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PUBLIC DEBT IN DEVELOPMENT AND FISCAL IMBALANCE OF INDIA

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Abstract: Fiscal policy is a very important constituent of development policy of the economy. It is comparatively more effective than the monetary policy due to its direct and immediate impact on the economic development activities and the determinants of development. Therefore, fiscal policy is preferred than the monetary policy especially for economic stability, improvement and enhancement in economic growth. This has adequately proved in the world great depression crisis, as per the suggestions of J M Keynes. It is a policy of the government regarding public expenditure and revenue mobilization so as to realise and achieve its pre-determined objectives. This policy has very important instruments such as public revenue, taxation, public expenditure, public debt and deficit financing. The study concludes that government of India is mainly depending on internal debt (>98%) than the external debt to mobilise public debt, is right and justifiable. Importance of the disinvestment as a source of public debt of government of India has increased significantly, which indicates the withering away of the government from the development of the economy and enhancing privatization. The government of India is interested in the development of the economy at present, current and short run than the future, long run and sustained, is not rationale and appropriate. Public debt is an important instrument of fiscal policy and thereby development policy having extensive, intensive and long term development of the economy. Therefore, its proper formulation and sincere, rigorous, honest implementation is very much needed. Along with the important role of the public debt as an effective means of development of the economy, it is also an instrument of correcting fiscal imbalance, especially fiscal deficit.

Keywords: Public debt, development, fiscal imbalance, fiscal policy, fiscal deficit.

JEL Classification: H60, H61, H62, H63, H68

I. INTRODUCTION

Fiscal policy is a very important constituent of development policy of the economy. It is comparatively more effective than the monetary policy due

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to its direct and immediate impact on the economic development activities and the determinants of development. Therefore, fiscal policy is preferred than the monetary policy especially for economic stability, improvement and enhancement in economic growth. This has adequately proved in the world great depression crisis, as per the suggestions of J M Keynes. It is a policy of the government regarding public expenditure and revenue mobilization so as realise and achieve its pre-determined objectives. This policy has very important instruments such as public revenue, taxation, public expenditure, public debt and deficit financing. The Fiscal Responsibility and Budget Management Bill of 2000, recently submitted to parliament, represent an important step toward a framework of sustainability for India's public finances. The bill envisages a set of permanent fiscal policy rules that will require the central government (following preset convergence periods) to eliminate the revenue deficit (or rather build a revenue surplus) and to target an overall fiscal balance (subject to a deficit limit of 2 percent of GDP) as of 2006; to limit yearly issuance of guarantees to ½ per cent of GDP; to reduce total liabilities to 50 percent of GDP by 2011; and to abstain from borrowing from the Reserve Bank of India effective 2004 (George Kopits,2001, p749). Public debt is considered as an important and effective instrument of fiscal policy. Hence it is very much necessary and useful to analyse the impact of public debt on the development of the economy. Besides this, public debt can also of greater importance and relevance in overcoming fiscal imbalance. The importance of such studies increases in the country like India where federal form of the government is there wherein both the central and state government extensively uses public debt as an instrument of fiscal policy especially to promote capital expenditure and enhance level of economic development of the economy. High levels of fiscal deficit relative to GDP tend not only to cause sharp increases in the debt-GDP ratio, but also adversely affect savings and investment, and consequently growth (C Rangarajan, D K Srivastava, 2005, p2919). The importance of the public debt further increases in the crises like corona pandemic and others. There are number of issues relating to public debt in the country like India. External debt places a double burden since debt would not have to be just serviced but serviced in foreign exchange (C P Chandrasekhar, 2021, p10). With regard to the fiscal deficit, all states' combined deficit is expected to be below 3% of GSDP as mandated under the Fiscal Responsibility and Budget Management (FRBM) Act. However, 14 states have budgeted to show fiscal deficits above3% of GSDP (Lekha Chakraborty, Manish Gupta, Pinaki Chakraborty, 2017, p25). In the analysis of accumulation of the debt, two factors are identified as contributing to the debt-GDP ratio. One is the cumulated primary deficits and the other, the cumulated effect of the difference between growth rate and interest rate (C Rangarajan, D K Srivastava, 2013, p4851).It is against this overall backdrop, the present research study has been taken up, which will analyse the role of public debt in the economic development of India coupled with its role in both the national as well as state level, along with its contribution in tackling the problem like fiscal imbalance, especially the deficit.

II. REVIEW OF RESEARCH STUDIES

The review of some of the important research studies relating to the topic of the present research study is as follows.

Lekha Chakraborty, Manish Gupta, Pinaki Chakraborty (2017) observe that an analysis of the debt and deficit of states based on the budget estimates of 2016–17 shows that almost half of them have a fiscal deficit target higher than the limit set in the Fiscal Responsibility and Budget Management Act. These states need to focus on the quality of expenditure and elimination of revenue deficit as per the framework proposed by the Fourteenth Finance Commission to enhance state-level capital spending. C Rangarajan, D K Srivastava (2003) elucidate the accumulation of debt can be seen as the resultant of the balance between cumulated primary deficits and the cumulated weighted excess of growth over interest rate. Decomposing the change in the central government's liabilities relative to GDP since 1951-52, it is seen that but for three recent years, the accretion to debt relative to GDP was due to the cumulated primary deficits. A significant part of the effect of the cumulated primary deficits could be absorbed in the sixties, seventies, and the nineties due to the excess of growth over interest rate. However, there were large unabsorbed parts in the fifties and the eighties. The cushion provided by the excess of growth over interest rate may not continue to be available for long. For three years, viz, 2000-01 to 2002-03, the interest rate exceeded the growth rate. This, together with the continuing primary deficits though at a reduced level, led to acceleration in the increase in the debt-GDP ratio in recent years. C Rangarajan, D K Srivastava (2005) examine the long-term profile of the fiscal deficit and debt relative to GDP in India, with a view to analysing debt-deficit sustainability issues, along with relevant considerations to determine a suitable medium- and short-term fiscal policy stance. It is argued that large structural primary deficits and interest payments relative to GDP have had an adverse effect on growth in recent years. There is a clearneed to bring down the combined debt-GDP ratio from its current level, which is in excess of 80 per cent of GDP. The process of adjustment can be considered in two phases: adjustment and stabilisation. In the adjustment phase, the fiscal deficit should be reduced in each successive year until the revenue deficit, and correspondingly, government dissaving, is eliminated. In the second phase, the fiscal deficit could be stabilised at 6 per cent of GDP and the debt-GDP ratio would eventually stabilise at 56 per cent. George Kopits (2001) assesses the potential usefulness of fiscal policy rules for India, in the light of rapidly growing international experience in this area. As part of this assessment, it explores various design options and institutional arrangements that seem relevant for India, in the context of the Fiscal Responsibility and Budget Management Bill. The study outlines preparatory steps for successful implementation. Suman Bery (2008) argues that the decision to shift the management of public debt from the Reserve Bank of India to a specialised debt office under the ministry of finance offers an opportunity to explore ways in which the costs and risks to the government are minimised. This study explores if it is not worthwhile to denominate a small portion of sovereign debt in foreign currency. Rathin Roy, Ananya Kotia (2018) observes that India's current fiscal rules target a 3% fiscal deficit for the central and state governments. Though states have largely adhered to their borrowing ceilings, sub national debt is proliferating. A significant reduction in sub national borrowing is required to stabilize the states' debt around the desired level of 20% of gross domestic product. Symmetry should not be forced on central and state borrowing flows, given their widely divergent levels of debt stocks. Jomo Kwame Sundaram, Anis Chowdhury (2013) view that as the policymakers struggle to deal with the twin problems of unemployment and debt, their reliance on harsh fiscal measures, with no offsetting effort to foster growth and job creation, has typically failed to induce growth, create jobs, raise incomes and restore investor confidence. Instead, they exacerbate unemployment and social unrest, and are politically unsustainable. A better way out is by deepening tripartite social dialogue among investors/employers, employees and governments. Pronab Sen (2019) argues that virtually, the entire literature on public debt is on determining "how much is too much," beyond which it becomes a systemic threat to the economy. On this basis, about 80 countries, including India, have fiscal rules designed to steadily reduce public debt. This author argues that there is a minimum stock of public debt, below which it is also a systemic threat, and outlines some of the considerations which should be taken into account. It further argues that the composition of public debt is equally important, but has been totally neglected. Both the level and composition of public debt, therefore, should be taken into account while framing fiscal rules. Amarendu Nandy, Abhisek Sur, Santanu Kundu (2020) mention that the Indian economy has been suffering from a persistent fiscal deficit for the last four decades. With the transition to coalition politics in the 1980s, the country's political economy characteristics have significantly affected its fiscal policies and outcomes, but this has received scant attention in the literature. The impact of macroeconomic and political economy factors on India's fiscal deficit between 1978–79 and 2016–17—aperiod when the country witnessed simultaneous economic and political structural transformations—has been investigated in this study. It finds evidence of a close link between electoral cycles and fiscal populism and between government fragmentation and fiscal profligacy. S P Gupta (1994) argues that any study of the growth of India's external debt cannot be undertaken incision from the growth of domestic public debt. The question is whether the present economic reform will succeed in revers the rising trends in debt service ratio and percentage of public and external debt to GNP in a sustainable fashion.

The foregoing review of the research studies reveals that the important issues relating to the present topic covered under their studies include; States fiscal deficit target higher than the limit set in the Fiscal responsibility and Budget Management Act. Accumulation of debt can be seen as the resultant of the balance between cumulated primary deficits and the cumulated weighted excess of growth over interest rate. Large structural primary deficits and interest payments relative to GDP have had an adverse effect on growth in recent years. Design options and institutional arrangements that seem relevant for India. Decision to shift the management of public debt from the Reserve Bank of India to a specialised debt office under the ministry of finance. India's current fiscal rules target a 3% fiscal deficit for the central and state governments. Policymakers struggle to deal with the twin problems of unemployment and debt. Literature on public debt is on determining "how much is too much. Indian economy has been suffering from a persistent fiscal deficit for the last four decades. Growth of India's external debt cannot be undertaken incision from the growth of domestic public debt. But there is not a single study that we found which analyses the role of the public debt in economic development of the economy and maintaining fiscal balance. Therefore, this study is taken up and endeavours to analyse it.

III. RESEARCH METHODOLOGY

The present research study is of analytical type in nature. It analyses the role of the public debt in the development of India as well as across the states in the country with the help of the secondary data collected and analysed. The prime objective of the present study is to analyse the role of public debt in development and fiscal balance. A hypothesis of the study is; Public debt has no significant impact on development and fiscal balance in India. The study exclusively relies on the secondary data. The necessary data relating to public data and the fiscal imbalance / deficit has been collected from the sources such as Budget documents of the Government of India, Budget documents of the State Governments, Reserve Bank of India, Status Paper on Government Debt and Quarterly Report on Public Debt Management, Economic Survey of India and others. The period of the present study is of a latest decade from 2011-12 to 2020-21. The collected data has been processed and analysed in the light of objective and hypothesis of the study. The quantitative technique CGR has been employed to capture growth in public debt, deficit financing and all other variables into our consideration. To arrive at average position of the variables under consideration the tool of Mean has been employed. More importantly, to find out consistency or incontinency in the public debt, and its components and fiscal deficit the statistical technique of Coefficient of Variation (CV) has been employed. The research hypothesis of the present study has been tested by applying a statistical method t test. The use of graphs, figures and diagrams is made to depict trends in the variables into our consideration, wherever necessary. The computer software's Excel and SPSS have been used for the data processing and analysis. Besides this, this study also tries to answer and analyse the following important research questions.

1) What is the relative importance of public debt in capital receipts mobilization?
2) Is the government expenditure pro development of the economy?
3) What is the role of public debt in overcoming fiscal imbalance/ deficit?
4) What role market borrowings are playing in debt finance of the government?
5) What is the trend in debt liabilities of the government in India?

IV. RESULTS AND DISCUSSION

Public debt is an important instrument of fiscal and budgetary policy of the government in any country, because it plays a very important role in capital receipts mobilization, capital expenditure and thereby development of the country not only in the short run, but also long run. Besides this, it is also a crucial means of deficit financing especially the fiscal deficit and thereby contributes in tackling the problem of fiscal imbalance. This demands to analyse the various issues and aspects relating public debt with reference to India and across the states also. This is endeavoured in this section of the present study.

The fiscal operations of the government comprise of revenue account operations and capital account operations having their own importance and relevance. Both the categories of operations of the government have both the activities namely revenue mobilization and spending. But the intensions and purposes of both the categories of the operations especially expenditure are different in the sense of their role in the development. Revenue account operations comprising of revenue mobilization and expenditure mainly take care of present development. But capital account operations intended to realise and achieve long term and sustained development of the economy. The major source of capital receipts of the government is public debt having the number of heads or items with prominence of internal debt, external debt and market borrowings. This demands to analyse the major heads of capital receipts of the government of India.

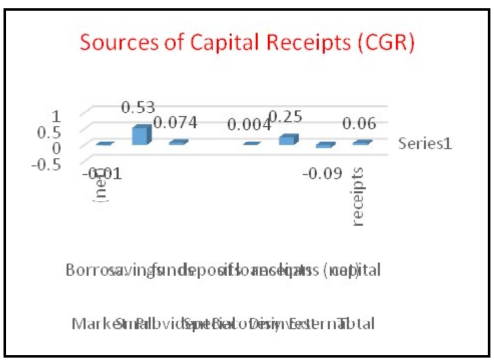
Table 1: Major Heads of Capital Receipts of the Central Government ('₹ Crore)

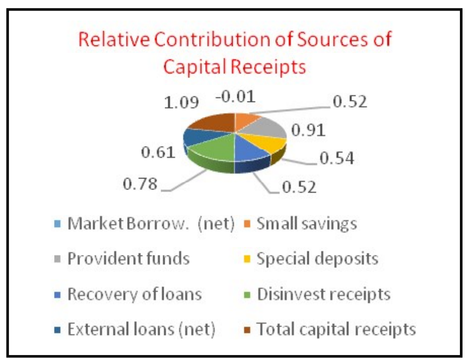
Year	*Market Borrow. (net)*	*Small savings*	*Provident funds*	*Special deposits*	*Recovery of loans*	*Disinvest receipts*	*External loans (net)*	*Total capital receipts*
2011-12	484111 (85%)	-10302	10804	-	18850	18088 (3%)	12448 (2%)	568918 (100)
2012-13	507445	8626	10920	-	15060	25890	7201	582152
2013-14	475626	12357	9753	-	12497	29368	7292	563894
2014-15	457617	32226	11920	-	13738	37737	12933	484448
2015-16	414931	52465	11858	-	20835	42132	12748	582579
2016-17	338149	67435	17745	-	17630	47743	17997	609886
2017-18	450728	102628	15799	-	15633	100045	7931	702650
2018-19	422735	125000	16059	-	18052	94727	5519	763518
2019-20	473972	240000	18000	-	16604	65000	4933	848450
2020-21	544870 (51%)	240000	18000		14967	210000 (20%)	4622 (0.43%)	1074306 (100)
CGR	-1%	53%	7.4%		0.4%	25%	-9%	6%
Mean	457018	97860	14086		16387	67073	9362	339043
CV	52 %	91%	54%		52%	78%	61%	109 %

Source: Budget documents of the Government of India.

It is found that the government of India is prominently depending on internal debt (more than 98%) than the external debt (< 2%). It is a thing of appreciation on the ground that external debt has heavy debt as well as interest burden. The further analysis of the internal debt of the government of India shows that this government is dominantly depending upon market borrowings, but the relative importance of this source of the public debt has been declining gradually with the passage of time, which declined from

85% to 51% during the period from 2011-12 to 2020-21. The relative importance of the disinvestment as a source of public debt of government of India has increased in terms of share as well as growth indicating withering away of the government from the development of the economy and promoting dominance of private sector. This adequately reveals that the government of India has succeeded in exploiting and utilizing other sources of internal debt which has relevance of debt and interest liabilities, and diversification of the public debt as well, is a welcome step. The other salient features of the public debt of the government of India are; small savings and provident fund and disinvestment are emerging as important source of public debt. External debt places a double burden since debt would not have to be just serviced but serviced in foreign exchange. When the pandemic was still in its early stages, in April 2020, the United Nations Conference on Trade and Development (UNCTAD) had estimated that in 2020 and 2021, repayments due on just the public external debt of developing countries was around$3.4 trillion, of which $666 billion and$1.06 trillion was on account of foreign debt incurred by middle- and low-income countries (C P Chandrasekhar, 2021, p10).





The public expenditure has a direct and immediate impact on the development. As mentioned earlier revenue expenditure has an impact on the current and present development of the economy in country. On the contrary, capital expenditure enables in enhancing future and long term development of the economy. This poses the need for analysing heads of the expenditure of the government of India in the development perspective.

It is adequately proved that the government of India is interested in the development of the present, current and short run than the future, long term and sustained. Therefore, the government of India is spending a major share of the total expenditure as revenue or recurrent expenditure, which was 88% in 2011-12; it very marginally fell to 86% in 2020-21. Its growth

Table 2: Major Heads of Expenditure of the Central Government (‘1 Crore)

Year	*Revenue Exp.*		*of Which*		*Capital Exp*	*Loans & Adv.*	*Capital outlay*	*of Which Defence*	*Total Exp.*
		Defence	*Interest*	*Subsidy*					
2011-12	1145785 (88%)	103011	273150	217941	158580 (12%)	20737	137843 (11%)	67902	1304365 (100)
2012-13	1243514	111277	313170	257079	166858	20800	146058	70499	1410372
2013-14	1371772	124374	374254	254632	187675	19198	168478	79125	1559447
2014-15	1466992	136807	402444	258258	196681	29218	167463	81887	1663673
2015-16	1537761	145937	441659	264106	1537761	26337	226685	79958	1790783
2016-17	1690584	165410	480714	234809	284610	36810	247800	86371	1975194
2017-18	1878833	186127	528952	224455	263140	18027	245113	90445	2141973
2018-19	2007399	195572	582648	222954	307714	28221	279492	95231	2315113
2019-20	2349645	205902	625105	263557	348907	27331	321576	110394	2698552
2020-21	2630145 (86%)	209319	708203	262109	412085 (14%)	31763	380322 (12%)	113734	3042230
CGR	9%	9%	11%	0.3%	10%	4%	12%	6%	9.5 %
Mean	1732243	791890	473030	122998	193203	12925	116044	43780	995088
CV	**55%**	**5%**	**55%**	**103%**	**10%**	**108%**	**113%**	**105%**	**110 %**

Source: Budget documents of the Government of India.

rate was also moderate, which stood at 9% pa, which showed an average of Rs. 1732243 crore during the period under our consideration. This implies that the government of India has played less attention towards long term and sustained economic growth of the economy, hence it has spent a small share of the total expenditure on Capital expenditure which stood at 12% in 2011-12, but slightly rose to 14% in 2020-21, indicating a moderate growth of 10% pa with maintaining consistency as showed by the CV of 10%. Only share of capital expenditure in total expenditure of the government is not sufficient and adequate to analyse the role of the government in the long term and sustained growth of the economy. But it is also necessary to take into account what the government is spending actually on capital outlay, which is pure capital expenditure and has impact on the long term and sustained development of the economy. It is observed that the government of India is spending about 87% share of the capital expenditure as a capital outlay and 11% share of total expenditure of the government with a little bit rise. If deficits and debt are incurred for productive investments in infrastructure, green technology, education, health and social protection, they will enhance both growth and productivity as well as create jobs. By making recovery robust and sustainable, such policy measures will also make debt sustainable in the medium term (Jomo Kwame Sundaram, Anis Chowdhury, 2013, p37).

Public debt does not only play an important role in the rapid and all round as well as long term and sustained growth and development of the economy. But it is also crucial in tackling the problem of fiscal imbalance which enables fiscal imbalance. It is of crucial importance and relevance to examine how public debt of the government of India is tackling the problem of fiscal deficit and enabling the fiscal balance. This can be done with the help of the data and results presented below.

Table 3: Centre's Gross Fiscal Deficit and Its Financing ('1 Crore)

Year	*GFD receipts*	*GFD exp*	*Gross fiscal deficit*	*Financing of GFD*				
				External	*Internal finance*			
					Market borrow	*Other borrow*	*Draw down of cash balances*	*Total*
2011-12	769525	1285515	515990	12448 (2%)	484111 (94%)	35421	-15990	503542 (98%)
2012-13	905122	1395312	490190	7201	507445	26556	-51012	482989
2013-14	1044092	1546950	502858	7292	475626	39111	-19171	495566
2014-15	1139209	1649935	510725	12933	457617	-37485	77752	497884
2015-16	1237157	1769948	532791	12748	414931	91942	13170	520043
2016-17	1421946	1957564	535618	17997	338149	188368	-8895	517622
2017-18	1535278	2126340	591062	7931	450728	128312	4091	583131
2018-19	1647642	2297060	649418	5519	422735	222485	-1321	643899
2019-20	1915100	2681948	766846	4933	473972	287941	0	761913
2020-21	2230926	3027263	796337	4622 (0.58%)	544870 (68%)	299849	-53003	791715 (99.41)
CGR	13%	10%	5.40%	-8%	-1%	35	—	6%
Mean	692303	1973783	589183	4684	228512	67876	-2716.2	289918
CV	**112%**	**55%**	**53%**	**121%**	**104%**	**149%**	**-933%**	**106%**

Source: Budget documents of the Government of India

The government of India is very insignificantly depending upon the external debt for meeting fiscal debt, is a thing of appreciation and welcome. Out of total fiscal deficit the government of India has met only 2% share of its fiscal deficit from external debt in 2011-12, which has further decreased to 0.58% share in 2020-21 , is really good and a welcome step, because the external debt is very much economically burdensome on various counts and grounds. This is a clear indicator and an adequate proof of good public debt utilization in correcting fiscal deficit, and it is prominently depending upon internal debt as a suitable and effective means of deficit financing by using a lion's share of 98%. The further analysis of public debt utilization pattern so as to meet fiscal deficit reveals that the government of India was mainly depending upon market borrowings for financing fiscal deficit, which has increased the use of other borrowings. As a result, the share of market borrowing in financing fiscal deficit has declined from 94% to 68% during 2011-12 to 2020-21 and rising contribution of other borrowings. Large deficits have led to a rapid buildup in India's public sector debt, which, inexcess of 80 per cent of GDP, stands asone of the highest in emerging markets (George Kopits, 2001, p749).

Public debt and its role in the development and fiscal imbalance correction is not limited to only the central government, but it is also concerning the state governments in India. This poses the need for how the public debt is playing a role in the states relating to realizing and enhancing economic development of the states , coupled with financing of fiscal deficit. It is attempted in the forthcoming part and section of the discussion.

Table 4 : Pattern of Receipts of the State Governments (₹ Crore)

Year	*Total Revenue Receipts*	*Tax Receipts*	*Non-tax Receipts*	*Total Capital Receipts*	*Total Receipts (2+12)*
2011-12	1098531 (80%)	812987	285544	269385 (20%)	1367917 (100)
2012-13	1252024	946081	305943	305314	1557338
2013-14	1369187	1030692	338495	318860	1688047
2014-15	1591583	1117113	474471	416482	2008065
2015-16	1832885	1353336	479549	557960	2390845
2016-17	2046401	1520773	525628	675383	2721784
2017-18	2276571	1697456	579115	615848	2892420
2018-19	2810480	1986907	823573	704353	3514833
2019-20	3096781 (79%)	2215248	881533	825634(21%)	3922415
CGR	14%	13%	16%	16%	14%
Mean	965249	704480	260772	260515	1225762
CV	**114%**	**113%**	**117%**	**116%**	**114%**

Source: Budget documents of the State Governments.

Like that of union government of India, state governments in India also have been interested in the current and present development of their economies, as a result they are dominantly mobilizing the revenue receipts to meet their revenue expenditure, with about 80% share in total revenue with not much change during the period under study. Hence the state governments are very much keen and interested in capital receipts collection (20%) with no much changes during the period into consideration. The noteworthy peculiarity of revenue patter of the state governments in India is, the growth in revenue and capital receipts is more or less the same or stable but with significant inconsistency, as shown by both the CGR as well as CV.

Capital receipts are very much pivotal for long term and sustained development of the economy. At the same time, they are also economically burdensome because they have to repay along with rate of interest. This demands the analysis of pattern of capital receipts of the state governments.

Table 5: Pattern of Major Capital Receipts of The State Governments ('₹ Crore)

Year	*Loans from Centre (Gross)*	*Recovery of Loans & Advances*	*Market Loans (Gross)*	*State Provident Fund, etc. (Net)*	*Special Securities Issued to NSSF*	*Total Capital Receipts*
2011-12	9902 (4%)	17157	157799 (59%)	26651 (10%)	10524	269385 (100)
2012-13	11204	7265	177277	25777	21825	305314
2013-14	10870	6896	196164	26433	24710	318860
2014-15	11881	18916	240880	27015	46407	416482
2015-16	12514	7180	295167	33046	56120	557960
2016-17	17757	15835	393196	39514	5199	675383
2017-18	17531	38946	421047	33801	5161	615848
2018-19	26925	50993	536183	35070	4939	704353
2019-20	32495 (4%)	59066	622087 (75%)	32697 (4%)	5245	825634
CGR	16%	26%	20%	4.45%	-19%	16%
Mean	8396	12350	168880	15558	20014	260515
CV	**121%**	**151%**	**123%**	**105%**	**84%**	**116%**

Source: Budget documents of the State Governments

It is adequately proved that the state governments in India are heavily relying on the market loans for mobilizing their capital receipts, which is rising with the passage of time. It rose very significantly to 75% in 2019-20 from 59% in 2011-12 showing a growth of 20%, but with greater inconsistency as indicated by the CV. State provident fund was also a considerable source of capital receipts for the states, but its importance is declining due to no new recruitment, contract basis recruitment, out sourcing. The government of India is constant with 4% share of total capital receipts in extending loans to the state governments. This implies that market loans is a prominent source of capital receipts and consequently capital expenditure and long term and sustained development of their economies, with central government's stable role.

As that of union government, the state governments in India have been facing the problem of fiscal deficit, which requires analysing their financing of fiscal deficit so as highlight the role of the public debt in correcting fiscal imbalance.

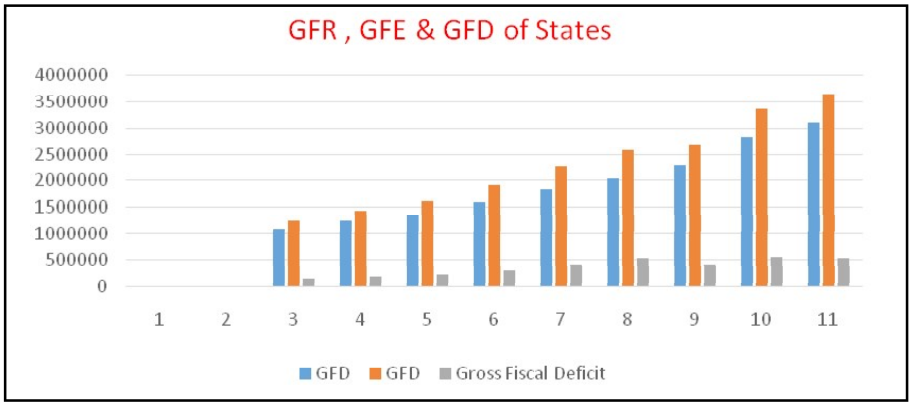
Table 6: States' Gross Fiscal Deficit and Its Financing ('₹ Crore)

Year	*GFD Receipts*	*GFD Exp*	*Gross Fiscal Deficit*	*Financing of Gross Fiscal Deficit*			
				Loans from Central Govern-ment	*Market Borrow-ings*	*Special Securities Issued to NSSF*	*Others*
2011-12	1099196	1267550	168353 (100)	180 (0.10%)	135396 (80%)	-8064	40842
2012-13	1252125	1447595	195470	1730	146249	-173	47665
2013-14	1369547	1617400	247852	601	163573	2557	81121
2014-15	1592729	1919920	327191	963	206441	24000	95768
2015-16	1834019	2254690	420670	1039	258367	27097	134167
2016-17	2046780	2581112	534332	5229	351672	-31985	209416
2017-18	2276746	2687156	410410	4474	344128	-32444	94252
2018-19	2810718	3365189	554471	12626	408817	-33705	166732
2019-20	3098707	3644709	546002	16775 (3%)	485020 (89%)	-34894	79101
CGR	14%	14%	17%	64%	19%	—-	13%
Mean	965590	1154742	189155	24256	138873	-4865	52728
CV	**114%**	**114%**	**117%**	**20%**	**120%**	**-366%**	**125%**

Source: Budget documents of the State Governments.

It is a well proved fact that the fiscal deficit of the states is a significant problem with huge quantity and growing rapidity. But states have very limited and narrower alternative or source of financing fiscal deficit. It is market borrowings, which has proved to be unique and over dependent with more than 80% share in financing fiscal deficit by registering a rapid rise to 89% from 80% during 2011-12 to 2019-20. The usage of central loans for financing the fiscal deficit by the states is very insignificant and limited, which fluctuated from 0.10% to 3% during the period into consideration with a ray of hope of considerable rise recently. the fiscal deficit, all states' combined deficit is expected to be below 3% of GSDP as mandated under the Fiscal Responsibility and Budget Management(FRBM) Act. However, 14 states have budgeted to show fiscal deficits above 3% of GSDP. States budgeted to have a fiscal deficit of more than 4% of GSDP are Tripura, Haryana, Rajasthan, Goa, and Jammu and Kashmir (Lekha Chakraborty, Manish Gupta, Pinaki Chakraborty, 2017, p. 25).

India is a federal state with central government at top and national level coupled with the number of state governments at state or regional level. It is therefore the government of India comprises of the summation of central government and state governments. Consequently, public debt is the sum total of debt of central government and state governments. This demands to analyse the role of the public debt of India in economic



development of the economy coupled with its role in fiscal correction and balance.

Table 7: Combined Receipts and Disbursements of Central and State Governments ('₹ Crore)

Year	*Revenue account*				*Capital account*		*Aggregate*		*Overall surplus (+)/ deficit(-)*
	Receipts	*Tax Rev*	*Expend*	*Interest*	*Receipts*	*Disbursements*	*Receipts*	*Disbursements*	
2011-12	1692679 (69%)	1442752	2063068 (85%)	400003	761383 (31%)	358701 (15%)	2454062 (100)	2421769 (100)	932293
2012-13	1971619	1687959	2315578	454306	797411	379355	2769030	2694933	74097
2013-14	2211475	1846545	2579086	534230	789897	421213	3001372	3000299	1073
2014-15	2387693	2020728	2798917	584542	802044	486293	3189737	3285210	95473
2015-16	2748374	2297101	3096491	648091	1029675	664120	3778049	3760611	17438
2016-17	3132201	2622145	3489074	724448	1156231	776895	4288432	4265969	22463
2017-18	3376416	2978134	3838856	814757	1152006	677090	4528422	4515946	12476
2018-19	4205473	3512454	4629200	901783	1158772	887733	5364245	5516932	-152687
2019-20	4653758 (76%)	3910428	5130659 (84%)	1009776	1349404 (24%)	941118 (16%)	6003162	6071777	-68615
CGR	13%	13%	12%	12%	8%	14%	12%	12%	-37%
Mean	1465541	1239905	1663387	337332	499826	310698	1965364	1974083	104
CV	**113%**	**113%**	**112%**	**111%**	**107%**	**114%**	**111%**	**112%**	**483%**

Source: Budget documents of the Government of India and the State Governments

As the government of India includes both the union as well state governments. Consequently, total public debt of India comprises of union government debt as well as state government debt. The government of India pays more attention towards current and present development with comparatively lower towards long term and sustained development of Indian economy, which is adequately reflected in the receipts and disbursements patterns of aggregate receipts and disbursements of the governments. As a result, the consolidated receipts as well disbursements are dominated by the revenue account with more than 70% registering about 2% growth rate p a and more or less same inconsistency. In addition, the consolidated government of India collect more capital receipts but sent less for capital expenditure by diverting remaining share towards revenue expenditure, because revenue receipts are lower but revenue expenditure is comparatively higher, which is not a good practice of fiscal operation and more importantly. Relating to the long term and sustained development of the economy. The decision on whether the fiscal deficit ratio needs to be reduced, therefore, should be based on other, and more fundamental, considerations such as debt sustainability or meeting the need for government bonds (Pronab Sen, 2019, p94).

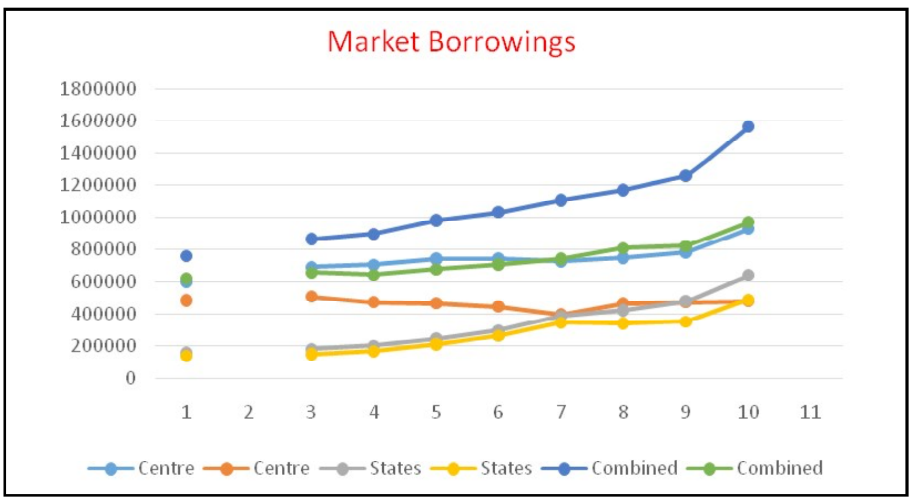
A market borrowing is a major and important source of public debt to the government, especially to the state governments in India. Consequently, the role of market borrowings in long term and sustained development of the economy as well correcting fiscal imbalance is of crucial importance. This poses the need for analyzing the relative significance of market borrowings by the union and state governments in the combined or aggregate market borrowings of the country.

Table 8: Market Borrowings of the Central and State Governments ('₹ Crore)

Year	*Centre*		*States*		*Combined*	
	Gross	*Net*	*Gross*	*Net*	*Gross*	*Net*
2011-12	600382 (79%)	484319 (78%)	158632 (21%)	136643 (22%)	759014 (100)	620962 (100)
2012-13	688471	507473	177279	146651	865750	654124
2013-14	700456	474976	196663	164585	897119	639561
2014-15	741201	465449	240842	207458	982043	672907
2015-16	739033	445466	294560	259369	1033593	704835
2016-17	724526	396690	381979	342651	1106505	739341
2017-18	747685	465569	419100	340281	1166785	805850
2018-19	779896	471948	478323	348643	1258219	820591
2019-20	927670 (59%)	482746 (50%)	634521 (41%)	487454 (50%)	1562191 (100)	970200 (100)
CGR	4%	-1%	19%	17%	8%	5%
Mean	369409	233038	331322	135210	535070	368245
CV	**104%**	**10%**	**61%**	**119%**	**107%**	**105%**

Source: Reserve Bank of India.

Market borrowings are very much dominant in the combined market borrowings of the nation, union government compared to the state governments. It is true in the case of both the gross market borrowings as well as net market borrowings. This scenario of the relative position of market borrowings for the union and state governments, but this is changing significantly and moving towards about 50-50 situation with the passage of time. It was 79% and 78% in gross and net market borrowings for the union government in 2011-12, which has significantly moved towards about 50-50 situation in 2019-20. This implies that the union government of India is exploiting other sources of internal debt along with the market borrowings. On the contrary, it is becoming important for the state governments to increasingly depend upon the market borrowings due to lack of alternative sources.



Public debt is a long term process which takes time to repay and discharge the debt liabilities of the government, except short term and very short term debt. But majority of the public debt is of the long term in nature. Consequently, repayment of the debt requires long period along with interest liabilities. This has an implication of increase in interest and debt burden, and also cut down in real capital expenditure which has a positive impact on the rapid and all round development of the economy. This requires the outstanding debt liabilities of the government. And it is true in the case of both the central government and combined center-state governments in India.

It is observed that the total, internal as well as external debt liabilities of the government of India have been increasing, but total and internal

Table 9: Outstanding Liabilities of Central Government (₹ Crore)

Year	*Internal debt*		*of which*							
		Market loans	*91-day Treasury bills*	*182-364 day Trea. Bills*	*Small savings, deposits &*	*Other accounts*	*Reserve funds and deposits*	*Total internal liabilities*	*External liabilities*	*Total liabilities*
2011-12	3230622 (100)	2516953 (78%)	124656	142379	704762 (16%)	277904 (6%)	133877 (3%)	4347164 (93%) (100)	322890 (7%)	4670054 (100)
2012-13	3764566	2984309	105142	194663	731409	257424	139904	4893303	332004	5225307
2013-14	4240767	3441641	125761	213374	772609	315421	156051	5484848	374484	5859332
2014-15	4738291	3891734	128961	220490	802230	315630	188857	6045007	366193	6411200
2015-16	5304835	4298784	132855	231840	868561	319800	198512	6691709	406589	7098298
2016-17	5750876	4649487	106840	227962	936137	321857	208099	7216970	408108	7625078
2017-18	6425537	5068408	138726	246557	1006422	324632	252758	8009349	483005	8492354
2018-19	7164805	5500141	92183	328699	1109484	326619	302510	8903418	512641	9416059
2019-20	8057391	5986113	121069	324813	1164071	328770	335216	9885448	585325	10470773
2020-21	8906152 (100)	6500983 (73%)	124228	346654	1238008 (11%)	331154 (3%)	374181 (3%)	10849495 (95%) (100)	589997 (5%)	11439492 (100)
CGR	11.50%	11%	-1%	9%	7%	2%	13%	11%	5%	10%
Mean	2879195	2241930	60024	123874	466687	155963	228996	7232671	670278	3835400
CV	**112%**	**110%**	**104%**	**109%**	**106%**	**103%**	**57%**	**55%**	**224%**	**110%**

Source: Budget documents of the Government of India, Status Paper on Government Debt and Quarterly Report on Public Debt Management.

liabilities are growing at the rate of 10 % pa and external liabilities at the lower rate 5%. It is good that the internal liabilities are dominant than the external liabilities with a share of more than 90%, and they are further also increasing is a good thing. It is because external debt is more burdensome than the internal debt. Comparatively, internal debt liabilities are more consistent than total and external debt liabilities. The noteworthy thing is that, outstanding debt liabilities are larger than the debt raised during that year. The precaution should be taken to pay interest and repay debt in time and as per schedule. This is also necessary to be analysed relating to combined outstanding liabilities of central and state governments. In theory, change in outstanding debt should be equal to the fiscal deficit. Estimating fiscal deficit in this manner and juxtaposing these to the official fiscal deficit figures show discrepancies. A comparison is made between the fiscal deficit reported in the Receipts Budget of the central government and the fiscal deficit obtained by taking the change in the year-end outstanding liabilities as shown once again in the Receipts Budget (C Rangarajan, D K Srivastava, 2003, p 4852).

Table 10: Combined Outstanding Liabilities of the Centraland State Governments ('₹ Crore)

Year	*Domestic liabilities of the Centre*	*External liabilities of the Centre*	*Total liabilities of the Centre*	*Total liabilities of the States*	*Combined domestic liabilities*	*Combined total liabilities*
2011-12	4347164 (93%) ——	322890 (7%) ——	4670054 (100) (79%)	1993917 —— (21%)	5561658 (95%) ———	5884548 (100) ——
2012-13	4893303	332004	5225307	2210245	6295815	6627820
2013-14	5484848	374484	5859332	2471263	7158677	7533161
2014-15	6045007	366193	6411200	2703760	7934390	8300583
2015-16	6691709	406589	7098298	3218126	9031659	9438248
2016-17	7216970	408108	7625078	3809357	10176302	10584410
2017-18	8009349	483005	8492354	4292495	11445101	11928106
2018-19	8886520	512641	9399161	4714997	12755818	13268459
2019-20	9745410 (95%) ——	509689 (5%) ——	10255099 (100) (64%)	5258469 ——- (36%)	14180908 (97%) ——	14690597 (100) ——
CGR	10%	6.40%	10%	13.50%	12.46%	12%
Mean	3406685	206425	3613107	1704037	4696687	4903110
CV	**109%**	**106%**	**109%**	**113%**	**112%**	**111%**

Sources: 1. Budget documents of the Government of India.2. Combined Finance and Revenue Accounts of the Union and the State Governments in India, 1986-87' andBudget documents of the State Governments.

It is found that in the total combined outstanding debt liabilities the center was dominant with 79%, which was followed by the states with 21% share indicates debt liabilities as well as outstanding debt liabilities of the central government of India are higher in comparison with the states. This was true initially but with the passage of time the picture is changing and reversing indicating that the debt liabilities and consequently outstanding debt liabilities of the states are increasing. The share of outstanding debt liabilities of the center declined from 79% to 64% during 2011-12 to 2019-20 and it reversed to from 21% to 36% for the states. The domestic-external outstanding debt liabilities analysis is carried out , it is domestic liabilities are greater than external for center, states as well as combined, which implies these all governments are preferring to take domestic debt than external worth of more than 90% in the total, is a rationale decision on the ground of economic burden. If both the centre and the states wereto operate at their FRBM limits of 3% (asis the situation today), both the centraland the subnational debt to GDP ratioswould stabilise at 30%. For the states, this implies a sharp, sizeable jump intheir debt, even if they adhere to theirFRBM deficit limits. If the desired levelof state debt is about 20%, then thestates should be subjected to a lowerdeficit ceiling. A deficit ceiling of 2% willsuffice to stabilise the states' debt at thislevel. On the other hand, if the centraldeficit remains at 3%, its debt ratio willcontinue to decline until it stabilises at30%, far lower than desired (Rathin Roy, Ananya Kotia, 2018, p 53).

Hypothesis Testing: Two Sample One Tailed t Test

1) **H0: Public Debt has a significant impact on economic development of India.**

H1: Public Debt has no significant impact on economic development of India.

Details	*Total Exp*	*Capital Exp*	*Decision*
Mean	1990170.2	386401.1	
Variance	287586367449.36	153502888162.89	
Stand. Dev.	536270.7968	391794.4463	
n	10	10	
t	7.9277		Calculated t > Table t value
Degrees of Freedom	**9**		7.9277>1.833
Critical / Table value	1.833	t > critical value =>there is sig. diff.	H0 rejected & H1 accepted

H1: Public Debt has no significant impact on economic development of India:H1Accepted

Public expenditure of the Union government of India is not conducive for economic development of the economy, because it is revenue expenditure dominated than the capital expenditure, which demands necessary changes.

2) H0: Public Debt has no significant impact on correcting fiscal imbalance of India.

H1: Public Debt has significant impact on correcting fiscal imbalance of India.

Details	*Gross Fiscal Deficit*	*Public Debt*	*Decision*
Mean	589183.5	579830.4	
Variance	11292246672.45	11862313294.44	
Stand. Dev.	106264.9833	108914.2474	
n	10	10	
t	**7.0604**		Calculated t >Table t value
Degrees of Freedom	**9**		7.0604 > 1.833
Critical / Table value	**1.833**	t > critical value =>there is sig. diff.	H0 rejected & H1 accepted

H1: Public Debt has a significant impact on correcting fiscal imbalance of India. Accepted

This reveals that Public debt has been playing an important role in correcting fiscal imbalance and meeting fiscal deficit in India.

V. MAJOR CONCLUSIONS AND POLICY SUGGESTIONS:

Government of India is mainly depending on internal debt (>98%) than the external debt to mobilise public debt, is right and justifiable. Importance of the disinvestment as a source of public debt of government of India has increased significantly, which indicates the withering away of the government from the development of the economy and enhancing privatization. The government of India is interested in the development of the economy at present, current and short run than the future, long run and sustained, is not rationale and appropriate. The government of India is marginally depending upon the external debt in financing public debt as well as fiscal deficit, is a rationale and appreciable step. Like union government, the state governments are also interested in the current, present and short run development of their economies than for long term and sustained. The state governments are heavily relying on the market borrowings for mobilizing their capital receipts. Fiscal deficit of the states is an intensive problem with huge quantity and significant rapidity. It is market borrowings, which has proved to be unique and over dependent source of financing their fiscal deficit. The government of India (Combined center and states) pays increased attention towards current, present and short run than the long term and sustained development of Indian economy. Market borrowings are dominant in the combined market borrowings of the nation and union government compared to the state governments. Total, internal as well as external debt liabilities of the government of India are increasing, but total and internal liabilities are growing rapidly than the external liabilities. In combined outstanding debt liabilities, the center was dominant than the states, but with the passage of time the picture is changing and reversing. Domestic liabilities are greater than external for center, states as well as combined government, which imply all governments' prefer domestic debt than the external. Public debt, especially market borrowings are playing a vital role in the fiscal correction of the center, states as well as combined government.

Public revenue of the government should have at least a considerable share of capital receipts as well as expenditure, which have impact on the development. The role of government in the development of the economy in the country like us is a must and should not be decreased and marginalized. Disinvestment is a reverse to the role of the government in development; hence it should be selective in the case of loss making enterprises only. Indian economy is a mixed economy and it should not be shifted towards a market and free economy through the debt policy. Alternative sources of public debt should be evolved and exploited to reduce over dependence on market borrowings and diversification of the public debt. Corporate social responsibility, international assistance, black money and heavy taxation on the richest strata of the society can be sources of financing deficit. The usage of public debt should be restricted to only developmental and capital expenditure.

CONCLUDING REMARKS

Public debt is an important instrument of fiscal policy and thereby development policy having extensive, intensive and long term development of the economy. Therefore, its proper formulation and sincere, rigorous, honest implementation is very much needed. Along with the important role of the public debt as an effective means of development of the economy, it is also an instrument of correcting fiscal imbalance, especially fiscal deficit. But there are number of issues and dimensions of public debt as an instrument of fiscal policy, hence the number of research studies are necessary to be carried out in the form of dissertations, theses, projects and research papers and articles as well. This study is an attempt in that direction. The study based on the primary data is also the part and parcel of the studies on public debt. The further area of research as mentioned above can give justice to this topic and an instrument of fiscal and development policy.

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