Mains Practice Question

Q. Define public debt and outline the primary concerns associated with public debt management in India. Propose measures to address these concerns. (250 words)

14 Feb, 2024 GS Paper 3 Economy

Approach

- Write a brief introduction about public debt and public debt management.
- Mention the issues and concerns associated with public debt management in India.
- Write a conclusion.

Introduction

Public debt is the total amount of money that a government owes to its creditors, such as individuals, banks, corporations, or other governments. Public debt can have both positive and negative effects on the economy, depending on how it is used and managed. Public debt management (PDM) is the process of designing and implementing a strategy for managing the government's debt in order to raise the required amount of funding, achieve its risk and cost objectives, and meet any other debt management goals.

Body

Some of the primary concerns associated with PDM in India are:

- **High Debt-to-GDP Ratio:**
  - India's public debt-to-GDP ratio was 57.1% at the end of March 2023. A high debt-to-GDP ratio limits the fiscal space for the government to respond to shocks and pursue developmental goals and also increases the risk of debt distress and default.
- **Rising Interest Payments:**
  - Rising interest payments reduce the resources available for other priority sectors, such as health, education, and infrastructure, and also increase the dependence on borrowing to finance the fiscal deficit.
    - In India, interest payments account for 20% of the Centre's total expenditure.
- **Debt Sustainability Challenges:**
  - Debt sustainability refers to the ability of a country to service its debt obligations without compromising its growth prospects and fiscal stability.
  - India faces debt sustainability challenges due to the high interest rate-growth differential, which is the difference between the nominal interest rate on public debt and the nominal GDP growth rate.
- **Lack of a Public Debt Management Agency**
  - At present, the Public Debt Management Cell (PDMC) is an interim arrangement that serves as an interim arrangement tasked with overseeing the public debt portfolios of both the central and state governments, along with other public entities.
    - Despite recommendations from committees such as the Percy Mistry Committee and the Jahangi Aziz Committee on Fiscal Responsibility and Budget Management (FRBM) in 2017, India is yet to establish a PDMA.

Some of the possible measures to address the concerns of public debt management in India are:

- **Fiscal Consolidation:**
  - Fiscal consolidation involves decreasing the fiscal deficit and the debt-to-GDP ratio over the medium to long term.
  - The Fiscal Responsibility & Budget Management (FRBM) Act of 2003 was implemented to ensure responsible fiscal management in India.
    - The escape clause under the act should be used judiciously and exceptionally.
  - The government targets reducing the fiscal deficit to below 4.5% of GDP by 2025-26. The projected fiscal deficit for the fiscal year 2023-24 stands at 5.9% of GDP.
    - While these are very ambitious targets, it is imperative that they should be kept in mind while making expenditures.
- **Revenue Mobilization:**
  - Revenue mobilization refers to the process of enhancing the revenue collection capacity of the government, by widening the tax base, rationalizing the tax structure, improving tax compliance and administration, and leveraging digital platforms and data analytics.
- **Expenditure Efficiency**
  - Expenditure efficiency refers to the process of prioritizing the quality and effectiveness of public expenditure, by focusing on capital and developmental spending, reducing wasteful and unproductive subsidies, and improving the delivery and monitoring of public services and schemes.
- **Asset Monetisation and Privatisation**
  - Asset monetisation and privatization refer to the process of identifying and divesting the non-strategic and loss-making public sector undertakings (PSUs), unlocking the value of the surplus and underutilized land and other assets owned by the government and the PSUs, and creating a pipeline of infrastructure assets through National monetization pipeline for long-term leasing to private investors.
    - Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts can be used to monetize assets as they are used in sectors like roads and power.
    - REITs and Invits are listed on stock exchanges, providing liquidity to investors through the secondary market and thus attracting investors.
- **Public Debt Management Agency**
  - A public debt management agency (PDMA) is an independent and specialized institution that is responsible for managing the public debt portfolio of the central and state governments, as well as other public entities.
  - A PDMA can help in reducing the cost and risk of public borrowing, diversifying the investor base, developing the domestic debt market, and ensuring better coordination and communication among various stakeholders.

Conclusion

Public debt management is a crucial aspect of fiscal policy that affects the economic growth and stability of India. To address the challenges of high debt, rising interest payments, debt sustainability, and lack of a PDMA, the government should adopt a comprehensive and holistic approach.