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A Study on Indian Public Debt and its impact on GDP Growth in India

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ABSTRACT - The public debt absolutely tries to reduce the apparent risks in the economy through various financial and economic policies. Due to decline in recovery of economy, there is either increase in fiscal deficit or decrease in non interest expenditure of the government or a combination of both. This paper discusses the issues, challenges, and trends of public debt in India from 2015-2021. This paper summarizes the impact of public debt on various developmental activities and the economy as a whole when the government is aiming for increasing public debt. The public debt, which we bring in future days, negate the impact on the whole economic development because without paying interest to lender, no one nation, financial institutions, financial lenders, foreign institutions cannot issue debt, ultimately it has got direct negative impact on economic growth of the nation.

Keywords: ***Public Debt, Lenders, Economy, Deficit, Government, Finance.***

I. INTRODUCTION

The Central Government Debt includes all liabilities of Central Government contracted against the Consolidated Fund of India (defined as Public Debt), and liabilities in the Public Account, called Other Liabilities. Public debt is further classified into internal and external debt. Internal debt consists of marketable debt and non-marketable debt. Marketable debt comprises of Government dated securities and Treasury Bills, issued through auctions. Non-marketable debt comprises of intermediate Treasury Bills (14-day ITBs) issued to State Governments/ UT of Pondicherry and select Central Banks, special securities issued against small savings, special securities issued to public sector banks/ EXIM Bank, securities issued to international financial institutions, and compensation and other bonds. Other liabilities include liabilities on account of State Provident Funds, Reserve Funds and Deposits, Other Accounts, etc. Total liabilities as reported in the Union Budget have been adjusted to reflect the position of the outstanding debts as an outcome of fiscal operations of the Central Government. As per the International Monetary Fund (IMF), India's public debt ratio is projected to jump by 17 percentage points to almost 90% because of an increase in public spending due to Covid-19. India's public debt ratio has remained stable at about 70% of the Gross Domestic Product (GDP) since 1991. COVID-19 induced recession has forced government agencies globally to spend at an unprecedented level contributing to the outstanding debt. This makes it imperative to analyze these new debt levels and their impact on our lives. To this end, Debt-to-GDP ratio (debt level divided by GDP of the country) is a useful measure.

Meaning: "Public debt is the total amount, including total liabilities, borrowed by the government to meet its development budget. It has to be paid from the Consolidated Fund of India. The term is also used to refer to overall liabilities of central and state governments, but the Union government clearly distinguishes its debt liabilities from the states".

According to **the Reserve Bank of India Act, 1934**, the RBI is both the banker and public debt manager for the government. The RBI handles all the money, remittances, and foreign exchange and banking transactions. The Union government also deposits its cash balance with the RBI. The Union government's liabilities account for a little over 46 per cent of India's gross domestic product (GDP). However, if the public debt is calculated as general government liabilities, which also includes the liabilities of states, this goes up to 68 per cent of the country's GDP. The central government broadly classifies its liabilities into two categories debt contracted against the Consolidated Fund of India, and public account. Over the years, the Union government has followed a considered strategy to reduce its dependence on foreign loans in its overall loan mix. Internal debt constitutes over 93 per cent of the overall public debt. Internal loans that make up for the bulk of public debt are further divided into two broad categories – marketable and nonmarketable debt. The sources of public debt are dated government securities (G-Secs), treasury bills, external assistance, and short-term borrowings.

STATEMENT OF THE PROBLEM:

The present paper is an attempt to analyze the status of Indian Public Debt. The study reveals that GDP growth of India is relatively empowered whereas the increasing public debt lowers the status of the economy, in spite of many

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efforts undertaken by government. Allocation of funds and its utilization enable access to education and overall employment of the country. Major decision making power and freedom of the Central government vary considerably with the education, employment and overall development process of the country.

SCOPE OF THE STUDY:

The study would give an overall picture of what provisions of the Indian Public Debt, legally, politically, socially, economically are and the steps taken by central governments. There are yet challenges remain in implementation of these provisions. This paper highlights the contribution of Indian Public Debt over the country's GDP growth.

OBJECTIVES OF THE STUDY:

1. To study the conceptual framework of constitutional provisions on Indian Public Debt.
2. To measure the government's role on Indian Public Debt
3. To analyze Public Debt on the GDP growth in India

LIMITATIONS OF STUDY:

1. The study area is restricted only in Indian Public Debt.
2. The study only focuses on constitutional and legal provisions on GDP Growth.
3. Entire study is based on secondary data.
4. The study depends on the collection of secondary data from various books websites, internet sources and magazines.

II. AN OVERVIEW OF PUBLIC DEBT

What constitutes Public Debt? Public debt is the total liabilities of the central government contracted against the Consolidated Fund of India. It is further classified into internal & external debt. Internal debt is categorized into marketable and non-marketable securities. Marketable government securities include G-secs and T-Bills issued through auction. Nonmarketable securities include intermediate treasury bills issued to state governments, special securities issued to national Small Savings Fund among others. Based on the spending targets and likely resource mobilization on tax and non-tax front, the government announces its borrowing program for the fiscal in the Budget. Debt-to-GDP ratio greater than 77% can negatively affect growth of a nation in the long run, according to the World Bank. Along with other measures, global investors use this ratio to make their decision about the destination country for their funds. Similarly, a rule of thumb was introduced by the Indian government in the form of **Fiscal Responsibility and Budget Management (FRBM) Act in 2003.**

This act states that the government should maintain a debt-to-GDP ratio at 60% except in extreme situations. Debt, per se, is not bad. Unlike individuals, a government does not need to save funds for its old age and hence, worry about holding debt. When a nation borrows with prudence and uses the funds to build efficient infrastructure, it improves its capacity to grow at a faster rate. Thus, without relevant context, these debt numbers can sometimes feel overwhelming for the wrong reasons. Some of the advanced nations today, like Japan, the US, etc. witnessed rising and large debt-to-GDP ratios on their path to the present day high living standards to have best life style of its people, best infrastructure in the world.

Internal Public Debt v/s External Public Debt: Over the years, the Union government has followed an appropriate strategy to reduce its dependence on foreign loans in its overall loan mix. Internal debt constitutes more than 93% of the overall public debt. Also, the external loans are not market loans. They have been raised from institutional creditors at concessional rates. Most of these external loans are fixed-rate loans, free from interest rate or currency volatility. Internal loans that make up for the bulk of public debt are further divided into two broad categories – marketable and nonmarketable debt. Treasury Bills (T-bills) are issued through auctions and fall in the category of marketable debt. Intermediate treasury bills (with a maturity period of 14 days) issued to state governments and public sector banks, special securities issued to National Small Savings Fund (NSSF) are classified as non-marketable debt.

Debt-to-GDP ratio: The negative effects on economic growth begin as soon as the national debt reaches about 60% of the GDP in developing and emerging economies and about 80% in developed nations while others say 40% and 60%, respectively, are prudential thresholds to be wary of. When interest rates are low and a country is going through an economic slowdown, borrowing money may be a more attractive option politically and economically than raising taxes which can dent growth. However, the key to government is that a government must be able to run a primary surplus (the excess of tax revenues over program spending) sufficient to pay back what was borrowed by a set deadline.

Table No-01 Global Countries - Top Ten Public Debt

Ranks	Name of the Countries	2023 Public Debt % of GDP (projected) in US$
1	Japan	227
2	Greece	164
3	Lebanon	156
4	Venezuela	148
5	Italy	128
6	Portugal	107
7	Singapore	119
8	Mozambique	107
9	United Status	114
10	Belgium	95

(Sources: IMF and World Economic outlook 2021)

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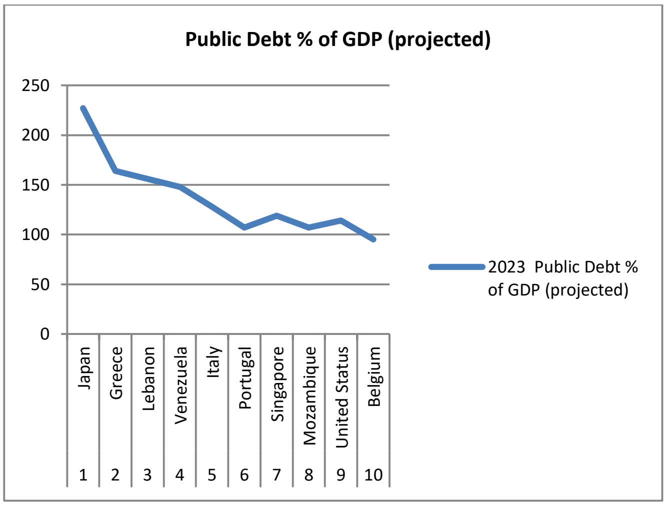
Figure No- 01



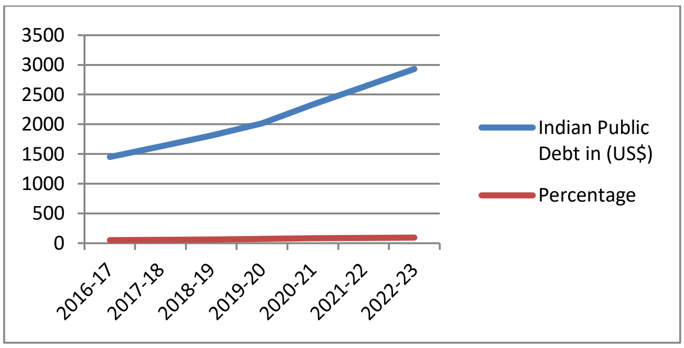
Interpretation: Japan is the country with highest national debt to GDP ratio 236.18%, Greece is second in the list of countries by national debt when taking into account of the 181.78% debt to GDP. Lebanon's public debt is 160.57%, when compared to other countries by debt to GDP, Lebanon's situation seems dire. The country is spiraling into growing amounts of debt. A report from the Institute of International Finance, the national debt of this South American country amounted to $156 billion in 2018, National Debt of Italy – 127.51%, if we rank European sovereign debts by country; Italy is second only to Greece. Some agencies estimate that the debt to GDP ratio will reach 135% by 2020; Portugal is also part of the European countries with the highest debt. The amount is estimated to be around $300 billion. National Debt of Singapore 108.79%, National Debt of Mozambique 116.60%, National Debt of United States 109.45%, National Debt of Belgium 99.08%.

Table No-02 INDIAN PUBLIC DEBT FROM 2016-2023

SL No	Years	Public Debt in (US$)	Percentage
1	2016-17	1449.48	49.38
2	2017-18	1626.88	55.48
3	2018-19	1809.04	61.69
4	2019-20	2016.73	68.77
5	2020-21	2332.81	79.56
6	2021-22	2628.49	89.64
7	2022-23	2932.18	90

(Sources: Indian Statistics Report 2021)

Figure No- 02



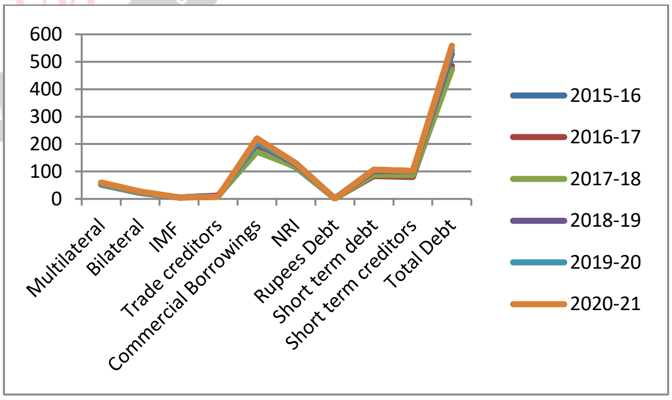
Interpretation: The increase in global debt over the last decade has been led by public debt in much of the world, as public debt replaced private debt in the post-crisis recession and pandemic period. Much of this was brought on by stimulus programs and quantitative easing policies adopted by central banks in the country. With interest rates are at historic lows around the India, government took advantage of cheap borrowing costs from 2016-17 to 2022-23 and so Indian public debt has been raising from 49.38% to 90 % continuously. Since the interest rates remained low for the last decade, most major central banks adopted some kind of quantitative easing policy.

Table No-03 EXTERNAL DEBT OF INDIA - 2015-2021 (In US$ Billions)

Components	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Multilateral	52.4	54.0	54.5	57.2	57.5	60
Bilateral	21.8	22.4	23.2	25.4	25.6	27.2
IMF	5.5	5.6	5.4	5.8	5.5	5.4
Trade creditors	12.6	10.5	9.6	9.5	7.9	7.2
Commercial Borrowings	180.6	180.3	172.4	201.8	206.6	220.3
NRI	115.2	126.9	116.9	126.2	130.4	130.3
Rupees Debt	1.5	1.3	1.2	1.2	1.2	1.0
Short term debt	85.5	83.5	88.1	102.2	106.9	106.9
Short term creditors	81.6	80.0	86.5	100.4	101.4	101.4
Total Debt	**475.0**	**484.8**	**471.3**	**529.3**	**543.1**	**558.5**

(Sources: Indian External Debt Status Reports and RBI Reports from 2015- 2021)

Figure No- 03



Interpretation: The external debt in 2015-16 would have been of the order of US$ billion. The principal driver was the non-resident deposits from 115.2 billion to 130.3 billion increased. Furthermore, component-wise, commercial borrowings continued to be the largest component, it increased continuously from 180.6 billion to 220.3 billion as repayments remained higher than fresh disbursements during the year. On a residual maturity basis, however, short-term debt constituted 85.5 to 106.9 US$ billions of total external debt at the end - March 2021. Thus, short-

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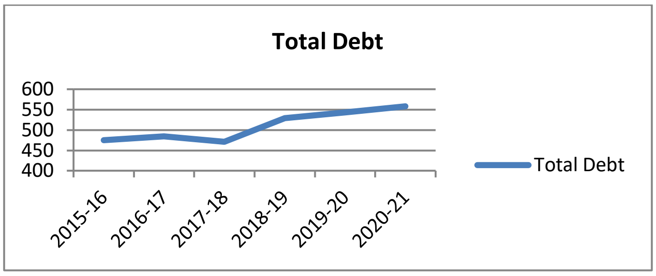
term debt by residual maturity increased from US$ 81.6 to 101.4 billion, Multilateral Borrowings 52.4 to 60 US$ billion, Bilateral from 21.8 to 27.2 US$ billion but IMF has been maintaining consistency.

Table No-04

Component	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total Debt	475	484.8	471.3	529.3	543.1	558.5

Figure No-04

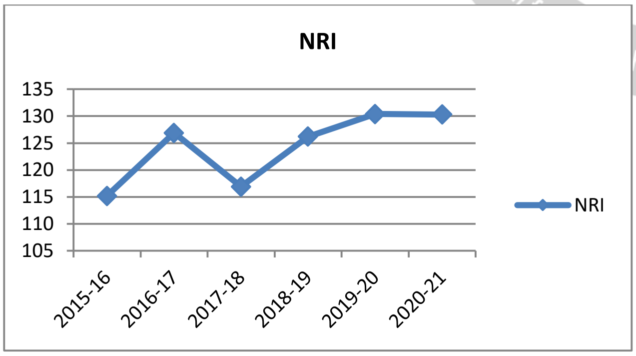


Interpretation: India's external Total debt is moving significant level and with compositional changes the size of India's external debt expanded, From 2015 -2016 the total debt 475 US$ billion borrowed, in 2016-17 increased to 484.8 billion, in 2017-18 decreased to 471.3 US$ billion, but again in 2018-19 increased to 529.3, in 2019-20 increased 543.1 billion, and 2020-21 up to 31st March increased to 558.5 US$ billion.

Table No-05 (US$ Billions)

Components	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
NRI	115.2	126.9	116.9	126.2	130.4	130.3

Figure No-05

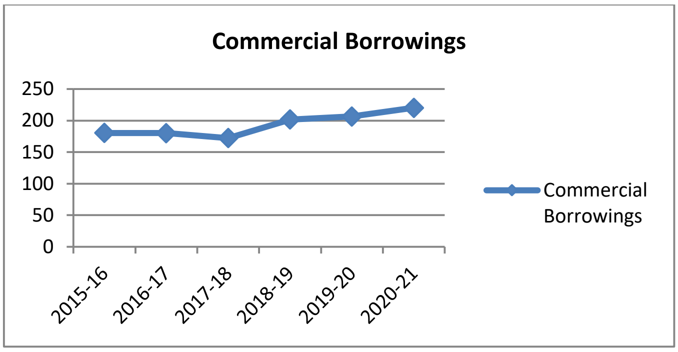


Interpretation: India's external Total debt from NRIs has been playing significantly and because NRIs are second topmost lender to Total External Indian Public debt in 2015-16. The public debt 115.2 increased to 126.9 US$ billion in the year 2016-17, in 2017-18 it was reduced to 116.9 billion, but again in 2018-19 it was increased to 126.2 billion, in 2019-20 130.4 billion and in 2020-21 it was reduced to 130.3 billion, due to pandemic period it was reduced by 0.1 US$ billion.

Table No-06

Components	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Commercial Borrowings	180.6	180.3	172.4	201.8	206.6	220.3

Figure No-06



Interpretation: India's external debt has been moving at significant level and the size of India's external debt expanded in Commercial borrowings. It is occupied in the first place in the Indian external borrowing Public debt. From 2015 -2016 the total commercial borrowings was 180.6 US$ billion, in 2016-17 reduced to 180.3 billion, in 2017-18 again decreased to 172.4 US$ billion, but drastically changes in 2018-19 excess increased to 201.8, in 2019-20 increased 206.6 billion, and fromb2020-21 up to 31st March increased to 220.3 US$ Billion.

Table No-07 Calculations of t-Test and f-Test (Used Author's Value)

Variable Coefficient Std. Error t-Statistic Prob. (Coefficient ≠ 0) Log of GDP (LGDP) 1.72 0.41 4.20 0.00 US $ 12-month LIBOR (Cost) -0.04 0.01 -3.61 0.00
Log of FDI (LFDI) 0.02 0.72 0.48
Log of Gross Domestic Savings (LGDS) -0.92 0.42 -2.21 0.04
Ratio of Forex Reserves to External Debt (RES) -0.004 0.00 -3.19 0.00
DUMMY 0.41 0.09 4.69 0.00
Constant (C) 0.49 0.78 0.63 0.54
Adjusted R-squared 0.99
S.D. dependent variable 0.94
S.E. of regression 0.08
Akaike info criterion -1.98
Sum squared residuals 0.14
Schwarz criterion -1.65
Log likelihood 35.71
Hannan-Quinn criter. -1.88
F-statistic 625.41
Durbin-Watson stat 1.70
Prob (F-statistic) 0.00.

(Self Tested and Used SPSS)

ISSUES, CHALLENGES AND CURRENT POSITION OF INDIAN PUBLIC DEBT

The increase in public spending, in response to Covid-19, and the fall in tax revenue and economic activity, made the public debt ratio jump by 17 percentage points. The ratio is projected to stabilize in 2021, before slowly declining up to

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the end of the projection period, in 2025. The pattern of public debt in India is close to the norm around the world. This debt to-GDP ratio is the metric comparing a country's public debt to its Gross Domestic Product (GDP). It is often expressed as a percentage. By comparing what a country owes (debt) with what it produces (GDP), the debt-to-GDP ratio reliably indicates a particular country’s ability to pay back its debts. A country with a high debt-to-GDP ratio typically has trouble paying off public debts.

India has been an important source of growth in the world since the 1991 economic liberalization reforms. Real GDP growth averaged 6.5% between 1991 to 2019, and real GDP per capita was multiplied by four over that period. Real GDP is calculated in a way such that the goods and services are evaluated at some constant set of prices. Nominal GDP, on the other hand, is simply the value of GDP at the current prevailing prices. This impressive growth performance helped lift millions of people out of extreme poverty. The extreme poverty rate, measured as the proportion of people whose income is less than $1.90 a day at purchasing power parity (the international poverty line), fell from 45% in 1993 to 13% by 2015. India achieved the millennium development goal of halving poverty by 2015 (from its 1990 level). India has made astonishing progress in other areas. Education enrollment is nearly perfect for primary school. Infant mortality rates have been halved since 2000. Access to water and sanitation, electricity and roads have been greatly improved.

In the near-term, additional fiscal action should be deployed as needed to support the poor and the vulnerable. This should be accompanied by an incredible medium-term fiscal consolidation plan that can reinforce market confidence and structural reforms that boost India's growth potential. The effects of Covid-19 on health, education, poverty and nutrition render progress towards the Sustainable Development Goals even more urgent. Macroeconomic and financial stability are important necessary conditions. As per the International Monetary Fund (IMF), India’s public debt ratio is projected to jump by 17 percentage points to almost 90% because of an increase in public spending due to Covid-19. India’s public debt ratio has remained stable at about 70% of the Gross Domestic Product (GDP) since 1991. According to the Economic Survey 2018-19, total liabilities of the Central Government by end-March 2019 stood at Rs. 84.7 lakh crore and 90 per cent of which was public debt. General Government Debt (GGD)-GDP ratio which includes the combined debt of Centre and states worked out to 67.4%.

III. MAJOR FINDINGS

1. India has been getting more external debt.
2. Indian economical activity fully depends on external borrowings
3. Majorly NRIs have been giving more loans to India since the last five years.
4. From 2015-2020 commercial borrowings have been increasing continuously up to 18%.

IV. SUGGESTIONS

1. India should reduce external borrowings because of its impact on overall developmental activity in the country.
2. Commercial borrowing has been increasing; it must be reduced, as its rate of interest is more.
3. NRIs have been giving more debts to country, in future days it will impact economic activities, it must be reduced through framing effective borrowing policies.

V. CONCLUSION

India is a fast growing economy globally, facing huge financial deficit, when the ever-increasing needs, in the social and economic developmental process, are not sufficient with the nation’s ordinary public revenues such as taxes, duties, fees, fiscal revenues, property and enterprise revenues, and penalties. In addition to these expenditures, the country has to resort to borrowing for its major infrastructure investments, war, financing, natural disasters, economic crisis and budget deficits. Public borrowing has served different purposes in this process. This process has led to borrowing different debts according to maturities - divided into short, medium and long term, according to resources - internal and external debts, and according to voluntariness -voluntary and compulsory debts. Thus, borrowing overburdened the economy as a whole, soon the country has to figure out the ways and means to wipe out the overburdening the economy.

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