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DYNAMIC EXTERNAL DEBT AND ITS EFFECTS ON GDP GROWTH OF INDIAN ECONOMY

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Abstract:

This research paper analysis on external debt-GDP growth in India's economy. The article used secondary sources of data collected from the Reserve Bank of India, the Department of Economic Affairs of the government of India, economic survey for the period from 1990 to 2021. The findings of the study reveal that economic progress can only be achieved by formulating economic policies and fiscal policies should be formulated to achieve overall economic growth and to realize the goal of self-reliance in India. External debt has become a worldwide phenomenon. The external debt plays an important role in Debt –GPD dynamic changes in the aftermath of major macroeconomic reforms and economic crises in the world. The fiscal consolidation, structural reform and financial backstops can help countries from the debt trap. The external debt also plays important parameters in the economy on the domestic and international levels.

Keywords: External Debt, Economic Development, GDPs of India

Introduction:

The public debt plays a great role in economic growth and has remained a key factor for different parameters like the current deficit, trade imbalance and unstable economy and GDP growth. Over the past decade and especially after the financial crisis in 2008, the level of public debt is expanding at the international and national levels. Therefore, heavy dependency on public debt could retard investment and economic growth. The debt overhang is that if the anticipated external debt of a country is more than its repayment ability, then the increased cost of servicing debt can impede investment (Krugman, 1988). The major chunk of foreign capital is used for interest payment, and then remains to finance investments that could constrain growth. As far as public debt is concerned, broadly it could be divided into types, one is external debt and the other is domestic debt. The two types of debt may have a distinct impact on economic growth. The rationale behind dependence on domestic debt is to see the home country from the adverse external shocks and foreign exchange risk and helps in the progress of domestic financial markets (Barajas and Salazar, 1999). Government borrowing also called Public debt or National debt is the means of financing government operations but it is not the only source of financing, The other sources of financing deficit include tax revenue which includes direct tax as well as indirect tax and not tax revenue which includes income from public sector undertakings, a dividend paid to the government, interest received on loans given. But in the light of low revenue and capital receipts in India public debt or public borrowing becomes an essential part of the government's obligation of meeting its expenditure for social and economic purposes. Debt is generally bridged by issuing bonds or treasury bills which are purchased by market participants like banks, insurance funds, pension funds and other institutions. The Public Debt is broadly divided into internal and external debt. The latter is debt raised from outside of the territory of India and is predominantly borrowed in three currencies, SDR, USD and Yen etc. Internal or domestic debt for both the Centre and States is further divided into marketable and non-marketable debt. The marketable debt for the Centre consists of dated securities and treasury bills and that for the States consists of market loans (State Development Loans or SDLs in short) issued by various States. Non-Marketable debt for the Centre consists of National Small Savings Fund (NSSF), special securities issued to international financial institutions. Internal debt for the government of India largely consists of fixed tenure and fixed coupon borrowings of securities and treasury bills which are issued through auction. The maturity profile of existing debt could be classified into three categories namely- short, medium and long term having a maturity of less than one year, from one year up to 7 years and more than 7 years respective. External debt is a small proportion of the overall public debt of the government of India. It is largely used for financing specific projects at the central and state levels. States are not permitted to contract external debt directly and therefore in the existing system all external debt and then on-lent to states. Most of the external debt is from multilateral agencies such as International Development Association, International Bank for Reconstruction and Development, Asian Development Bank etc. Public Borrowings do not come free of cost and the government has to pay the cost of borrowing in the form of interest payment. Currently in the union budget interest payment is the most important and increasing component of government non-planning expenditure. There is a clear cut proportional relationship between public debt and interest payment. As the public debt increases the interest obligation of the government increases. The interest obligation becomes a burden for the government if the borrowing funds are unable to recover the cost of borrowing due to the unproductive utilisation of the fund. The financing of the deficit through debt should be productive so that it does not lead to the creation of an unnecessary burden of interest payment and repayment for the government. It is clear that the problem of debt is not something that has occurred overnight; it is a process which triggers crises during adverse economic environments. A clear lesson from all these episodes is that there is no substitute for a prudent regulatory framework and pragmatic decision making as far as economic management is concerned. This research purpose is to understand the external debt performance in India. Details of the review of literature related to debt and other aspects are as given below.

Review of Literature

1. **Piyush Bhadani (2016)** aim of the research paper is to attempt the issues challenges and trends of public debt in India. The paper analyses the theoretical perspective of the public debt in which the views several trends of public debt and gross interest. The finding of the study shows that an increased amount of public debt is not leading to increase in the productive capacity of the

government indicating the inefficient utilization of the funds borrowed either from internal or external sources.

2. **Pratibha Gunjikar and Vinayak S. Deshpande (2018)** research paper on external debt has become a worldwide phenomenon and is a crucial factor in any economy whether poor and developing or developed. The article analyses the external debt and its effects on the other important parameters of the economy at the domestic and international levels. All these economic parameters are so intertwined with each other than any change in one parameter affects three or four parameters. The paper's efforts are made to examine the factors affecting India's external debt and their causal relationship with each other and external debt. This paper was used in the analysis of the granger casualty test and multiple regressions co-efficient. The findings of the study revealed that government agencies are involved in economic policy formulation to achieve overall economic growth and India's self-reliance.
3. **Sudhir Thakur (2022)** aim of the research paper is to examine the debt and its effect on other parameters of economy. Using statistical a time series regression analysis suggests leading rent, GSP growth, and trade balance are negative related to total liability at the centre and state level; the net FDI flows, GGSP, trade balance, and foreign exchange reserves are positively related. The prediction suggests both lagging and developed states would incur high public debt, wherein the former would utilize debt for servicing interest cost and non-plan expenditure and later will utilize debt for servicing interest cost and planned expenditure.
4. **Kanhaiya Singh (2013)** this research paper on India deficit and debt dynamic adverse effect on deficit is increasing, Government debt unstable. The debt to GDP ratio being very high and unstable, India faces potential risk of sovereign default. The increasing globalization has increase the external vulnerability as short term component of total external debt is sharply increasing globalization has increased the external vulnerability as corporate governance issues have become more critical. The relevance of high foreign exchange reserves has increased further for sustaining growth and avoiding crises situation in India.

5. **Asit Ranjan Mohanty and Bibhuti Ranjan Mishra (2015)** This study examines the impact of public debt on economic growth by taking other control variables like institutional credit and commercial electricity consumption. The study used panel data of 14 major states in India for the period from 1980 to 2014 by statistical tools of DOLS and FMOLS methods. The result of both the methods suggested that positive and statistically significant impact of all the variables on economic growth. The causal relationship among the variables. The result indicated the existence of bi-directional causality between public debt and economic growth. The policy implication is that the subnational government in India should not think of public debt as a burden but expand it for productive spending to reap the highest economic growth. The detail of the objective of the study are given below-

Objective of the Study

1. To understand an overview of Public Debt
2. To examine the relationship between External debt and GDP of India
3. To offer suggestion to improve debt and economic growth in India

Research Methodology:

This research paper is based on secondary sources of data that have been collected from Reserve Bank of India, different journals, other government reports, etc. This study analyses on external debt and GDP growth in India for thirty years from 1991 to 2022. The following statistical tools have been used such as simple percentage and Descriptive Statistics analysis.

Date Analysis and Discussion:

This section of the study is based on External debt in India. This paper's purpose is to understand external debt performance for the period from 1991 to 2022. The below shows performance of external debt and GDP ratio details is as follows.

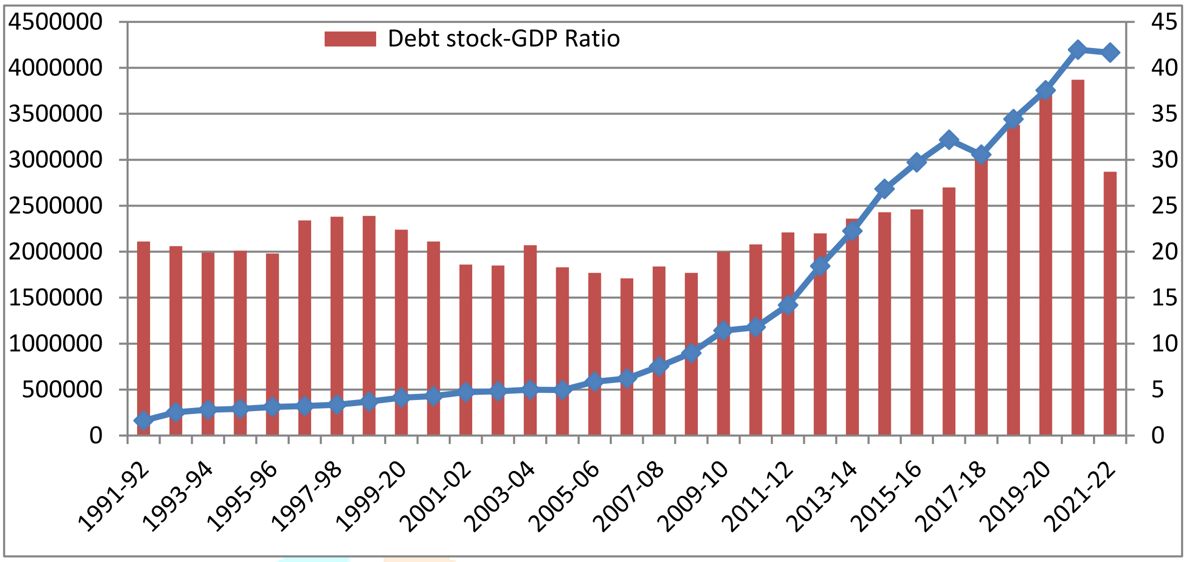
Table # 01 India's External Debt

(Rupees in Crore)

Year	Gross Total Debt	Debt stock-GDP Ratio
1991-92	163001	21.1
1992-93	252910	20.6
1993-94	280746	19.9
1994-95	290418	20.1
1995-96	311685	19.8
1996-97	320728	23.4
1997-98	335827	23.8
1998-99	369682	23.9
1999-20	411297	22.4
2000-01	428550	21.1
2001-02	472625	18.6
2002-03	482328	18.5
2003-04	498804	20.7
2004-05	495459	18.3
2005-06	586305	17.7
2006-07	620522	17.1
2007-08	751402	18.4
2008-09	897290	17.7
2009-10	1142125	20
2010-11	1178638	20.8
2011-12	1419407	22.1
2012-13	1844167	22
2013-14	2224734	23.6
2014-15	2682214	24.3
2015-16	2971542	24.6
2016-17	3217563	27
2017-18	3055095	30.8
2018-19	3441883	33.8
2019-20	3755028	37.5
2020-21	4197652	38.7
2021-22	4165315	28.7

(Source : Reserve Bank of India)

Graph # 1 Indian External Debt and GDP % ratio



(Source: Reserve Bank of India)

The above table # 1 reveals the External debt of India during the period from 1991 to 2022. In the financial year, 1991-92 total external debt was recorded of Rs. 1,63,001 crore against GDP ratio is 21.1 percent. The external debt consistently increased during this phase. In the next financial year, 2002-03 external debt achieved of Rs.2,52,910 crore and 20.6 percent of GDP growth in India. Thereafter during the period from 1996 to 1999 external debt above 23.4 percent of GDP touched in India. Later, thereafter the flow of external debt declined was observed based on above data reveals, and during this period, GDP also noticed to below 20 percent. The financial year 2014 -15, after sudden growth was observed in the external debt due to stable policies and ease of business, attracted more external debt in India. Since 1990, efforts were made to rationalize the interest rate structure to ensure better price discovery and transparency in the loan pricing system, with a near-complete de-regulation of interest rates culminating in October 1994. Since 1997, in order to encourage borrowers to switch to a loan delivery system, banks were allowed to prescribe separate prime lending rates (PLRs) for both loan and cash credit components (Reserve Bank of India (2009). In the financial year, 2014-15 external debt of Rs.26,82,214 at 24.3 percent was touched a new record. External debt as of end-March 2018 was 6% of total Centre liabilities and was about 1.5% as a share of GDP. Internal debt in 2018 stood at 78% of total Central liabilities and about 38% of GDP. The debt level has a massive surge owing to the centre's increased borrowings to deal with the COVID-19 pandemic.

India's external and internal debt both witnessed a surge during the past couple of years on account of an increase in gap between expenditure and receipts. According to Reserve Bank of India at the end of 2021-22, India's external debt was placed at Rs. 4,165,315 crores recording an increase. The external debt with a share of 28.7 percent of GDP. A major portion of India's external debt came from multilateral institutions like International Development Association (IDA), International Bank of Reconstruction and Development (IBRD), Asian Development Bank (ADB), International fund for Agriculture Development (IFAD), New development Bank (NDB). The above result indicated that the external debt gradually increased during this study period. The below shows the descriptive statistics result as given below.

Table # 02: Descriptive Statistics

Mean	1436731.367
Standard Error	244099.6842
Median	685962
Standard Deviation	1336989.033
Kurtosis	-0.656405247
Skewness	0.936685549
Range	3944742
Minimum	252910
Maximum	4197652
Sum	43101941

Table # 2 presents descriptive statistics for 30 years of external debt of India, from 1991 to 2021. A can be seen, the mean of external debt is significantly higher from other Asian countries. Kurtosis of the normal distribution is 3, the result suggest that the distribution of the external debt is peaked relative to the normal. Finally, regarding the asymmetry of the distribution of the series around their mean. The minimum of Rs.2,52,910 crore inflow of external debt in India in the financial year 1992-93 and maximum of Rs.4,197,652 crore for the FY 2020-21. The sum of external debt received during this study period is Rs.4,31,01,941 crores in India. The present study tries to assess the impact of external debt on economic growth using a production function approach. From the above graph shows that a positive and statistically significant impact of public debt on economic growth.

Conclusion:

The study uses time-series data on external debt of during the period from 1991 to 2021 to examine the influence of external debt on GDP of India's economic growth. The study finds that economic GDP growth is significantly and positively affected by public debt and credit. The impact of public debt and institutional credit is higher. The analysis reveals that debt policy will be helpful for the economy in generating higher economic growth. This result shows that more external debt has a positive relationship with GDPs of India's economy. The higher economic growth will further increase the public and private sectors and increase the demand for commercial purposes. Therefore this study suggests that overall development in all sectors and particularly in agriculture sector with people-centric policy and market-centric policy can help control fiscal deficit and overall key to maintaining current account at manageable levels. Hence, external debt plays a great role in overall economic development in India

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