CHAPTER VI

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6.1 SUMMARY

After World Depression in 1930 and publication of ' General Theory of Employment, Interest and Money' by J. M. Keynes brought importance to the study of public finance. On the backdrop of this, the role of the State was widened tremendously and still sphere of its activities and public works is growing. Under the influence of ' Welfare State' doctrine the governments have started to finance the huge capital projects for public welfare. Moreover, they are ready to raise funds through public debt to finance these activities. The concept of minimum government debt of classical economists is now outdated and the governments are more emphasising on debt finance for rapid development. In the era of globalisation, governments can also raise the external funds in the form of external debt, foreign direct investment, portfolio investment etc. External funds or foreign capital flows are now easily available to the developing countries from the international institutions or from friendly nations also. But for the proper management of government finances through these sources, it is necessary to keenly observe the public debt policies and its utilisation to obtain maximum benefit to the society as a whole. For the purpose of the same, in the present dissertation, an effort is made to study the external debt of Government of India for the period 1980-81 to 1999-

2000, that is a decade before and after New Economic Policy. Likewise, a meticulous endeavor is made to provide an actual picture of the burden, benefits and the safe as well as sound external account of the Government.

Data analysis undertaken in Chapters III to V regarding the overall budgetary position, growth and composition of external debt, changing profile of foreign capital inflows, cross-country comparison of indebtedness and external debt servicing burden analysis reveals that, during the period of study, as a percentage of total outstanding debt liabilities of the Government of India, external debt liabilities growth is slower than the rapid increase in the internal debt liabilities of the Government of India. Consequently, interest liabilities of the Government of India, which have risen during the period 1991 to 2000 is mainly due to internal debt interest payments. Compositionwise analysis of the growth in external debt of the Government of India reveals that the short-term external debt component is well under control and the non-concessional bilateral debt component shows a growth. A cross-country comparison also shows that as compared to other developing countries India is classified as moderately indebted country. On the basis of data analysis undertaken in the study, following are the major conclusions that emerge : -

6 . 2 MAJOR CONCLUSIONS : -

1. In the overall budgetary situation of the Government of India, total expenditure has grown tremendously over the period under study, from Rs. 24,338 cr. in 1980-81 to

Rs. 2,98,084 cr. in 1999-2000. In this whole period, while, total revenue fall short of total expenditure, though total revenue has also increased enormously. In this period budgetary deficit shows fluctuating trend yet it always crossed the budget estimates.

2. In total revenue of Government of India, revenue receipts approximately shared about 60 percent of it and remaining 40 percent is shared by capital receipts, yet these shares are showing some minor fluctuation over the period, while in actual figures, these both components of total revenue grown highly in this period.

3. In total capital receipts, the percentage share of internal debt receipts is higher than (76 percent to 93 percent) than the share of external debt liabilities.

4. This trend is also reflected in the outstanding debt liabilities of Government of India.

5. The external outstanding liabilities also increased over the period. Though, it is showing increasing tendency, the actual percentage share of it in total outstanding debt shows overall declining trend except the years, 1991-92 and 1992-93.

6. Total outstanding debt – GDP ratio and internal debt – GDP ratio show fluctuating trend, while external debt –

GDP ratio is declining during the entire period under study.

7. Rapid increase in revenue expenditure, mainly due to committed expenditure, further increases the revenue deficit and ever-increasing revenue deficit is the main cause for the growth in gross fiscal deficit. This trend in government finances implies that, debt receipts are increasing being used to finance the revenue expenditure of the Government, which is not a healthy practice. In the most of the years under study the actual fiscal deficit size has exceeded the budget estimate figures implying that targeted public expenditure was always exceeded by the Government. Another reason for this, to also be the fact that, in later years actual tax revenue mobilisation fails short of budget estimates which resulted in lower revenue receipts of the Government of India.

8. Primary deficit, which has introduced in the recent years, shows ups and downs especially, in the later period of study.

9. Gross fiscal deficit – GDP ratio fluctuates between 8.3 percent to 4.8 percent over the period. Revenue deficit – GDP ratio fluctuates highly between 0.2 percent to 4 percent.

10. In total capital inflows, other types of foreign receipts have expanded at the higher rate that the external debt of

Government of India, since 1991.

11. In total external resources, foreign direct investment and portfolio investment increased immensely. In total external debt, governmental external debt is showing declining trend and non-governmental external debt is augmented over the period.

12. In the external debt Government of India, long-term external debt shared the major portion and also increased across the period. However, the another component, short-term external debt shows insignificant part and in addition to this, it shows declining trend also. The share of short - term debt in India's external debt has fallen steadily from over 10 percent in 1991 to below 3 percent by 2001. Among the top fifteen debtor countries at the end of 2000, the proportion of short-term debt was the lowest for India[1].

13. In long-term external debt, percentage share of Rupee debt taken from Russia, shows declining trend. Multilateral debt shared high proportion of total long-term external debt. It is a good sign of India's external debt position as it is said that, it is politically less risky and economically more advantageous to borrow funds from different countries.

14. Percentage share of bilateral loans, which is the another major element of long-term external debt, is

relatively stable. However, in the bilateral external debt, non-concessional debt, which was not existing before 1995, increased in the later period.

15. Loans taken from International Monetary Fund shared a less proportion in long-term external debt. Furthermore, it declined tremendously and touched the ground level (0.06 percent of total long-term external debt) in the last year, 2000.

16. In the total external debt received by India, share of governmental external debt shows declining trend and the non-governmental external debt enhanced upto nearly half of the total external liabilities of India. This is evident from the fact that the Government of India's total debt liabilities – GDP ratio increased from 55.31 percent in 1990-91 to 63.69 percent in 2002-03 (Revised Estimate). The major contributory factor to this was increase in internal debt liabilities which as a percentage of GDP increased from 27.08 percent in 1990-91 to 42.30 in 2002-03 (Revised Estimate). For the same period however external debt – GDP ratio declined from 5.54 percent in 1990-91 to 2.35 percent in 2002-03 (Revised Estimate)[2]. This indicates that the rise in Government of India's total debt liabilities is mainly due to rise in internal debt and other debt liabilities

and not rise in external debt.

17. However, whatever resources or capital India obtain from external debt is not fully utilised. Total authorised amount of external debt, is not manipulated by Government of India. The percentage of utilisation to authorised external debt undulates between 36 percent and 148 percent in this whole period.

18. In the world comparison, India stood at the position of moderately indebted country. Total external debt stock of India increased from $ 41, 210 US Million in 1985 to $ 1,00,367 US Million in 2000. External Debt-GDP Ratio increased from 11.9 percent to 27 percent in 1995 but declined in 2000 to 21.3 percent. Compositionwise, short-term external debt forms a smaller share of total external debt as during the period under study. Long-term external debt as percentage of total external debt increased from 95.5 percent in 1980 to 96.5 percent in 2000. The composition of external debt stock of other Asian countries also reveals that the short-term external debt constitutes a smaller share and therefore, external debt crisis in near future seems not possible. However, in the case of Indonesia the external debt is on the higher side and the External Debt-Export Ratio is also towering.

19. As far as External Debt – Export Earnings Ratio concerned of the fifteen countries study, Turkey had a high ratio of 333.1 percent followed by Brazil 306.6 percent. In case of India, in 2000, this ratio was 129.2 percent.

20. Total Debt Servicing - Export Earnings Ratio data reveals that during the period 1980 to 2000, this ratio has increased in case of Brazil, Argentina and Turkey. In case of India, this ratio increased from 9.8 percent in 1980 to 11.8 percent in 2000. As this ratio is less in case of India, it implies that rise in export earnings are sufficient enough to meet the external debt servicing obligations of our country.

21. Interest on External Debt – Export Earning Ratio analysis reveals that in case of India, this ratio has marginally increased from 4.4 percent in 1980 to 5 percent in 2000. In case of Argentina, increase in this ratio was from 20.8 percent in 1980 to 30.3 percent in 2000. Interest on External Debt – GNP Ratio analysis of the countries under study makes known that this ratio has increased for countries like Argentina, Turkey, Thailand and Malaysia. And in case of India, this ratio has increased from 0.4 percent in 1980 to 1.5 percent after on decade and further declined to 0.8 percent in 2000.

22. The major indicator of the external debt burden is the

External Debt - Export Earnings Ratio. Mexico and Chile which, had external debt crisis in 1970s, have reduced this ratio. In case of Brazil and Argentina, however, this ratio is more than 300 percent. This indicates that the external debt of these countries is above controllable limits, as theoretically this ratio has to be within the range of 250 percent. In case of India, this ratio is within manageable limits and also showing a declining trend.

23. Total repayment of external debt obligations of Government of India shows ever increasing trend over the period. While Government has to make this expenditure by using capital receipts. Though it is so, it is an unhealthy feature of the budgetary position of the Government. In spite of this, capital receipts are used to repay external debt to a small extent. In 1980-81, the percentage of external debt repayment through capital receipts was 4.15 percent and became only 7.47 percent even after two decades i.e. in 1999-2000. The percentage share of external debt repayment in capital expenditure is also not much significant. It was only 3.80 percent in the initial year, which grew to 17.79 percent with some fluctuations in the last year of study. It means that more capital receipts are used for repaying internal debt liabilities of the Government of India.

24. As regards interest payments liabilities of the Government of India, these have increased from Rs.2,604 cr. in 1980-81 to Rs.90,249 cr. in 1999-2000. Compositionwise, it is found that interest payments on internal debt have grown rapidly from Rs. 2,373 cr. in 1980-81 to Rs. 85,741 cr. in 1999-2000. It formed 91 percent of total interest payments in 1980-81 and 95 percent in 1999-2000. Growth of external debt has been steadier, the increase being from Rs. 231 cr. in 1980-81 to Rs. 4,508 cr. in 1999-2000. As a percentage of total interest payment the share of interest payments on external debt has declined from 8.86 percent in 1980-81 to 5 percent only in 1999-2000.

25. Total interest payment as a percentage of revenue receipts were 20.3 percent in 1980-81 and increased to 49.72 percent in 1999-2000 and interest payment on external debt increased from 1.79 percent in 1980-81 to 2.48 percent in 1999-2000 implying that 20.3 percent of revenue receipts were used for interest payments on the total debt liabilities of Government of India in 1980-81 which increased to 49.72 percent in 1999-2000. However, of this the share of interest payments on external debt has increased only by about one percent. Total interest payment liabilities as a percentage of revenue expenditure, increased from 18.07 percent in

1980-81 to 36 percent in 1999-2000. Interest payments on external debt as a percentage of revenue expenditure, increased from 1.60 percent in 1980-81 to 1.81 percent in 1999-2000, indicating that committed expenditure in the form of interest payment liabilities are increasing, leading to rapid growth of revenue expenditure. The share of interest payment on external debt in the growth of interest payment is a less contributory factor as compared to interest payment on internal debt liabilities.

26. Per capita debt burden data shows that per capita debt burden increased from Rs. 136.99 in 1980-81 to Rs. 1,163.27 in 1999-2000. In this the major share is covered by per capita debt burden on internal debt. Whereas, the per capita external debt burden rose from Rs. 11.59 in 1980-81 to Rs. 62.47 by 1991-92 and subsequently declined to Rs. 11.78 in 1999-2000. Per capita outstanding debt burden increased from Rs. 867.81 in 1980-81 to Rs. 10,189 in 1999-2000. Here, the per capita internal debt burden (it was Rs. 703.72 in 1980-81 and enhanced to Rs. 7,127.57 in 1999-2000) was higher than per capita external debt burden (which increased from Rs. 164.10 in 1980-81 to Rs. 583.15 in 1999-2000).

6.3 SUGGESTIONS OF THE STUDY

On the basis of the study undertaken and conclusions drawn, the following are the suggestions made which have policy implications, are useful for actual budget making and helpful for further research in public debt and its management.

1. Rapid increase in revenue expenditure is the main cause for growing revenue account deficit, which is leading to actual size of fiscal deficit being more than the budget estimate. It is suggested that revenue account expenditure management be undertaken and growth in revenue expenditure be controlled by the government. In the fiscal reform package, expenditure control should get propriety and expenditure on subsidy be made target oriented and many of the government schemes not moving to be beneficial to the society be abolished. Revenue deficit management holds the key to success of fiscal reforms in India and a medium term reform package should be enforced by the government over a period of five years targeting to reduce fiscal deficit to zero percent by 2008.
2. The end use of debt receipts, utilisation of public debt for investment purposes only and appropriate pricing policy for goods and services provided by government projects goes a long way in proper public debt management. Debt financed capital projects completed without undue delays reduce investment cost and the pricing policy of which

yields revenue surplus to the enterprise can help in meeting the debt service payments through appropriate sinking funds. The trend in Government of India's finances currently reveals that, increasing portion of debt receipts are being used to finance revenue expenditure, which is not a healthy sign. Further the pricing of public goods and services provided by the government contents large amount of subsidy, arrears are not collected in time and projects are delayed in completion. Such a fiscal situation leads to debt servicing being undertaken by further dose of taxes on the present as well as future generation by which people are taxed more due to inappropriate use of debt receipts. The present fiscal reforms in India should address themselves to this problem on a war footing and stop this unhealthy fiscal trend which has no justification in the theory of public debt.

3. It is suggested that utilisation of external debt to the maximum of authorised limits has to be compulsorily made by the Government for which strict guidelines have to be given by the Ministry of Finance, Government of India to the various ministries and departments. It is suggested that each ministry of the Government should have project-wise monitoring of the end use of external debt receipts received for the project. Proper utilisation of debt receipts,

especially external debt, satisfies international financial institutions as well as donor nations, which can lead to more foreign assistance coming forth.

4. In recent years India is witnessing a trend, wherein its foreign exchange reserves are growing at a fast rate making India's foreign exchange reserves position adequately comfortable. The latest data shows that India's foreign exchange reserves have increased from $ 5,532 US Million in 1999-2000 to 71,118 US Million as on March 31st 2003, with the balance of trade deficit declining very sharply and the export growth rate increasing in recent years. This situation appears comfortable. Instead of these lying ideal it is suggested that some portion of these reserves be utilised to repay high-cost foreign debt prematurely. Such a policy will help reduce the debt service burden future.

5. While undertaking the study, it was observed that country wise external debt data available in international publications only, the availability of which is limited. It is suggested that the Government of India should bring out a yearly publication on the debt profile of various countries.

6. The Fiscal Responsibility And Budget Management Bill, 2000 makes provision for the disclosure of the total debt liabilities of the Government of India. As a

gross repayment data be shown separately so that it becomes easy to calculate the total debt servicing liabilities year wise.

9. It is suggested that more wider circulation of public finance data as well as data of India's public debt be undertaken and the suggested " Blue Book " on India's public debt be circulated to all universities and research institutions in the country. This will go a long way for better research in Indian public finance, because such research as wide ranging policy implications.

→ END NOTES : -

1. Economic Times, September 17, 2002.

2. Special Statistics 34 – Finances of Government of India, Economic and Political Weekly, May 10 – 16, 2003, p. 1892.