Chapter 5

MANAGEMENT OF FISCAL LIABILITIES

5.1 Fiscal liabilities of the Union Government arise due to borrowings from internal or external sources and withdrawals from the public account maintained by the government. Government is required to incur these liabilities to meet resource requirements for repayment of debt; discharge of liabilities on the public account, capital expenditure and such revenue requirements as may remain uncovered by revenue receipts.

5.2 Management of these fiscal liabilities calls for working out a suitable mix of alternative debt instruments, such as internal debt, external debt, withdrawals from public account and borrowing from the Central bank. Internal debt puts pressure on the interest rates and may lead to crowding out of private investment. External debt has a bearing on the exchange rate. Borrowing from the RBI may influence money supply and inflation. Owing to interdependence of economic variables, the effects of borrowing from any channel may spread across to various sectors and prices.

Aggregate Fiscal Liabilities: Trends and Composition

5.3 Table 5.1 presents aggregate liabilities of the government including internal debt and external debt reckoned both at the current rate of exchange and at the historic rate (the rate at which the debt was originally contracted) and the Public Account at the end of the financial year over the last sixteen years. A distinction needs to be made between external debt at current exchange rates and external debt at historical exchange rates as the former gives a correct picture of the outstanding liabilities in rupee terms.

Table 5.1: Aggregate Fiscal Liabilities- Trends & Composition

(Rs in crore)

	Internal Debt	External Debt*	Total Debt	Public Account Liabilities	Total liabilities	External Debt (Historic Rate)	Total liabilities (Historic Rate)
1985-86	71039	18153	89192	48292	137485	18153	137485
1995-96	307869	148583	456452	247115	703567	51249	606233
1997-98	388998	161442	550441	333964	884405	55332	778294
1998-99	459696	177934	637632	374856	1012486	57254	891806
1999-2000	714254	186075	900329	219720	1120049	58437	992411
2000-01	803698	190017	993715	245127	1238842	65945	1114770
Average Annual Trend Rate of growth *(in per cent)*							
1985-2001	16.43	19.86	17.21	12.87	15.96	8.90	14.73
VII Plan (1985-90)	16.65	11.95	15.74	21.97	18.04	11.95	18.04
VIII Plan (1992-97)	14.13	5.88	11.27	14.80	12.48	5.95	13.62
IX Plan (1997-01)	29.92	5.48	23.58	-13.64	11.75	5.62	12.57
Annual rate of growth *(in per cent)*							
1998-99	18.17	10.22	15.84	12.24	14.48	3.47	14.58
1999-2000	55.37	4.58	41.20	-41.39	10.62	2.07	11.28
2000-01	12.52	2.12	10.37	11.56	10.61	12.85	12.33

** at current rate*

5.4 **Appendix-VII** gives the total liability of the government for the last 25 years since 1976-77. Aggregate fiscal liabilities have grown over nine times in the last sixteen years from Rs 137,485 crore in 1985-86 to Rs 1238,842 crore in 2000-01, at an average trend rate of around 16 *per cent*. The rate of growth, however, decelerated over the plans. From an average annual growth of 18.04 *per cent* during the Seventh Plan (1985-90), the annual average growth of aggregate fiscal liabilities declined to 11.75 *per cent* during IX Plan so far (1997-2001). On a long-term trend, external debt at the current exchange rate grew faster, but that was because the depiction of the external debt in terms of the current rate as distinct from the historic rate commenced only from 1991-92. Growth of external debt sharply decelerated to less than an average of six *per cent* over VIII and IX Plan periods. The rate of growth in external debt at current and historic rate had nearly converged during this period. Liabilities on Public Account grew at an average trend rate of 12.87 *per cent* during 1985-2001. The growth turned negative during 1997-2001, due to the creation of NSSF in 1999-2000 and issue of securities for the outstanding balances. Aggregate fiscal liabilities, however, remained unaffected by this accounting change.

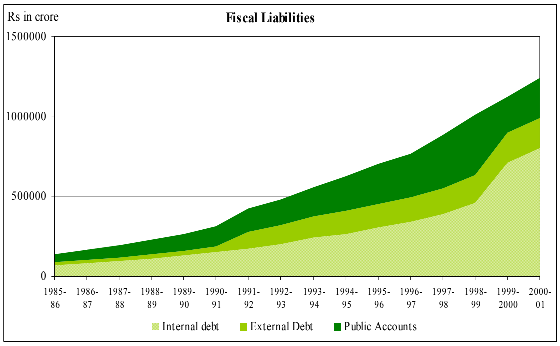
5.5 In 2000-01, fiscal liabilities of the Union Government increased by 10.61 *per cent*, compared to the long-term trend growth of 15.96 *per cent*. Increase in liabilities of external debt at current exchange rate was 2.12 *per cent*. Increase in external debt liability at current exchange rate was, however, lower than the liabilities reckoned at the historic rate, because for the external loans, which have not been fully paid, exchange losses on account of the depreciation are still to be adjusted. This results in carrying of negative external debt liabilities for these loans in Finance Accounts. The external debt liabilities at the current exchange rate do not show negative balances. Liabilities on account of internal debt and Public Account recorded a growth of 12.52 and 11.56 *per cent* respectively.

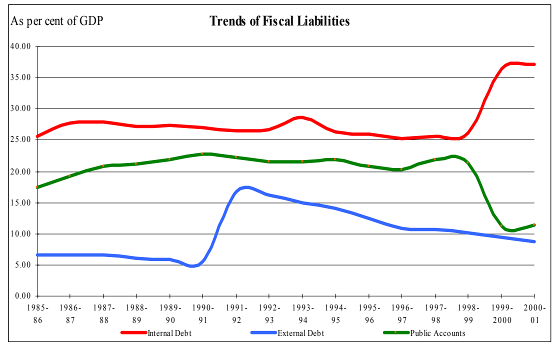
Fiscal Liabilities relative to GDP

5.6 Table 5.2 gives the overall fiscal liabilities of the Union Government relative to the GDP. Total fiscal liabilities were stabilising at 57-58 *per cent* to GDP, after reaching an average of 61.39 *per cent* of GDP during 1992-97. Debt/GDP Ratio (debt inclusive of the public account liabilities) peaked during 1991-92 when it reached 65.43 *per cent*. At the historic exchange rate, overall fiscal liabilities were little over 51 *per cent* of GDP. External debt liabilities are now less than 10 *per cent* of GDP, while internal debt and liabilities on account of Public account together are 48 *per cent* to GDP.

Table 5.2: Fiscal Liabilities Relative to GDP *(in per cent)*

	Internal debt	External Debt	Total Debt	Public Account Liabilities	Total liabilities	External Debt	Total liabilities
						(Historic Rate)	
1985-2001	27.94	10.08	38.03	19.82	57.85	5.01	52.77
VII Plan (1985-90)	27.14	6.31	33.45	20.12	53.57	6.31	53.57
VIII Plan (1992-97)	26.52	13.70	40.22	21.17	61.39	4.89	52.59
IX Plan (1997-01)	31.32	9.75	41.07	16.44	57.52	3.23	51.00
Annual Relative Share							
1998-99	26.14	10.12	36.26	21.32	57.58	3.26	50.72
1999-2000	36.50	9.51	46.01	11.23	57.23	2.99	50.71
2000-01	37.09	8.77	45.86	11.29	57.17	3.04	51.43





5.7 It is now increasingly felt that the debt/GDP ratio may not be an appropriate indicator of the magnitude of the fiscal liabilities. It may be more appropriate to look at the debt relative to the revenue receipts of the Union Government, which indicates the extent of the access that the government has over the GDP. Table 5.3 gives the ratio of outstanding fiscal liabilities as percentage to the non-debt receipts, revenue receipts and uncommitted receipts.

Table- 5.3: Outstanding Liabilities as percentage to Non-Debt Receipt, Revenue Receipt and Uncommitted Receipt

	Non-Debt Receipt	Revenue Receipt	Uncommitted Receipt
1985-2001	409.72	443.05	971.49
VII Plan (1985-90)	351.32	384.02	713.85
VIII Plan (1992-97)	448.89	482.18	1061.46
IX Plan (1997-01)	431.97	461.41	1194.77
Annual Relative Share			
1998-99	432.16	470.43	1237.75
1999-2000	416.58	439.93	1158.22
2000-01	450.55	483.71	1329.97

Note:- Non-Debt Receipt is Revenue Receipt (net of the States' share in taxes and non-debt capital receipts. Uncommitted receipt is the Revenue Receipt (net of the States' share in taxes) minus the committed liabilities of salary, pensions and interest payments.

5.8 It would be evident from the table above that while debt/GDP ratio after increasing during VIII Plan (1992-97), stabilised to the trend level in the recent years, it is no so with the debt/receipt ratios. The ratio of debt to uncommitted receipts continued to increase over the plans. All the three ratios rose very sharply in the current year, with values significantly above the trends. Outstanding liabilities grew much faster compared to the receipts. Rate of growth of revenue receipts in 2000-01 was just 0.57 *per cent* compared to the growth of 10.61 *per cent* in fiscal liabilities.

Fiscal Liabilities- Relative Share

5.9 Internal debt is now the most significant component of total liabilities of the Union Government accounting for nearly 65 *per cent* of the total. Liabilities on Public Account constitutes another 20 *per cent* and external debt constitutes the balance 15 *per cen*t. Table 5.4 indicates the relative share of various components of fiscal liabilities and shifts in their shares over the three plan periods.

Table 5.4: Fiscal Liabilities – Relative Share ***(in per cent)***

	Internal Debt	External Debt	Total Debt	Liabilities in Public Account
1985-2001	48.57	17.10	65.67	34.33
VII Plan(1985-90)	50.69	11.81	62.49	37.51
VIII Plan(1992-97)	43.24	22.22	65.46	34.54
IX Plan (1997-01)	54.51	16.95	71.46	28.54
Relative Annual Share				
1998-99	45.40	17.57	62.98	37.02
1999-2000	63.77	16.61	80.38	19.62
2000-01	64.89	15.34	80.24	19.76

5.10 Overall share of debt (internal and external debt) in aggregate fiscal liabilities increased from an average of 62.49 *per cent* during 1985-90 to an average of 71.46 during 1997-2001. It further increased to a little over 80 *per cent* during the last two years. The relative share of the Public Account liabilities declined from 37.51 *per cent* during 1985-90 to an average of 28.54 *per cent* during 1997-2001. It further declined to under 20 *per cent* during 1999-2000 and 2000-2001. The decline in its share during 1997-2001, particularly in 1999-2000, as indicated earlier, was on account of NSSF.

Debt Sustainability

5.11 The heavy incidence of fiscal liabilities of the Union Government raises the issue of its stability and sustainability. Debt (inclusive of the public account liabilities) is considered sustainable if the debt/GDP ratio does not grow to explosive proportion. A necessary condition for this stability is that the average interest rate on total debt should be less than the rate of growth of GDP.

5.12 The debt/GDP ratio of the Union Government was generally stable during the last three years. The debt/GDP ratio at 57.15 *per cent* in 2000-01 is also comparable with the long-term trend ratio of 57.85 *per cent* during 1985-2001. The average interest rate (nominal) on total debt over time, as indicated in Table 5.5 remained lower than the rate of growth of GDP at the market prices. Hence, the necessary condition of debt sustainability was satisfied.

Table 5.5: Average Interest Rate on fiscal liabilities ***(in per cent)***

	Internal Debt	**External Debt**	**Total Debt**	**Rate of growth of GDP**
1985-2001	8.84	7.07	7.92	15.21
VII Plan (1985-90)	7.37	4.68	7.02	15.28
VIII Plan (1992-97)	9.29	8.75	7.84	16.54
IX Plan (1997-01)	10.36	7.72	8.97	12.37
Annual Interest Rate and growth rate of GDP (*per cent*)				
1998-99	10.17	7.89	8.81	15.49
1999-2000	10.79	7.87	9.34	11.30
2000-01	10.58	7.55	9.22	10.72

Note: - Debt includes the outstanding liabilities on public account.
*Average interest rate is = Interest paid/Outstanding Liabilities at the beginning of the year*100*

5.13 It needs, however, to be seen that, though the average rate of interest on outstanding liabilities of the Union Government remained lower than the rate of growth of output, the spread between these two rates has narrowed. Average spread between the GDP growth and average interest rates on internal debt declined from over seven percentage points in 1992-97 to a mere 0.14 percentage point in 2000-01. This indicates that the comfort level on debt sustainability is marginal. Further, the convergence of the GDP growth and interest rates has direct implication for the stability of debt/GDP ratio further.

5.14 The positive spread between rate of growth of GDP and the average interest rate alone may not suffice for sustainability, because it does not ensure that the initial stock of debt would be equal to the present discounted value of the primary surpluses in the future. Alternatively, debt sustainability may mean the primary surplus that may be necessary annually which at a given discount rate would make it equal to the initial stock (current) of debt. Table 5.6 gives the required primary surplus at varying discount rates and over different time horizons.

Table 5.6: Required Primary Surplus

(Rs in crore)

Discount Factor	**Time Horizon**			
	10 years	**15 years**	**20 years**	**30 years**
9.0 *per cent*	192,977	153,642	135,669	120,547
9.5 *per cent*	197,245	158,205	140,536	125,927
10.0 *per cent*	201,553	162,825	145,469	131,375
10.5 *per cent*	205,903	167,499	150,464	136,885

5.15 Union Government had a negative primary surplus (primary deficit) during 1985-2001, which averaged 2.93 *per cent* of GDP. Primary surplus was a negative Rs 17,650 crore in 2000-01 or equal to 0.81 *per cent* of GDP. The generation of the primary surplus of the order indicated above at varying discount rates and over different time horizons would need non-debt revenue receipt of the Union Government to increase to around 19-20 *per cent* of GDP, from the present level of 12.69 *per cent*.

5.16 Based on an alternative approach to sustainability, which involves "discounting the nominal stock of government debt with an appropriate interest rate and assessing the stationarity of the resultant discounted series", Reserve Bank of India in their current issue of Currency and Finance has also found the government debt to be unsustainable.

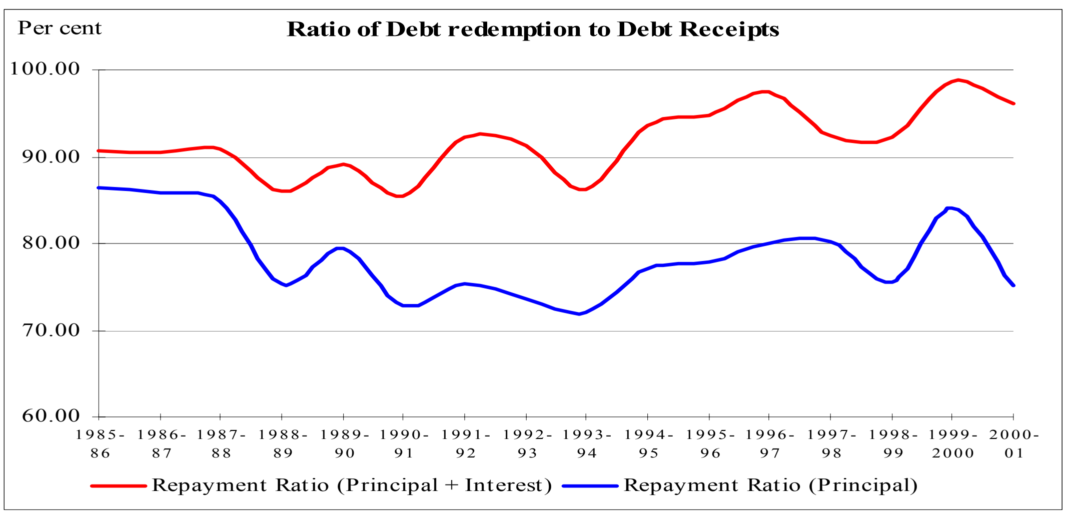
5.17 Another issue in debt sustainability the ratio of the debt redemption to total debt receipts. A higher ratio would indicate that to that extent debt receipts are used in debt redemption, there is no net accrual of resources.

Table 5.7 gives the ratio of debt redemption to debt receipts over 1985-2001 and over three plan periods.

Table – 5.7: Ratio of Debt redemption to Debt Receipts

	Debt Receipts	Debt Repayment (Principal)	Debt Repayment (Principal+ Interest)	Debt Repayment/ Debt Receipts	Debt Repayment (2)/ Debt Receipts
	(Rs in crore)			*(per cent)*	
1985-2001	291801	229724	271653	78.42	91.74
VII Plan (1985-90)	175347	145194	157202	82.34	89.44
VIII Plan (1992-97)	266443	203787	248066	76.05	92.67
IX Plan (1997-01)	533230	422225	507559	78.71	94.92
Annual Values					
1998-99	463900	350340	428222	75.52	92.31
1999-2000	648527	545668	640261	84.14	98.73
2000-01	489448	367378	470602	75.06	96.15

Debt receipt and payments are average of the years indicated and is net of Ways and Means Advances.



5.18 It would be seen that an increasing proportion of gross receipts was used for debt redemption, either for payment of the principal or the interest. This ratio has moved to 96.15 *per cent* during 2000-01; with IX Plan average of 94.92 *per cent* indicating that almost the entire debt receipts were used for debt servicing. The ratio also shows an increasing trend over the plans, from an average of 89.44 *per cent* during 1985-90 to an average of 92.67 *per cent* during 1992-97. This further increased to 94.92 *per cent* during 1997-2001 pointing to a continuous deterioration.

5.19 Debt sustainability also needs to be examined from the angle of the end use of resources raised through debt. If debt is used to create income generating assets, it would enhance debt servicing capabilities. However, between 1985-2001, 44.73 *per cent* of the incremental liabilities had no matching assets as these liabilities were used to meet the excess of revenue expenditure over revenue receipts.

Internal Debt

5.20 Internal debt of the Union Government consists of market borrowings, borrowings from Reserve Bank of India through Treasury Bills and special dated/undated securities, special securities issued to the International Agencies, securities issued for the net small saving balances and other bonds etc. Table 5.8 indicates the trends in internal debt over the years.

Table- 5.8: Internal Debt – Trends

(Rs in crore)

	Opening Balance	**Receipts**	**Repayments**	**Net addition**	**Closing Balance**
1985-86	58537	146184	133682	12502	71039
1995-96	266467	174207	132805	41402	307869
1997-98	344474	353567	309043	44524	388998
1998-99	388998	294068	223369	70699	459699
1999-2000	459699	423898	169343	254555	714254
2000-01	714254	222246	132802	89444	803698
Average Annual Trend Rate of Growth ***(per cent)***					
1985-2001	16.11	7.54	4.69	16.46	16.43
VII Plan (1985-90)	18.18	-11.03	-13.61	8.78	16.65
VIII Plan (1992-97)	15.57	17.44	21.39	5.54	14.13
IX Plan (1997-01)	26.55	-9.76	-24.50	40.13	29.92
Annual Rate of Growth ***(per cent)***					
1998-99	12.93	-16.83	-27.72	58.79	18.17
1999-2000	18.17	44.15	-24.19	260.05	55.37
2000-01	55.37	-47.57	-21.58	-64.86	12.52

Receipts and payments are net of Ways and Means Advances. Net balances on WMA have been taken on receipt side.

5.21 Overall, internal debt increased nearly 12 times during the last sixteen years from Rs 71,039 crore in 1985-86 to Rs 803,698 crore in 2000-01, at an average annual rate of 16.43 *per cent*. The rate of growth of debt declined to 14.13 *per cent* during VIII Plan (1992-1997). During IX Plan (1997-2001), the rate of growth further accelerated to 29.92 *per cent*. This was partly due to conversion of public account liabilities of small savings into special securities. Compared to the trend rate of growth during 1985-2001 and also with the growth during 1999-2000, internal debt recorded a moderate growth of 12.52 *per cent* in 2000-01.

Internal Debt – Market Loans

5.22 Market borrowing consists of raising of funds through dated stock certificates/bonds maturing after specific periods and carrying specific rates of interest. Table 5.9 indicates the growth of market loans over time.

Table- 5.9: Market Borrowings –Trends

(Rs in crore)

	Opening Balance	Receipts	Repayments	Net addition	Closing Balance
1985-86	30467	5543	659	4884	35351
1995-96	130934	39548	5547	34001	164935
1997-98	204027	43389	10891	32498	236525
1998-99	236525	83753	14766	68987	305512
1999-2000	305512	86609	16332	70277	375789
2000-01	375861	100206	27274	72932	448793
Average Annual Trend Rate of Growth *(per cent)*					
1985-2001	17.74	22.74	29.50	21.40	18.32
VII Plan (1985-90)	15.80	11.05	-6.03	13.12	15.48
VIII Plan (1992-97)	21.77	45.06	72.44	41.29	22.44
IX Plan (1997-01)	23.23	28.98	33.04	27.68	23.72
Annual Rate of Growth *(per cent)*					
1998-99	15.93	93.03	35.58	112.28	29.17
1999-2000	29.17	3.41	10.61	1.87	23.00
2000-01	23.03	15.70	67.00	3.78	19.43

5.23 Gross receipts from market loans grew from Rs.5543 crore in 1985-86 to Rs.100, 206 crore in 2000-2001, at an average annual rate of 22.74 *per cent*. Net outstanding market borrowing increased by 18.32 *per cent* during this period, with rate of growth of repayments at 29.50 *per cent* outstripping the receipts. Incremental debt or net additions recorded their highest annual increase during 1998-99 due to a sharp increase in new borrowings.

5.24 Weighted average maturity of the market loans increased from an average of 7.7 years in 1998-99 to an average of 10.6 years in 2000-01. As a result, repayment obligations were staggered. Average annual repayments as indicated in Table 5.10 vary from 6 to 9 *per cent* of the outstanding liabilities. While increase in the weighted maturity period may avoid the problem of bunching and rollovers, in a situation of softening interest rates, it results in government holding high cost debt instruments.

Table 5.10: Repayment Schedule of Market Loans

(Rs in crore)

Year	Amount Due for Redemption
2001-02	26499
2002-03	27420
2003-04	32909
2004-05	34316
2005-06	32631
2006-07	38494
2007-08	34151

5.25 Despite the shift to market related interest rate structure for government securities, a large volume of market debt continues to devolve on RBI. Table 5.11, which gives the devolvement of market borrowing on RBI in the last five years clearly indicates that this percentage has increased from 13.70 *per cent* in 1996-97 to 31.05 *per cent* in 2000-01.

Table 5.11: Devolvement of Market Borrowing on RBI

(Rs in crore)

Year	Gross Market Borrowing	Amount Devolving on RBI	Amount devolved as *per cent* to Gross Borrowing
1996-97	26998	3698	13.70
1997-98	43389	13028	30.03
1998-99	83753	38205	45.62
1999-2000	86609	27000	31.17
2000-01	100206	31115	31.05

Internal Debt- Other Instruments

5.26 Besides market loans, other instruments of internal debt are the treasury bills, special dated/undated securities, securities issued to international agencies etc. Overall outstanding liabilities of internal debt other than market borrowing are indicated in Table 5.12.

Table-5.12: Internal Debt- Other Instruments- Trends

(Rs in crore)

	Opening Balance	Receipts	Repayments	Net addition	Closing Balance
1985-86	28070	140641	133023	7618	35688
1995-96	135533	134659	127258	7401	142934
1997-98	140448	310178	298152	12026	152474
1998-99	152474	210315	208603	1712	154186
1999-2000	154186	337289	153011	184278	338464
2000-01	338393	122040	105528	16512	354905
Average Annual Trend Rate of Growth (*per cent*)					
1985-2001	14.10	5.09	3.78	4.47	14.26
VII Plan (1985-90)	20.58	-12.30	-13.66	5.44	17.75
VIII Plan (1992-97)	10.14	14.74	20.22	-12.96	7.04
IX Plan (1997-01)	30.33	-20.75	-29.01	75.58	39.39
Annual Rate of Growth (*per cent*)					
1998-99	8.56	-32.20	-30.03	-85.76	1.12
1999-2000	1.12	60.37	-26.65	10663.90	119.52
2000-01	119.47	-63.82	-31.03	-91.04	4.86

5.27 Liabilities of other internal debt increased over 10 times during last sixteen years from Rs.35, 688 crore in 1985-86 to Rs.354, 905 crore in 2000-2001, at an average annual rate of 14.26 *per cent*. Outstanding internal debt liabilities other than market borrowings recorded their highest growth of 39.39 *per cent* during 1997-2001. The rate of growth moderated to 4.86 *per cent* in 2000-01.This low growth, however, should be seen in the context of abnormally high growth a year earlier on account of NSSF.

5.28 There was a policy shift in the Union Government access to funds through various instruments during 1997-2001. With the introduction of the "ways and means (W&M) advances" and 14 days Treasury Bills for short term and temporary financial accommodation in 1997-98, use of other treasury bills for raising funds declined. For other than temporary mismatches, Government resorted to long-term market borrowing. The Government, therefore, converted *ad hoc* and tap treasury bills amounting to Rs 50,818 crore into market and other securities in 1997-98. In 1999-2000, Government also issued special securities for outstanding small saving balances consequent to the creation of NSSF. As a result, nearly 83 *per cent* of the internal debt liabilities of the Union Government net of the market borrowing now consist of these securities. The other major component of these liabilities is the securities issued to International Financial Institutions, which in 2000-01 accounted for another 7 *per cent*. Special securities issued to RBI, Compensation and other Bonds and net balances on W&M advances are the other components of these liabilities.

5.29 These changes in the approach to the fiscal accommodation were intended to bring greater transparency and fiscal discipline. But there has hardly been any evidence of this discipline. There however has been an increase in the interest cost. The government converted its ad hoc treasury bills up to special securities at an interest rate of 4.6 *per cent* without any specific date of maturity. The government also converted 91 and 364 days treasury bills up to dated stock at interest rates ranging between 11 to 13.25 *per cent* during 1992-96. These conversions amounted to a total of Rs 158217 crore.

5.30 The Government paid higher interest to the RBI in the nineties for two reasons: firstly, 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. 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.

Ways and Means Advances

5.31 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 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 *per cent* per annum. The rate of interest and minimum balance required to be maintained with the Reserve Bank effective April 1, 2000 were to be same as those in 1999-00. For overdraft, the rate of interest was fixed at 10 *per cent* per annum. The transition from ad-hoc treasury bills to the W&M advances implies the 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 within three months from the date of making the advances. When 75 *per cent* of the W&M advances are utilized, RBI would float fresh government securities. Table 5.13 gives details of cumulative amounts of W&M advances obtained by the Union Government for the last four years, since the introduction of this system.

Table 5.13: 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
1999-2000	3042	124972	127032	982
2000-01	982	131300	126887	5395

5.32 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 mismatches in expenditure and receipts. The outstanding W&M advances availed by the Centre from the Reserve Bank, at Rs 5395 crore, as at end-March 2001 was higher than Rs 982 crore, as at end-march 2000. The Government took recourse to W&M advances for the major part of the year except for a few days between August-September 2000 and December 2000-March 2001. The surplus recorded was automatically invested by the Reserve bank in dated securities from its own portfolio. The Government resorted to overdrafts (ODs) on seven occasions in the first half and on four occasions in the second half for periods ranging from 1 to 6 days.

5.33 Table 5.14 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 *per cent* 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 *per cent* per annum for advances within the limits and 10 *per cent* per annum, for overdrafts. During 2000-01, an outgo of interest amounting to Rs 419 crore resulted from the continuous recourse to ways and means advance and overdrafts on eleven occasions.

Table 5.14: Interest Paid and Rate of Interest on Short-Term Borrowings

Year	Interest Paid *(Rs in crore)*				Rate of Interest *(per cent)*			
	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)
1999-2000	--	227	179	479	--	8.23	9.03	8 (10)
2000-01	--	123	154	419	--	8.23	8.98	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.

External Debt of the Union Government

5.34 Table 5.15 indicates the growth of outstanding external debt at the close of the financial years at historical and current exchange rates over the years.

Table 5.15 – External Debt – Trends

(Rs in crore)

	Opening Balance	Fresh Loans	Repay-ments	Net Addition	Closing Balance	Closing Balance at Current Exchange Rate
1985-86	16638	2145	630	1515	18153	18153
1995-96	50928	6759	6441	318	51249	148583
1997-98	54239	7859	6768	1091	55332	161442
1998-99	55332	10014	8095	1919	57254	177934
1999-2000	57254	9893	8713	1180	58437	186075
2000-01	58440	17328	9823	7505	65945	190017
Average Annual Trend Rate of Growth *(per cent)*						
1985-2001	9.47	10.75	19.71	-1.14	8.90	19.86
VII Plan (1985-90)	11.85	18.96	30.54	13.20	11.95	11.95
VIII Plan (1992-97)	8.77	-4.04	11.64	-32.45	5.95	5.88
IX Plan (1997-01)	2.61	26.62	12.65	69.88	5.62	5.48
Annual Rate of Growth *(per cent)*						
1998-99	2.02	27.42	19.61	75.89	3.47	10.22
1999-2000	3.47	-1.21	7.63	-38.51	2.07	4.58
2000-01	2.07	75.15	12.74	536.02	12.85	2.12

5.35 The Finance Accounts record the fresh loans at the prevailing exchange rates. Repayment of principal and interest subsequently are recorded at the then prevailing exchange rates. However, till such time an individual loan is fully paid, exchange losses on account of the depreciation are not adjusted. This results in these loans carrying an adverse balance, which depress the overall stock of debt at the historic exchange rate. Outstanding external debt balances are separately converted into their rupee equivalent at the current exchange rate, but since the adjustment on account of exchange loss is kept pending during the currency of the loan, the outstanding balances at the historic rate remain only a balancing entry.

5.36 Comparison of the trend growth over Plans, reveal that rate of growth of new loans had become negative during 1992-97. It had, however, accelerated to 26.62 *per cent* during 1997-2001. Repayments of the external debt recorded a growth of 19.71 *per cent* over 1985-2001, the highest growth of 30.54 *per cent* being observed during 1985-90.

Net inflow of external debt

5.37 While the outstanding external debt liabilities have been growing over time, net inflows of the funds turned negative, particularly since 1994-95. Table 5.16 shows net inflows of external debt (addition during the year minus repayment of principal and payment of interest) during the last decade. However, net inflow as *per cent* of debt servicing again became positive at 17.84 *per cent* in 2000-01

Table 5.16: Net Inflow of External Debt

(Rs in crore)

Year	Addition During the Year	Debt Servicing		Net Inflow	Net Inflow *per cent* 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
1999-2000	9893	8713	4508	(-) 3428	(-) 34.65
2000-01	17328	9823	4414	3091	17.84

Unutilised Committed External Assistance

5.38 As on 31 March 2001, unutilised committed external assistance was of the order of Rs 55764 crore. The low rate of utilisation of external assistance is particularly worrying. Much of the unutilised external assistance is for projects in the infrastructure sector (details in **Appendix-VIII**).

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

5.39 Table 5.17 shows that large amounts of committed external assistance have 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 that the country had 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 be taken to improve the utilisation of loans.

Table 5.17 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
1999-2000	56917
2000-01	55764

5.40 The Public Accounts Committee, 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) 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 interest obligation. Table 5.18 indicates charges paid to various bodies/governments during the last ten years.

Table 5.18: 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
1999-2000	15.71	0.36	0.37	25.33	--	41.77
2000-01	13.52	0.27	0.19	26.25	--	40.23

5.41 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$ 1989827 (Rs 8.55 crore) as per details given below. Timely completion of these projects could have saved the Union Government this additional burden as seen in Table 5.19.

Table 5.19: 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	36821.43
3024-OIN	Naptha Jhakri Power Project	31.12.1997	31.03.2002	961235.81
3237-OIN	Northern Region Transmission Project	30.09.1998	30.09.2000	991769.88
Total Additional Commitment Charges				**1989827.12**

Fiscal Liabilities- Public Account

5.42 The management of public accounts consisting of NSSF, provident funds, insurance funds, pension funds, deposits and advances and suspense accounts; is largely a intermediation function of the Union Government. The Government is only a custodian of these balances and not an owner. The net surpluses available in the public accounts are, however, utilized by the Government to meet its expenditure requirements and, as such, add to its fiscal liabilities.

5.43 The net increment to Public Account balance provides funds to the government. Utilisation of withdrawals from it needs to be administered in a manner such that returns, at the least, balance the costs. In recent years, the Union Government has been drawing progressively larger amounts from the public account. Large accumulations in public account have also helped the government to finance a significant part of its fiscal deficit.

5.44 Table 5.20 provides the trend of these liabilities and the observed growth rates over different sub periods.

Table 5.20 – Fiscal liability of Public Accounts – Trends

(Rs in crore)

	Opening Balance	Receipts	Repayments	Net addition	Closing Balance
1985-86	38268	24065	14040	10025	48293
1995-96	221215	100817	74917	25900	247115
1997-98	276516*	145480	88033	57447	333963
1998-99	333963	136241	95348	40893	374856
1999-2000	374856	188621	343757	- 155136	219720
2000-01	219720	212111	186704	25407	245127
Average Annual Trend Rate of Growth ***(per cent)***					
1985-2001	15.09	14.29	18.02	--	12.87
VII Plan (1985-90)	23.64	21.76	26.13	14.79	21.97
VIII Plan (1992-97)	14.87	14.21	14.14	14.68	14.80
IX Plan (1997-01)	- 5.58	15.68	42.44	--	- 13.60
Annual Rate of Growth ***(per cent)***					
1998-99	20.78	- 6.35	8.31	- 28.82	12.24
1999-2000	12.24	38.45	260.53	--	- 41.39
2000-01	- 41.39	12.45	- 45.69	--	11.56

** Difference in opening balance is due to prior period adjustment.*

5.45 Total outstanding liabilities of the Union Government in public accounts increased from Rs 48,293 crore in 1985-86 to Rs 374,856 crore in 1998-99. The creation of NSSF in 1999-2000, transferred part of the liabilities on public account to the Consolidated Fund, resulting in a decline in the liabilities in public account to Rs 219,720 crore in 1999-2000. Overall public account liabilities increased by 11.39 *per cent* in 2000-01 to reach a level of

Rs 244,745 crore constituting nearly 20 *per cent* of the aggregate fiscal liabilities of the Union Government.

Non-credit of lapsed deposit

5.46 As per paragraph 10.14 of the Public Debt Office Manual, the outstanding balance of a loan notified for discharge, will be written off and credited to revenue by the Public Debt Office on the expiry of 20 years from the date of discharge, after obtaining the necessary orders from the Government. Scrutiny of the records of the Public Debt Office, New Delhi, for the period ended June 2001 revealed that an amount of Rs 1.00 crore on account of lapsed deposit and 35.73 kg of gold worth Rs 1.51 crore were lying unclaimed for more than 20 years as shown in Table 5.21.

Table 5.21: Non-credit of lapsed deposit (As on 30.6.2001)

Sl. No.	Central Govt. Loans		Amount in Rupees
1.	4-1/2 % T.S.D.C.		11,10,800
2.	15 Years Annuity Certificate (2^{nd} Series)		21,10,045
3.	3% Loan, 1896 - 97		4,15,000
4.	3% Conversion Loan 1946 (Balances of Pakistan are also included)		61,62,800
5.	4 % Loan, 1979		20,500
6.	4 % Loan, 1980		1,62,800
7.	7% Gold Bonds, 1980		210
8.	NDGB 1980 'A' Series	21,796 gm	
9.	NDGB 1980 'B' Series'	13,937 gm	
		35,733 gm*	150,97,193
		Total	**250,79,348**

**@ Rs 4225 per 10 gm as on 31.3.2001.*

5.47 On this being pointed out in Audit, the facts were confirmed by the Public Debt Office RBI, New Delhi (July 2001).

Growth in Contingent Liabilities of the Union Government

5.48 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.

5.49 Table 5.22 gives the position regarding the maximum amount of guarantees and sums guaranteed outstanding at the end of the financial year during 1991-92 to 2000-01.

Table 5.22: 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
1991-92	55063	46744	20908	44.73
1992-93	79552	58027	28988	50.00
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
1999-2000	144438	83954	47663	56.77
2000-01	135678	86862	55664	64.08

5.50 Outstanding guarantees recorded a trend growth of 7.1 *per cent* during 1991-2001. These contingent liabilities as on 31 March 2001 were nearly 7 *per cent* of the aggregate fiscal liabilities of the Union Government. Total outstanding guarantees were nearly 4 *per cent* of GDP and 34 *per cent* of the revenue receipts that accrued to the union.

5.51 Ministries/Departments of the government are required to levy guarantee fee at the rate of one *per cent* on internal and 1.2 *per cent* 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 5.23 indicates that the recoveries of guarantee fee have not been effectively made, resulting in short recoveries, despite the instructions of the Union Government.

Table 5.23: 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		
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
1999-2000	36291	47663	83954	363	572	935	280	0.33
2000-01	31197	55664	86862	312	668	980	542	0.62

Non-recovery of Guarantee fees

5.52 Article 292 of the Constitution empowers the Union Government to give guarantees in respect of loans raised by the Financial Institutions within such limits, as may be fixed from time to time by an Act of Parliament. In lieu of such guarantees, the Government shall charge guarantee fee from the financial Institutions at the rates prescribed, from time to time.

5.53 It was noticed from the records of the Ministry of Finance that guarantees amounting to Rs 29288.79 crore were outstanding against 7 financial Institutions as on 31 March 2000. No records of guarantee fees due, recovered and outstanding against these institutions was available with the Ministry. Table 5.24 indicates that an amount of Rs 397.87 crore, as guarantee fee including penal interest was outstanding and recoverable against 5 institutions till 31.3.2001, as per information furnished by the Chief Controller of Accounts, Ministry of Finance, Department of Economic Affairs in July 2001.

Table 5.24: Guarantee fee recoverable

(Rs in crore)

Sl No	Name of Institution	Amount of Guarantee outstanding	Amount of Guarantee Fee recoverable as per date of sanction	Amount of Guarantee including Penal interest
1.	NHB	1571.47	27.16	54.33
2.	IFCI	2289.20	37.05	74.10
3.	EXIM	579.45	4.30	8.69
4.	IDBI	11014.75	102.17	204.33
5.	ICICI	6334.24	28.21	56.42
6.	SIDBI	6454.99		
7.	IIBI	10044.69		
	Total	**29288.79**	**189.89**	**397.87**

5.54 The actual amount recoverable on account of guarantee fees could not be verified, as the ministry was not maintaining any record. Further, the guarantee fee shown outstanding by CCA was based on the principal amount of loans and did not include interest on repayment of loans, whereas such interest should also be charged.

5.55 Failure of Ministry to recover an amount of Rs 397.87 crore, due and recoverable from five institutions has resulted in the amount not being available for use by the Government.

5.56 Ministry stated in October 2001 that the substantial amount of guarantee fee relates to guarantees issued prior to 1988 and the issue was examined in 1995 by banking Division. It was decided that the guarantees should be kept out of the purview of the Budget Division letter of 1992. As regards the guarantee issued after 1988, Ministry stated that the matter was under consideration and the final decision would be conveyed in due course.

5.57 The contention of the Ministry is not acceptable since the Ministry had not maintained any record indicating the guarantees issued prior to 1988.

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.

5.58 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.

5.59 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 2000-01, out of a total disbursement of Rs 665346 crore, Rs 405296 crore was charged. Only 39 *per cent* was voted by the Parliament. 61 *per cent* of the total disbursement was applied towards debt service obligations, *i.e.,* loan repayment and interest payment.