

The FRBM Act prior to the 2018 amendment, defined “total liabilities” of the Government as liabilities under CFI and the Public Accounts. The FRBM Act as amended in April 2018 introduced a broader concept of Central Government Debt in place of “total liabilities”. Central Government Debt²⁹ at any date, was defined to include:

- a) total outstanding liabilities on the security of the CFI, including external debt valued at current exchange rates;
- b) the total outstanding liabilities in the Public Account of India; and
- c) such financial liabilities of any body-corporate or other entity owned or controlled by the Central Government, which the Government is to repay or service from the Annual Financial Statement.

In addition, the amended Act also incorporated the concept of “General Government Debt” which the Act defined as the sum total of debts of the Central Government and the State Governments, excluding inter-governmental liabilities.

The targets applicable for Central Government Liabilities/Debt and General Government Debt, were as follows:

- a. FRBM Act and Rules in vogue during FY 2017-18, envisaged that the Government would not assume additional liabilities in excess of nine *per cent* of GDP from FY 2004-05 onwards and would in each subsequent FY progressively reduce this limit by at least one percentage point of GDP. Post April 2018 amendment, the targets relating to outstanding liabilities were reformulated in terms of total liabilities/debt as a percentage of GDP. A target of containing Central Government Debt to 40 *per cent* and General Government debt to 60 *per cent* of GDP by 2024-25 was set. However, the rules do not provide for any annual targets to be achieved.
- b. In the case of guarantees, the target was to ensure that guarantees given by the Government would not exceed 0.5 *per cent* of GDP in any FY beginning with FY 2004-05. In the amended Act of 2018, the target has been restated as “Central Government shall not give additional guarantees with respect to any loan on security of CFI in excess of *one-half per cent* of GDP, in any financial year”.

Even after the amendment of the Act in April 2018, provisions and limits applicable to guarantees remained unchanged.

²⁹ These liabilities are to be reduced by the cash balance at the end of the date.

3.1 Union Government Liabilities: 2017-18

3.1.1 Annual additional liabilities up to 2017-18

The annual target relating to additional total liabilities of the Government prior to the 2018 Amendment of the Act, implied that Central Government would not assume any additional liability from FY 2014-15. However, **Table 3.1** shows that Government continued to assume additional liabilities beyond that year.

Table 3.1.: Liability of the Government: 2014-15 to 2018-19

(₹ in crore)						
Financial year	Liability at the beginning of the year	Liability at the end of the year	Additional liability during the year	GDP	Liability as %age of GDP	Additional liability as %age of GDP
	1	2	3= (2-1)	4	(2/4)	(3/4)
2014-15	52,59,310	57,75,685	5,16,375	124,67,959	46.3	4.1
2015-16	57,75,685	64,23,032	6,47,347	137,71,874	46.6	4.7
2016-17	64,23,032	69,06,265	4,83,233	153,91,669	44.9	3.1
2017-18	69,06,265	76,53,486	7,47,221	170,98,304	44.8	4.4
2018-19	76,53,486	84,31,499	7,78,013	189,71,237	44.4	4.1

Source: Union Government Finance Accounts

Note: Liability includes external debt at current rates of exchange

The additional liability was 4.1 per cent of GDP in 2014-15, grew to 4.7 per cent of GDP in 2015-16, then fell to 3.1 per cent in 2016-17 but thereafter, increased to 4.4 per cent of GDP in 2017-18. Audit however, noted that taking on additional liabilities was inevitable for funding the fiscal deficit each year. The factors identified to explain the size of the FD in these years also explain the year-to-year variation in the annual additional liabilities assumed during the period.

Further, as pointed out in Para 2.3 of the Report on FRBM for the FY 2016-17, there was a contradiction between the annual targets fixed for additional liabilities and the annual targets for FD as while the former envisaged no additional liability after 2014-15, by fixing a target for FD of three per cent of GDP, the Act in effect allowed additional liability to this extent in perpetuity. This contradiction has since been addressed with the target with respect to debt and total liabilities being reformulated by the 2018 amendment in the FRBM Act.

3.1.2 Total fiscal liability of the Union Government: 2017-18

Total fiscal liability of the Union Government at the historical rate of exchange (the rate at which the debt was originally contracted) and at the current rate of exchange, based on the Union Government Finance Accounts (UGFA) for FY 2017-18, is detailed in **Table 3.2**.

Table 3.2: Total Outstanding liability for the FY 2017-18

	(₹ in crore)	Per cent of GDP
Internal Debt of Union Government	64,01,275	37.44
External Debt (at historical rate)	2,50,090	1.46
Public Account Liabilities	8,06,929	4.72
Total liabilities (at historical rate)	74,58,294	43.62
External Debt (at current rate)	4,45,282	2.60
Total liabilities (at current rate)	76,53,486	44.76

The FRBM Act defined “total liabilities” of the Government as liabilities under CFI and the Public Account of India at the current rate of exchange. **Table 3.2** shows that total liability at the current rate of exchange was 44.76 *per cent* of GDP. During 2017-18, internal debt including Public Account liabilities, constituted 96.65 *per cent* of the total liabilities at historical rate and external debt constituted the balance. If external debt is accounted at the current rate of exchange, the ratio of internal debt to total liabilities was 94.18 *per cent*.

Audit noted that the UGFA excludes accumulated deficit with respect to National Small Savings Fund (NSSF) operations, small savings invested in Special State Government securities and small savings invested in other instruments, from the computation of Public Account liabilities. During 2017-18, total investment out of Small Savings Fund collections amounting to ₹7,32,613.26³⁰ crore and accumulated deficit in the operation of NSSF of ₹1,07,637.84 crore were excluded from Public Account liabilities. If these are taken into account, actual outstanding Public Account liabilities works out to ₹16,47,180³¹ crore at the end of 2017-18 as against ₹8,06,929 crore reflected in the Accounts.

The position of total fiscal liabilities of the Union Government taking into consideration both the netted and actual figures of Public Account Liabilities is given in **Table 3.3**.

Table 3.3: Netted and gross figure of Public Account liability & total liability

		(₹ in crore)	Per cent of GDP
1	Public Account Liabilities (as per netted figure)	8,06,929	4.7
2	Public Account Liabilities (Actual)	16,47,180	9.6
3	Understated amount (3-2)	8,40,251	4.9
4	Total netted Liabilities (at current rate)	76,53,486	44.8
5	Total actual Liabilities (at current rate) (3+4)	84,93,737	49.7

Taking into account the outstanding to the tune of ₹24,262 crore for the EBRs (fully serviced) listed in Statement No. 27 of the Expenditure Budget 2019-20, the total liability of the Central Government stood at ₹85,17,999 crore at the end of 2017-18, which is 49.82 *per cent* of GDP.

3.1.3 Central Government Debt

As stated in the opening Para of this Chapter on account of the 2018 amendment of the FRBM Act, the definition of Central Government debt was expanded to include financial liabilities of any body-corporate or other entity owned or controlled by the Central Government, which the Government is to repay or service from the Annual Financial Statement. This expanded definition is applicable from FY 2018-19. In Para 2.6, mention was made that the Government has from the Union Budget of 2019-20, appended a statement under the “Expenditure Profile” to disclose liabilities as per the expanded definition of Central Government debt. However, no conceptual framework with clear criteria, had been devised for recognising what extra budgetary resources and which entities would be included under the expanded definition of

³⁰ (₹5,07,245.25 crores in Special State Government Securities, ₹1,62,000 crores in Government Undertakings, and ₹63,368.01 crores in Post Office Insurance Fund)

³¹ (₹13,94,422 crores as Small Savings and Provident Fund and ₹2,52,758 crore as other obligations)

Central Government debt. This would hamper objective computation of Central Government debt for applying FRBM targets. In addition, there was no accounting framework for assumption and servicing of such liabilities and related transactions. Besides, no mechanism was prescribed for disclosure of such liabilities along with their implications for financial indicators and for intergenerational equity, in the Union Budget and the UGFA. Ministry stated (June 2020 and December 2020) that a Steering Committee for Extra Budgetary Resources (EBRs) has been constituted for providing the overall policy framework for managing EBRs and dealing with proposals of Ministries/Departments for raising EBRs. It clarified that from the Union Budget 2019-20 onwards fully serviced EBRs are being disclosed in budget statements. However, it did not elaborate on the accounting of such debt and its depiction in the Union Accounts.

3.1.3.1 Central Government Debt Target: 2018-19.

The FRBM Act has fixed a target of containing Central Government Debt to 40 *per cent* of GDP by 2024-25. However, no annual reduction targets have been prescribed in the Act for the intervening years. Given that FD is projected in each year, annual increases in the stock of Central Government debt would be inevitable.

In the above context, with Central Government debt being 48.7 *per cent* of GDP in 2018-19 (provisional), and with the expansion of the definition of Central Government debt from 2018-19, the target set out in the FRBM Act would be difficult to achieve.

Audit noted that the MTFP cum FPS of 2020-21 recognised the importance of accurate computation of Central Government debt for effective debt management and control. However, the policy statement did not provide a measure of the exact quantum of Central Government debt as per the new definition. The Ministry has however, assured (June 2020 and December 2020) of efforts for providing this data in the MTFP cum FPS of 2021-22.

Audit noted that the budget documents include a “Statement of Liabilities of the Central Government” as part of the Receipt Budget. This statement however, does not explicitly depict total liabilities in terms of the expanded definition of Central Government Debt and only discloses these liabilities by way of a footnote. For the year 2018-19 these liabilities were assessed as being ₹89,864.10 crore, which was about 0.47 *per cent* of GDP.

However, as brought out in Chapter 2, borrowings of some PSEs and Government agencies have not been included in the statement referred to above, or been explicitly recognised as Central Government debt.

3.1.3.2 Total stock of Central Government debt - 2018-19

The position of Central Government debt at the end of FY 2018-19 both at the historical and current rates of exchange based on data sourced from UGFA 2018-19 and budget documents for 2019-20, is given in the **Table 3.4**.

Table 3.4: Details of Central Government Debt at the end of FY 2018-19

	(₹ in crore)	Per cent of GDP
Internal Debt of Union Government	70,74,941	37.29%
External Debt (at historical rate)	2,69,961	1.42%
External Debt (at current rate)	4,74,439	2.50%
Public Account Liabilities	8,82,119	4.65%
EBRs Recognised by Government	89,864	0.47%
Total Central Government Debt (at historical rate)	83,16,885	43.84%
Total Central Government Debt (at current rate)	85,21,363	44.92%

Further, as in the case of FY 2017-18 the Public Accounts liabilities shown in UGFA exclude accumulated losses in National Small Savings Fund operations (₹1,13,651.81 crore), small savings invested in Special State Government Securities and small savings invested in other instruments (₹4,71,206.21 crore). Further, External Debt was depicted at historical rate and totalled ₹2,69,961 crore, while at the current rate of exchange the figure was ₹4,74,439 crore. After factoring all the above, the stock of Central Government Debt works out to ₹85,21,363 crore at the end of FY 2018-19 as shown in **Table 3.5**.

Table 3.5: Working of Central Government Debt during 2018-19

	(₹ in crore)	Per cent of GDP
1 Public Account Liabilities (as per netted figure)	8,82,119	4.65
2 Public Account Liabilities (Actual)	18,12,016	9.55
3 Understated amount (2-1)	9,29,897	4.9
4 Total Central Government Debt with netted Public Account Liabilities (at current rate)	85,21,363	44.92
5 Total Central Government Debt with actual Public Account Liabilities Actual Liabilities (at current rate) (3+4)	94,51,260	49.82

Source: Union Government Finance Accounts 2018-19

Further, liabilities assumed on account of extra budgetary resources raised through borrowings which remained out of the debt calculation also merit clear disclosure in the UGFA.

The FRBM Report of CAG for 2016-17 (Report No.20 of 2018) had highlighted that the FRBM Act provides for a framework for debt management which primarily consisted of containing RD and FD, and managing the raising and use of debt so as to keep costs low and the potential for income generation high. It noted that there was an absence of policy on deployment of debt funds to support these objectives. It pointed to increased use of extra budgetary resources raised through borrowings, for funding both revenue and capital expenditure in preference to use of budgetary resources. As such extra budgetary resources impose a cost and a liability for the future, it is essential that aspects such as rate of returns and creation of capacity to service the borrowings are taken into account while using such funds.

Ministry asserted that the FRBM Act has reduction of FD as a key target and that MTFP and FPSS which are presented to Parliament, make projections with respect to debt and outline the strategy for managing debt. The reply however, does not specifically address the issues of comprehensive disclosure of borrowings for raising extra budgetary resources and lack of a policy framework that links the cost of borrowing with returns from borrowed funds deployed for capital expenditure of the Government.

3.1.4 General Government debt target

The 2018 amendment to the FRBM Act incorporated the concept of “General Government debt” consisting of both Central and State Government debt, and fixed a target of containing General Government debt at a level of 60 *per cent* of the GDP by the end of financial year 2024-25. As in the case of Central Government debt, the FRBM Act only provides for an end period target and no annual reduction targets have been prescribed in the rules framed under the FRBM Act.

As mentioned in the context of Central Government debt, accurate computation of General Government debt is essential for debt management and control. In response to Audit’s observation that the Ministry had not undertaken any exercise to compute and disclose the stock of General Government debt in terms of the FRBM framework either in the Policy Statements or the Budget documents, Ministry pointed out that it had brought out Status Papers on Government debt which contain details of General Government debt³².

The position with respect to General Government debt for the last five years sourced from the Status Paper for 2018-19 is given in **Table 3.6**.

Table 3.6: Position of General Government Debt as depicted in Status paper of Debt

Year	(₹ in crore)	Per cent of GDP
	Amount	Actual
2014-15	83,34,829	68.8
2015-16	94,75,280	68.8
2016-17	1,05,24,777	68.4
2017-18	1,17,40,614	68.7
2018-19	1,30,23,102	68.6

Source: Table 1.5 of the Status Paper on Debt 2018-19.

Audit noted that the figures for General Government debt for the year 2018-19, are based on revised estimates and not on actuals. Further, though the status paper includes EBRs recognised by Central Government in Statement 27 of the expenditure profile as part of debt, it did not provide any information on whether fully serviced EBRs of the States had been included in State Government debt at par with Central Government debt. As such, it would be pre-mature to treat this as adequate disclosure on General Government debt under the FRBM framework.

On the issue of computing State Government debt at par with the Central Government debt, Audit noted that no orders/instructions/directions had been issued to State Governments in this respect. In addition, no ceilings on debt for States consistent with the FRBM target of containing the share of the debt of States within 20 *per cent* of GDP by 2024-25, have been determined. Besides no strategy for containing General Government debt at the level mandated by the FRBM Act, has been presented in any of the FRBM mandated statements.

Ministry stated (June 2020 and December 2020) that the FRBM Act has been enacted to provide for the responsibilities of the Central Government with respect to inter-generational equity and long-term macro-economic stability. The targets with respect to General

³² Chapter IV of the Status Paper brought out by DEA.

Government debt targets serve as an indicative guidance for State Governments for managing their debt and deficit.

Audit is however, of the view that MoF as the Ministry administering the FRBM Act, is responsible for laying down systems and policy for computing General Government debt in consultation with the State Governments. It should also frame a time bound strategy and action plan for achieving the target set out in the FRBM Act, given the fact that it is already involved in setting limits on borrowings by States.

3.2 Guarantees

Central Government extends guarantees primarily for improving the viability of projects or activities undertaken by the Government entities with significant social and economic benefits, to lower the cost of borrowings as well as to fulfil the requirement in cases where sovereign guarantee is a precondition for bilateral/multilateral assistance. While guarantees, being contingent liabilities, do not form part of debt, in the eventuality of default, they have the potential of aggravating the liability position of the Government.

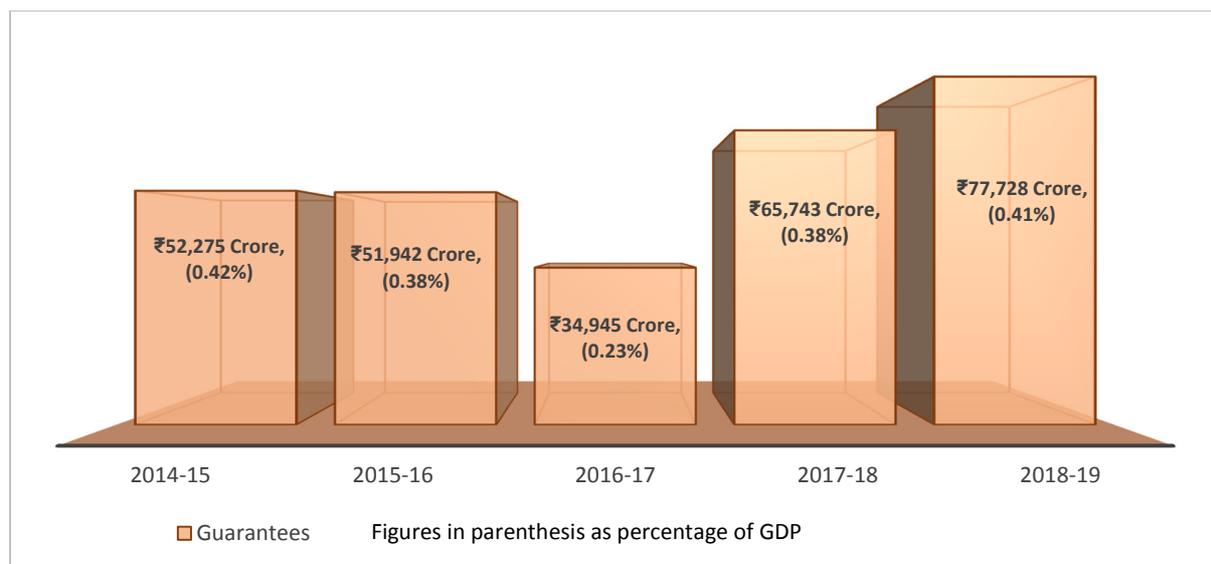
3.2.1 Guarantee target

The FRBM Act and the Rules made thereunder, stipulate that the Central Government shall not give additional guarantees with respect to any loan on security of the CFI in excess of one-half *per cent* of GDP, in any financial year.

3.2.2 Trend of addition in Guarantee

Graph 3.1 shows the trend of additions in guarantees given by the Government in a financial year as a percentage of GDP, over the period from 2014-15 to 2018-19:

Graph 3.1: Trends of addition in guarantees: 2014-15 to 2018-19



Source: Guarantee figures from Statement of Guarantees in Receipts Budget, GDP as per Press Note of CSO dated 29 May 2020.

Note: Second axis represents addition in guarantees as percentage of GDP.

Graph 3.1 shows that in the last three years, addition of guarantees in a FY has remained within the prescribed target of 0.5 per cent of GDP.

In the context of the above, it is pertinent that the figures for additional guarantees only take into account guarantees that are given explicitly and included in the Union Government Finance Accounts/Disclosure Form. In addition, public sector entities such as PFC, REC, NHAI and IRFC also raise funds for funding projects through bonds and other instruments that have implicit guarantees, as their Public Sector character is key to the ratings of these bonds. In the case of IRFC the bonds are an explicit charge on the rolling stock assets of the Indian Railways. If these implicit guarantees are taken into account, the additional guarantees each year would exceed the thresholds set in the FRBM Act.

Further, mention must also be made of guarantees given through legislation as in the case of LIC and NHAI which, though not reflected in the Union Government Finance Accounts, also constitute a contingent liability.

Way Forward

Government may consider:

- a) *computing and disclosing the stock of total liabilities/Central government Debt and General Government Debt based on their new definition in the amended FRBM Act. It should also devise a strategy for meeting FRBM targets for both Central and General Government Debt which should include setting annual debt reduction targets.*
- b) *laying down a conceptual framework with objective criteria for comprehensively recognising what extra budgetary resources would be part of government debt and which entities raising such debt should be included in these calculations so that Central and General Government debt is comprehensively and objectively computed.*
- c) *devising a framework for accounting and depicting all borrowings that are part of the new definition, as also such borrowings recognised after refining criteria for recognition, in the UGFA along with their implication for fiscal indicators and inter-generational equity.*
- d) *a policy framework that links the cost of borrowing with returns from borrowed funds deployed for capital expenditure.*
- e) *defining General Government debt in accordance with internationally accepted Public Sector Management frameworks to comprehensively include liabilities of the Central Government, State Governments, the third tier and entities under their control, so as to have an effective Financial Responsibility legislation.*
- f) *devising a framework for disclosing borrowings by entities owned/controlled by the Government raised on the basis of implicit guarantees/assurance.*

3.3 Audit Summation

The amendments to the FRBM Act and Rules from April 2018 led to a significant reformulation of the concept of debt and related targets. The amendment changed the reference from total liability of the Government to Central Government Debt with an expanded definition and introduced the concept of General Government Debt. The target set in the FRBM framework with respect to total liabilities prior to the April 2018 amendment, implied that the Government would not take on any additional liability after 2014-15. However, the Government took on additional liability each year from 2014-15 to 2017-18 ranging from 3.3 *per cent* of GDP to 4.7 *per cent* of GDP. In 2017-18, the total liabilities at the current rate of exchange computed on the basis of the Union Government Finance Accounts (UGFA) 2017-18, was 44.76 *per cent* of GDP. However, after taking into account the understatement of public liability in the accounts and the liability on account of EBRs listed in Statement 27 of the Expenditure Budget 2019-20, total actual liabilities would be 49.82 *per cent* of GDP. In 2018-19, Central government debt at current rate as derived from UGFA 2018-19 was 44.92 *per cent* of GDP. However, after taking into account the understatement of public liability in the accounts, total actual liabilities would be 49.82 *per cent* of GDP. In the revised FRBM framework, Central Government debt and General Government debt is to be contained at 40 per cent and 60 per cent of GDP respectively by the end of 2024-25. However, no exercise has been undertaken to compute and disclose both Central Government and General Government debt as per the changed definitions and no annual reduction targets for intervening years have been advised by the Government. Addition of guarantees in a FY has remained within the prescribed target of 0.5 *per cent* of GDP.