Internal Public Debt and Indian Economy

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Introduction:

Now, we shall renew the nature of the public debt andsome of its features that are of particular relevance to the monetary system. On the basis of methods adopted to raise funds in India,liabilities of the government to the public, other than external debt,could be classified into (a) marketable debt, (b) small savings and (c)other liabilities. Included in the first category are all dated securities,compensation and other bonds of the central and state Governments, and Treasury Bills of the Government of India, apart from special Bearer Bonds which have been issued infrequently by the Government of India. Other liabilities include public provident Fund, State Provident Funds, other Accounts (relating to insurance and pension funds, trusts and endowments, and special Deposits and Accounts), Reserve Funds and Deposits, special Floating and other loans, special securities issued to the Reserve Bank of India, ways and means advances to state Governments from the Reserve Bank of India, and loans and advances from banks and other institutions to State Governments.

At the time of formulating budgetary proposals, the quantum of market borrowings is determined on the basis of factors such as the estimated growth of investment in government securities by banks provident funds and insurance companies and the repayment liability during the year in respect of borrowings of the central and state Governments The loans are issued in different branches inviting subscriptions from the market in the form of conversion of maturingstock or in cash.

The marketable debt of the Government of India which stood at Rs.6,958 crores at the end of March 1991 increased fivefold to a level of Rs.43, 294 crores by March 2004. The rise has been rather sharp since 1997, in the seven year period 1997-98 - 2003-04 the average net amount raised annually was much as Rs.4,265 crores as against the average netamount of Rs.1,080 crores in the six year period 1991-92 - 1996-97.

As marketable debt issued by the Central Government has increased markebly since 1990-91, the relative share of the State Govemments in marketable debt outstanding which was 15.1 percent in March 1991 declining to 9.1 percent in March 2004.

As a proportion of gross domestic product at current market prices the outstanding amount of Central Government securities including Treasury Bills ranged between 16.7 percent and 19.8 percent between 1990-91 and 1996-97. This proportion rose toa level of 25.1 percent by 2002-03 and declined to 21.1 percent inthe following year. The share of Treasury Bills with a maturity of 91days in marketable debt of the central government fluctuated fromyear to year and ranged between 34.2 percent and 47.9 percent during1990-91-2003-04. It can be seen from-

Compassion of Marketable Debt of the Central Government

End March	Treasury Bills	Other Marketable debt
1	**2**	**3**
1991	2516(36.1)	4420(63.9)
1992	2765(36.4)	4840(63.6)
1993	4044(42.7)	5427(57.3)
1994	4384(42.3)	5990(57.7)
1995	5064(43.5)	6571(56.5)
1996	5810(44.9)	7127(55.1)
1997	5368(39.9)	8072(60.1)
1998	8619(47.9)	9357(52.1)
1999	7608(40.9)	11011(59.1)
2000	10196(43.8)	13063(56.2)

2001	12851(44.7)	15888(55.3)
2002	10273(34.2)	19734(65.8)
2003	17431(42.5)	23625(57.5)
2004	15549(35.9)	27745(64.1)

Sources: Report on Currency and Finance (Reserve bank of India)

*Revised estimates

Figures in brackets are percentage to marketable debt of the central Government.

Conclusion:

Till recent times public debt was not conceived of asplaying a significant role in public finance. The classical economists believed in the policy of balanced budgets and to their debt creationhad no value. Loan financing for public project was accepted on theground that the debt would be ultimately liquidated and the projectswould be of a self-financing character. However, the general belief still was that the debt should be rapid as soon as possible to free the state from its burden. Keynes did suggest the policy of deficit financing during a period of depression in the economy, but by its very nature the deficit was to be financed by the expansion of money supply. Itwar, its potential as a source of public income and an instrument offiscal policy has been frequently exploited during pace for financingeconomic development.

Expenditure of the government is increasing at a higherrate than their abilities to mobilise resources by way of taxes andother budgetary devices. Mainly the need for public borrowing stems from the necessity of financing numerous development functions forwhich these governments cannot raise adequate tax resources.

Since the beginning of modern public debt there havebeen serious differences of opinion as to whether they are a blessing, low incomes and leads to financial security and self-respect.1 The public debt is a convenient legal investment for trust and otherfiduciary funs. It is the most feasible vehicle for central bank uponmarket operation.

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