Chapter 5

MANAGEMENT OF FISCAL LIABILITIES

Government incurs the fiscal liabilities to meet its resource requirements for repayment of debt; discharge of liabilities on the public account; capital expenditure and such other current expenditure requirements that may remain uncovered by revenue and non-debt capital receipts. Aggregate fiscal liabilities increased consistently from an average of Rs. 628,608 crore during the VIII Plan (1992-1997) to an average of Rs 1749,972 crore during the first four years of X Plan (2002-07). Average annual trend rate of growth of these liabilities was 13.74 per cent during 1985-2006. Aggregate fiscal liabilities-GDP ratio peaked during 1991-92 when it reached 65.43 per cent of GDP. This ratio decelerated to an average of 60.72 per cent during the VIII Plan (1992-1997) and further to an average of 59.08 per cent during the IX Plan (1997-2002). During the X Plan (2002-07) so far, the ratio of aggregate liabilities to GDP remained almost at the level of IX Plan (1997-2002) with inter year variations. The long-term tendency of the ratio of fiscal liabilities to GDP therefore exhibited stability but the share of its components varied over time with share of internal debt indicated increasing trend over the period. Internal debt was not only the most predominant component of the aggregate liabilities, accounting for around 70.59 per cent of them in 2005-06, but was also the fastest growing component with its growth averaging 16.57 per cent. Public account liabilities had grown at an average rate of growth 9.91 per cent during 1985-2006. These two components, which in terms of their origin are domestic liabilities, constituted around 90 per cent of the aggregate liabilities in 2005-06 which has increased from an average of 78 per cent during the VIII Plan (1992-1997).

Fiscal liabilities are considered sustainable if the government is able to service the stock of these liabilities over the foreseeable future and the debt-GDP ratio does not grow to unmanageable proportions. Despite the relatively higher levels of debt-GDP ratio, the ratio of incremental total liabilities (including external debt at current exchange rate) at 5.27 per cent and 4.12 per cent of GDP during 2004-05 and 2005-06 respectively was well within the ceiling limit as prescribed under FRBM Rules. The Eleventh and Twelfth Finance Commissions also suggested that debt sustainability could be significantly facilitated if the incremental revenue receipts could meet the incremental interest burden and the incremental primary expenditure. It would be observed that during 1985-2006, incremental revenue receipts fell short by 20.94 per cent in meeting the incremental revenue expenditure. This gap increased to over 45.47 per cent during the IX Plan (1997-2002). During the first three years of X Plan (2002-07) due to a moderate growth in expenditure and moderation in interest rates, incremental revenue receipts exceeded incremental revenue expenditure resulting in a positive gap, which continuously increased during the three years 2002-05. In 2005-06, the trend was reversed and there was a resource gap of 36.44 per cent. Another issue in debt sustainability is the ratio of the debt redemption to total debt receipts. This ratio was as high as 94.70 per cent during IX Plan which further deteriorated to 99.61 per cent during the first four years of X Plan indicating the extent to which debt receipts were used in debt redemption.

5.1 Internal debt, external debt and other liabilities are the three sets of liabilities that constitute the Union Government debt. Internal and external debts constitute public debt and are secured under the Consolidated Fund of India. Internal debt includes market loans, special securities issued by Reserve Bank of India and National Small Savings Fund, compensation and other bonds and other rupee securities. External debt represents the loans received from foreign governments and bodies. The other liabilities of the government arise more in its capacity as a banker or a trustee rather than a borrower and include employees' provident funds, reserve funds and sinking funds (created by charging expenditure while actual expenditure/disbursement is yet to be made) and deposits. These borrowings or accruals are not secured under CFI and are shown as part of the Public Account. All these liabilities, however, are obligations of the government either in terms of their repayment or specified expenditure.

5.2 Government incurs these liabilities to meet its resource requirements for repayment of debt; discharge of liabilities on the public account; capital expenditure and such other current expenditure requirements that may remain uncovered by revenue and non-debt capital receipts.

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 during 1985-2006. Annual total liability in terms of its composition is indicated in Appendix-V-A.

Table 5.1: Aggregate Fiscal Liabilities- Trends & Composition

(Rupees in crore)

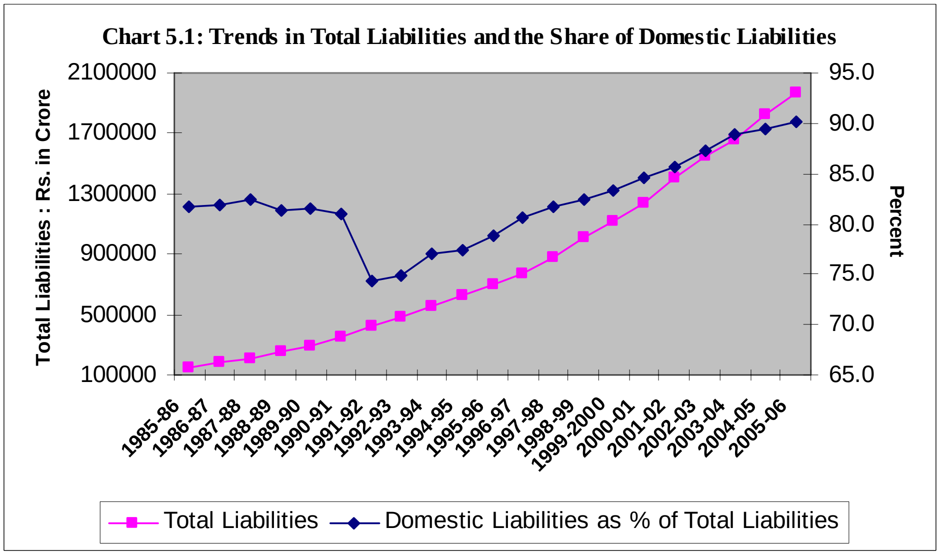
Period	Internal Debt	External Debt at historic rates	Public Account*	Total liabilities (at historic rates)	External Debt (at current rates)#	Total liabilities (at current rates)
1985-2006	490567	47602	219492	757660	130580	840638
VIII Plan (1992-1997)	272725	49206	218152	540082	137732	628608
IX Plan (1997-2002)	655942	61703	292049	1009694	183073	1131064
X Plan (2002-07)						
2002-03	1020689	59612	331419	1411720	196068	1548176
2003-04	1141706	46125	333725	1521556	184203	1659634
2004-05	1275971	60877	356037	1692885	191271	1823279
2005-06	1389758	94243	384842	1868843	194199	1968799
Average annual Rate of Growth (*per cent*)						
1985-2006	16.57	6.72	9.91	13.79	10.33	13.74
VIII Plan (1992-1997)	14.13	5.95	14.80	13.62	5.88	12.48
IX Plan (1997-2002)	25.42	6.77	-7.05	12.80	5.05	11.85
X Plan (2002-07)						
2002-03	11.79	-16.68	15.65	11.06	-1.92	10.62
2003-04	11.86	-22.63	0.70	7.78	-6.05	7.20
2004-05	11.76	31.98	6.69	11.26	3.84	9.86
2005-06	8.92	54.81	8.09	10.39	1.53	7.98

* *Public Account liabilities since 1999-2000 exclude the liabilities on account of small savings to the extent invested in Special State Government Securities.*

Depiction of external debt at current rate of exchange in finance accounts commenced from 1991-92. Earlier data of external debt at current exchange rate have been taken from Reserve Bank of India to complete the series.

5.4 Aggregate fiscal liabilities increased consistently from an average of Rs. 628,608 crore during the VIII Plan (1992-1997) to Rs. 1131,064 crore during IX Plan (1997-2002) and further to an average of Rs. 1749,972 crore during the first four years of X Plan (2002-07) reaching the peak level during the current year. Average annual trend rate of growth of these liabilities was 13.74 *per cent* during 1985-2006. Internal debt was not only the most predominant component of the aggregate liabilities, accounting for around 70.59 *per cent* of them in 2005-06, but was also the fastest growing component with its growth averaging 16.57 *per cent*. Public account liabilities had grown at an average rate of growth 9.91 *per cent* during 1985-2006. These two components, which in terms of their origin are domestic liabilities, constituted around 90 *per cent* of the aggregate liabilities in 2005-06 which has increased from an average of 78 *per cent* during the VIII Plan (1992-1997). External liabilities at the current exchange rate constituted around 10 *per cent* of the aggregate liabilities in 2005-06. The rate of growth of aggregate liabilities declined from 12.48 *per cent* during VIII Plan to 11.85 *per cent* during IX Plan and also exhibited deceleration trend during the first four years of X Plan. The growth of external liabilities at historic rate was lower. However, this is only of accounting interest as repayment obligations of this debt are to be met at the current rate of exchange only. Chart 5.1 depicts the trends in total liabilities and the share of domestic liabilities over the period 1985-2006.

5.5 FRBM Act and Rules made thereunder prescribed that the Central Government shall not assume additional liabilities (including external debt at current exchange rate) in excess of 9 *per cent* of GDP for the financial year 2004-05 and in each subsequent year, the limit of 9 *per cent* shall be progressively reduced by at least one percentage point of GDP. The ratio of incremental total liabilities (including external debt at current exchange rate) at 5.27 *per cent* and 4.12 *per cent* of GDP during 2004-05 and 2005-06 respectively was well within the ceiling limit prescribed under FRBM Rules.



Fiscal Liabilities relative to GDP

5.6 Table 5.2 gives the aggregate fiscal liabilities of the Union Government relative to GDP. Aggregate fiscal liabilities-GDP ratio peaked during 1991-92 when it reached 65.43 *per cent* of GDP. This ratio decelerated to an average of 60.72 *per cent* during the VIII Plan (1992-1997) and further to an average of 59.08 *per cent* during the IX Plan (1997-2002). During the X Plan (2002-07) so far, the ratio of aggregate liabilities to GDP remained almost at the level of IX Plan (1997-2002) with inter year variations. During the last two years it decelerated to a level lower than the long-term trend level. The long-term tendency of the ratio of fiscal liabilities to GDP therefore exhibited stability with an average annual rate of shift of only 0.02 *per cent* during 1985-2006. Although the fiscal liabilities relative to GDP remained almost stable during the period 1985-2006 but the share of its components varied over time with share of internal debt indicated increasing trend over the period (Chart 5.2). While the average annual rate of shift in the ratio of internal debt-GDP was 2.50 *per cent*, a negative shift rate for the other two components more or less squared it to sustain debt-GDP ratio at the trend level.

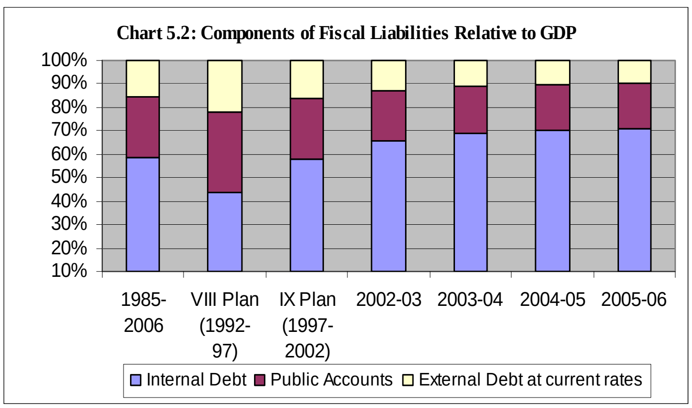


Table 5.2: Fiscal Liabilities Relative to GDP

(Per cent)

Period	Internal Debt	External Debt at historic rates	Public Accounts	Total liabilities	External Debt at current rates	Total liabilities
1985-2006	34.70	3.37	15.53	53.59	9.24	59.46
VIII Plan (1992-1997)	26.34	4.75	21.07	52.16	13.30	60.72
IX Plan (1997-2002)	34.26	3.22	15.26	52.74	9.56	59.08
X Plan (2002-07)						
2002-03	41.33	2.41	13.42	57.16	7.94	62.69
2003-04	41.37	1.67	12.09	55.13	6.67	60.13
2004-05	41.09	1.96	11.46	54.51	6.16	58.71
2005-06	39.35	2.67	10.90	52.92	5.50	55.75
Average Annual Rate of Shift in Relative Shares						
1985-2006	2.50	-6.16	-3.35	0.06	-2.98	0.02

5.7 If various components of the fiscal liabilities in 1985-86 are set to 100, the index value of internal debt, external debt and total liabilities in 2005-06 would be 1956, 729 and 1349 respectively as against the index of GDP at 1270 indicating buoyancy of greater than one for internal and total debt component of the liabilities. Buoyancy of internal debt and total liabilities (with external debt being reckoned at the current exchange rate) with reference to GDP was 1.21 and 1.0 respectively during 1985-2006.

5.8 It would be appropriate to look at the aggregate fiscal liabilities relative to the revenue receipts of the Union Government. This ratio is considered a better indicator of debt stock because it is directly related to the resources that are available for its servicing and redemption. Table 5.3 gives the ratio of outstanding fiscal liabilities as a percentage of the non-debt receipts and revenue receipts.

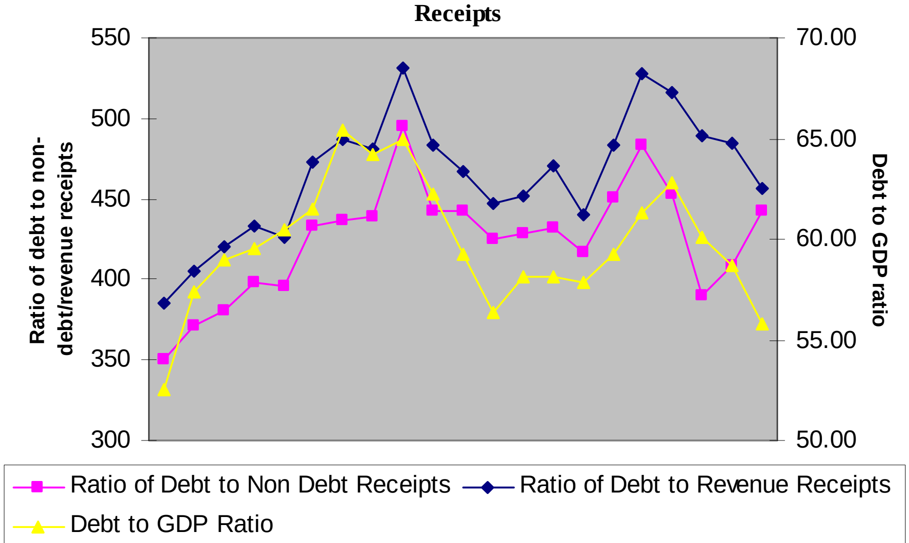
Table 5.3: Outstanding Fiscal Liabilities (at current exchange rates) as a percentage of Non-Debt Receipts and revenue Receipts

Period	Non-Debt Receipt	Revenue Receipt
1985-2006	431	476
VIII Plan (1992-1997)	446	478
IX Plan (1997-2002)	444	476
X Plan (2002-07)		
2002-03	453	516
2003-04	390	489
2004-05	409	484
2005-06	443	457
Annual Rate of Shift in Relative Share		
1985-2006	0.68	0.82
Average Annual Rate of Growth of the Parameter		
1985-2006	12.98	12.85

Note:- Non-Debt Receipts are Revenue Receipts (net of the States' share in taxes) and non-debt capital receipts.

5.9 The ratio of fiscal liabilities to revenue receipts and non-debt receipts had a positive shift rate during 1985-2006. The trend rate of growth of fiscal liabilities exceeded the rate of growth of the above two parameters. Average ratio of fiscal liabilities to non-debt receipts increased from 446 *per cent* during the VIII plan (1992-97) to a peak of 483 in 2001-02 before decelerating to the level of 409 in 2004-05. This deceleration was due to a moderate growth of fiscal liabilities relative to non-debt receipts in the last three years. A decline in non-debt receipts by 0.27 *per cent* during the current year along with an increase of around 8 *per cent* in total fiscal liabilities resulted in increase in their ratio to non-debt receipts to 443 in 2005-06 from the level of 409 in the previous year. The ratio of aggregate fiscal liabilities to revenue receipts remained almost stable at the average level of 477 during VIII and IX Plan periods but it increased by 10 percentage points to an average of 487 during the first four years of X Plan (2002-07) after reaching the peak level in 2002-03. During the current year this ratio declined to 457 from the level of 484 in the previous year mainly due to an increase of 14.35 *per cent* in revenue receipts relative to 8 *per cent* in total liabilities over the previous year. Buoyancy of the aggregate fiscal liabilities to non-debt receipts and revenue

Chart 5.3:Ratio of Debt to GDP, Non-debt Receipts and Revenue Receipts



receipts during 1985-2006 was 1.06 and 1.07 respectively. Internal debt and domestic debt (internal debt and public account surpluses combined), however, had greater buoyancy as lower growth of external debt liabilities had a moderating impact. The ratio of fiscal liabilities to the three parameters of GDP, non-debt receipts and revenue receipts is depicted in Chart 5.3.

Debt Sustainability

5.10 Fiscal liabilities are considered sustainable if the government is able to service the stock of these liabilities over the foreseeable future and the debt-GDP ratio does not grow to unmanageable proportions. A necessary condition for stability is the Domar's Debt Stability Equation. It states that if the rate of growth of economy exceeds the rate of interest on the debt, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. In a situation where the rate of interest is higher than the rate of growth of output, the debt-GDP ratio would continue to rise unless the primary balances turn positive. The sustainability of debt is also examined in relation to the inter-temporal budget constraints; sustainability rests on whether the past behaviour of revenue, expenditure and fiscal deficits could be continued indefinitely without any adverse implications or response from the lenders. As such, the question of sustainability of debt involves consideration of whether Ponzi Financing has been used as a debt management strategy. The solvency or the overall budget constraints also require that initial debt stock equals the present discounted value of primary surplus in future. The equality of the current debt and the present value of surplus do not necessarily imply that the debt is ultimately re-paid or even that it is ultimately constant. All it implies is that the debt ultimately grows less rapidly than the interest rate. Debt stabilisation can take place in one of two possible ways. If the nominal growth rate of the economy exceeds the nominal rate of interest on domestic debt, which can happen under financial repression, stabilisation of domestic debt is possible while still running a primary deficit (even in excess of monetisation). But if the nominal interest rate exceeds the growth rate, the primary deficit must be sufficiently less than monetisation for debt stabilisation to be possible.

5.11 The average interest rate (nominal) on total debt over time, as indicated in Table 5.4, remained lower than the rate of growth of GDP at the market prices during 1985-2006. However, the spread declined from an average of 8.63 *per cent* during the VIII Plan (1992-1997) to an average of 1.37 *per cent* during the IX Plan (1997-2002). The spread between GDP growth and interest rates became negative in 2002-03 but on an average it was positive 3.35 *per cent* during the first four years of the X Plan (2002-07) with maximum positive spread being at 5.97 *per cent* during the current year.

5.12 Average interest rates on fiscal liabilities, however, moved in a narrow range. Average annual rate of interest on external debt was 2.82 *per cent* during 1985-2006. It decelerated from an average of 3.07 *per cent* during the VIII Plan (1992-1997) to 2.51 *per cent* during the IX Plan (1997-2002) and further to an average of 1.73 *per cent* during the first four years of the X Plan (2002-07). For the domestic liabilities (public debt and public accounts) the average rate of interest was 10.42 *per cent* during the IX Plan (1997-2002), which got moderated to an average of 9.11 *per cent* during the first four years of the X Plan exhibiting the declining trend. The deceleration in the average rate of interest on domestic liabilities started after reaching the peak rate 10.79 *per cent* in 1999-2000 and since then it has witnessed a decline of 232 basis points during the current year.

Table 5.4: Average interest rate on fiscal liabilities at current exchange rates

(Per cent)

Period	Internal liabilities	External debt	Aggregate liabilities	Rate of growth of GDP	Interest spread
1985-2006	9.76	2.82	7.93	13.72	5.79
VIII Plan (1992-1997)	9.37	3.07	7.91	16.54	8.63
IX Plan (1997-2002)	10.42	2.51	9.06	10.43	1.37
X Plan (2002-07)					
2002-03	10.03	2.13	8.90	8.21	-0.69
2003-04	9.24	1.60	8.28	11.76	3.48
2004-05	8.69	1.52	7.89	12.52	4.63
2005-06	8.47	1.65	7.75	13.72	5.97
Average Annual Rate of growth					
1985-2006	1.51	-3.76	1.56		

*Average interest rate is = Interest paid/Outstanding Liabilities at the beginning of the year*100*

5.13 It is not uncommon for the government to borrow funds for creating capital assets or for making investment. Though in government accounting system comprehensive accounting of the fixed assets like land and buildings etc owned by the government is not done to create a kind of a balance sheet, accounts do capture and provide the assets created out of the expenditure incurred. Government's investment, outstanding loans and advances and cumulated capital expenditure could be considered as its assets. The ratio of these assets to its aggregate fiscal liabilities could be considered a surrogate measure of quality of its application of borrowed funds.

Table 5.5: Buoyancy of assets and Ratio of Assets to Liabilities

(Rupees in crore, Ratio and Growth rates in per cent)

Period	Aggregate Liabilities	Aggregate Assets	Ratio of Assets to Liabilities	Annual Growth of Liabilities	Annual Growth of Assets	Buoyancy of Assets
1985-2006	840638	386356	45.96	13.74	10.00	0.73
VIII Plan (1992-1997)	628608	362555	57.68	12.48	10.31	0.83
IX Plan (1997-2002)	1131064	575689	50.90	11.85	8.28	0.70
X Plan (2002-07)						
2002-03	1548176	693286	44.78	10.62	4.20	0.40
2003-04	1659634	688434	41.48	7.20	-0.70	-0.10
2004-05	1823279	717675	39.36	9.86	4.25	0.43
2005-06	1968799	774082	39.32	7.98	7.86	0.98

5.14 The ratio of assets to liabilities witnessed a secular decline from an average of 57.68 *per cent* during the VIII Plan (1992-97) to 50.90 *per cent* during the IX Plan (1997-2002) and further to an average of 41.24 *per cent* during the first four years of the X Plan (2002-07) with the lowest ratio at 39.32 *per cent* during the current year. Average annual rate of shift in this ratio was (-) 3.56 *per cent* during 1985-2006. By 2005-06, over 60 *per cent* of the union government liabilities had ceased to have any asset back up. Overall rate of growth of assets not only remained lower than the rate of growth of liabilities, the spread between these growth rates was also widening. Buoyancy of the assets to the liabilities also declined from 0.83 during the VIII Plan (1992-1997) to 0.70 during the IX Plan (1997-2002) and further to an average 0.43 *per cent* during the first four years of the X Plan (2002-07) (Table 5.5). In 2003-04, aggregate assets actually declined due to the accelerated recovery of the loans and advances, while liabilities continued to grow. It has however indicated an increasing trend after attaining the negative value during 2003-04 and reached the peak level of 0.98 during the current year.

5.15 Another issue in debt sustainability is the ratio of the debt redemption to total debt receipts. A higher ratio would indicate that to the extent debt receipts were used in debt redemption, there was less net accrual of resources. Table 5.6 gives the ratio of debt redemption to debt receipts during 1985-2006 and VIII and IX Plan periods along with the information for the first four years of X Plan (2002-07)

Table 5.6 Ratio of Debt Redemption to Debt Receipts

Period	Debt Receipts*	Debt Repayment		Principal Debt Repayment (1)/Debt Receipts	Total Debt Repayment (2)/Debt Receipts
		Principal* (1)	Principal +Interest (2)		
	(Rs. In crore) (Annual Average)			*(Per cent)*	
1985-2006	445951	365239	427623	81.90	95.89
VIII Plan (1992-1997)	266443	203787	248066	76.48	93.10
IX Plan (1997-2002)	530341	411106	502208	77.52	94.70
X Plan (2002-07)					
2002-03	623645	485764	610337	77.89	97.87
2003-04	811010	726131	854245	89.53	105.33
2004-05	1070716	894577	1025535	83.55	95.78
2005-06	1671997	1521331	1662706	90.99	99.44

**Debt receipt and repayments include debt figures in CFI net of ways and means advances plus receipt and repayments in Public Account.*

5.16 The debt sustainability issues have also been discussed by the successive Finance Commissions. The Ninth Finance Commission observed that ultimately the solution to the government debt problem lies in borrowed funds – (a) not being used for financing revenue expenditure; and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in government revenue. The Eleventh Finance Commission suggested that debt sustainability could be significantly facilitated if the incremental revenue receipts could meet the incremental interest burden and the incremental primary expenditure. The Twelfth Finance Commission while endorsing the approach suggested by the Eleventh Finance Commission felt that the pre-requisite to this is the achievement of revenue balance by instituting measures for augmenting revenue receipts and compressing expenditure.

5.17 Table 5.7 indicates the resource gap as defined above for the VIII and IX Plans and for the first four years of the X Plan (2002-07). It would be observed that during 1985-2006, incremental revenue receipts fell short by 20.94 *per cent* in meeting the incremental revenue expenditure. This gap increased to over 45.47 *per cent* during the IX Plan (1997-2002). During the first three years of X Plan (2002-07) due to a moderate growth in expenditure and moderation in interest rates, incremental revenue receipts exceeded incremental revenue expenditure resulting in a positive gap, which continuously increased during the three years 2002-05. In the current year while the incremental revenue receipts increased by 43 *per cent*, the corresponding increases in non-interest revenue expenditure and interest payments were reported to be 5.91 and 3.66 times respectively. The wide differences in the rates of increases led to huge negative gap of Rs. 30997 crore which was the maximum divergence recorded between incremental revenue receipts and revenue expenditure in a year and in fact indicates the absolute increase in revenue deficit during 2005-06 over the previous year.

Table 5.7: Shortfall of incremental revenue receipts to meet incremental revenue expenditure and interest payments

(Rupees in crore)

Period	Incremental				Resource Gap
	Receipts	Non-interest Revenue Expenditure	Interest Expenditure	Total Revenue Expenditure	
1985-2006	19655	18168	6693	24862	-5207
VIII Plan (1992-1997)	16887	13589	6576	20166	-3279
IX Plan (1997-2002)	18621	23212	10939	34151	-15530
X Plan (2002-07)					
2002-03	34547	23609	10400	34009	538
2003-04	39274	26954	3541	30495	8779
2004-05	37771	12641	2844	15485	22286
2005-06	54069	74649	10417	85066	-30997

Fiscal Deficit and Debt Sustainability

5.18 In the context of fiscal sustainability, TFC felt that the issue of debt sustainability also needs to be viewed for combinations of debt and fiscal deficit as debt would become unsustainable, if fiscal deficits follow a course that leads to a self-perpetuating rise in the debt-GDP ratio. A sustainable debt-deficit combination would be stable in terms of debt- GDP ratio and fiscal-deficit GDP ratio consistent with the permissible levels of primary expenditure. The issue therefore involved is one of determining that level of fiscal deficit, which will stabilize the debt-GDP ratio and, at the same time, can promote growth. The FRBM Act enacted by the central government, read with its rules and subsequent amendment, specifies the target for achieving a fiscal deficit to GDP ratio of 3 percent by the Central Government by 2008-09. Given this fiscal deficit target, for a combination of 12 *per cent* nominal growth rate and 7 *per cent* interest rate, Twelfth Finance Commission in the suggested programme for restructuring public finances has recommended that the primary deficit should be equal to 1.25 *per cent* of GDP. TFC has further estimated that once the adjustment phase is over and the fiscal deficit of the Centre being contained at 3 *per cent*, the debt-GDP ratio of the Union would stabilize at 44 *per cent* of GDP by 2008-09.

5.19 At present the Union's debt-GDP ratio is close to 53 *per cent*, with external debt measured at historical exchange rates, and after excluding NSSF liabilities against which there are assets in the form of state securities and Market Stabilization Scheme (MSS) liabilities against which an equal amount of cash is held with the RBI. The trends in fiscal deficit to GDP ratio during the X Plan period (2002-07) so far revealed that after exhibiting a steep decline in 2003-04 to 2.93 *per cent,* it has indicated an increasing tendency during the last two years. Similarly, revenue deficit to GDP ratio, after reaching the minimum level of 2.53 *per cent* during the previous year, it has increased to 3.11 *per cent* in the current year. The movement in revenue and fiscal deficits relative to GDP do not seem to be on the path anticipated by the TFC to stabilise the debt-GDP ratio at the targeted level by 2008-09.

Cash Management

5.20 With the Union Government entering into an agreement with the Reserve Bank of India in 1994, a system of automatic monetization of budget deficit was phased out in 1997. Effective from April 1997, a new scheme of Ways and Means advances (WMA) was introduced to facilitate the government to overcome the temporary mismatches in its cash flows. There were no outstanding WMA balances after the year 2002-03 (Table 5.8).

Table 5.8: Ways and Means Advances

(Rupees in crore)

Year	Opening Balance	Addition during the Year	Discharge during the Year	Outstanding Ways and Means Advances
1999-00	3042	124972	127032	982
2000-01	982	131300	126887	5395
2001-02	5395	170953	171172	5176
2002-03	5176	118961	124137	Nil
2003-04	Nil	96615	96615	Nil
2004-05	Nil	62080	62080	Nil
2005-06	Nil	1134	1134	Nil

5.21 The limits of WMA to the Central Government for the fiscal year 2005-06 were retained at Rs. 10,000 crore during the first half (April – September) and Rs. 6000 crore for the second half (October – March) of the year. During 2005-06, the centre availed the WMA on two days only during the year (May 3 and June 4) while in the previous year it had availed WMA on a number of occasions till September 2004. Since then, the Central Government maintained the surplus cash balances in the current account with RBI up to the end March 2006. While the build up of the Centre's surplus during 2004-05 had mainly reflected the cash inflows on account of prepayment of high cost debt by the States under Debt Swap Scheme, the build up during 2005-06 reflected the investment of the State Governments in 14 days Treasury Bills and auction Treasury Bills. The cash balances parked as non-interest bearing deposits of the Central Government with RBI amounted to 48,928 crore as at end-March 2006 as compared with Rs. 26,202 crore in the previous year. Large cash balances had significant impact on the liquidity in the banking system necessitating active management of surplus cash balances. A new regime as envisaged in FRBM Act is already in place with effect from April 1, 2006 whereby the participation of RBI in the primary issuance of Central Government securities have been prohibited and WMA arrangements have been revised under which WMA limits would now be fixed on quarterly basis instead of existing half yearly basis. The transition to the new system would require measures to make the market deeper, broader and more liquid while improving trading/settlement and institutional structure.

Unutilised Committed External Assistance

5.22 As on 31 March 2006, unutilised committed external assistance was of the order of Rs. 56806 crore. The sector-wise details of unutilized external assistance are given in Appendix-V-B and Table 5.9 below shows the year-wise total un-drawn balance of external assistance from various sources. The sector-wise details reveal that little more than one-fourth of unutilized external assistance pertains to road sector during 2005-06 and the un-drawn absolute amount remained near to Rs. 15,000 crore during the first four years of X Plan (2002-07). Within the energy sector, atomic energy indicated for the first time the unutilized assistance amounting to Rs. 8054 crore during 2005-06. The sectors such as environment and forestry, power, urban development and water resources have been unable to withdraw the external aid amounting to Rs. 17446 crore during the current year which constitutes about 31 *per cent* of total un-drawn balance during 2005-06. The unutilised balance pertaining to these four sectors was also noted during the preceding three years. More importantly, health sector has also not been able to utilise the external assistance of Rs. 1182 crore committed for various projects despite the fact that the sector requires large funds for providing minimum health facilities especially in rural areas. Since the external assistance is precious and committed charges are being paid by the Government, initiatives need to be taken to address the issues being faced by these sectors for not utilizing the available funds.

Table 5.9: Unutilised Committed External Assistance

(Rupees in crore)

Year	Amount
2000-01	56920
2001-02	62565
2002-03	67365
2003-04	64521
2004-05	68435
2005-06	56806

5.23 Commitment charges on un-drawn external assistance 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 5.10 indicates charges paid to various bodies/governments during 2000-2006 as commitment charges for rescheduling of drawal of assistance at a later date. This points to continued inadequate planning resulting in avoidable expenditure in the form of commitment charges amounting to Rs. 148.17 crore in 2005-06.

Table 5.10: Commitment Charges

(Rupees in crore)

Year	ADB	France	Germany	IBRD	Total
2000-01	13.52	0.27	0.19	26.25	40.23
2001-02	12.84	0.22	0.76	34.64	48.46
2002-03	26.45	0.19	0.95	39.60	67.19
2003-04	38.23	0.02	8.99	45.91*	93.15
2004-05	45.10	Nil	2.07	117.94*	165.11
2005-06	53.42	0.0	1.86	92.89*	148.17

Source: Controller of Aid Accounts & Audit, External Assistance Brochure 2005-2006. **includes IDA assistance*

Growth in Contingent Liabilities of the Union Government

5.24 Contingent liabilities of the Union Government arise because of its role in promoting investment and in 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 investment needs for infrastructure, participation by the private sector in such projects and its increasing probability of being invoked. In exchange risk guarantees provided for Resurgent India Bonds and India Millennium Deposits there was substantial financial outgo from the government receipts. Table 5.11 gives the position regarding the maximum amount of guarantees and sums guaranteed and outstanding at the end of the financial year during 1999-2006.

Table 5.11: Guarantees Given by Union Government

(Rupees in crore)

Position at the end of the year	Maximum amount of guarantee	Sums Guaranteed Outstanding	External Guarantees Outstanding	Percentage of column (4) to column (3)
(1)	**(2)**	**(3)**	**(4)**	**(5)**
1999-2000	144438	83954	47663	56.77
2000-01	135678	86862	55664	64.08
2001-02	168712	96859	57006	58.85
2002-03	174487	90617	51097	56.39
2003-04	184420	87780	50328	57.33
2004-05	132728	107957	48276	44.72
2005-06	118560	110626	47358	42.81

5.25 Total outstanding guarantees were 3.13 *per cent* of GDP and 25.67 *per cent* of the revenue receipts that accrued to the Union. These guarantees, however, do not include the volume of implicit contingent liabilities in the nature of open-ended pension payments.