Preface

This study "An Economic Analysis of Domestic Debt of the Central Government in India" is undertaken mainly because it is a subject of great concern for the policy makers and the economists in the present context of Indian economy where the country has witnessed a persistent increase in the level of central government domestic debt.

The experience of a persistent increase in government debt as a legacy of past accumulated government deficits is not an exception in many of the emerging economies and this has thrown up major debates across the economies over the years. It involves a wide range of issues. Among major issues, the study first theoretically addresses sustainability of public debt/fiscal policy issue in general and then empirically examines the issue with reference to the Indian context in particular. The study addresses the question - is the trend of government domestic debt in India sustainable? What are the criteria/conditions for assessing sustainability?

Another major important issue addressed in the study relates to the macroeconomic implications of government debt in general and tries to investigate in the context of India, with a special emphasis on the impact of central government domestic debt on private consumption and investment, as all these have bearings towards economic growth and stability of the economy. The macroeconomic impact of government debt, besides how it is being spent, hinges on various factors depending on where from it is being raised - whether internal sources or external sources - and further, within internal sources, how it is being raised - whether through monetisation or non-monetization, and while the government is raising loans, what is the economic condition or structure of the economy (developed or underdeveloped, degree of openness, fully employed or underemployed). The first factor i.e. the choice of external vs internal sources of borrowing inter alia depends upon both the internal and external public debt management policy, which in turn, depends on the economic environment characterizing the economy. Further, within the domestic sources of government borrowing, to a great extent, it depends on the internal public debt management system of the country. After examining the debt management policies in relation to the monetary and fiscal stance of the economy, the study attempts to examine the real impact of domestic public debt on the Indian economy. The study examines the impact of aggregate domestic debt exclusive of borrowings from the Reserve Bank of India (RBI) instead of different components, with a view to examining the net wealth impact and crowding out proposition in the context of India. The second explanation for examining the aggregate impact of domestic debt exclusive of the credits from the Reserve Bank of India is that recent years have witnessed less reliance on monetisation as a source of financing government deficits as a result of imposition of ceilings on it. Therefore, it is more relevant to evaluate the impact of aggregate domestic debt excluding borrowings from the central bank.
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