Chapter 5

MANAGEMENT OF FISCAL LIABILITIES AND IMBALANCES

5.1 In an emerging economy like India, a balanced budget is not an option and Government has to resort to borrowings to bridge the gap between spiralling expenditure requirements and inadequate non-debt receipts. Internal debt, external debt and other liabilities are the three sets of liabilities that constitute the Union Government debt **(Box 5.1)**. Internal and external debts constitute public debt and are secured under the Consolidated Fund of India. Internal debt includes market loans, special securities issued to Reserve Bank of India and various other special securities, 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 small savings, provident funds, reserve funds and sinking funds (created by charging expenditure while actual expenditure/disbursement is yet to be made), deposits etc. 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.

Box-5.1 Fiscal liabilities of Government of India

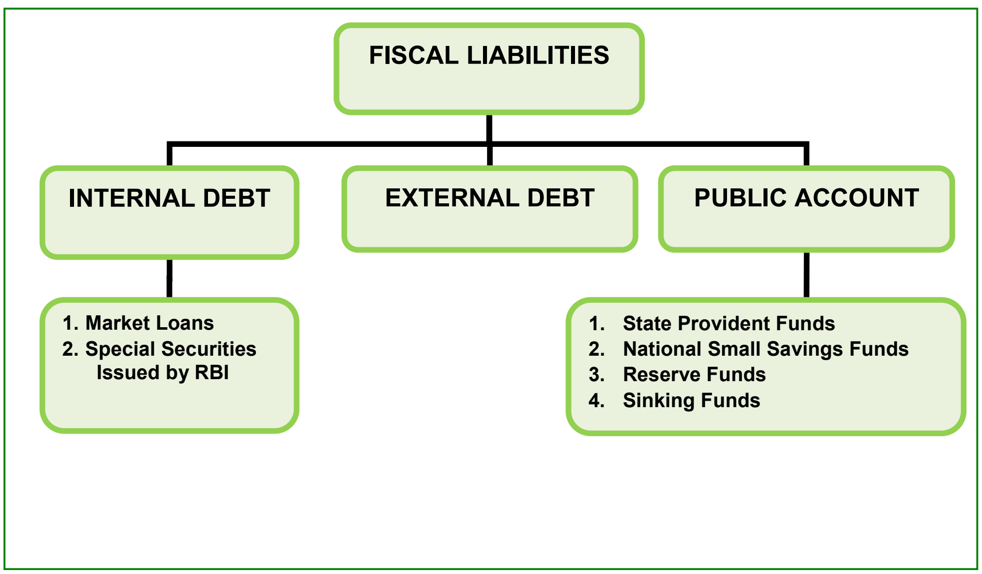


Table 5.1 presents aggregate liabilities of the Government including internal debt and external debt calculated both at the current rate of exchange and at the historic rate (the rate at which the debt was originally contracted) and the

Public Account during the X Plan period and the first three years of the XI Plan. Annual total liability in terms of its composition is indicated in **Appendix V-A**.

Table 5.1: Aggregate Fiscal Liabilities- Trends & Composition

(₹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)
X Plan (2002-07) (Average)	1274620	72715	368973	1716307	193395	1836987
XI Plan (2007-12)						
2007-08	1799651	112031	466602	2378284	210104	2476357
2008-09	2019841	123046	556235	2699122	264059	2840135
2009-10	2328339	134083	583279#	3045701	249306	3160924
Average annual Rate of Growth (*per cent*)						
X Plan (2002-07) (Average)	10.80	19.75	7.29	10.37	1.05	8.98
XI Plan (2007-12)						
2007-08	16.48	9.07	6.33	13.98	4.41	13.33
2008-09	12.24	9.83	19.21	13.49	25.68	14.69
2009-10	15.27	8.97	4.86	12.84	(-)5.59	11.29

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

 # As on 31.3.2010, Public Account liabilities stood at ₹ 10,67,541 crore, which includes ₹ 4,82,762 crore invested in special State Government securities and ₹ 1,500 crore invested in IIFCL from 2007-08.

Table 5.1 indicates that for the X Plan period, internal debt constituted 69 *per cent* of the total liabilities and grew at an average annual rate of around 11 *per cent.* In 2009-10, the share in total liabilities was as high as 74 *per cent* and its growth was higher at around 15 *per cent* compared to the X Plan period. High growth of internal debt can result in a "crowding-out" of potential private sector investment as interest rates tend to harden when government enters the debt market in such a significant manner. In both the other categories of fiscal liabilities, viz. External debt (at current rates) and liabilities in the Public Account, the growth in 2009-10 was lower than the average growth rate in the X Plan. External debt in the current year showed a negative growth since there was a considerable growth under this head in the previous year.

5.2 Fiscal Liabilities relative to GDP

The XII Finance Commission had recommended a reduction in total liabilities of the Union to 43.7 per cent of GDP by 2009-10 (Table 4.13, Page 75 of the Twelfth Finance Commission Report, November, 2004). Compared to this, the fiscal liabilities of the Union stood at over 50 *per cent* at the end of the current year.

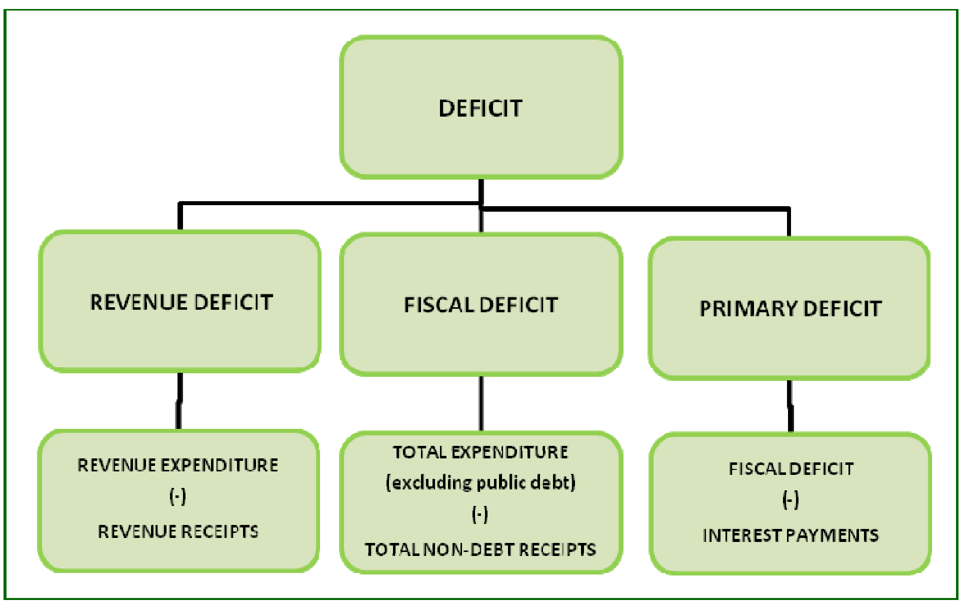
Table 5.2: Fiscal Liabilities Relative to GDP

(Per cent)

Period	Internal Debt/GDP	External Debt (at historic rates)/GDP	Public Accounts/GDP	Total liabilities (historic rates)/GDP	External Debt (at current rates)/GDP	Total liabilities (current rates)/GDP
X Plan (2002-07) (Average)	38.42	2.19	11.12	51.74	5.83	55.37
XI Plan (2007-12)						
2007-08	36.37	2.26	9.43	48.07	4.25	50.05
2008-09	36.23	2.21	9.98	48.42	4.74	50.95
2009-10	37.37	2.15	9.36	48.88	4.00	50.73

Box 5.2 gives an indication of the various kinds of deficits that occur if the Government borrows excessively to balance the budget.

Box- 5.2: Types of Deficits



5.2.1 Actual deficits vis-à-vis targets/requirements of FRBM Act/Rules

The FRBM Act, 2003 came into effect from July 2004 following the issue of Government notification and formulation of FRBM Rules, 2004. The *Act* and the *Rules* had provided for the elimination of the revenue deficit by 2008-09, with 0.5 percentage point of GDP as the minimum annual reduction target, and fiscal deficit to be brought to the level of 3 *per cent* of GDP, with 0.3 percentage point of GDP, as the minimum annual reduction target. The targets/requirements prescribed under FRBM Act/Rules are to ensure, *inter alia,* inter-generational equity[1] in fiscal management and long-term macroeconomic stability. The FRBM Act, however, had some built-in flexibility in achieving revenue and fiscal deficit reduction targets as there is a provision that the specified limits may be exceeded 'due to ground or grounds of national security or national calamity or such other exceptional grounds as the Central Government may specify'. Invoking this provision of the FRBM Act, the Union Government amended the dates originally envisaged in the Act for achieving the deficit targets. The targets relating to fiscal deficit were set to be achieved as per the mandate in the Act, while those relating to revenue deficit were rescheduled for its elimination by 2009-10 primarily on account of a conscious shift in plan priorities in favour of revenue expenditure-intensive programmes and schemes particularly at the commencement of the XI Five Year Plan. The systemic rigidity of containing non-Plan committed revenue expenditures in the short term, particularly arising from committed and obligatory expenditure such as interest payments, subsidies – both explicit and implicit, pensions, salaries and defence sector was stated to be another contributory factor.

Along with the Budget, and as required under the FRBM Act, the Central Government has been laying down, from 2004-05, *inter alia* the Medium-term Fiscal Policy Statement (MTFPS), specifying 3-year rolling targets for revenue and fiscal deficits as well as for tax revenue and total outstanding liabilities of the Central Government as percentages of GDP. These have been derived on the basis of assumptions on growth and the policy stance of the government. The targets for revenue and fiscal deficits set for the current year in MTFP Statements along with their actual levels as brought out in Union Government's Finance accounts for 2009-10 are given in **Table 5.3.**

[1] Reducing the burden of future generations to pay for present fiscal imprudence.

Table 5.3: Outcome vis-à-vis Targets under FRBM Rules (As *per cent* of GDP)

Fiscal Indicator	Targets set in MTFPS 2007-08 for the year 2009-10	Targets set in MTFPS 2008-09 for the year 2009-10	BE in MTFPS 2009-10 for the year 2009-10	Actual Levels (As deduced from Finance Accounts 2009-10)	Deviation from BE 2009-10
Revenue Deficit	0.0	0.0	4.8	5.66	17.92%
Fiscal deficit	3.0	3.0	6.8	6.94	2.06%

Table 5.3 presents the targets set for the key fiscal parameters – revenue and fiscal deficits for the 2009-10 in Medium Term Fiscal Policy Statements (MTFPS) placed along with the Budgets in earlier years. As against a revenue deficit target of 4.8 *percent* set out in the BE of 2009-10, the actual revenue deficit was 5.66 *per cent* registering a deviation of 17.92 *per cent* from the target. In the case of fiscal deficit, as against a target of 6.8 *per cent*, the actual fiscal deficit for the Union Government was over 6.94 *per cent* registering a 2.06 *per cent* deviation from the target. The main reasons for the slippages have been the conscious fiscal expansion of the Government in view of the slowdown in the economy – Tax cuts along with expenditure hikes resulted in high revenue deficit as well as high fiscal deficit and non-compliance to the original targets envisaged by the FRBM Act.

5.2.2 Revenue Deficit

Revenue deficit represents the difference between revenue expenditure and revenue receipt. Revenue deficit leads to increase in borrowings without corresponding capital/asset formation. Borrowings resorted to meet revenue deficit, therefore, do not have any asset back up and create an asset liability mismatch. For these reasons, revenue deficit is considered generally less desirable. Trends in revenue deficit and some of its key parameters are indicated in **Table 5.4**.

Table 5.4: Revenue Deficit and its parameters

(₹in crore)

Period	Revenue Receipt	Revenue Expenditure	Revenue Deficit	Revenue Deficit as *per cent* of		
				GDP	Revenue Receipt	Revenue Expenditure
X Plan (2002-07) (Average)	394426	500825	106399	3.21	26.98	21.24
XI Plan (2007-12)						
2007-08	649426	734861	85435	1.73	13.16	11.63
2008-09	653847	1010224	356377	6.39	54.50	35.28
2009-10	704523	1057479	352956	5.66	50.10	33.38

Table 5.4 indicates that in relation to GDP, revenue deficit amounted to 3.2 *per cent* for the X Plan period. In comparison, the revenue deficit to GDP ratio was much smaller in 2007-08 (1.7 *per cent*) but rose sharply to 6.4 *per cent* in 2008-09. In the current year there was some improvement and the revenue deficit stood at 5.66 *per cent*. When revenue deficit is compared to revenue receipts, it is observed that on an average for the X plan period, revenue deficit accounted for more than 27 *per cent* of the revenue receipts. This figure rose sharply in 2008-09 to around 55 *per cent* and fell marginally to around 50 *per cent* in the current year.

In comparison with revenue expenditure, on an average for the X Plan period, revenue deficit amounted to over 21 *per cent* of revenue expenditure. This proportion increased to over 35 *per cent* in 2008-09 and fell marginally to over 33 *per cent* in the current year.

5.2.3 Fiscal Deficit

Fiscal deficit normally represents the net incremental liabilities of the Government or its additional borrowings. The shortfall could be met either by additional public debt (internal or external) or by the use of surplus funds from Public Account. Fiscal deficit trends along with the trends of the deficit relative to key fiscal parameters are indicated in **Table 5.5**.

Table 5.5: Fiscal Deficit and its Parameters

(₹in crore)

Period	Non-Debt Receipts	Total Expenditure	Fiscal Deficit	Fiscal Deficit as *per cent* to		
				GDP	Non-Debt Receipts	Total Exp.
X Plan (2002-07) (Average)	440415	573852	133437	4.02	30.30	23.25
XI Plan (2007-12)						
2007-08	698613	863575	164962	3.33	23.61	19.10
2008-09	667922	1102366	434444	7.79	65.04	39.41
2009-10	741837	1174280	432443	6.94	58.29	36.83

Fiscal deficit as a percentage of GDP, non-debt receipts and total expenditure was much lower on an average in the X Plan period. In 2008-09, these ratios deteriorated considerably as shown in **Table 5.5** and in the current year, there was a marginal improvement.

If the bulk of fiscal deficit is for sustaining capital expenditure or for providing financial accommodation to entities for capital formation, such deficits may be considered desirable up to a point. **Table 5.6** presents the movement of components of fiscal deficit over the X Plan period as well as for the first three years of the XI Plan.

Table 5.6: Components of Fiscal Deficit

(*Per cent*)

Period	Revenue Deficit	Net Capital Expenditure	Net Loans and Advances
X Plan (2002-07)	79.74	31.22	-10.96
XI Plan (2007-12)			
2007-08	51.79	47.37	0.84
2008-09	82.03	17.72	0.25
2009-10	81.62	17.60	0.78

Revenue deficit was the dominant component of fiscal deficit, accounting for nearly 80 *per cent* of it during the X Plan period. There was a steep decline in the share of revenue deficit in fiscal deficit in 2007-08 but in 2008-09 and in the current year, revenue deficit accounted for around 82 *per cent* of the fiscal deficit. Capital expenditure suffered a set back because borrowed funds were required to finance the ballooning revenue expenditure. Net loans and advances of the Union government could be for both revenue and capital expenditure.

5.2.4 Primary Deficit

While fiscal deficit represents the need for additional resources in general, a part of such resources may be needed to finance interest payments. Interest payments represent the expenditure of past obligations and are independent of current allocative priorities. To look at the imbalances of the current nature, these payments need to be separated and deducted from the total imbalances.

Table 5.7: Primary Deficit and its Parameters

(₹in crore)

Period	Revenue Deficit	Fiscal Deficit	Interest Payments	Primary Deficit*	Primary Deficit as *per cent* of GDP
X Plan (2002-07)	106399	133437	135860	-2423	-0.07
XI Plan (2007-12)					
2007-08	85435	164962	179987	-15025	-0.30
2008-09	356377	434444	200580	233864	4.20
2009-10	352956	432443	223701	208742	3.35

** A negative figure indicates existence of primary surplus*

During the X Plan period and during 2007-08, there was a primary surplus, which means that the interest payments were higher than the fiscal deficits. However, in 2008-09 and 2009-10, fiscal deficit was two times the interest payments. This meant that during these two years, 50 *per cent* or more of the fiscal deficits were due to revenue expenditure other than interest payments. Prudent reduction of revenue expenditure could enable the Government to return to a state of primary surplus.

5.3 Buoyancy of Assets and Ratio of Assets to Liabilities

Governments in developing countries tend 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, 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 5.8: Buoyancy of assets and Ratio of Assets to Liabilities

(₹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
X Plan (2002-07) (Average)	1836987	739512	40.26	8.98	4.74	0.53
XI Plan (2007-12)						
2007-08	2476357	942507	38.06	13.33	14.37	1.08
2008-09	2840135	1020498*	35.93	14.69	8.27	0.56
2009-10	3160924	1119741	35.42	11.29	9.72	0.86

The ratio of assets to liabilities in 2009-10 was only 35 *per cent* compared to the X Plan average ratio of over 40 *per cent*. This means that over the years, the liabilities are growing faster than assets as is shown in **Table 5.8**. As against the average growth rate of around 9 *per cent* in the X Plan period, total liabilities grew by nearly 15 *per cent* in 2008-09 and around 11 per cent in the current year. Annual growth in assets in the first three years of the XI Plan has been higher than the average annual growth rate in the X Plan.

5.4 Debt Sustainability

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[2] are either zero, 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.

The average interest rate (nominal) on total debt over time, as indicated in Table 5.9, remained lower than the rate of growth of GDP at the market prices[3] during the X Plan period. The average interest rate on internal debt in 2009-10 (8.54 *per cent*) was lower than the growth rate of GDP (11.78 *per cent)*. The average interest rate paid on external debt is much lower than that paid on domestic debt.

Table 5.9: 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
X Plan (2002-07) (Average)	8.91	1.78	8.09	14.18	6.10
XI Plan (2007-12)					
2007-08	8.87	1.95	8.24	15.50	7.26
2008-09	8.67	2.00	8.10	12.66	4.56
2009-10	8.54	1.37	7.88	11.78	3.90
*Average interest rate is = Interest paid/Outstanding Liabilities at the beginning of the year*100*					

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 5.10** shows that debt redemption ratio was 98.68 *per cent* during X Plan but fell in the first three years of the XI Plan. In 2009-10, around 97 *per cent* of debt receipts were applied towards total debt repayment. The ratio has declined in subsequent years mainly due to enhanced debt receipts.

[2] Primary balances refer to fiscal deficit minus interest payments.
[3] Please refer Table 3.1 in Chapter 3

Table 5.10: 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)		
	(₹ in crore) (Annual Average)			*(Per cent)*	
X Plan (2002-07) (Average)	1250358	1097979	1233839	87.81	98.68
XI Plan (2007-12)					
2007-08	2219076	1919363	2099350	86.49	94.60
2008-09	2754231	2454164	2654744	89.11	96.39
2009-10	3912574	3564771	3788472	91.11	96.83

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

Table 5.11 indicates that compared to an average shortfall in resources (incremental revenue expenditure minus incremental revenue receipts) of ₹ 4,509 crore for the X Plan period, the resource gap widened alarmingly in 2008-09 to ₹ 2,70,942 crore but changed to positive resource gap of ₹ 3,421 crore in the current year.

Table 5.11: Shortfall of incremental revenue receipts to meet incremental revenue expenditure and interest payments

(₹ in crore)

Period	Incremental				Resource Gap
	Revenue Receipts	Non-interest Revenue Expenditure	Interest Expenditure	Revenue Expenditure	
X Plan (2002-07) (Average)	52023	48510	8021	56532	(-)4509
XI Plan (2007-12)					
2007-08	124033	50914	25707	76621	47412
2008-09	4421	254770	20593	275363	(-)270942
2009-10	50676	24134	23121	47255	3421

In 2009-10, the incremental revenue expenditure (net of interest payments) reduced to one-tenth of what it was in 2008-09 and hence, the huge resource gap of ₹ 2,70,942 crore in 2008-09 showed considerable improvement and incremental revenue expenditure was less than incremental revenue receipts in the current year. The abnormally high incremental revenue expenditure in 2008-09 can be mainly attributed to (i) incremental expenditure on crop husbandry of ₹ 53,650 crore in 2008-09 followed by a decline of ₹ 32,149 crore in 2009-10, (ii) incremental expenditure on petroleum of ₹ 55,456 crore in 2008-09 followed by a decline of ₹ 53,536 crore in 2009-10 and (iii) incremental expenditure on rural employment of ₹ 21,163 crore in 2008-09 followed by a decline of ₹ 3,961 crore in 2009-10. If this trend is maintained, then the debt position will be easier to manage.

5.5 Cash Management

Effective 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. 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 details of WMA availed by the Union Government are presented in **Table 5.12**, which reveals that there were no outstanding WMA balances in recent years.

Table 5.12: Ways and Means Advances

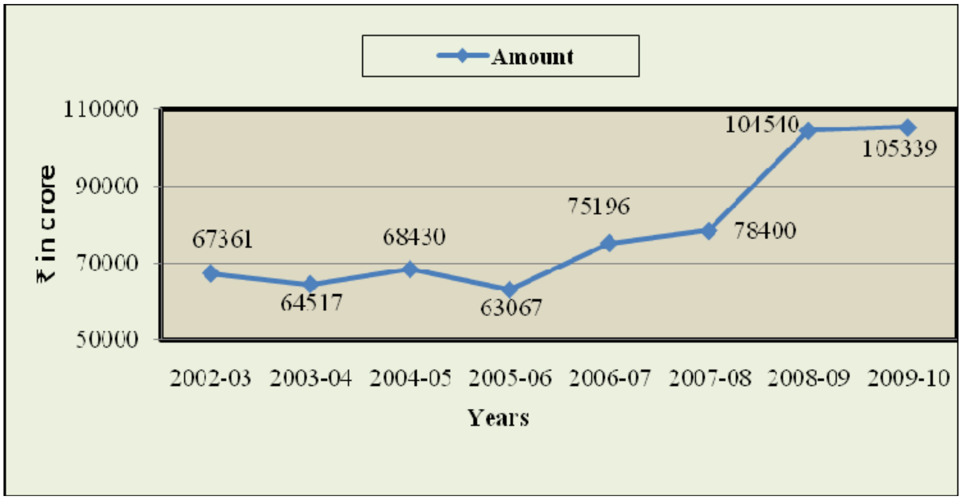
(₹ in crore)

Year	Opening Balance	Addition during the Year	Discharge during the Year	Outstanding Ways and Means Advances
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
2008-09	Nil	226012	226012	Nil
2009-10	Nil	153154	153154	Nil

5.6 Unutilised Committed External Assistance

As on 31 March 2010, unutilised committed external assistance was of the order of ₹ 1,05,339 crore. The sector-wise details of unutilised external assistance are given in **Appendix-V-B** and **Chart 5.1** shows the year-wise total undrawn balance of external assistance from various sources. The sector-wise details from the office of the Controller of Aid, Accounts and Audit indicates that there were large undrawn balances in urban development, water resources, energy, infrastructure and health sector.

Chart 5.1: Unutilised external assistance



Commitment charges on undrawn 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 5.13 indicates charges paid to various bodies/governments during the X and XI Plan period 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 over ₹ 86 crore in 2009-10.

Table 5.13: Commitment Charges

(₹ in crore)

Year	ADB	France	Germany	IBRD	Total
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
2008-09	62.62	0.0	4.17	50.58*	117.37
2009-10	53.26	0.0	5.57	27.28	86.11

Source: Controller of Aid Accounts & Audit

**includes International Development Agency assistance*

5.7 Growth in Contingent Liabilities of the Union Government

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. Table 5.14 and Chart 5.2 gives the position regarding the maximum amount of guarantees, sums guaranteed outstanding and external guarantees outstanding at the end of the financial year in the X Plan and the first three years of the XI Plan.

Chart 5.2: Guarantees given by Union Government

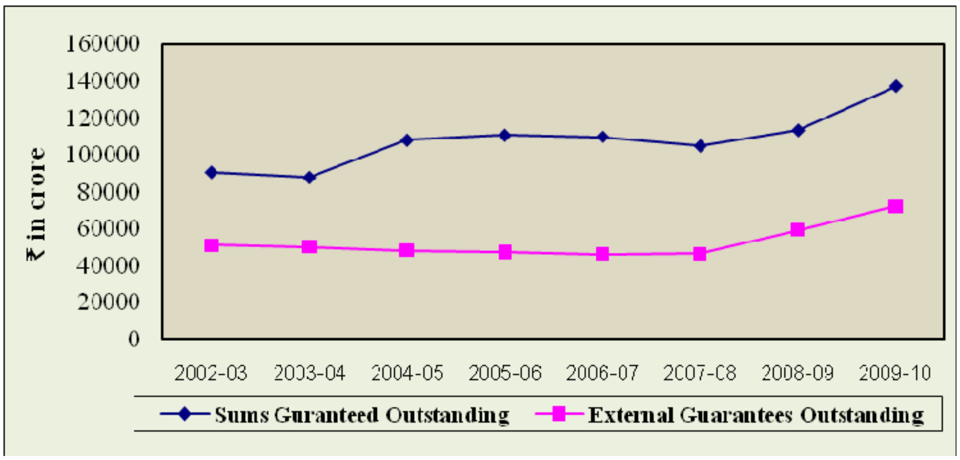


Table 5.14: Guarantees given by Union Government

(₹ in crore)

Position at the end of the year	Maximum amount of guarantee	Sums Guaranteed Outstanding	External Guarantees Outstanding	Outstanding External Guarantees as a per cent of Total Outstanding Guarantees
(1)	(2)	(3)	(4)	(5)
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
2008-09	117659	113335	59343	52.36
2009-10	150437	137205	72408	52.70

Guarantees are usually given to enable borrowing from international agencies or to enable PSUs to borrow money from the market. In 2009-10, of the maximum amount guaranteed (₹ 1,50,437 crore), 51 *per cent* went towards loans from foreign lending institutions, 40 *per cent* went towards guarantees to RBI /banks/industrial financial etc for repayment of principal and payment of interest, cash credit facility etc and the remaining 9 *per cent* went towards guarantees for repayment of share capital, payment of minimum annual dividend and repayment of bonds, loans and debentures/counter guarantees etc. The main ministries which were allotted guarantees by Ministry of Finance were Ministries/Departments of Consumer Affairs, Economic Affairs, Civil Aviation, Power and Steel. Updated maintenance of guarantee registers by Ministries becomes critical in determining the extent of risk to the Government.

As stipulated in Rule 3 (3) of FRBM Rules 2004 that Central Government shall not give guarantees aggregating to an amount exceeding 0.5% of the GDP in any financial year beginning with the financial year 2004-05, this percentage is worked out on the basis of net accretion of guarantees, which was 0.09 *per cent* in the year 2008-09. In the year 2009-10, this percentage is 0.4086 *per cent*. At the end of any financial year, guarantees which are outstanding has to be carried over for future years as they can be invoked at any time. Risk assessment of the likelihood of outstanding guarantees being invoked in a particular year therefore becomes critical while deciding the maximum amount of guarantee in any particular year.

Total outstanding guarantees were 2.2 *per cent* of GDP in 2009-10 and 19.47 *per cent* of the revenue receipts that accrued to the Union.

5.8 Return to the Fiscal Correction Path

The XIII Finance Commission has recommended that the Medium Term Fiscal Plans statement being laid in the Parliament, along with the budget documents should be a statement of commitment and not merely one of intent. New disclosures have been specified on public private partnerships and details of variables underlying receipts and expenditure projections. Revenue deficit should be progressively reduced and eliminated by 2014-15. Debt stock for the Centre should be reduced to 45 *per cent* of GDP (it is currently over 50 *per cent*). An independent review mechanism should be set up to evaluate the fiscal reform process and the FRBM Act needs to specify the nature of cyclical economic events that require relaxation of FRBM targets.