
```
Total debt stocks are defined as the sum of the public and the publicly guaranteed long term debt, private non-guaranteed long-term debt, the use of International Monetary Fund (IMF) credits and estimated short-term debt. Long term external debt is defined as debt having an original or extended maturity of more than a period of one year and that is owed to the non-residents and are repayable in foreign currencies, goods or services. Long term debt has three components namely public debt, which is the external obligation of the public debtor including the national government, a political sub-division (or an agency of either), and autonomous public bodies, publicly guaranteed debt which is an external obligation of a private debtor that is guaranteed for repayment by a public entity and, the private non-guaranteed external debt which is an external obligation of a private debtor that is not guaranteed for repayment by any public entity. The short-term debt is defined as a debt that has an original maturity of one year or less. The use of the IMF credits denotes the repurchase obligation to the IMF with respect to all the uses of the IMF resources (including those resulting from drawings from the reserve tranche) shown for the end of the year specified.\textsuperscript{4}

The relations between the various components of the debt are illustrated in the figure 1.2. Debt may be classified by the type of the creditor too; such as an official creditor and a private creditor. The term official creditor includes

multilateral and bilateral debt. Loans from multilateral organizations include loans and credits from the World bank, regional development banks, and other multilateral and inter governmental agencies. Private creditors include issuers of bonds (publicly or privately issued), commercial banks (private and other financial institutions) and other private sources including credit from manufacturers, exporters and other suppliers of goods, and the bank credit that is covered with a guarantee of an export credit agency.

Public debt in India since 1951

Public debt in India had risen rapidly since Independence, due to the need to raise sufficient funds for the economic development of the country. Heavy doses of deficit financing had resulted in the creation of more and more inflationary pressures in the economy and it had resulted in an unprecedented increase in the administrative and the project costs of the government.

Thus two opposite forces have been acting and reacting simultaneously. On the one hand, there was the need to raise additional resources both for developmental purposes as also to reduce the excess of the purchasing power in the market; and on the other hand, the unorganised money market as such, had not been able to provide enough resource for the investment in government loans due to various reasons.
As a result, the non-marketable loans such as small savings, provident funds and the like have increased significantly and on the other side, the funded marketable rupee loans have been mainly absorbed by the Reserve Bank of India, the Commercial Banks, the Life Insurance Corporation and a few other such financial institutions.

Since Independence, the public debt of India had been continuously increasing and it has been classified in many ways. The differences in the classification are due to the markets in which the loans had been floated, the rate of interest offered, the conditions for repayment or the purposes for which the funds had been used namely:

1. Permanent or funded debt,
2. Temporary or floating debt and
3. Unfunded debt.

Among the various non-tax sources, the major source of Government revenue had been public debt that is borrowings, of the Government of India.
TABLE 1.1
TREND OF GOVERNMENT OF INDIA’S PUBLIC DEBT

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Internal Debt</th>
<th>External Debt</th>
<th>Total Public Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>2022</td>
<td>32</td>
<td>2054</td>
</tr>
<tr>
<td>1960-61</td>
<td>3978</td>
<td>1001</td>
<td>4979</td>
</tr>
<tr>
<td>1970-71</td>
<td>7464</td>
<td>6577</td>
<td>14041</td>
</tr>
<tr>
<td>1980-81</td>
<td>30864</td>
<td>11298</td>
<td>42165</td>
</tr>
<tr>
<td>1990-91</td>
<td>154004</td>
<td>31525</td>
<td>185529</td>
</tr>
<tr>
<td>2000-01</td>
<td>803698</td>
<td>65945</td>
<td>869643</td>
</tr>
<tr>
<td>2001-02</td>
<td>913061</td>
<td>71546</td>
<td>984607</td>
</tr>
<tr>
<td>2002-03</td>
<td>1020689</td>
<td>59612</td>
<td>1080301</td>
</tr>
<tr>
<td>2003-04</td>
<td>1141706</td>
<td>45124</td>
<td>1186830</td>
</tr>
<tr>
<td>2004-05</td>
<td>1275972</td>
<td>60877</td>
<td>1336849</td>
</tr>
<tr>
<td>2005-06</td>
<td>1355943</td>
<td>68392</td>
<td>1424325</td>
</tr>
<tr>
<td>2006-07</td>
<td>1522031</td>
<td>76715</td>
<td>1598746</td>
</tr>
</tbody>
</table>


The table 1.1 shows that the actual values of the total public debt, which had increased continuously during the period of 1950-51 to 2006-07. 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.\footnote{H.L. Bhatia, \textit{Public Finance}, Vikas Publishing House Private Ltd., New Delhi, 1981, p. 399.}

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.6

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.

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6RBI Annual Report, September 2000, pp.70-77.
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 behavior 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. Further more, 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.

**India’s Debt in the International Context**

For a proper understanding of the public debt problem, the country’s external debt should not be studied in an isolated manner but should be viewed in comparison with those of other developing countries. Interestingly enough, such a comparison on the basis of the standardised data on the external debt of the developing countries is available in the World Debt Tables (WDT) published by the World Bank and it indicates that India’s position is better when compared with the middle and the low-income countries.

The total external debt as a proportion of the GNP for India stood at 25 per cent which was much lower compared to the average for all the countries (41.8 per cent) and was also lower as compared to the average of all the other analytical groups such as Severely Indebted Low Income Countries (SILICS), Severely Indebted Middle Income Countries (SIMICs), and Moderately Indebted Low Income Countries (MILICs). India was included in the group of Moderately Indebted Middle Income Countries (MIMICs).
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 MILICs and the MIMICs. It was however, found to be marginally higher than the averages of the SILICs and the SIMICs.\(^7\)

**The World Debt Crisis**

The world debt crisis is a ticking bomb that threatened the prosperity of both the developed and the developing countries alike. Since 1982, the total foreign debt of the developing countries had increased by about 50 per cent. The bomb, which is still ticking must be defused before it explodes. Whereas the Asian debt had increased from 75.7 per cent of exports in 1979 to 95.8 percent in the year 1995, the corresponding percentages for the Latin American debt were 197.7 and 342.2 respectively for the period of 1979 to 1995. Asia’s debt burden had not experienced any significant increase but had remained within a range of about 9 to 13 per cent.

**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

\(^7\)Reserve Bank of India Bulletin, November 1992, pp. 3-4.
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 in spite 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
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.
Limitations of the Study

Only certain aspects of the public debt have been analysed in this study. The analysis is based on the data collected from the published sources only. The data used in this study are subject to the limitations that are usually associated with the limitations of using the secondary data. The study is restricted to a period of 23 years from 1981-82 to 2003-04 and with the possibilities of changes in policy matters, the results of the analysis might not become true, to a certain extent. The study aims at analyzing the public debt of the Central Government only. No attempt has been made to make any comparative analysis of India’s experiences with that of the other countries. The study covers only the important aspects of public debt, such as those of the internal and the external debt.

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.