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An overview of India's Debt: An analytical study

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Abstract
The aim of this paper is to assess the relationship between government and non-government revenue and expenditure. The research uses the annual data covering from 1991 to 2014. It is an important topic in public economics, given its relevance as a priority for policy especially with respect to the budget deficit with special reference to India, Indonesia, Bangladesh, china USA and Russia. The tests indicate that there is a bidirectional causal relationship between expenditure and revenues in the long run as there is a huge difference positively increasing year by year with the same. The government makes its expenditure and revenues decision simultaneously. Under this scenario the fiscal authorities of these countries with budget deficits should raise revenues and decrease spending simultaneously in order to control.

Keywords: Government revenue/expenditure, IMF, RBI

1. Introduction
The term Debt can be defined as to sum total of a government's financial obligations, measures the state borrowings from its population, from foreign organizations, from foreign governments and also from international institutions such as IMF, IBRD, ADB etc. Higher debt liability results in higher uncertainties in economic policies. External debt refers to the amount owed by one country to outside side the political boundary of a country from foreign financial agencies, institutes and even from foreign governments. External debt results when a government borrows money from foreign lenders.

2. Review of literature
According to a study conducted by Aminu Umaru, Ahmadu Aminu Hamidu and SalihuMusa (2013)[1] in Nigeria has identified that external debt possessed negative impact on the economic performance of Nigeria while domestic debt possessed positive impact on economic growth through encouraging productivity and output level and on evolution of total factor productivity.

Anirudha Barik in his paper on Govt. Debt and Economic Development in India has identifies that that government debt has made a significant contribution to the economic growth not only directly but also indirectly via investment, because the public debt, all else being equal, would appear to induce investment over time and, in turn, indirectly enhance growth in real output.

Safia Shabbir in her paper has found that there is a contrary relationship between the amount of borrowed external debt to GDP ratio and the GDP growth rate in developing countries. Macroeconomic variables behave nicely and are associated with the theory. Higher level of inflation does hamper economic growth, while investment contributes to economic wellbeing.

Faiez H. Seyal has identified that major reason for the increase of foreign debt in developing countries were raising oil prices, higher interest rates and decreasing export form the developing countries.

Chowdhary (1994) [6] in his paper studied the impact of external debt with the economic growth by using Granger causality in Asia Pacific countries for a period of ten years from 1970 to 1980 and his study reveals that both external and internal debts have a very minute impact on the economic growth.

Kirandeep Kaur (2014) [7] has studied on linkage between economic growth and external debt in India by using time series data, and come with the conclusion that there is a positive Impact of both short term and long term external debt on gross domestic product.

Mehta & Kayumi has identified that India's Current Account Balance has a strong positive relationship with External Debt, Long Term Debt and Short Term Debt. They also studies that rise in current account deficit puts additional pressure and results in increases the amount external borrowings of India (both long term as well as short term debts).

Table 1: Country wise total Public debt, Public Debt per person, Public Debt as Percentage of Gross Domestic Product

Country	Total Public Debts ($)	Public Debt Per Person ($)	Public Debt As % Of GDP
India	13,03,39,39,89,071	1,053.23	52.20%
Indonesia	2,70,46,72,13,115	1,077.47	25.50%
Pakistan	1,37,45,19,12,568	694.73	47.50%
Bangladesh	36,51,69,39,891	209.51	30.70%
China	16,64,71,96,72,131	1,242.38	16.90%
USA	1,39,39,13,93,44,262	43,929.75	84.50%
Russia	2,07,90,16,39,344	1,473.89	8.10%

Source: http://www.economist.com

The above table indicates the country-wise debt indication per person, and debt as percentage of GDP. The table clearly indicates that public debt is 52.20% of GDP of India and each single individual in India carries a debt of 1053.23 US dollars, it is also estimated according the recent budget that each year the union government pays 20% its total expenditure as interest for the loan borrowed so far. India's external debt, as at end-March 2012, was placed at US $ 345.8 billion (20.0 per cent of GDP) recording an increase of US $ 39.9 billion or 13.0 per cent over the end-March 2011[1]. Even the so called developed country and big brother of the world US is also one of the most debt ridden countries in the world where each American carries a debt of whooping 43929.75 US dollars, most of the American debt is in terms bonds hold by some of the developing countries such as China. If we take American debt as a percentage of its GDP it is more than 85%. India's neighbours' Pakistan and Bangladesh are also not behind in borrowing from foreign countries. Pakistan's total accounts about 47.50 percentage of its Gross domestic Product, whereas Bangladesh is better with a total percentage of only 31 of its GDP as its debt when compared to India and Pakistan. China's percentage of its total debt to its GDP is only almost 17% and each Chinese carries a loan of 1,242 US dollars only.

India's total foreign debt has increased significantly at CAGR of 11.799% from 1990-91 to 2012-13. However, this growth rate accelerated particularly since 2004-05[2].

Debt servicing obligations are met with more and more debt. *Chinweizu* has identified it as "Debt Trap Peonage".

Table 2: India's External Debt - Rupees (End-March)

Year	Total Govt. Borrowing (Rs. in billions)	Trend in (%)	Total Non-Govt Borrowing (Rs. in billions)	Trend in (%)	Total Borrowing (Rs. in billions)	Trend in (%)
1991	384.29	-	19.57	-	403.86	-
1992	637.87	65.99	44.75	128.67	682.62	69.02
1993	722.86	88.10	54.72	179.61	777.58	92.54
1994	756.17	96.77	65.82	236.33	821.99	103.53
1995	822.23	113.96	75.96	288.15	898.19	122.40
1996	894.28	132.71	87.45	346.86	981.73	143.09
1997	948.24	146.75	102.42	423.35	1050.66	160.15
1998	1042.18	171.20	110.32	463.72	1152.50	185.37
1999	1145.31	198.03	111.15	467.96	1256.46	211.11
2000	1203.21	213.10	117.03	498.01	1320.24	226.91
2001	1278.86	232.79	123.07	528.87	1401.93	247.13
2002	1380.23	259.16	126.86	548.24	1507.09	273.17
2003	1297.27	237.58	129.56	562.03	1426.83	253.30
2004	1200.73	212.45	132.74	578.28	1333.47	230.18
2005	1277.82	232.51	151.51	674.20	1429.33	253.92
2006	1338.00	248.17	168.11	759.02	1506.11	272.93
2007	1417.46	268.85	172.19	779.87	1589.65	293.61
2008	1446.27	276.35	176.10	799.85	1622.37	301.72
2009	1819.97	373.59	194.28	892.74	2014.25	398.75
2010	1707.22	344.25	227.14	1060.65	1934.36	378.97
2011	1903.26	395.27	263.46	1246.24	2166.72	436.50
2012	2225.79	479.20	345.10	1663.41	2570.89	536.58
2013	2356.70	513.26	436.80	2131.99	2793.50	591.70
2014	2684.84	598.65	523.09	2572.92	3207.93	694.32
Avg	1328.79	256.47	164.97	775.26	1493.76	281.60

Source: RBI

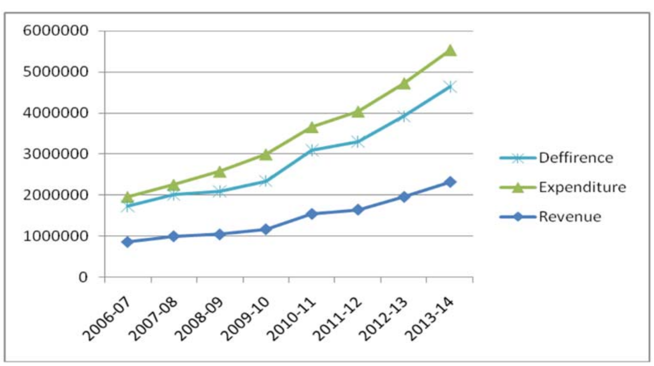
Above table deficits the total Govt. and Non-Govt borrowings from the year 1991 to 2014 ending on March, the year 1991 has been considered as important in Indian economy as during this year the Economy was opened for foreign investment due to LPG era. During the end of opening of Indian economy the total debt by the Govt was Rs.384.29 billion which raised to Rs.2684.84 billion in percentagewise increased to 598.65% at the end of the March 2014 as compared to base year 1991. The total Non-government borrowing during the year 1991 was Rs.19.57 Billions which raised to Rs.523.09 billion in percentagewise increased to 2572.92% at the end of the March 2014 as compare to base Year 1991. The total borrowing during the year 1991 was Rs.403.86 billion which raised to Rs.3207.93 billion in the year 2014. the basic problems for any developing country in the world is finance and India is also not an exception for that and to meet its huge financial requirements for the establishment of heavy industries and development of infrastructure India is borrowing heavily from foreign sources including intra country loans, debts both subsidised and non-subsided from IMF, World Bank, Asian Development Bank etc. India has borrowed at an average of Rs.1328billions as govt borrowings and Rs.165 billion as non govt borrowings.

External debt is a powerful double edged tool. Used prudently, can enhance investment level and growth rates in economy [3].

Table 3: Trend of Revenue and Expenditure in India

Year	Revenue (Rs. in crores)	Trend in %	Expenditure (Rs. In crores)	Trend in %	Deference (Rs. in crores)
2006-07	861198	-	1086592	-	-225394
2007-08	1000172	16.14	1243598	14.45	-243426
2008-09	1045035	21.35	1519081	39.80	-474046
2009-10	1169669	35.82	1814610	67.00	-644941
2010-11	1544080	79.29	2105695	93.79	-561615
2011-12	1647883	91.35	2381434	119.17	-733551
2012-13	1958453	127.41	2758193	153.84	-799740
2013-14	2323057	169.75	3204966	194.96	-881909

Source: Indian public finance, 2013-14, Ministry of Finance, GOI



As far as Indian economy is concerned there is always a gap between the revenue and expenditure, during the year 2006-07 the excess of expenditure over revenue was Rs.225394 crores and the same has been increased Rs.881909 crores, because of this increased gap between revenue and expenditure, the govt.'s have began borrow from both internal and external sources.

3. Finding of the study

1. The government and non-government borrowings have been increased in an average 256.47% and 775.26% respectively during the last 15 years.
2. The total borrowings of India have been increased in an average 281.60% during the last 15 years.
3. The Revenue & Expenditure of India have been increased by 169.75% & 194.96% respectively from last eight years
4. The Gap between the revenue & Expenditure has been increased to Rs.881909 crore during the year 2013-2014.

4. Conclusion

The ever increasing demand for money and depleting sources of income has forced for the borrowing of funds from both internal sources as well as external sources, it is learned that 20% total expenditure in India's budget are for the repayment of interest on debt. Now it is the time for the governments to take it higher priority to reduce the gap between income and expenditure so that the dependency on borrowings can be minimised.

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