Chapter 6

MANAGEMENT OF PUBLIC DEBT

Managing Debt: Salient Considerations

6.1 Fiscal liabilities of the Union government arise due to borrowing from internal or external sources and withdrawals from the public accounts maintained by the government. Debt management entails decisions regarding raising of funds through available debt instruments to meet resource requirements for repayment of debt, discharge of liabilities on the public account, capital expenditure and such revenue requirements as remain uncovered by revenue receipts. An efficient management of debt would suitably synchronise with revenue flows and debt repayment schedules. It would also require proper assessment of the magnitudes and timing for the use of debt instruments, and entail use of borrowed resources for productive purposes.

6.2 Debt management also calls for working out a suitable mix of alternative debt instruments, such as internal debt, external debt, and borrowing from the Central bank. Internal debt puts pressure on the interest rates. External debt has a bearing on the exchange rate. Borrowing from the RBI may influence money supply and inflation. Because of interdependence among economic variables, the effects of borrowing from any channel may spread across to various sectors and prices.

Aggregate Fiscal Liabilities: Trends and Composition

The debt GDP ratio has fallen during the nineties, but the share of internal debt in total debt has increased.

6.3 Table 6.1 presents total liabilities of the government including internal debt and external debt reckoned at the current rate of exchange and the Public Account of India at *the end of the financial year* during the last ten years. A distinction needs to be made between external debt at current exchange rates and external debt at historical exchange rates. The former gives a correct picture of the outstanding liabilities in rupee terms, although the Union budget gives external debt at historical exchange rates.

6.4 Total liabilities of the Union government were Rs 1120049 crore at the end of 1999-00. Total liabilities grew at a TGR of 12.77 percent during the nineties. Internal debt has risen fastest at a TGR of 16.48 percent whereas external debt has risen at a comparatively lower TGR of 6.52 percent, leading to a compositional change in the debt structure. Appendix VIII gives the total liability of the government for the last 24 years since 1976-77.

Table 6.1: Total Liabilities of the Union Government: Trends

Rs in crore

Year	Public debt			External debt (at historical exchange rate)	Small savings, provident fund etc.	Reserve fund and deposit	Total liability (at current exchange rate)	Total liability (at historical exchange rate)
	Internal debt	*External debt	Total debt					
1990-91	154004			31525	107107	21922		314558
1991-92	172750	109608	282358	36948	121500	23464	427322	354662
1992-93	199100	120813	319913	42269	136802	23752	480467	401923
1993-94	245712	127798	373510	47345	160355	24556	558421	477968
1994-95	266467	142389	408856	50928	192222	28993	630071	538610
1995-96	307869	148583	456452	51249	213435	33680	703567	606233
1996-97	344475	149077	493552	54239	239042	37919	770513	675675
1997-98	388998	161442	550440	55332	291867	42097	884404	778294
1998-99	459696	177934	637630	57254	333261	41595	1012486	891806
1999-00	714254	186075	900329	58437	172212	47508	1120049	992411
TGR	**16.48**	**6.52**	**13.64**	**6.49**	**10.47**	**9.71**	**12.77**	**13.75**

* External debt at current rate of exchange

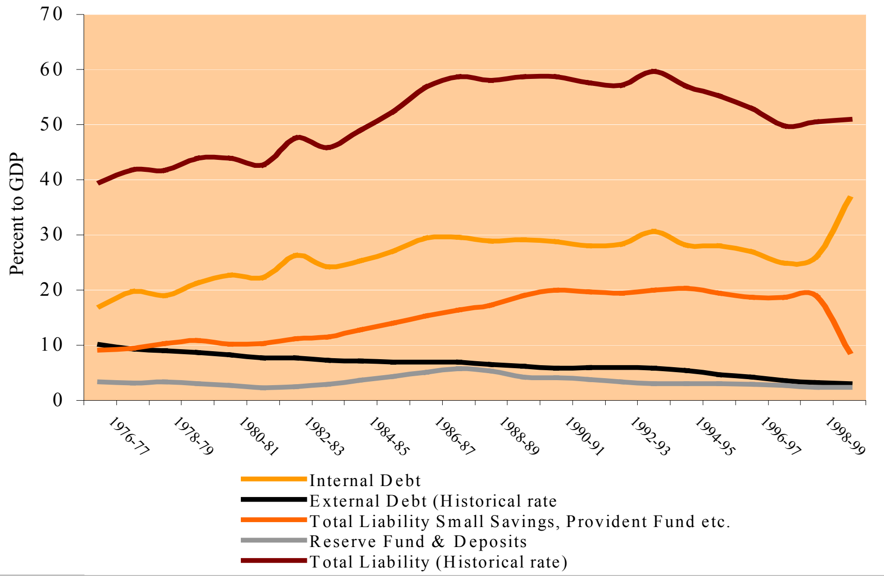
Relative share of components of debt (% to total liabilities at current exchange rate)

								Int. debt& small savings and PF
1991-92	40.43	25.65	66.08	8.65	28.43	5.49	100.00	68.86
1992-93	41.44	25.14	66.58	8.80	28.47	4.94	100.00	69.91
1993-94	44.00	22.89	66.89	8.48	28.72	4.40	100.00	72.72
1994-95	42.29	22.60	64.89	8.08	30.51	4.60	100.00	72.80
1995-96	43.76	21.12	64.88	7.28	30.34	4.79	100.00	74.09
1996-97	44.71	19.35	64.05	7.04	31.02	4.92	100.00	75.73
1997-98	43.98	18.25	62.24	6.26	33.00	4.76	100.00	76.99
1998-99	45.40	17.57	62.98	5.65	32.92	4.11	100.00	78.32
1999-00	63.77	16.61	80.38	5.22	15.38	4.24	100.00	79.15

Internal Debt: Continuous Rise

The share of market loans in internal debt has increased while that of treasury bills has fallen during 1990-91 to 1999-00.

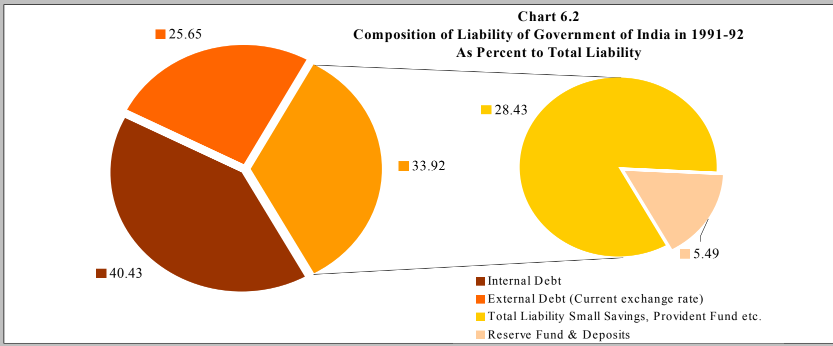
Chart 6. 1
Total Liability of Government of India:
As Percent to GDP (1976-77 to 1999-00)

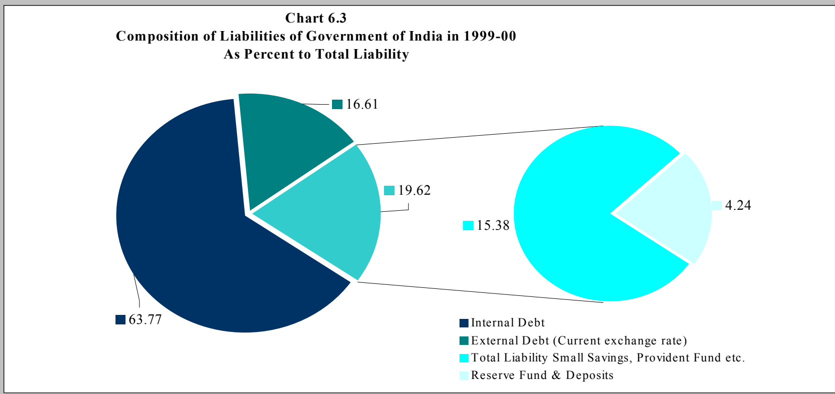


Total liabilities of Government of India: Explosive Growth - Chart 6.1 indicates total liabilites of the Union Government as % of GDP over the period from 1976-77 to 1999-00. These rose to about 60 percent of GDP in 1993-94. Since then there has been declined. External debt as a percentage to GDP has fallen over the years. On the other hand internal debt, and liabilities on account of small savings have steadily increased.

6.5 Internal debt includes market loans, special securities issued to the RBI, and compensation and other bonds. It also includes borrowing through treasury bills, non-interest bearing rupee securities issued to international institutions like the IMF, IBRD, IDA, IFAD, ADB, and the African Development Bank. The receipts and repayments of internal debt are accounted for in the CFI.

6.6 Table 6.2 presents the growth of internal debt of the Union government during 1990-91 to 1999-00. Total internal debt of the Union government increased during the nineties at the TGR of 16.48 percent per annum. This was more than the TGR of GDP at current market prices. As percentage to the GDP, therefore, internal debt increased from 27.08 percent in 1990-91 to 36.5 percent in 1999-00.





Changing Composition of the Liabilities of Government during the Nineties: Charts 6.2 and 6.3 depicts certain critical changes in the composition of the Liabilities of Government of India. The share of internal debt has increased from 40.43 percent in 1991-92 to 63.77 percent in 1999-00. Reliance on external debt has gone down from 25.65 percent to 16.61 percent during the period. Combined liability on account of small savings, various Funds and Deposits was 33.92 percent in 1991-92 which has slumped to 19.62 percent. Out of this, the relative share of liabilities due to Reserve Funds and Deposits has remained close to 5-7 percent.

Table 6.2: Growth of Internal Debt

Rs in crore

Year	Opening balance	Addition	Repayment of principal	Net addition during the year	Closing balance	% growth over previous year	Closing balance as % to GDP
1990-91	133193	100313	79502	20811	154004		27.08
1991-92	154004	82307	63561	18746	172750	12.17	26.44
1992-93	172750	93754	67404	26351	199100	15.25	26.64
1993-94	199100	159614	113002	46612	245712	23.41	28.60
1994-95	245712	148556	127801	20755	266467	8.45	26.39
1995-96	266467	174207	132805	41402	307869	15.54	26.05
1996-97	307869	200507	163901	36606	344475	11.89	25.29
1997-98	344474	368806	324282	44524	388998	12.92	25.67
1998-99	388998	385283	314584	70699	459697	18.17	26.14
1999-00	459699	550930	296375	254555	714254	55.37	36.50
TGR (%)	**14.59**	**22.75**	**21.44**	**23.19**	**16.48**		

Note: Minor changes in figures of opening balances are due to prior period adjustments.

6.7 Table 6.3 presents the changes in the composition of internal debt, comprising various instruments, viz. market loans, treasury bills, treasury bills converted into securities, compensation and other bonds, special securities issued to the RBI, ways and means advances, and special Union government securities issued against outstanding balances at the end of the last ten years.

Table 6.3: Composition of Internal Debt

Rs in crore

Year	Market Loan	As % to Total Internal Debt	Treasury Bills	As % to Total Internal Debt	Treasury Bills Converted into Securities	As % to Total Internal Debt	Securities Issued to International Financial Institutions	As % to Total Internal Debt	Compen-sation and Other Bonds	As % to Total Internal Debt
1990-91	70493	*45.77*	8032	*5.22*	66000	*42.86*	6566	*4.26*	1812	*1.18*
1991-92	78003	*45.15*	12826	*7.42*	71000	*41.10*	8415	*4.87*	1460	*0.85*
1992-93	81679	*41.02*	29391	*14.76*	71000	*35.66*	14669	*7.37*	1315	*0.66*
1993-94	110608	*45.02*	40982	*16.68*	71000	*28.90*	20365	*8.29*	1711	*0.70*
1994-95	130934	*49.14*	40492	*15.20*	71000	*26.64*	20366	*7.64*	2629	*0.99*
1995-96	164935	*53.57*	45665	*14.83*	71000	*23.06*	22771	*7.40*	2452	*0.80*
1996-97	184028	*53.42*	64760	*18.80*	71000	*20.61*	19562	*5.68*	4079	*1.18*
1997-98	236525	*60.80*	25842	*6.64*	101818	*26.17*	17100	*4.40*	4667	*1.20*
1998-99	305512	*66.46*	18845	*4.10*	101818	*22.15*	21522	*4.68*	7911	*1.72*
1999-00	375789	*52.61*	18524	*2.59*	101818	*14.26*	22209	*3.11*	8450	*1.18*

Year	Special Securities Issued to RBI	As % to Total Internal Debt	Ways and Means Advances	As % To Total Internal Debt	Special Central Government Securities[1]	As % to Total Internal Debt	Special Central Govt. Securities[2]	As % to Total Internal Debt	Total
1990-91	1101	*0.71*	--		--		--		**154004**
1991-92	1046	*0.61*	--		--		--		**172750**
1992-93	1046	*0.53*	--		--		--		**199100**
1993-94	1046	*0.43*	--		--		--		**245712**
1994-95	1046	*0.39*	-		-		-		**266467**
1995-96	1046	*0.34*							**307869**
1996-97	1046	*0.30*	-		-		-		**344475**
1997-98	1046	*0.27*	2000	*0.51*	-		-		**388998**
1998-99	1046	*0.23*	3042	*0.66*	-		-		**459697**
1999-00	1282	*0.18*	982	*0.14*	176221	*24.67*	8979	*1.26*	**714254**

[1] Special central government securities issued against outstanding balances of small savings as on 31.03.99.
[2] Issued against net collection of small savings from 1 April 1999

Treasury Bills: Short-Term Loans through the RBI

6.8 Treasury bills are instruments issued by the RBI on behalf of the Union government to raise short-term loans ranging between 14 and 364-days intended to fill transient resource gaps. At present there are four types of treasury bills: 14-days, 91-days, 182-days, and 364-days. There are two types of 14-days treasury bills: (i) intermediate treasury bills and (ii) auction treasury bills. Following the discontinuance of 91-days tap treasury bills from April 1997, the government introduced 14-days intermediate treasury bills on 6 June 1997 to enable state governments, foreign central banks and other specified bodies with whom the RBI has special arrangements, to invest their temporary surplus funds. The RBI on a weekly basis auctions the 14-days auction treasury bills.

6.9 Table 6.4 summarises of the growth of outstanding treasury bills vis-à-vis internal debt of the Union government for the last ten years. The percentage of treasury bills in the internal debt decreased from 5.21 percent in 1990-91 to 2.59 percent in 1999-00. However, during the five years from 1992-93 to 1995-96, this share ranged between 14 to 18 percent. The decrease was due to the discontinuance of the 91-days ad-hoc and tap treasury bills from 1997-98.

Table 6.4: Internal Debt and Treasury Bills

Rs in crore

Year	Total internal debt	Treasury bills						Total as % to internal debt
		14 days	91 days		182 days	364 days	Total	
			Auction	Ad hoc				
1990-91	154004	--	3718	3235	1078	--	8031	5.21
1991-92	172750	--	4855	3985	3986	--	12826	7.42
1992-93	199100	--	5184	15430	--	8777	29391	14.76
1993-94	245712	--	10865	21730	--	8386	40981	16.68
1994-95	266467	--	8847	23480		8165	40992	15.38
1995-96	307869	--	14345	29445	--	1875	45665	14.83
1996-97	344475	--	22389	34130	--	8241	64760	18.80
1997-98	388998	7998	1601	--	--	16243	25842	6.64
1998-99	459696	7148	1501	--	--	10196	18845	4.10
1999-00	714254	2707	1521	--	1300	12996	18524	2.59
TGR	**16.48**		**-11.14**			**9.04**	**6.93**	

The conversion of the treasury bills to government securities hiked the RBI interest costs to the government during the nineties.

6.10 The government converted its ad hoc treasury bills in to special securities at an interest rate of 4.6 percent without any specific date of maturity. The government also converted 91 days and 364 days treasury bills in to dated stock at interest rates ranging between 11 to 13.25 percent during

1992-96. These conversions amounted to a total of Rs 158217 crore (Tables 6.5 and 6.6). The conversion of the short-term means of borrowing in to partly dated and partly undated securities reflects that the imbalances were not temporary but long term and structural.

Table 6.5: *Ad-hoc* Treasury Bills Converted into Securities

Rs in crore

Year of Funding	Amount of *ad-hoc* Treasury Bills Funded
1981-82	3500
1986-87	15000
1987-88	17500
1990-91	30000
1991-92	5000
1997-98	[a]50818
Total	[b]121818

[a] Rs 34130 crore *ad-hoc* treasury bills and Rs 16688 crore tap treasury bills.
[b] Includes Rs 20000 crore which were converted into market securities during 1997-98.

Table 6.6: Funding of 364/91-Day Treasury Bills

Rs in crore

Year	364-Days Treasury Bills		91-Days Treasury Bills	
	Amount	Converted into Dated Stock	Amount	Converted into Dated Stock
1995-96	1585	13.25 % Government stock 2000		
1994-95	8078	11.75 % Government stock 2001	4417	12 % Government stock 1999
	101	11.00 % Government stock 1997	-	-
1993-94	6946	12.75 % Government stock 1996	4046	12 % Government stock 1995
1992-93	11226	12.50 % Government stock 2004	-	-
Total	**27936**		**8463**	

The payment of higher interest by the government to the RBI and transfer of surplus by the RBI to the government amounted to little else than completion of a fruitless accounting circuit.

6.11 The government paid higher interest to the RBI in the nineties for two reasons: first, a significant portion of the market borrowing devolved on the RBI; secondly, the system of *ad hoc* treasury bills was replaced by the ways and means advances. These changes entailed higher interest costs as explained in the following paragraphs. Also as seen in chapter 2, the nineties also witnessed a sharp growth in transfers of the RBI's surplus to the government as an endogenous resource transfer. Thus, the payment of higher interest by the government to the RBI and transfer of surplus by the RBI to the government amounted to little else than completion of a fruitless accounting circuit.

Devolvement of Market Borrowing on RBI

A large portion of market loan and treasury bills is not lifted by the market and devolves on the RBI. In 1999-00, this portion was 30 percent.

6.12 As per the Annual Report of RBI for 1999-00, the devolvement on the RBI of market borrowings, which were not absorbed by the market during the last five years is shown in Table 6.7. During 1999-00, the addition of market loan was Rs.86630 crore. A substantial portion of this, amounting to Rs.27000 crore, devolved on the RBI. Counting the treasury bill amounts also, the total devolvement on the RBI in 1999-00 was Rs 33140 crore.

Table 6.7: Devolvement of Market Borrowing on RBI

Rs in crore

Year	Amount
1995-96	12655
1996-97	3698
1997-98	13028
1998-99	38205
1999-00	27000

6.13 Table 6.8 gives the details of devolvement of internal debt on the RBI during 1999-00. During 1999-00, the government raised an amount of Rs 110400 crore through auction, of which devolvement on the RBI was Rs 33140 crore constituting 30 percent of the total amount raised.

Table 6.8: Devolvement of Internal Debt on the RBI

Rs in crore

Scrips	Amount
14-Days auction treasury bills	1633
91-Days auction treasury bills	1595
182-Days auction treasury bills	645
364-Days auction treasury bills	2267
Market loans	27000
Total	**33140**

Ways and Means Advances

Endogenous resource transfer of the RBI's surplus to the government conditions the effectiveness of W & M advances as an instrument of fiscal discipline.

6.14 The Union government and the Reserve Bank of India signed an agreement in March 1997 to discontinue issuing ad-hoc treasury bills to replenish Union government's cash balance with effect from 1 April 1997. The Union government could now meet temporary mismatches between receipts and expenditure through ways and means (W&M) advances provided by the RBI, with their size and cost being determined on the basis of mutual agreement. Amounts drawn beyond the ways and means advances limit are to be treated as overdraft. For 1999-00, W&M advances were fixed at Rs 11000 crore and Rs 7000 crore for the first half (April-September) and second half (October-March) respectively. The interest rate for W&M advances for fiscal 1999-00 was linked to the bank rates and fixed at 8 percent per annum. For overdraft, the rate of interest was fixed at 10 percent per annum. The transition from ad-hoc treasury bills to the W&M advances means elimination of automatic monetisation of fiscal deficit. Unlike ad-hoc treasury bills, W&M advances are not a source of financing fiscal deficit. As per the agreement, these advances are to be fully paid off within three months from the date of making the advances. When 75 percent of the W&M advances are utilised, RBI would float fresh government securities. Table 6.9 give details of cumulative amounts of W&M advances obtained by the Union government for the last three years.

Table 6.9: Ways and Means Advances

Rs in crore

Year	Opening Balance	Addition During the Year	Discharge During the Year	Outstanding Ways and Means Advances
1997-98	--	17239	15239	2000
1998-99	2000	92257	91215	3042
1999-00	3042	124972	127032	982

6.15 The system of W&M advances was introduced with a view to imposing fiscal discipline on the government. The government resorted to the advances on a continuous basis for the major part of the year because of wide gap between the expenditure and receipts. During 1999-00, the government also took recourse to overdraft on a few occasions up to maximum of seven consecutive working days and the maximum amount of overdraft was Rs 3582 crore.

6.16 Table 6.10 provides details of interest paid and the rate of interest applicable on the various short-term borrowing instruments for the last five years. In the first year of the changed system using W&M advances, the interest paid on it was nominal, as the government depended for resources heavily on 14-days treasury bills and 364-days treasury bills and did not take much recourse to these advances. Besides, the rate of interest on these advances was also very low at 3.80 percent in 1997-98. In 1999-00, the rate of interest on the W&M advances was linked to bank rate, which was fixed at 8 percent per annum for advances within the limits and 10 percent per annum, for overdrafts. During 1999-00, an outgo of interest amounting to Rs 479 crore resulted from the continuous recourse to ways and means advance and overdrafts on a few occasions.

Table 6.10: Interest Paid and Rate of Interest on Short-Term Borrowings

Year	Interest Paid *(Rs in crore)*				Rate of Interest *(Percent)*			
	Treasury Bills							
	Ad-hoc	14-Days	91-Days	WMA	*Ad-hoc*	14-Days	91-Days	WMA
1995-96	*	--	*2621	--	4.6	--	12.66	--
1996-97	*	--	*2879	--	4.6	--	9.67	--
1997-98	--	357	213	24	--	5.83	6.80	3.80 ** (5.80)
1998-99	--	270	427	410	--	7.79	8.57	9 (11)
1999-00	--	227	179	479	4.6	8.23	9.03	8 (10)

* Interest paid on *ad-hoc* T bills, Tap T bills and 91-days auction T bills do not appear separately in detailed demands for grants.

** In the absence of the quarterly average implicit yield of 91-days auction treasury bills, the annual average implicit yield has been taken into account for determining the rate of interest.

Note: Figures in bracket denote interest in cases of overdraft.

6. 17 The effectiveness of the system of the W&M advances, which entail higher interest costs, as an instrument of fiscal discipline again gets compromised, because of the reverse flow in the accounting circuit referred to earlier.

Market Borrowings

Market borrowings indicated a larger weight for short-term borrowing. Large amounts of repayments are due in the next five years.

6.18 Market borrowing consists of raising of funds through dated stock certificates/bonds maturing after specific periods and carrying specific rates of interest individually. Table 6.11 indicates that the net addition of market loans has grown at the TGR of 31.55 percent during 1990-91 to 1999-00 while the repayments have grown at the much higher TGR of 44.35 percent.

Table 6.11: Addition of Market Loans Net of Repayments

Rs in crore

Year	Opening Balance	Receipt	Repayment	Net Addition	Outstanding Market Loans
1990-91	62492	8988	987	8001	70493
1991-92	70493	8921	1411	7510	78003
1992-93	78003	4821	1145	3676	81679
1993-94	81679	30066	1137	28929	110608
1994-95	110608	21250	924	20326	130934
1995-96	130934	39548	5547	34001	164935
1996-97	164935	26998	7905	19093	184028
1997-98	204027	43389	10891	32498	236525
1998-99	236525	83753	14766	68987	305512
1999-00	305512	86609	16332	70277	375789
TGR (%)	**19.82**	**33.24**	**44.35**	**31.55**	**21.18**

6.19 The net accretion to resources during 1999-00 after reckoning the repayments and interest payments was Rs 32171 crore, which is 37 percent of the actual receipts. The interest payments on market loans increased from Rs 6366 crore in 1990-91 to Rs 38106 crore in 1999-00, an increase of about 500 percent. The rate of interest on these loans ranged between 5.5 percent and 14 percent per annum.

6.20 The 1999-00 Annual RBI Report lists a number of problems arising from a high volume of domestic debt. First, there is little flexibility for the debt management authority to minimise the borrowing cost in the face of continuous increases in bond supply. Secondly, a high stock of domestic marketable debt can raise uncertainty regarding the future interest rate and shift the market preference for short-term paper resulting in concentration of debt towards the shorter end. This may lead to problems of bunching of redemptions and rollovers. To avoid these, all borrowings in 1999-2000 were above 5-year maturity. The weighted average maturity of market loans during 1999-2000 has increased from 7.7 in 1998-99 to 12.6 years. Table 6.12

indicates repayments due during 2000-01 to 2005-06. The large volume of due repayments indicates the compulsion on the government to resort to heavy borrowing in the next few years to meet these liabilities.

Table 6.12: Repayment Schedule of Market Loans

Rs in crore

Year	Amount
2000-01	28321
2001-02	28260
2002-03	28263
2003-04	31252
2004-05	31159
2005-06	27473

External Debt of the Union government

Evaluation of external debt at historical exchange rates understates the outstanding debt of the government of India. The extent of this understatement in 1999-00 was by a margin of 6.52 percent of GDP

6.21 Table 6.13 indicates the growth pattern of outstanding external debt at the close of the financial years at historical and current exchange rates. Since repayments of principal and payment of interest is made at the current rates of exchange, it is appropriate to evaluate external debt at these rates. The understatement of debt in 1999-00 was to the extent of 6.52 percent of the GDP.

Table 6.13: Growth of External Debt

Rs in crore

Year	Opening Balance*	Addition	Repayment of Principal	Closing Balance at Historical Rates	As % to GDP	Closing Balance at Current Rate of Exchange	As % to GDP at Current Rate of Exchange
1990-91	28344	5339	2158	31525	*5.54*	NA	*NA*
1991-92	31527	8279	2858	36948	*5.66*	109608	*16.78*
1992-93	36950	9625	4306	42269	*5.66*	120813	*16.16*
1993-94	42271	10024	4950	47345	*5.51*	127798	*14.87*
1994-95	47347	9051	5469	50928	*5.04*	142389	*14.09*
1995-96	50931	6759	6441	51249	*4.34*	148583	*12.57*
1996-97	51251	9535	6547	54239	*3.98*	149077	*10.95*
1997-98	54241	7859	6768	55332	*3.65*	161442	*10.65*
1998-99	55335	10014	8095	57254	*3.26*	177934	*10.12*
1999-00	57257	9893	8713	58437	*2.99*	186075	*9.51*
TGR (%)	**8.09**	**3.34**	**15.03**	**6.49**		**10.67**	

* Change in opening balances due to prior period adjustment.

6.22 The outstanding amount of external debt at historical exchange rates as percentage of GDP decreased from 5.54 percent in 1990-91 to 2.99 percent in 1999-00. At current exchange rates, these decreased from 16.78 percent of the GDP in 1991-92 to 9.51 percent.

The net inflow of external debt is negative.

6.23 Table 6.14 shows net inflows of external debt (addition during the year minus repayment of principal and payment of interest) during the last decade. It indicates that the pressure of debt servicing has turned the net inflow of external debt negative from the year 1994-95. The net inflow as percentage of debt servicing was negative 4.91 percent in 1994-95, which became negative 34.65 percent in 1999-00

Table 6.14: Net Inflow of External Debt

Rs in crore

Year	Addition During the Year	Debt Servicing		Net Inflow	Net Inflow % of Addition
		Repayment	Interest Payment		
1990-91	5339	2159	1834	1346	25.21
1991-92	8279	2858	2704	2717	32.82
1992-93	9625	4306	3529	1790	18.6
1993-94	10024	4950	3724	1350	13.47
1994-95	9051	5469	4026	(-) 444	(-) 4.91
1995-96	6759	6441	4414	(-) 4096	(-) 60.60
1996-97	9535	6547	4223	(-) 1235	(-) 12.95
1997-98	7859	6768	4110	(-) 3019	(-) 38.41
1998-99	10014	8095	4364	(-) 2445	(-) 24.42
1999-00	9893	8713	4508	(-) 3428	(-) 34.65

6.24 As on 31 March 2000, unutilised committed external assistance was of the order of Rs 56917 crore. The low rate of utilisation of external assistance is particularly worrying now, when net inflows have turned negative. Much of the unutilised external assistance is for projects in the infrastructure sector (details in Appendix IX).

Unutilised Committed External Assistance

Large amounts of committed external assistance remains unutilised, necessitating avoidable commitment charges.

6.25 Table 6.15 shows that large amounts of committed external assistance has remained unutilised. The Standing Committee on Finance (1995-96) – Tenth Lok Sabha, in their Thirteenth Report, took a serious view of the fact that a significant portion of the country's external debt is lying unutilised and the country has to pay commitment charges on these undrawn amounts. The Committee felt that there was an urgent need to review these foreign aided projects so as to identify the reasons for delay in their implementation and recommended that suitable steps should be taken to improve the utilisation of loans.

Table 6.15: Unutilised Committed External Assistance

Rs in crore

Year	Amount
1990-91	50551
1991-92	70826
1992-93	74587
1993-94	46003
1994-95	48347
1995-96	48574
1996-97	44771
1997-98	47031
1998-99	50157
1999-00	56917

6.26 The Public Accounts Committee in 1968-69 in paragraph 2.35 of its Fifty Fifth Report (Fourth Lok Sabha) and the Estimates Committee in paragraph 4.38 of its Eleventh Report (Fourth Lok Sabha) have expressed concern on the payment of commitment charges. Commitment charges are to be paid on the amount of principal rescheduled for drawal on later dates. As there is no distinct head in the accounts for reflecting the payment of commitment charges, it is shown under the head of interest obligation. Table 6.16 indicates charges paid to various bodies/governments during the last ten years.

Table 6.16: Commitment Charges

Rs in crore

Year	ADB	France	Germany	IBRD	Sweden	Total
1990-91	7.73	1.34	2.63	31.14	19.89	62.73
1991-92	13.07	1.05	4.03	40.23	0.99	59.40
1992-93	21.68	1.22	4.59	40.18	0.72	68.39
1993-94	29.04	0.41	4.15	34.79	1.31	69.70
1994-95	31.80	0.22	2.57	24.25	0.79	59.63
1995-96	35.37	0.30	2.43	20.12	0.72	58.94
1996-97	31.66	0.27	2.09	21.41	0.48	55.91
1997-98	25.74	0.25	1.60	22.06	--	49.65
1998-99	22.83	0.21	0.66	23.89	--	47.59
1999-00	15.71	0.36	0.37	25.33	--	41.77

6.27 A scrutiny of the Revolving Fund Accounts in the office of the Controller of Aid Accounts and Audit revealed that three IBRD assisted World Bank Projects were not completed in time which resulted in avoidable payment of additional commitment charges of US$ 1499926 (Rs 6.29 crore) as per details given below. Timely completion of these projects could have saved the Union government this additional burden as seen in the Table 6.17.

Table 6.17: Avoidable commitment charges

Loan Number	Name of the Project	Stipulated Date of Completion	Date of Completion Extended by	Additional Amount of Commitment Charges (In US $)
3334-OIN	Industrial Pollution Control Project	30.07.1998	31.03.1999	22223.60
3024-OIN	Naptha Jhakri Power Project	31.12.1997	31.03.2002	746368.76
3237-OIN	Northern Region Transmission Project	30.09.1998	30.09.2000	731334.04
Total Additional Commitment Charges				1499926.40

Growth in Contingent Liabilities of the Union Government

The government did not effectively monitor the recovery of guarantee fees.

6.28 Government gives guarantees to promote certain economic enterprises by reducing the credit risk for investors, especially in those activities where the nature of investment is characterised by long gestation periods. While guarantees do not form part of debt as conventionally measured, in the eventuality of default, this has the potential of aggravating the debt position of the government. The issue of guarantees assumes significance in the context of the growing need for infrastructure and participation by the private sector in projects requiring large investments.

6.29 Table 6.18 gives the position regarding the maximum amount of guarantees and sums guaranteed outstanding at the end of the financial year during 1990-91 to 1999-00.

Table 6.18: Guarantees Given by Union Government

Rs in crore

Position at the end of the year	Maximum amount of guarantee for which government have entered into Agreement	Sums Guaranteed Outstanding (Internal and External)	External Guarantees Outstanding	External Guarantees Outstanding as % to sums Guaranteed Outstanding
1990-91	49353	40394	21740	53.82
1991-92	55063	46744	20908	44.73
1992-93	79552	58027	28988	50
1993-94	84738	62857	30626	48.72
1994-95	89563	63153	30268	47.93
1995-96	94761	65573	29345	44.75
1996-97	124705	69748	30839	44.21
1997-98	122044	73877	33445	45.27
1998-99	125210	74606	36530	48.96
1999-00	144438	83954	47733	56.86

Table 6.19: Guarantee Fee

Rs in crore

Year	Sums guaranteed outstanding			Guarantee fee due			Total guarantee fee received	As % to total outstanding guarantee
	Internal	External	Total	Internal	External	Total		
1990-91	18654	21740	40394	187	261	448	13	0.03
1991-92	25836	20908	46744	258	251	509	2	--
1992-93	29039	28988	58027	290	348	638	41	0.07
1993-94	32231	30626	62857	322	368	690	82	0.13
1994-95	32885	30268	63153	329	363	692	194	0.31
1995-96	36228	29345	65573	362	352	714	167	0.25
1996-97	38909	30839	69748	389	370	759	146	0.21
1997-98	40432	33445	73877	404	401	805	221	0.3
1998-99	38076	36530	74606	381	438	819	320	0.43
1999-00	36221	47733	83954	362	573	935	280	0.33

6.30 Ministries/Departments of the government are required to levy guarantee fee at the rate of one percent on internal and 1.2 percent on external borrowings as per the instructions of the Union government. Guarantee fee was to be levied on the date of guarantee and thereafter on 1 April every year. Where the guarantee fee is not paid on due date, it should be charged at double the normal rate. Table 6.19 indicates that the recoveries of guarantee fee have not been effectively made, resulting in short recoveries, despite the instructions of the Union government.

Ceiling on Borrowings and Parliamentary Control

The government has not fixed a limit on borrowing with the approval of Parliament despite recommendations from the Public Accounts Committee and the Estimates Committee.

6.31 The Union government is empowered under Article 292 of the Constitution of India to "borrow upon the security of the Consolidated Fund of India, within such limits, if any, as may be fixed by Parliament by law." Clearly total borrowings should bear some proportion to the receipts in the CFI. The Public Accounts Committee (PAC) had recommended the fixation of such a limit on the borrowing power of government under this Article vide para 15 of their Ninth Report (1962-63-Third Lok Sabha), para 5 of their Thirty-Sixth Report (1964-65-Third Lok Sabha) and para 2.13 of their Fifty-Second Report (1965-66-Third Lok Sabha). The Estimates Committee in para 1.192 of their Twelfth Report (1991-92-Tenth Lok Sabha) had also made similar recommendations. Presently, debt service obligations outstrip revenue receipts, debt receipts constitute more than half of the government receipts, and debt servicing absorbs more than half of the government disbursement. Evidently, the recommendations of the PAC and the Estimates Committee only underscore the urgent need to contain debt. However, the government has so far not acted on these recommendations and has not fixed any limit on its borrowing, with the approval of the Parliament.

6.32 As a result of the sharp rise in debt servicing, an overwhelming proportion of the total disbursement out of the CFI is charged on the Fund, i.e., it is not subject to the vote by Parliament. Less than one-third of the total budgetary expenditure is now within the ambit of the discretion of Parliament and is subjected to vote. During 1999-00, out of a total disbursement of Rs 704665 crore from the CFI, 64.32 percent, i.e., Rs 453209 crore was charged. Of the charged expenditure, 88.19 percent was applied towards debt service obligations, i.e. for repayments and interest payments.