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Role of Public Debt and Sustainable Inclusive Growth in Brics

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Abstract : The paper analyses the role of external debt in the growth trends and help in the sustainable development in recent scenario. As the study found that the public debt has been increased in BRICS countries, the government of these countries must try to reduce it by adopting several policies such as (i) reducing the unplanned expenditure, (ii) rising the revenues without rising the tab base, (iii) encourage the foreign direct investment to boost the production and reduce the investment, (iv) increase the public-private partnership (PPP) in the large project investment such as physical infrastructure, etc. The current study tries to explain the details of public debt and its role in the progress of a country. If we compare the debt ratio to GDP, India rank highest among the BRICS. India's debt ratio to GDP (67.27%) is highest among these five nations followed by Brazil (56.8%) and South Africa (46.41%). The least debt ratio to GDP is in Russia (13.41%) and followed by China (22.4%).

Keywords: Public Debt, Sustainable, Planned And Unplanned Expenditure, Inclusive Growth, BRICS.

Introduction- Public debt is an old concept and has lots of literature on this but still it has great a relevance and significance in recent years. Because, according to the modern economists, the role of government is increasing over the years and they are performing both old and new functions for rapid economic growth, which lead to increase in public debt. If we look at the existing studies, they vary on analytical grounds or on the empirical evidence (Rang Rajan and Srivastava, 2005). Majority of the studies have shown the relationship between public debt, fiscal deficit and economic growth. Classical economists said that the basic pillars of public debt are unproductiveness.

In recent years, public debt is an important topic for policy makers as well as researchers as a larger volume of public debt increases the interest payment, widen the gap between savings and capital accumulation, and slowdown the economic growth (Modigliani, 1961; Diamond, 1965; and Blanchard, 1985). The available studies have mainly focused on the relationship between public debt and economic growth, and that relation varies from nation to nation (Reinhart and Rogoff, 2010; Eberhardr and Presbitero et al., 2014). The debt payment reduces public spending, which lead to negative economic growth (Mendoza and Ostry, 2008; and Rogoff, 2015). A high ratio of public debt to GDP reduces the public expenditure in long run generates uncertainty in future (Teles and Mussolini, 2014). On the other hand, high ratio of public debt affects macroeconomic variables and financial stability in a country.

Emerge the concept of BRICS : The term BRIC represents four combined economies such as Brazil, Russia, India and China originated in 2003, after joining South Africa to the group in 2011, it becomes BRICS. Currently, it is one of the most powerful economic blocs as it is accounted that the BRICS has 3.12 billion populations as of 2019, which is 41% of the world total population, and having 24 per cent of the world GDP (BRICS Report, 2020).

Table 1: Population and GDP in BRICS Countries, 2019.

BRICS Countries	Brazil	China	India	Russia	South Africa	Total
Population (Billion)	0.21	1.4	1.36	0.15	0.06	3.18
GDP ($ Trillion)	1.84	13.61	2.8	1.7	0.36	20.31

Source: World Bank online data base.

To strengthen the alliance, a business Council (BBC) was established in 2013 at the 5th Summit of BRICS in Durban, South Africa to bring together the private sector. The BBC has five national sections, each has five leading CEOs, a secretariat and a set of members including companies and business organizations led by a chairperson (BRICS Report, 2019). The BBC presidency and chairpersonship are rotating annually. BBC presidency would be rotating to India in 2021. In the last BBC in 2019, there was discussion on various issues such as on the cooperation for modern biotechnology, network for innovation hubs, rural digital inclusiveness, energy integration, PPP on infrastructure projects, strengthen logistics connectivity between BRICS countries, waste management, Aviation products & services (BRICS Report, 2019). There is established New Development Bank to increase the investment, has started functioning in Shanghai and disbursed $811 million to all the BRICS countries in the first round of Green Energy loans. In India, the Canara Bank has received $250 million for green infrastructural development in the country.

Objective:

- To examine the composition, structure of public debt and its impact on growth performance in BRICS.
- To interlinked the long term debt with sustainable economic growth in BRICS.

Hypotheses:

- Debt of the largest population country like China and India public debt increases faster than the other country.
- Debt of the country increases due to more fiscal deficit.
- The sustainable and planned public debt have positively affect in economic growth.

Methodology and Data Sources : The entire study is based on the secondary time series data. It would be collected from the various sources like; World Bank, International Monetary Fund (IMF), Asian Development Bank, NDB, central bank of BRICS countries as well as governmental websites respectively. The study basically used descriptive statistics. The study would like to use trend analysis, Panel multiple regression analysis and Granger Causality Test. The stationary of variables will be checked through Unit root tests.

Average Annual GDP Growth Rate: The growth rates of the BRICS countries indicate that both India and China's economy is growing very faster than the Brazil, Russia and South Africa. Since 2016, it has been seen that India's economy is growing faster than other nations in the BRICS.

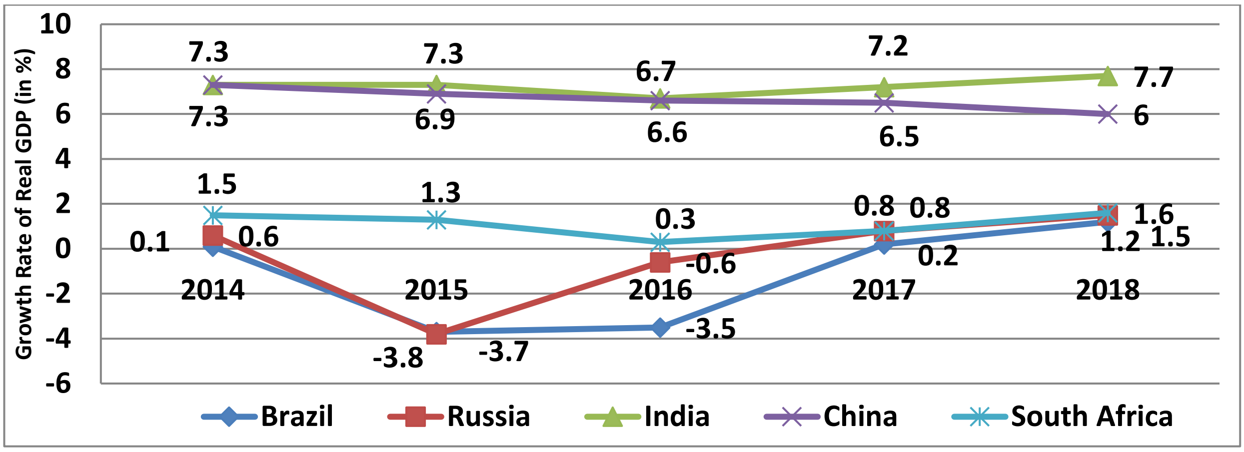

Fig. 1: Average Annual Real GDP growth rate of BRICS 2004 to 2018

Sources: International Monetary Fund (World Economic Outlook, October 2016, January, 2017).Note: 2017 and 2018 Real GDP growth is Projected, where as other years data are actual.

Both Brazil and Russia have experienced negative economic growth during 2014 to 2017. It indicates the India's growth rate was highest in the year of 2015, whereas, China had highest economic growth rate in the year 2014. In the year 2015, when most of the economies in the BRICS had lower economic growth, India was realising the highest growth rate. The projected GDP for the year 2018 indicates that India may overtake to China in 2018 and other nations will have positive growth rate.

Debt and GDP ratio: The debt to GDP ratio (**Figure 2**) indicates that India's debt ratio to GDP (67.27%) is highest among these five nations followed by Brazil (56.8%) and South Africa (46.41%). The least debt ratio to GDP is in Russia (13.41%) and followed by China (22.4%). It is obvious that public debt in India will be more as their economy grows more than other nations but it is surprised that Brazil, whose growth is very low but they have more debt than other nations. Therefore, it is an important issue to empirically examine the debt dynamics in BRICS.

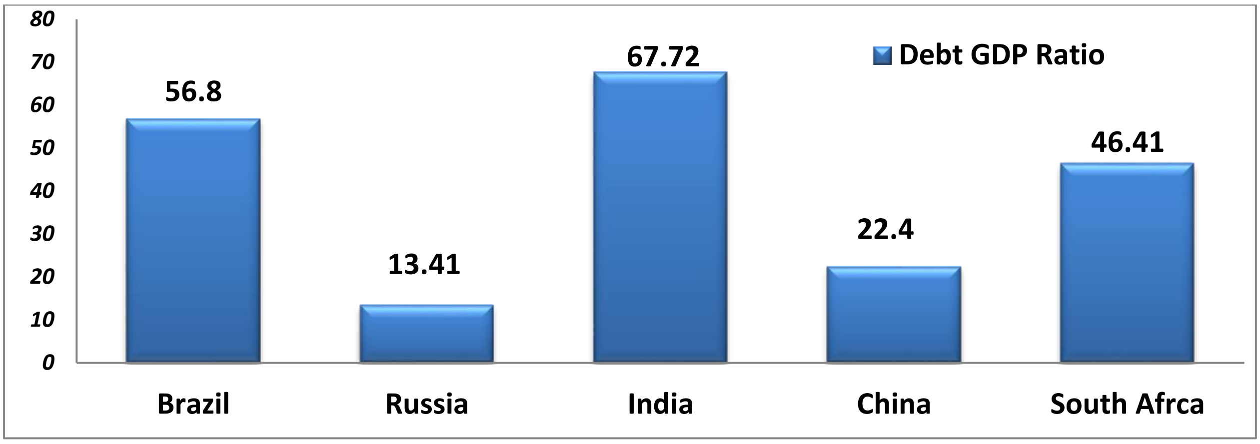

Fig. 2 : Debt and GDP ratio in 2017.

Sources: International Debt Statistics, World Bank, 2017

If we look at the foreign direct investment (FDI) in BRICS nations, we find that the China was on the top of FDI inflow during the period 2007 to 2014 years. South Africa had the lowest accessibility of FDI. Both in India and Russia more or less the FDI inflow was stagnant over the year from 2007 to 2014, except the fall in Russia

An important milestone in the development of the social security cooperation between the BRICS countries (Brazil, the Russian Federation, India, China and South Africa), was the adoption of the BRICS' Ministerial Commitment to Sustainable and Universal Social Protection, during the Global Social Protection Week, organized by the International Labour Organization (ILO). The BRICS cooperation is supported by the International Social Security Association (ISSA) and the ILO.

Sustainable Inclusive growth in BRICS : The BRICS countries account for 25 per cent of the World's GDP, nearly 50 per cent of the global population and around 20 per cent of global merchandise trade (World Bank, 2019). In today's context, BRICS has to develop to be a strong voice of stability, reform, progress and governance specifically tiered towards inclusive and development centric world trade that remains focused on the hard realities of a large number of countries. Services remain a crucial area with the econometric simulation of a possible increase in the world trade by 50% by 2040, so do MSMEs and building the digital infrastructure and Skill development exchange. At the outset of BRICS 2019, it is important to mention that Invest India signed an MoU for multilateral cooperation and sharing best practices with the stakeholders for South Africa (InvestSA), Brazil (ApexBrasil), China (Trade development Bureau, IPA), and Russia (Ministry of Economic Development).

When viewed with slowed growth in China and recessions in Russia and South Africa, one might see Brazil as just another BRICS in the wall of disappointing growth among emerging economies. Though most do not dispute Brazil's state of affairs as disappointing, it is unclear if it is indicative Brazil's future long-run potential. After all, it does appear that Brazil is positioned make a successful recovery as 2017 GDP is expected to be above zero as Brazilian exports have continued to increase.

According to World Bank statistics (GDF 2004), Brazil's debt-to-exports ratio was over 300 percent in 2002 and Brazil's debt service ratio was 68.9 percent. 34 gross public debt, according to the Central Bank, stood at 79 percent of GDP in 2003, having grown from 65 percent of GDP since 2000. In net terms the commonly used debt concept in Brazil public debt, stood at 59 percent of GDP at the end of 2003. The fastest debt accumulation occurred during 1998 and 2000, when debt increased by nearly 10 percentage points. Brazil external debt burden is largely private. Less than half of the country's external obligations are public or publicly guaranteed and public external debt has followed a rather flat path over the last decade. Public external debt accounts for about 20 percent of GDP.

The republic of India debt from 1980-81, India's public debt grew almost uninterruptedly by 26 percentage points of GDP in 10 years, to 72.5 percent of GDP in 1990-91. This was the year in which India experienced a balance-of-payments crisis, which pushed it to the verge of default on its external debt. The crisis, which followed an acceleration of growth during the second half of the 1980s, resulted from fiscal deficits of the order of 10 percent of GDP, which led to growing current account deficits. External debt almost doubled from $35 billion at the end of 1984-85 to $69 billion at the end of 1990-91, with commercial borrowing and remittances of Non-Resident Indians becoming increasingly important as the size of current account deficits exceeded available financing on concessional terms. By the end of January 1991, reserves had fallen to less than a billion dollars and debt service payments were maintained only by an administrative squeeze on imports and emergency financing from the IMF.

Conclusion and Policy Implication: Public debt composition matters a great deal for debt dynamics. Our debt decompositions reveal that real exchange rate depreciations were one of the key contributors to debt accumulation in the second half of the 1990s. The exchange rate becomes crucial when a high proportion of debt is denominated in foreign currency (Argentina, Indonesia, Lebanon) or when a substantial share of debt is indexed to foreign currency (Turkey and Brazil). A high proportion of debt denominated in foreign currency implies that the domestic value of the debt increases if the domestic currency depreciates; dollar indexation of domestic debt can further increase vulnerability of countries to a sharp depreciation of the exchange rate.

Brazil's case study shows that debt dynamics can be adversely affected if a large portion of domestic debt is indexed to short-term interest rates. An important lesson from Brazil's experience with debt indexation is that, unlike other factors, it never worked in the direction of debt reduction. It was introduced to establish market confidence, but debt indexation sharply built up debt stocks in turbulent years, as was seen in 1993-95 and 1999-2001. For instance, along with the collapse of Brazil's exchange rate peg in 1999, the debt ratio increased 4.5 percentage points because of dollar-indexation.

Further, the maturity profile of public debt also can crucially impact debt dynamics. A combination of rising interest rates and short maturity played a significant role in the debt accumulation in countries like Turkey and Brazil. On the trend of public debt of the Brazil shows deal restructured Brazil's debt to private creditors and helped Brazil return to international financial markets. At the same time, a stabilization program (the Real Plan) successfully ended hyperinflation.

In 1992/93, the first year of the Eighth Plan period, public debt had grown further to 76.5 percent of GDP, reflecting the effects of the crisis. But as a result of the fiscal consolidation and structural reforms implemented in the wake of the crisis, growth accelerated during the Eighth Plan period (199-93 to 1996-97) and public debt fell to a low of 65 percent of GDP by 1996-97. This trend was reversed during the slowdown in growth and rising fiscal deficits which marked the Ninth Plan period. By the end of the first year of the Tenth Plan period, 2002-03, public debt had reached 87 percent of GDP. One of the aspects of the 1990s was a deliberate switch away from external debt to long-term rupee debt to minimize vulnerability. As a result, the foreign currency-denominated portion of public debt fell from a peak of 22 percent of GDP in 1992-93 to 8 percent by 2002-03.

The significant share of the external debt from the previous regime. As a result, Russia's public debt in 1992 was very high. During 1993-2003, Russia's public debt-to-GDP ratio was reduced by more than 80 percentage points. Russia embarked on a macroeconomic stabilization program, supported by the IMF. This program was essentially an exchange rate-based stabilization, to be supported by fiscal adjustment, replacing monetary financing of the deficits by public borrowing, and growth-enhancing microeconomic structural reforms. Indeed, this program helped stabilize the exchange rate and inflation fairly quickly; however, in retrospect, this success was short lived.

Unlike macroeconomic stabilization and structural reforms in Poland, Russia's fiscal adjustment was illusory, mainly because of the lack of micro-economic restructuring and reforms. The lack of structural reforms, and a policy of tight money that caused a real exchange rate appreciation, created a system of soft budget constraints and a vicious circle of non payments and arrears, which at the end found its way into the fiscal accounts. This system created powerful interest groups which were opposed to reforms, including fiscal reforms. The system was also plagued by corruption and distorted the economic incentives, with a disastrous impact on productivity and sustainable economic growth.

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