Chapter 6

MANAGEMENT OF FISCAL LIABILITIES

Government incurs fiscal liabilities to meet its resource requirements for repayment of debt; discharge of liabilities on the public account; capital expenditure and 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. 628608 crore during the VIII Plan (1992-1997) to an average of Rs. 1836987 crore during the X Plan (2002-07) and further to Rs 2476357 crore during the first year of XI Plan (2007-12) The aggregate fiscal liabilities relative to GDP at an average of 60.59 *per cent* during the VIII Plan (1992-1997) declined to an average of 57.10 *per cent* during the X Plan (2002-07) with inter year variations and further to 52.54 during the current year. The long-term tendency of the ratio of fiscal liabilities to GDP, therefore, exhibited declining trend with negative shift rate of 0.90 during 1992-2008 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 72.67 *per cent* of them in 2007-08, but was also the fastest growing component with its growth averaging 16.40 *per cent* during 1992-2008. Public account liabilities had grown at an average rate of growth 5.62 *per cent* during 1992-2008. These two components, which in terms of their origin are domestic liabilities, constituted 91.52 *per cent* of the aggregate liabilities in 2007-08.

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 to GDP (including external debt at current exchange rate) at 5.20 *per cent* in 2004-05, 4.06 *per cent* in 2005-06, and 5.22 *per cent* in 2006-07 was well within the ceiling limit prescribed under FRBM Rules but this ratio at 6.18 *per cent* was marginally above the ceiling limit projected for 2007-08 under the FRBM Rules.

The Eleventh and Twelfth Finance Commissions had 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 incremental revenue receipts fell short by 14.86 *per cent* during VIII Plan (1992-97), which increased to 52.04 *per cent* during the IX Plan (1997-2002) and declined sharply to 7.98 *per cent* during the X Plan (2002-07). During the current year, the incremental revenue receipts increased by 31.32 *per cent* (Rs. 29580 crore) in 2007-08 over the previous year while incremental revenue expenditure declined by 34.85 *per cent* (Rs. 40982 crore) during the year resulting in a positive resource gap of Rs . 47412 crore in 2007-08 from (-) Rs. 23150 crore in the previous year. The improvement in incremental revenue receipts during the current year was mainly on account of more receipts through non-tax sources (Rs. 35868 crore) as against Rs. 13037 crore in the previous year.

The debt sustainability is also determined by the Domar's Debt Stability Equation and the ratio of the debt redemption to total debt receipts. The former 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 while the latter indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The average interest rate (nominal) on total debt remained lower than the rate of growth of GDP at the market prices along with primary deficit being less than one *per cent* of GDP during 1992-2008 while the debt redemption ratio was as high as 93 *per cent* during VIII Plan, which further deteriorated to 98.68 *per cent* during the X Plan indicating the extent to which debt receipts were used in debt redemption.

6.1 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

6.2 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

6.3 Table 6.1 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 1992-2008. Annual total liability in terms of its composition is indicated in **Appendix-VI-A**.

Table 6.1: 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)
1992-2008	801005	64384	303904	1169294	173819	1278729
VIII Plan (1992-97)	**272725**	**49206**	**218152**	**540082**	**137732**	**628608**
IX Plan (1997-02)	**655942**	**61703**	**292049**	**1009694**	**183073**	**1131064**
X Plan (2002-07)	**1274620**	**72715**	**368973**	**1716307**	**193395**	**1836987**
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
2006-07	1544975	102716	438841	2086532	201233	2185049
XI Plan (2007-12)						
2007-08	1799651	112031	466602	2378284	210104	2476357

(Rupees in crore)

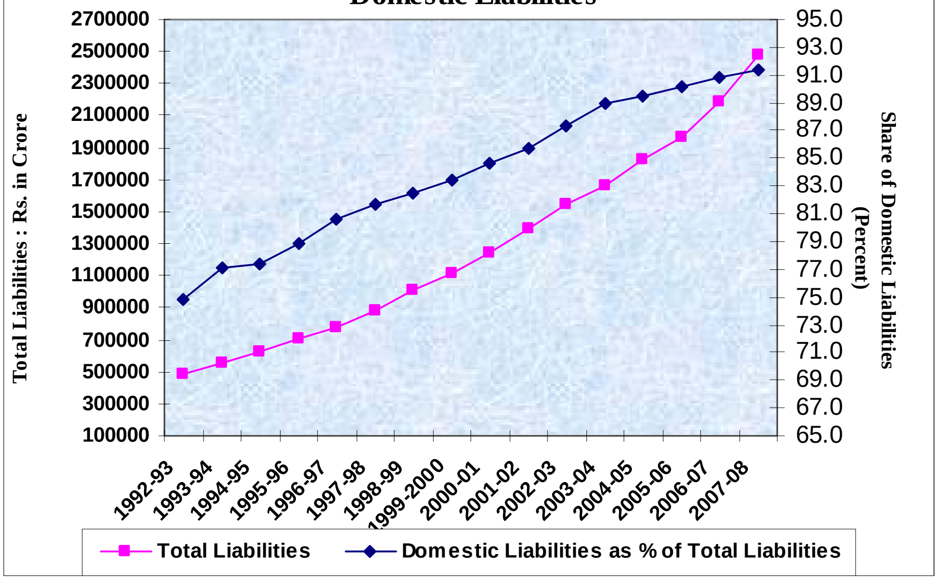
Period	Internal Debt	External Debt at historic rates	Public Account*	Total liabilities (at historic rates)	External Debt (at current rates)	Total liabilities (at current rates)
Average annual Rate of Growth (*per cent*)						
1992-2008	16.40	4.98	5.62	12.25	3.40	11.28
VIII Plan (1992-97)	**14.13**	**5.95**	**14.80**	**13.62**	**5.88**	**12.48**
IX Plan (1997-02)	**25.42**	**6.77**	**-7.05**	**12.80**	**5.05**	**11.85**
X Plan (2002-07)	**10.80**	**19.75**	**7.29**	**10.37**	**1.05**	**8.98**
2002-03	11.79	-16.68	15.65	11.06	-1.92	10.62
2003-04	11.86	-22.62	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
2006-07	11.17	8.99	14.03	11.65	3.62	10.98
XI Plan (2007-12)						
2007-08	16.48	9.07	6.33	13.98	4.41	13.33

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

6.4 Aggregate fiscal liabilities increased consistently from an average of Rs. 628608 crore during the VIII Plan (1992-1997) to Rs. 1131064 crore during IX Plan (1997-2002) and further to an average of Rs. 1836987 crore during X Plan (2002-07) and reached the peak level in 2007-08. Average annual trend rate of growth of these liabilities was 11.28 *per cent* during 1992-2008. 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 further to 8.98 *per cent* also during X Plan. The aggregate fiscal liabilities increased by ever highest rate of 13.33 *per cent* (Rs. 291308 crore) during 2007-08 primarily on account of increase in internal debt, which has increased by 16.48 *per cent* and contributed about 87.43 *per cent* towards incremental aggregate liabilities. Internal debt was not only the most predominant component of the aggregate liabilities, accounting for around 72.66 *per cent* of them in 2007-08, but was also the fastest growing component with its growth averaging 16.40 *per cent* during 1992-2008. Public account liabilities had grown at an average rate of growth of 5.62 *per cent* during 1992-2008. These two components, which in terms of their origin are domestic liabilities, constituted 91.52 *per cent* of the aggregate liabilities in 2007-08, 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 8.48 *per cent* of the aggregate liabilities in 2007-08. The external liabilities are also recorded in Finance Accounts at historic rate. However, this is only for accounting interest as repayment obligations of this debt are to be met at the current rate of exchange only. Chart 6.1 depicts the trends in total liabilities and the share of domestic liabilities over the period 1992-2008.

6.5 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 to GDP (including external debt at current exchange rate) at 5.20 *per cent* in 2004-05, 4.06 *per cent* in 2005-06, and 5.22 *per cent* in 2006-07 was well within the ceiling limit prescribed under FRBM Rules. The incremental total liabilities relative to GDP were at 6.18 *per cent* during the current year, which is marginally above the ceiling limit of 6 *per cent* projected for 2007-08 following the rule prescribed under FRBM Act and Rules made there under.

Chart 6.1: Trends in Total Liabilities and the Share of Domestic Liabilities



Fiscal Liabilities relative to GDP

6.6 Table 6.2 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 60.59 *per cent* during the VIII Plan (1992-1997) and further to an average of 58.84 *per cent* during the IX Plan (1997-2002). During the X Plan (2002-07), the ratio of aggregate liabilities to GDP at 57.10 *per cent* was lower than the average level of IX Plan (1997-2002) by only 1.74 percentage points. It was noted that during the X Plan (2002-07), the ratio exhibited a consistent declining trend which continued even during the current year. The long-term tendency of the ratio of fiscal liabilities to GDP exhibited relative stability with an average annual rate of shift of only (-) 0.90 *per cent* during 1992-2008. Although the fiscal liabilities relative to GDP remained almost stable during the period 1992-2008 but the share of its components varied over time with share of internal debt indicated increasing trend over the period

(Chart 6.2). While the average annual rate of shift in the ratio of internal debt-GDP was 3.66 *per cent*, significant negative shift rates for the other two components more or less squared it to sustain debt-GDP ratio at the trend level.

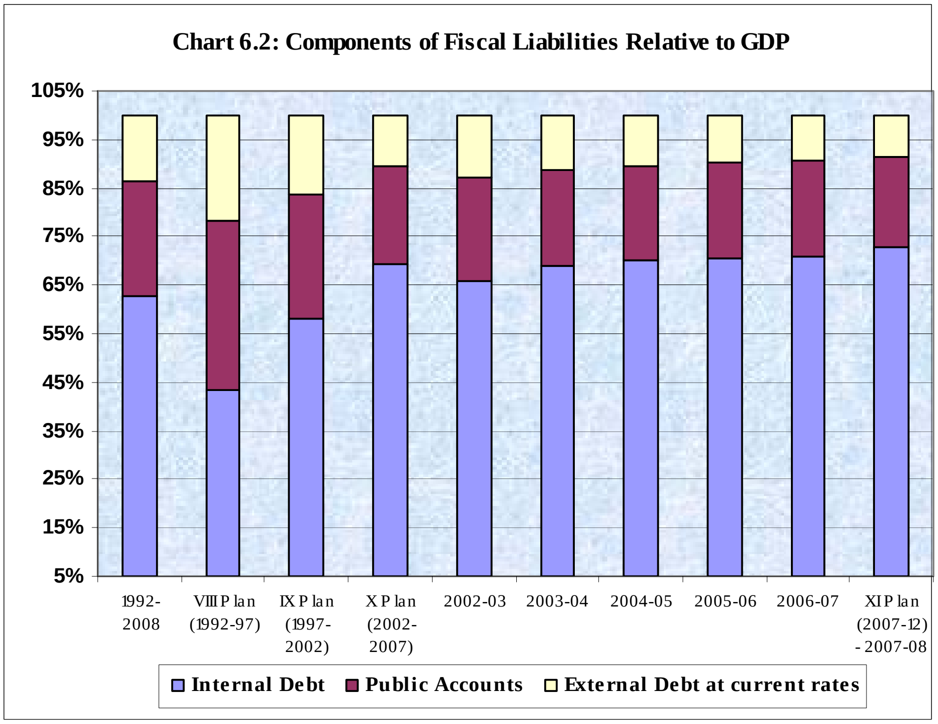


Table 6.2: Fiscal Liabilities Relative to GDP

(Per cent)

Period	Internal Debt	External Debt at historic rates	Public Accounts	Total liabilities (historic rates)	External Debt at current rates	Total liabilities (current rates)
1992-2008	36.00	2.89	13.66	52.56	7.81	57.48
VIII Plan (1992-97)	**26.29**	**4.74**	**21.03**	**52.06**	**13.28**	**60.59**
IX Plan (1997-02)	**34.12**	**3.21**	**15.19**	**52.52**	**9.52**	**58.84**
X Plan (2002-07)	**39.62**	**2.26**	**11.47**	**53.35**	**6.01**	**57.10**
2002-03	41.58	2.43	13.50	57.51	7.99	63.07
2003-04	41.45	1.67	12.12	55.24	6.69	60.25
2004-05	40.51	1.93	11.30	53.75	6.07	57.89
2005-06	38.82	2.63	10.75	52.20	5.42	54.99
2006-07	37.27	2.48	10.59	50.33	4.85	52.70
XI Plan (2007-12)						
2007-08	38.18	2.38	9.90	50.46	4.46	52.54
Average Annual Rate of Shift in Relative Shares						
1992-2008	3.66	-6.51	-5.94	-0.03	-7.92	-0.90

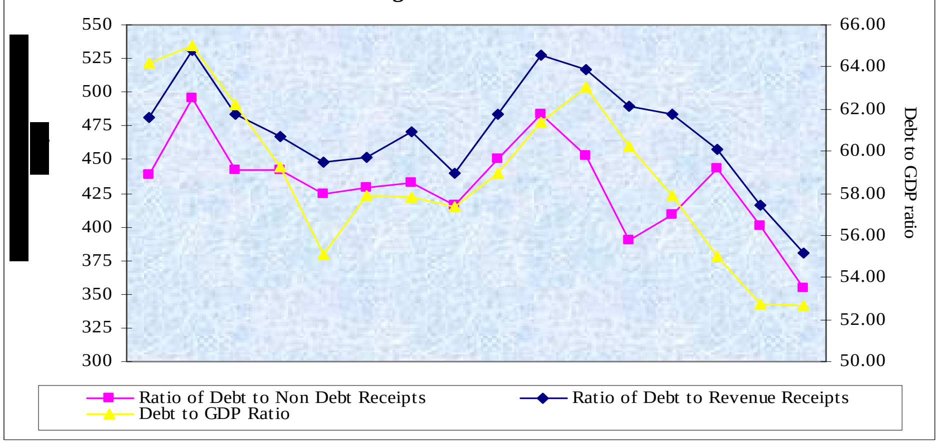
6.7 If various components of the fiscal liabilities in 1992-93 are set to 100, the index value of internal debt, external debt, public account and total liabilities in 2007-08 would be 904, 174, 291 and 515, respectively, as against the index of GDP at 630 indicating buoyancy of greater than one for internal debt while for external debt, public account liabilities and total debt being less than unity. Buoyancy of internal debt and total liabilities (with external debt being reckoned at the current exchange rate) with reference to GDP was 1.20 and 0.974, respectively, during 2007-08 as against long term buoyancies of 1.33 and 0.918, respectively, for the period 1992-2008.

6.8 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 6.3 gives the ratio of outstanding fiscal liabilities as a percentage of the non-debt receipts and revenue receipts.

Table 6.3: Outstanding Fiscal Liabilities (at current exchange rates) as a percentage of Non-Debt Receipts and revenue Receipts

Period	Non-Debt Receipt	Revenue Receipt
1992-2008	406	442
VIII Plan (1992-97)	**398**	**423**
IX Plan (1997-02)	**419**	**448**
X Plan (2002-07)	**419**	**472**
2002-03	453	516
2003-04	390	489
2004-05	409	484
2005-06	443	457
2006-07	401	416
XI Plan (2007-08)		
2007-08	354	381
Annual Rate of Shift in Relative Share (1992-2008)		
1992-2008	0.11	0.38
Average Annual Rate of Growth of the Parameter (1992-2008)		
1992-2008	11.16	12.30
Note:- Non-Debt Receipts are Revenue Receipts (net of the States' share in taxes) and non-debt capital receipts.		

Chart 6.3:Ratio of Debt to GDP, Non-debt Receipts and Revenue Receipts during 1992-93 - 2007-08



6.9 The ratio of fiscal liabilities to revenue receipts and non-debt receipts had a positive shift rate during 1992-2008 indicating the trend rate of growth of fiscal liabilities being greater than the rate of growth of the above two parameters. Average ratio of fiscal liabilities to non-debt receipts increased from 398 *per cent* during the VIII plan (1992-97) to a peak of 483 in 2001-02 before decelerating to an average of 419 during the X Plan (2002-07) with wide inter year variations. This deceleration was due to a moderate growth of fiscal liabilities relative to non-debt receipts during the period. For example, a decline in non-debt receipts by 0.27 *per cent* during 2005-06 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 from the level of 409 in 2004-05. Similarly, during the current year a growth rate of 27.89 *per cent* in non-debt receipts against an increase of 13.33 *per cent* in aggregate liabilities led to a sharp decline in their ratio to 354 from the level of 401 in 2006-07. The ratio of aggregate fiscal liabilities to revenue receipts has consistently increased from an average level of 423 during VIII Plan period (1992-97) to 472 during the X Plan (2002-07). After reaching the peak level of 516 in 2002-03, it has consistently declined to 416 in 2006-07 and further to 381 during the current year due to moderate growth of fiscal liabilities relative to revenue receipts during the period. Buoyancy of the aggregate fiscal liabilities to non-debt receipts and revenue receipts during 1992-2008 was 1.039 and 0.917, 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. Trends in the ratio of fiscal liabilities to the three parameters of GDP, non-debt receipts and revenue receipts are depicted in Chart 6.3.

6.10 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 6.4: 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
1992-2008	1278729	583182	45.61	11.28	7.48	0.66
VIII Plan (1992-97)	**628608**	**362555**	**57.68**	**12.48**	**10.31**	**0.83**
IX Plan (1997-02)	**1131064**	**575671**	**50.90**	**11.85**	**8.29**	**0.70**
X Plan (2002-07)	**1836987**	**739512**	**40.26**	**8.98**	**4.74**	**0.53**
2002-03	1548176	693286	44.78	10.62	4.20	0.40
2003-04	1659634	688435	41.48	7.20	-0.70	-0.10
2004-05	1823279	717675	39.36	9.86	4.25	0.43

Period	Aggregate Liabilities	Aggregate Assets	Ratio of Assets to Liabilities	Annual Growth of Liabilities	Annual Growth of Assets	Buoyancy of Assets
2005-06	1968799	774082	39.32	7.98	7.86	0.98
2006-07	2185049	824081	37.71	10.98	6.46	0.59
XI Plan (2007-12)						
2007-08	2476357	942507	38.06	13.33	14.37	1.08

6.11 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 40.26 *per cent* during the X Plan (2002-07) with the lowest ratio at 37.71 *per cent* during 2006-07. The ratio of assets to liabilities during the X Plan (2002-07) period consistently declined from 44.78 *per cent* in 2002-03 to 37.71 in 2006-07 mainly due to the fact that aggregate liabilities grew at an annual average rate of growth of 8.98 *per cent* against the growth rate of 4.74 *per cent* in assets of the Union Government during the period. Average annual rate of shift in this ratio was (-) 3.42 *per cent* during 1992-2008. Buoyancy of the assets to the liabilities also declined from 0.83 *per cent* during the VIII Plan (1992-1997) to 0.70 *per cent* during the IX Plan (1997-2002) and further to an average of 0.53 *per cent* during the X Plan (2002-07) (Table 6.4). 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 2005-06 declining in subsequent year to 0.59 during the current year. The assets of the Government however increased by 14.37 *per cent* during the current year which was higher than the growth rate of 13.33 *per cent* in aggregate liabilities resulting in buoyancy of assets exceeding unity for the first time during the period 1992-2008. The sharp increase in assets during the current year was primarily on account of steep increase in non-plan capital expenditure (138.54 *per cent*) over the previous year. Despite the steep increase in growth of assets during the current year, over 62 *per cent* of the union government liabilities still ceased to have any asset back up in 2006-07 and 2007-08.

Debt Sustainability

6.12 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. If the nominal growth rate of the economy exceeds the nominal rate of interest on domestic debt, stabilisation of domestic debt is possible while still running a primary deficit (even in excess of monetisation).

6.13 The average interest rate (nominal) on total debt over time, as indicated in Table 6.5, remained lower than the rate of growth of GDP at the market prices during 1992-2008. However, the spread declined from an average of 8.61 *per cent* during the VIII Plan (1992-1997) to an average of 1.31 *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 5.87 *per cent* during the X Plan (2002-07) with maximum positive spread being at 7.96 *per cent* in 2006-07. The spread was, however, reduced to 5.46 during the current year, which is a result of decline in rate of growth of GDP and an increase in interest rate on aggregate liabilities respectively by 2.11 and 0.38 percentage points in 2007-08 over the previous year.

6.14 Average interest rates on fiscal liabilities, however, moved in a narrow range from the minimum of 7.65 percent in 1993-94 to the maximum of 9.34 percent in 1999-2000 during the period 1992-2008. Average annual rate of interest on external debt was 3.07 *per cent* during VIII Plan, which decelerated to an average of 2.51 *per cent* during the IX Plan (1997-2002) and further to an average of 1.78 *per cent* during 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 8.91 *per cent* during 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 192 basis points during the current year.

Table 6.5: 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
1992-2008	9.37	2.34	8.34	12.29	3.94
VIII Plan (1992-97)	**9.37**	**3.07**	**7.91**	**16.72**	**8.81**
IX Plan (1997-02)	**10.42**	**2.51**	**9.06**	**10.33**	**1.27**
X Plan (2002-07)	**8.91**	**1.78**	**8. 09**	**14.00**	**5.91**
2002-03	10.03	2.13	8.90	7.71	-1.20
2003-04	9.24	1.60	8.28	12.22	3.95
2004-05	8.69	1.52	7.89	14.34	6.44
2005-06	8.47	1.65	7.75	13.68	5.93
2006-07	8.48	1.99	7.84	15.79	7.96
XI Plan (2007-12)					
2007-08	8.87	1.95	8.22	13.68	5.45
Average Annual Rate of growth					
1992-2008	-0.41	-4.68	0.31	-1.52	
*Average interest rate is = Interest paid/Outstanding Liabilities at the beginning of the year*100*					

6.15 The debt sustainability of the Union Government also depends on (i) the ratio of the debt redemption (principal + interest payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

Table 6.6 gives the ratio of debt redemption to debt receipts during 1992-2008 period encompassing VIII, IX and X Plans. Debt redemption ratio has consistently increased from an average of 93.10 in VIII Plan (1992-97) to 98.68 *per cent* during X Plan (2002-07) with inter year variations. It exceeded the unity only once in 2003-04 during the period 1992-2008, when the repayments towards the discharge of past debt obligations were significantly more than the fresh debt receipts during the year. The ratio has declined in subsequent years mainly due to enhanced debt receipts, which have increased by 6.97 *per cent* during the current year. An increase in internal debt by Rs. 223024 crore (13.70 *per cent*) primarily due to enhanced liabilities on account of increase in issue of bonds under Market Stabilisation Scheme (Rs. 126535 crore) in 2007-08 over the previous year led to an increase of Rs. 144659 crore (6.97 *per cent*) in debt receipts during the year.

Table 6.6: 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)		
	(Rupees in crore) (Annual Average)			*(Per cent)*	
1992-2008	778424	655233	751225	84.17	96.51
VIII Plan (1992-97)	**266443**	**203787**	**248066**	**76.48**	**93.10**
IX Plan (1997-02)	**530341**	**411106**	**502208**	**77.52**	**94.70**
X Plan (2002-07)	**1250358**	**1097979**	**1233839**	**87.81**	**98.68**
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	1671998	1521331	1662706	90.99	99.44
2006-07	2074421	1862092	2016372	89.76	97.20
XI Plan (2007-12)					
2007-08	2219080	1919367	2099026	86.49	94.59

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

6.16 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 (EFC) 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 EFC felt that the pre-requisite to this is the achievement of revenue balance by instituting measures for augmenting revenue receipts and compressing expenditure.

6.17 Table 6.7 indicates the resource gap as defined above for VIII, IX and X Plans and separately for each year of the X Plan as well as for the current year to present the trends in the recent years. It would be observed that during 1992-2008, incremental revenue receipts fell short by 11.18 *per cent* in meeting the incremental revenue expenditure. This gap increased from an average of 14.86 *per cent* during VIII Plan (1992-97) to 52.04 *per cent* during the IX Plan (1997-2002) and declined sharply to 7.98 *per cent* during the X Plan (2002-07). 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 resource gap, which continuously increased during the three years 2002-05. During 2005-06 and 2006-07, while the incremental revenue receipts increased by 43.15 *per cent* and 74.69 *per cent*, respectively, the corresponding increases in non-interest revenue expenditure and interest payments were 490.53 and 266.28 *per cent* in 2005-06 and 40.25 and 23.88 *per cent* during 2006-07. The wide differences in the rates of increases led to huge negative gap of Rs. 30997 crore and Rs. 23150 crore, which were amongst the maximum divergences recorded between incremental revenue receipts and revenue expenditure in a year and in fact indicates the absolute increase in revenue deficit during 2005-06 and 2006-07 over the corresponding previous years. The incremental revenue receipts have increased by 31.32 *per cent* (Rs. 29580 crore) in 2007-08 over the previous year while incremental revenue expenditure declined by 34.85 *per cent* (Rs. 40982 crore) during the year resulting in a positive resource gap of Rs. 47412 crore in 2007-08 from (-) Rs. 23150 crore in the previous year. The improvement in incremental revenue receipts during the current year was mainly on account of more receipts through non-tax sources (Rs. 35868 crore) as against Rs. 13037 crore in the previous year. On the other hand increase in revenue expenditure was contained at 11.64 *per cent* (Rs. 76621 crore) during 2007-08 as against the increase of 21.75 *per cent* (Rs. 117603 crore) in the previous year. The resultant of these changes in incremental revenue receipts and revenue expenditure was the huge positive resource gap (Rs. 47412 crore) during the current year, which is exactly the amount by which revenue deficit was squeezed in 2007-08 from the level of Rs. 85435 crore in the previous year.

Table 6.7: Shortfall of incremental revenue receipts to meet incremental revenue expenditure and interest payments

(Rupees in crore)

Period	Incremental				Resource Gap
	Revenue Receipts	Non-interest Revenue Expenditure	Interest Expenditure	Total Revenue Expenditure	
1992-2008	34350	29086	9587	38673	-4323
VIII Plan (1992-97)	**18778**	**15480**	**6576**	**22056**	**-3278**
IX Plan (1997-02)	**14312**	**18903**	**10939**	**29842**	**-15530**
X Plan (2002-07)	**52023**	**48510**	**8021**	**56532**	**-4509**
2002-03	34547	23609	10400	34009	538

(Rupees in crore)

Period	Incremental				Resource Gap
	Revenue Receipts	Non-interest Revenue Expenditure	Interest Expenditure	Total Revenue Expenditure	
2003-04	39274	26954	3541	30495	8779
2004-05	37771	12641	2844	15485	22286
2005-06	54069	74649	10417	85066	-30997
2006-07	94453	104698	12905	117603	-23150
XI Plan (2007-12)					
2007-08	124033	50914	25707	76621	47412

Fiscal Deficit and Debt Sustainability

6.18 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 stabilise the debt-GDP ratio and, at the same time, can promote growth. The FRBM Act 2003, read with its rules and subsequent amendment, specifies the target for achieving a fiscal deficit to GDP ratio of 3 *per cent* 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, TFC 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 stabilise at 44 *per cent* of GDP by 2008-09.

6.19 At present, the Union's debt-GDP ratio is close to 53 *per cent*, with external debt measured at current exchange rates, and after excluding NSSF liabilities against which there are assets in the form of state securities and Market Stabilisation 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) revealed that after exhibiting a steep decline in 2003-04 to 2.94 *per cent*, it has indicated an increasing tendency during the subsequent three years. Similarly, revenue deficit to GDP ratio, after reaching the minimum level of 2.50 *per cent* during 2004-05, it has increased to 3.20 *per cent* in 2006-07. The deficit indicators, however, took a turn around during the current year and fiscal and revenue deficits relative to GDP as per Union Finance Accounts for 2007-08 declined to 3.50 and 1.81 *per cent*, respectively. The actual levels of revenue and fiscal deficits were, however, higher than their budget estimates respectively by 0.31 and 0.20 percentage points. Notwithstanding the slippages in deficit indicators, the fiscal correction during 2007-08 was higher than the minimum reductions of 0.3 *per cent* and

0.5 *per cent* (relative to GDP) for fiscal and revenue deficit respectively, stipulated per year under the FRBM Rules, 2004. Furthermore, the Finance Accounts showed primary surplus of Rs. 15025 crore (which was however only 0.32 *per cent* of GDP) from the huge deficit of Rs. 28654 crore in 2006-07 reflecting containment of non-interest expenditure below the non-debt receipts. Although the management of public finances during 2007-08 was as per the process of fiscal consolidation under FRBM Rules, 2004 but keeping in view the conscious shift in plan priorities in favour of revenue expenditure-intensive programmes and schemes particularly at the commencement of the XI Plan and recognising the systemic rigidity in containing non-Plan committed revenue expenditures in the short term, the targets relating to revenue deficit were rescheduled for its elimination by 2009-10, while those relating to fiscal deficit were set to be achieved as per the mandate in the Act,

Cash Management

6.20 With the Union Government entering into an agreement with the Reserve Bank of India in 1994, a system of automatic monetisation 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. With the Reserve Bank of India withdrawing from participation in the primary issuance of Central Government securities with effect from April 1, 2006 in accordance with the FRBM Act 2003, the WMA arrangements were revised from 2006-07. In order to facilitate the transition necessitated by the FRBM provisions, under the revised arrangements, the limits for 2006-07 were fixed on quarterly basis. Accordingly, the WMA limits for 2006-07 were placed at Rs. 20000 crore and Rs. 10000 crore for the first and the second quarters, respectively, and Rs. 6000 crore each for the third and fourth quarters of the year. The Reserve Bank, however, retained the flexibility to revise the limits in consultation with the Government, taking into consideration the transitional issues and prevailing circumstances. The limits for WMA to the Central Government for 2007-08 were fixed at Rs. 20000 crore for the first half of the year (April-September) and Rs. 6000 crore for the second half of the year (October-March), thereby restoring the practice of fixing the limits on a half-yearly basis, which existed prior to 2006-07. The interest rate on WMA continued to be at the repo rate and that on overdraft, at repo rate *plus* two percentage points.

6.21 During 2007-08, the liquidity position of the Central Government remained, in general, comfortable although there were some pressures during the first quarter of the year and in July 2007. The surplus cash balances of the Centre, which amounted to Rs. 50092 crore at end-March 2007, were drawn down to meet the higher than anticipated spending by the Centre. With a sharp increase in the borrowing requirements resulting from accentuated mismatches between revenue receipts and aggregate expenditure during the first four months of 2007-08, the Central Government took recourse to WMA and overdraft on three occasions, with the peak overdraft at Rs. 12305 crore. A surplus was built up in June 2007 ahead of the Central Government's acquisition of the Reserve Bank's stake in State Bank of India (SBI), which was used up by the end of the month to meet this expenditure and the Central Government reverted to WMA. With the transfer of surplus from the Reserve Bank on August 9, 2007, the Central Government went into surplus cash balance mode and remained so thereafter, touching a peak of Rs. 104741 crore on March 27, 2008. The closing cash balance as per the Finance Account as on March 31, 2007 turned out to be Rs. 229633 crore. During 2007-08, the Central Government availed WMA for a total of 91 days as compared to 39 days during 2006-07. The Central Government also resorted to overdraft for 37 days. The details of WMA availed by the Union Government since 1999-2000 are presented in Table 6.8, which reveals that there were no outstanding WMA balances after the year 2001-02 (Table 6.8).

Table 6.8: 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
2006-07	Nil	25226	25226	Nil
2007-08	Nil	110007	110007	Nil

Unutilised Committed External Assistance

6.22 As on 31 March 2008, unutilised committed external assistance was of the order of Rs. 78037 crore. The sector-wise details of unutilised external assistance are given in **Appendix-VI-B** and Table 6.9 below shows the year-wise total un-drawn balance of external assistance from various sources. The sector-wise details reveal that more than 35 *per cent* of unutilised external assistance pertains to Urban Development and Road sector during 2007-08 and the un-drawn absolute amount remained more than Rs. 27300 crore during 2007-08. Within the energy sector, atomic energy indicated the unutilised assistance amounting to Rs. 6429 crore during 2006-07, which reduced to Rs. 4995 crore during 2007-08. The sectors such as Agriculture, Environment and Forestry, Power, Water Supply and Sanitation, and Water Resources have been unable to withdraw the external aid amounting to Rs. 23428 crore, which constitutes more than 30 *per cent* of total un-drawn balance during 2007-08. More importantly, health sector has also not been able to utilise the external assistance of Rs. 4815 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 commitment charges are being paid by the Government, initiatives need to be taken to address the issues being faced by these sectors for not utilising the available funds.

Table 6.9: Unutilised Committed External Assistance

(Rupees in crore)

Year	Amount
2000-01	56920
2001-02	62565
2002-03	67361
2003-04	64517
2004-05	68430
2005-06	63067
2006-07	75935
2007-08	78037

6.23 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 6.10 indicates charges paid to various bodies/governments during 2000-2008 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. 124.54 crore in 2007-08.

Table 6.10: 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
2006-07	59.56	0.0	1.93	79.02	140.51
2007-08	62.55	0.0	1.72	60.27	124.54

Source: Controller of Aid Accounts & Audit **includes International Development Agency assistance*

Growth in Contingent Liabilities of the Union Government

6.24 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 6.11 gives the position regarding the maximum amount of guarantees and sums guaranteed and outstanding at the end of the financial year from 1999-2000 to 2007-08.

Table 6.11: 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
2006-07	114671	109826	46340	42.19
2007-08	114001	104872	46459	44.30

6.25 Total outstanding guarantees were 2.22 *per cent* of GDP and 16.15 *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.