

CHAPTER VII : MANAGEMENT OF DEBT

7.1 Debt/liability of the Union Government

To bridge the gap between expenditure and revenue, Government resorts to borrowing from internal and external sources. These borrowings are termed as Public Debt comprising internal and external debt. Apart from this, there are certain other liabilities which are accounted for in the Public Account of India which also serve as a source to finance the Government's deficit budgeting.

Total liability of the Government reckoning the external debt at current rate of exchange at the end of the last five years was as under:

Table 7.1 : Total liability of the Union Government

(Rupees in crore)

Year	Public debt		Public Account		Total liability	Percentage of GDP
	Internal debt	External debt at current rate of exchange	Small savings, provident fund etc.	Reserve fund and deposit		
1998-99	459696	177934	333261	41595	1012486	57.44
		(57254)			(891806)	(50.60)
1997-98	388998	161442	291867	42097	884404	56.56
		(55332)			(778294)	(49.78)
1996-97	344475	149077	239042	37919	770513	60.34
		(54239)			(675675)	(52.91)
1995-96	307869	148583	213435	33680	703567	64.04
		(51249)			(606233)	(55.18)
1994-95	266467	142389	192222	28993	630071	66.63
		(50928)			(538610)	(56.96)

Note: Figures in brackets denote external debt at historical rate

Total liability at current rate of exchange increased by 61 per cent over last five years.

Total liability of the Union Government increased from Rs 630071 crore in 1994-95 to Rs 1012486 crore in 1998-99 which constituted an increase of 61 per cent. The total liability of the Government for the last 23 years since 1976-77 is given in Appendix-XII.

7.2 Ceiling on borrowing

No ceiling on borrowing fixed as yet as envisaged in Article 292 despite recommendation of PAC and Estimates Committee.

The Union Government is empowered under Article 292 of the Constitution of India to “borrow upon the security of the Consolidated Fund of India, within such limits, if any, as may be fixed by Parliament by law.” Clearly total borrowings should bear some proportion to the receipts in the Consolidated Fund of India. Fixing of such limits on the borrowing power of Government under this Article was recommended by the Public Accounts Committee in para 15 of their Ninth Report (1962-63-Third Lok Sabha), in para 5 of their Thirty-Sixth Report (1964-65-Third Lok Sabha) and in para 2.13 of their Fifty-Second Report (1965-66-Third Lok Sabha) as well as by the Estimates Committee in para 1.192 of their Twelfth Report (1991-92-Tenth Lok Sabha). In view of this piquant situation wherein debt service obligations outstrip revenue receipts, debt receipts constitute more than half of the Government receipts and debt servicing absorbs more than half of the Government disbursement, there is an urgent need to contain debt.

However, the Government has not fixed any limit on the borrowing with the approval of the Parliament in compliance to the provision of the Constitution despite recommendations of the PAC and the Estimates Committee.

7.3 Internal debt

The term internal debt refers to regular loans from the public in India and is also termed as “Debt raised in India”. It includes market loans, special securities issued to RBI, compensation and other bonds, etc. In addition, it also includes borrowing through treasury bills, non interest bearing rupee securities issued to IMF, IBRD (World Bank) IDA, IFAD, African Development Bank and Asian Development Bank. The receipt and repayment of internal debt are accounted for in the Consolidated Fund of India.

The internal debt of the Union Government for the last five years was as under:

Table 7.3(i) : Growth of internal debt

	<i>(Rupees in crore)</i>				
	1998-99	1997-98	1996-97	1995-96	1994-95
Opening balance [⊕]	388998	344474	307869	266467	245712
Addition	385283	368806	200507	174207	148556
Repayment of principal	314584	324282	163901	132805	127801
Net addition during the year	70699	44524	36606	41402	20755
Closing balance	459697	388998	344475	307869	266467
As %age of GDP	26.08	24.88	26.98	28.02	28.18

[⊕] Minor changes in figures of opening balance due to prior period adjustment.

Internal debt increased by 72.51 per cent over last five years.

Total internal debt of the Union Government increased from Rs 266467 crore at the end of March 1995 to Rs 459697 crore at the end of March 1999 which constituted an increase of 72.51 per cent over 1994-95.

The composition of the internal debt at the end of the last five years was as under:

Table 7.3(ii) : Composition of internal debt

(Rupees in crore)

	1998-99	1997-98	1996-97	1995-96	1994-95
Market loan	305512	236525	184028	164935	130934
	(66.46)	(60.80)	(53.42)	(53.57)	(49.14)
Treasury bills	18845	25842	64760	45665	40492
	(4.10)	(6.64)	(18.80)	(14.83)	(15.20)
Treasury bills converted into securities	101818	101818	71000	71000	71000
	(22.15)	(26.17)	(20.61)	(23.06)	(26.64)
Securities issued to international financial institutions	21522	17100	19562	22771	20366
	(4.68)	(4.40)	(5.68)	(7.40)	(7.64)
Compensation and other bonds	7911	4667	4079	2452	2629
	(1.72)	(1.20)	(1.18)	(0.80)	(0.99)
Special securities issued to RBI	1046	1046	1046	1046	1046
	(0.23)	(0.27)	(0.30)	(0.34)	(0.39)
Ways and means advances	3042	2000	-	-	-
	(0.66)	(0.51)			
Total	459696	388998	344475	307869	266467

(Figures in brackets denotes percentage of total internal debt.)

Share of treasury bills and treasury bills converted as securities in the internal debt.

Market loan, treasury bills and treasury bills converted into securities, which constituted more than 90 per cent of the internal debt obligations, have been analysed in detail in the succeeding paragraphs.

7.3.1 Devolvement of internal debt on RBI

During 1998-99, the addition of internal debt was Rs 385283 crore. Out of this, Rs 45276 crore devolved on RBI, which comprised of scrips put up for auction

but not absorbed by the market. The aggregate devolvement of Rs 45276 crore works out to 11.75 per cent of the addition of internal debt.

The details of devolvement during 1998-99 were as under:

Table 7.3.1 Devolvement of internal debt on RBI

(Rupees in crore)

Scripts	Amount
14 days auction treasury bills	2730
91 days auction treasury bills	2769
364 days auction treasury bills	1572
Market loans	38205
Total	45276

Auction-wise devolvement of above scrips has been analysed in succeeding paragraphs.

7.4 Treasury bills

Treasury bills are instruments issued by the Reserve Bank of India on behalf of the Union Government to raise short-term loans ranging between 14 and 364 days intended to fill transient resource gaps. The trend of outstanding treasury bills vis-a-vis internal debt of the Union Government for the last five years was as under.

Table 7.4 (i) : Internal debt and treasury bills

(Rupees in crore)

Year	Total internal debt	Treasury bills				% age of col. 7 to 2	
		14 days	91 days		364 days		Total
			Auction	Ad hoc			
1	2	3	4	5	6	7	8
1998-99	459696	7148	1501	--	10196	18845	4.10
1997-98	388998	7998	1601	-	16243	25842	6.64
1996-97	344475	--	22389	34130	8241	64760	18.80
1995-96	307869	--	14345	29445	1875	45665	14.83
1994-95	266467	--	8847	23480	8165	40492	15.20

The percentage of treasury bills in the internal debt decreased from 15.20 per cent in 1994-95 to 4.10 per cent in 1998-99. The decrease was due to discontinuance of 91 days ad hoc and tap treasury bills from 1997-98.

The net accretion of internal debt and treasury bills during the last five years was as under:

Table 7.4 (ii) : Net addition of internal debt and treasury bills

(Rupees in crore)

Year	Net addition to internal debt	Net addition to treasury bills
1998-99	70699	(-) 6997
1997-98	44524	(-) 38918
1996-97	36606	19094
1995-96	41402	5174
1994-95	20755	(-) 489

It would be seen that net addition to treasury bills jumped abruptly during 1996-97, which has turned negative during 1997-98 and 1998-99 due to discontinuance of ad hoc and tap treasury bills with effect from April 1997.

7.4.1 At present there are three types of treasury bills

- (i) 14 days treasury bills
- (ii) 91 days treasury bills
- (iii) 364 days treasury bills

(i) 14 days treasury bills

There are two types of 14 days treasury bills as under:-

(a) 14 days intermediate treasury bills

Following the discontinuance of 91 days tap treasury bills from April 1997, Government introduced 14 days intermediate treasury bills in June 1997 to enable State Governments, foreign central banks and other specified bodies with whom the RBI has special arrangements, to invest their temporary surplus funds.

(b) 14 days auction treasury bills

This instrument was introduced on 6 June 1997, keeping in view the cash management requirements of various segments of the economy, as also to facilitate the emergence of more investment avenues. These bills are auctioned on a weekly basis.

However, in Union Government Finance Accounts, transactions of 14 days intermediate and auction treasury bills are clubbed together. The growth of 14 days treasury bills for the last two years was as under:-

Table 7.4.1(i) 14 days treasury bills

(Rupees in crore)

Year	Opening Balance	Addition during the year	Discharge during the year	Outstanding treasury bills
1998-99	7998	171251	172101	7148
1997-98	--	226961	218963	7998

The budget figure of receipts and disbursements during 1997-98 and 1998-99 were estimated at Rs 230000 crore and Rs 175000 crore each, against which the actual receipts during these years were Rs 226961 crore and Rs 171251 crore respectively. The average implicit yield at cut off price (*per cent*) for the 14 days auction treasury bills during 1998-99 was 7.79 *per cent* as compared to 5.83 *per cent* in the previous year.

Out of the total notified amount of Rs 8700 crore during 1998-99 of 14 days auction treasury bills, devolvement on RBI was Rs 2729.55 crore, primary dealers subscription was Rs 512 crore and subscription by others was Rs 5458.45 crore.

The auction wise devolvement on RBI was as under:

Table 7.4.1 (ii) Devolvement on RBI of 14 days auction treasury bills*

(Rupees in crore)

Date of auction	Amount notified	Devolvement on RBI	Subscription by others
10.07.98	300.00	50.00	250.00
24.07.98	500.00	15.00	485.00
14.08.98	500.00	25.00	475.00
21.08.98	500.00	500.00	--
28.08.98	500.00	475.00	25.00
04.09.98	500.00	500.00	--
11.09.98	500.00	500.00	--
18.09.98	100.00	75.00	25.00
25.09.98	100.00	50.00	50.00
16.10.98	500.00	250.00	250.00
18.12.98	100.00	38.55	61.45
24.12.98	100.00	42.00	58.00
08.01.99	100.00	20.00	80.00
15.01.99	100.00	89.00	11.00
19.03.99	100.00	50.00	50.00
26.03.99	100.00	50.00	50.00
Total	4600.00	2729.55	1870.45

(ii) 91 days auction treasury bills*

These bills are issued at a pre-determined discount rate and are subscribed by banks, corporations, State Governments etc. for investment of their surplus cash. 91 days auction treasury bills were introduced from January 1993 in order to move towards market related rates and offering wider choice to investors. The amount of bills offered and the date of auction is announced by the Reserve Bank of India from time to time. The bills are issued at a discounted price. The rate of discount and the corresponding issue price is determined at each auction. Successful bids up to the minimum discounted price determined at the auction are accepted. The Reserve Bank retains the right to participate in the auction and buy part of the offer at the cut-off price in case the bids fall short of the amount offered or the whole of the amount notified if all the bids are rejected.

* Does not include those in which there was no development on RBI

The growth of 91 days auction treasury bills over the last five years was as under :

Table 7.4.1 (iii) : 91 days treasury bills

(Rupees in crore)

<i>Year</i>	<i>Opening balance</i>	<i>Addition during the year</i>	<i>Discharge during the year</i>	<i>Outstanding treasury bills</i>
1998-99	1601	16697	16797	1501
1997-98	22389	13200	33988	1601
1996-97	14346 [^]	73657	65614	22389
1995-96	8847	53051	47553	14345
1994-95	10865	39441	41459	8847

The above table shows that the balance of 91 days auction treasury bills which was Rs 1601 crore at the end of 1997-98 came down to Rs 1501 crore at the end of 1998-99. The average implicit yield at cut off price (*per cent*) for 91 days auction treasury bills during 1998-99 was 8.57 *per cent* as compared to 6.80 *per cent* in the previous year.

Out of the total notified amount of Rs 9550 crore during 1998-99 of 91 days auction treasury bills, devolvement on RBI was Rs 2769.25 crore, primary dealers subscription was Rs 677 crore, and subscription by other bidders was Rs 6103.75 crore.

The auction wise devolvement on RBI was as under.

Table 7.4.1(iv) Devolvement on RBI of 91 days treasury bills

(Rupees in crore)

<i>Date of auction</i>	<i>Amount notified</i>	<i>Devolvement on RBI</i>	<i>Subscription by others</i>
03.07.98	100.00	30.00	70.00
14.08.98	400.00	160.00	240.00
21.08.98	500.00	500.00	--
28.08.98	500.00	500.00	--
04.09.98	500.00	500.00	--
11.09.98	500.00	285.00	215.00
18.09.98	200.00	125.00	75.00
25.09.98	200.00	100.00	100.00
09.10.98	500.00	3.75	496.25
23.10.98	500.00	229.00	271.00
18.12.98	400.00	76.50	323.50
24.12.98	100.00	36.00	64.00
15.01.99	100.00	95.00	5.00
26.02.99	100.00	47.00	53.00
19.03.99	100.00	50.00	50.00
26.03.99	100.00	32.00	68.00
Total	4800.00	2769.25	2030.75

[^] Change in opening balance due to rounding off

(iii) 364 days treasury bills

These bills were notified for issue on 28 April 1992. Any Indian resident inclusive of individual, firms, companies, corporate bodies, institutions except State Governments and provident funds can subscribe to these bills. The trend of these treasury bills during the last five years was as under:-

Table 7.4.1 (v) : 364 days treasury bills*(Rupees in crore)*

Year	Opening balance	Addition during the year	Discharge during the year	Balance at the end of the year
1998-99	16243	10200	16247	10196
1997-98	8241	16247	8245	16243
1996-97	1875	8241	1875	8241
1995-96	8165	1875	8165	1875
1994-95	8386	16857	17078	8165

The outstanding balance of 364 days treasury bills came down to Rs 10196 crore in 1998-99 from Rs 16243 crore in 1997-98. The average implicit yield at cut off price (*per cent*) for 364 days treasury bills during 1998-99 was 9.51 *per cent* as compared to 7.15 *per cent* in the previous year.

Out of the total notified amount of Rs 10200 crore during 1998-99 of 364 days treasury bills, devolvement on RBI was Rs 1572.30 crore, primary dealers subscription was Rs 514 crore, and subscription by other bidders was Rs 8113.70 crore.

The auction wise devolvement on RBI was as under.

Table 7.4.1(vi) Devolvement on RBI of 364 days treasury bills*(Rupees in crore)*

Date of auction	Amount notified	Devolvement on RBI	Subscription by others
07.04.98	100.00	49.00	51.00
20.05.98	100.00	100.00	--
03.06.98	100.00	100.00	--
17.06.98	100.00	98.30	1.70
01.07.98	100.00	100.00	--
15.07.98	200.00	25.00	175.00
25.08.98	400.00	400.00	--
23.09.98	200.00	90.00	110.00
20.10.98	400.00	30.00	370.00
24.02.99	750.00	270.00	480.00
24.03.99	750.00	310.00	440.00
Total	3200.00	1572.30	1627.70

7.5 Funding of ad hoc and other treasury bills

The treasury bills which were acknowledged as an instrument for meeting the short term and need based requirement of the Government to handle the fiscal management scenario, in fact, became a long term financing instrument.

This tendency was corroborated by the fact that during 1981-82 to 1991-92 and 1997-98 ad hoc treasury bills amounting to Rs 121818 crore were converted into special securities at an interest rate of 4.6 *per cent* without any specific date of maturity as detailed below:

Table 7.5(i) : Ad hoc treasury bills converted into securities

(Rupees in crore)

Year of funding	Amount of ad hoc treasury bills funded
1997-98	50818 [^]
1991-92	5000
1990-91	30000
1987-88	17500
1986-87	15000
1981-82	3500
Total	121818^ψ

Apart from the above undated conversions, 91 days and 364 days treasury bills amounting to Rs 8463 crore and Rs 27936 crore respectively were converted into dated stock at a much higher rate of interest ranging between 11 *per cent* to 13.25 *per cent* during 1992-96 as indicated below:

Table 7.5 (ii) : Funding of 364/91 day treasury bills

(Rupees in crore)

Year	364 days treasury bills		91 days treasury bills	
	Amount	Converted into dated stock	Amount	Converted into dated stock
1995-96	1585	13.25 per cent Government stock 2000		
1994-95	8078	11.75 per cent Government stock 2001	4417	12 per cent Government stock 1999
	101	11 per cent Government stock 1997	-	-
1993-94	6946	12.75 per cent Government stock 1996	4046	12 per cent Government stock 1995
1992-93	11226	12.50 per cent Government stock 2004	-	-
Total	27936		8463	

[^] Rs 34130 crore adhoc treasury bills and Rs 16688 crore tap treasury bills.

^ψ Includes Rs 2000 crore which were converted into market securities during 1997-98.

Short term loan of Rs 158217 crore was converted into long term loan.

It would be evident from the above that from the year 1981-82 to 1997-98 a total liability aggregating Rs 158217 crore was deferred by way of conversion of short term loan into long term loan at higher rate of interest. These increased the interest liability of Government. Out of the total deferred liability of Rs 158217 crore, Rs 101818 crore (Rs 121818 crore-Rs 20000 crore) was deferred for indefinite period.

7.6 Ways and means advances

In pursuance of the agreement between the Reserve Bank of India and the Union Government signed in March 1997, the practice of issuing ad hoc treasury bills to replenish Union Government's cash balance was discontinued with effect from 1 April 1997. As per the agreement, the Union Government would meet temporary mismatches between receipts and expenditure through ways and means advances provided by the RBI. The size and cost of ways and means advances would be determined on the basis of mutual agreement. Amounts drawn beyond the ways and means advances limit would be treated as overdraft. For 1998-99, ways and means advances was fixed at Rs 11000 crore and Rs 7000 crore for the first half (April-September) and second half (October-March) respectively. The interest rate for ways and means advances for fiscal 1998-99 was linked to the bank rates and fixed at 9 per cent per annum. For overdraft, the rate of interest was fixed at 11 per cent per annum. The transition from ad hoc treasury bills to the ways and means advances means elimination of automatic monetisation of fiscal deficit because, unlike ad hoc treasury bills, the instrument of ways and means advances is not a source of financing fiscal deficit. As per the agreement ways and means advances is to be fully paid off within three months from the date of making the ways and means advances. Further, when 75 per cent of the ways and means advances is utilised, RBI would trigger fresh floatation of Government Securities.

The details of cumulative amounts of ways and means advances obtained by the Union Government for the last two years were as under:-

Table 7.6. Ways and means advances

(Rupees in crore)

Year	Opening balance	Addition during the year	Discharge during the year	Outstanding ways and means advances
1998-99	2000	92257	91215	3042
1997-98	--	17239	15239	2000

The budget figure of total of receipts and disbursements of ways and means advances during 1997-98 and 1998-99 were estimated at Rs 100000 crore each.

The system of ways and means advances was introduced with a view to imposing fiscal discipline on the Government. The wide gap between the

expenditure and receipts necessitated the Government to resort to ways and means advances on a continuous basis for the major part of the year. During 1998-99, the Government took recourse to overdraft on 11 occasions up to a maximum of five consecutive working days.

7.6.1 An analysis of the resource management of the Government before and after the introduction of the system of ways and means advance viz. (i) through the instruments of short term borrowings, i.e. ad-hoc treasury bills and 91 days auction treasury bills before April 1997 and (ii) ways and means advance, 14 days treasury bills and 91 days auction treasury bills after introduction of the ways and means system was carried out to determine the efficacy of the new system.

The analysis was carried out in the light of the need of the Government for short term borrowings to meet the shortage in the cash balance with the Reserve Bank of India due to the receipts not matching the disbursement requirements.

The extent of borrowing through short term instruments is a factor of the interest paid on them and the efficacy of the new system is to be viewed with reference to the total amount of interest paid on short term instruments after adjusting the rate of interest.

The details of interest paid and rate of interest applicable on the various short term borrowing instruments for the last four years are as under :-

Table 7.6.1 : Interest paid and rate of interest on short term borrowings

Year	Interest paid (Rupees in crore)				Rate of interest (In percentage)			
	Ad-hoc T Bills	14 days T Bills	91 days T Bills	WMA	Ad-hoc T Bills	14 days T Bills	91 days T Bills	WMA
1998-99	--	270	427	410	--	7.79	8.57	9 (11)
1997-98	--	357	213	24	--	5.83	6.80	3.80 (5.80) ^β
1996-97	*	--	2879*	--	4.6	--	9.67	--
1995-96	*	--	2621*	--	4.6	--	12.66	--

Note: Figures in bracket denote interest in cases of overdraft

In the first year of currency of ways and means advance, the interest paid on it was nominal, as the Government depended for resources heavily on 14 days

^β In the absence of the quarterly average implicit yield of 91 days auction treasury bills, the annual average implicit yield has been taken into account for determining the rate of interest.

* Interest paid on ad hoc T bills, Tap T bills and 91 days auction T bills do not appear separately in detailed demands for grants.

treasury bills and 364 days treasury bills and did not take recourse to ways and means advance to a great extent. Besides, the rate of interest on ways and means advance was also very low at 3.80 *per cent* in 1997-98.

In 1998-99, the rate of interest on ways and means advance was linked to bank rate, which was fixed at 9 *per cent per annum* for advances within the limit and 11 *per cent per annum* for overdraft. Apart from continuous recourse to ways and means advance, Government also resorted to overdraft on 11 occasion, during the year, leading to higher outgo of interest of Rs 410 crore.

7.7 Market borrowings

Market borrowing consists of raising of funds through dated stock certificates/bonds maturing after specific period which carry specific rate of interest individually.

The net addition of market loans for the last five years was as under:

Table 7.7 (i) : Addition of market loans net of repayments

(Rupees in crore)

<i>Year</i>	<i>Opening balance</i>	<i>Receipt</i>	<i>Repayment</i>	<i>Net addition</i>	<i>Outstanding market loans</i>
1998-99	236525	83753	14766	68987	305512
1997-98	204027	43389	10891	32498	236525
1996-97	164935	26998	7905	19093	184028
1995-96	130934	39548	5547	34001	164935
1994-95	110608	21250	924	20326	130934

It would be observed from the above table that net addition of market loans more than doubled during 1998-99.

The growth of market loans during the last five years was as under:

Table 7.7 (ii) : Growth of market loans

(Rupees in crore)

Year	Amount outstanding	Interest paid
1998-99	305512	28362
1997-98	236525	22170
1996-97	184028	19125
1995-96	164935	15856
1994-95	130934	13480

It would be observed from the above table that the outstanding amount of market loans increased from Rs 130934 crore at the end of 1994-95 to Rs 305512 crore at the end of March 1999, which constituted a steep increase of 133 *per cent*.

Market loan grew by 133 *per cent* and interest payment on it grew by 110 *per cent* over last five years.

During the last five years, Rs 174905 crore has been added to Public Debt through market borrowings. The actual accretion to resources after deducting the interest payment during the last five years has been Rs 75912 crore only. The net accretion to resource during 1998-99 after reckoning the repayments and interest payments was Rs 40625 crore, which is 49 *per cent* of the actual receipt. The interest payments on market loans increased from Rs 13480 crore in 1994-95 to Rs 28362 crore in 1998-99, an increase of 110 *per cent*. The rate of interest on which these loans were raised ranged between 5.5 *per cent* and 14 *per cent per annum*.

As per Annual Report of RBI for 1998-99, the proportion of the short term loans in the total market loans has come down sharply to 18.2 *per cent* at the end of March 1998 against 75.8 *per cent* at the end of March 1992. Short term debt entails more frequent repayment obligations and amortisation problems. The market loans due for redemption during the next five years would reach the maximum of Rs 31252 crore during 2003-2004 from Rs 16353 crore in 1999-2000 as is evident from the table given below:-

Table 7.7(iii) Repayment schedule of market loans
(Rupees in crore)

Year	Amount
1999-2000	16353
2000-2001	28321
2001-2002	28260
2002-2003	28263
2003-2004	31252

Viewed in the background of this heavy liability towards repayment of loan, Government will be compelled to resort to still heavier borrowings to meet its liabilities on account of past loans.

7.7.1 Devolvement of market borrowing on RBI

As per Annual Report of RBI for 1998-99, the devolvement on the RBI of market borrowings which were not absorbed by the market during the last five years was as under :

Table 7.7.1 (i) : Devolvement of market borrowing on RBI
(Rupees in crore)

Year	Amount
1998-99	38205
1997-98	13028
1996-97	3698
1995-96	12655
1994-95	1752

It would be seen from above table that the devolvement of market borrowing on RBI in absolute term was Rs 13028 crore in 1997-98. During the year 1998-99, the addition of market loan was Rs 83753 crore. Out of this, substantial amount devolved on RBI which was Rs 38205 crore, including private placement of Rs 30000 crore.

The auction wise devolvement on RBI on market loan during 1998-99 was as under :-

Table 7.7.1 (ii) Auction wise devolvement on RBI

(Rupees in crore)

Date of auction/issue	Amount notified	Devolvement on RBI	Subscription by others
24.04.98	5000.00	5000.00 ^β	--
27.05.98	4000.00	3999.50	0.50
04.06.98	5000.00	5000.00 ^β	--
01.07.98	4500.00	1772.31	2727.69
23.07.98	2500.00	1462.50	1037.50
07.09.98	4000.00	970.31	3029.69
16.10.98	3000.00	3000.00 ^β	--
02.11.98	5000.00	5000.00 ^β	--
20.11.98	2000.00	2000.00 ^β	--
03.12.98	2000.00	2000.00 ^β	--
18.01.99	3000.00	3000.00 ^β	--
29.1.99	5000.00	5000.00 ^β	-
Total	45000.00	38204.62	6795.38

Out of the total amount notified on the above dates, Rs 38205 crore devolved on RBI, which was 85 *per cent*, primary dealers subscription was Rs 564 crore and subscription by other bidders was Rs 6231 crore. As would be seen from the above table, Rs 30000 crore out of amount that devolved on RBI, was on account of private placements on them.

7.8 Other internal liabilities : Public Account

Small savings, provident funds, other accounts (special deposits, Non-Government provident funds, etc.) reserve funds and deposits form part of Public Account. The balances of Public Account are carried forward annually. The net addition to small savings, provident funds, other accounts, reserve funds and deposits are utilised by the Government as resource, while adding substantially to the liability of the Government.

^β Private placement with RBI

The position of addition, repayment and balances in various Public Accounts during the last five years was as under :-

Table 7.8 : Growth of other internal liabilities

	(Rupees in crore)				
	1998-99	1997-98	1996-97	1995-96	1994-95
Small savings					
Opening balance	124337	103928	91786	81710	67284§
Addition	54829	46194	33339	32810	34438
Repayment of principal	27209	25785	21197	22734	20012
Closing balance (a)	151957	124337	103928	91786	81710
Provident funds					
Opening balance	43440*	35026*	29611*	24721*	20592
Addition	18784	14755	11130	9561	8141
Repayment of principal	7723	6339	5714	4643	4008
Closing balance (b)	54501	43442	35027	29639	24725
Other accounts (special deposits and Non-Government provident funds etc.)					
Opening balance	124087	100087	920098*	85787	72477*
Addition	20795	32818	17178	16508	16066
Repayment of principal	18080	8818	9100	10285	2756
Closing balance (c)	126802	124087	100087	92010	85787
Deposits					
Opening balance	33809*	29599	27299*	23325*	20404
Addition	27103	35893	33637	28031	25139
Repayment of principal	25330	31682	31337	24044	22217
Closing balance (d)	35582	33810	29599	27312	23326
Reserve funds					
Opening balance	8288*	7876*	6275*	5672*	4153*
Addition	14730	15820	14643	13907	11356
Repayment of principal	17006	15409	12597	13211	9842
Closing balance (e)	6012	8287	8321	6368	5667
Grand total of closing balance (a+b+c+d+e)	374854	333963	276962	247115	221215
As %age of GDP	21.27	21.36	21.69	22.49	23.39

During 1998-99, the total other internal liabilities aggregated to Rs 374854 crore, out of which, Rs 126802 crore (33.83 per cent) was under special deposits and non-Government provident funds etc. and Rs 151957 crore (40.54 per cent) was from small savings. The balance Rs 96095 crore (25.63 per cent) was on account of provident funds :Rs 54501 crore, deposits :Rs 35582 crore and reserve funds :Rs 6012 crore.

Other internal liabilities increased by 69.45 per cent over the last five years.

The total of other internal liabilities of the Union Government increased from Rs 221215 crore at the end of 1994-95 to Rs 374854 crore at the end of 1998-

* Changes in opening balances due to prior period adjustment

* Changes in opening balances due to rounding

99, which constituted an increase of 69.45 *per cent*. Over the last five years, the Union Government has utilised the net accretion of Rs 153639 crore in the Public Accounts as resource to fund the deficit.

7.9 Debt servicing of the internal borrowing

The trend of debt servicing (repayment of principal and payment of interest) of the internal borrowings including treasury bills was as under:

Table 7.9 (i) : Net inflow of internal debt

(Rupees in crore)

Year	Addition during the year	Debt servicing		Net inflow	Net inflow % age of addition
		Repayment	Interest payment		
1998-99	385283	314584	39832	30867	8.01
1997-98	368806	324282	31270	13254	3.59
1996-97	200507	163901	27233	9373	4.67
1995-96	174207	132805	22179	19223	11.03
1994-95	148556	127801	19168	1587	1.07

Table 7.9 (ii) : Net inflow of other internal liabilities

(Rupees in crore)

Year	Addition during the year	Debt servicing		Net inflow	Net inflow % age of addition
		Repayment	Interest payment		
1998-99	136241	95348	33686	7207	5.29
1997-98	145480	88033	30257	27190	18.69
1996-97	109927	79945	28022	1960	1.78
1995-96	100817	74917	23452	2448	2.43
1994-95	95140	58835	20866	15439	16.23

It would be observed from the above table that the net inflow of the internal debt, which was 3.59 *per cent* during 1997-98, increased to 8.01 *per cent* during

1998-99 due to higher addition of market loans, which almost doubled in comparison to previous year.

Most of the borrowings / liabilities are consumed by repayments and interest payments.

The net flow in the other internal borrowings, which was 18.69 *per cent* of the addition in 1997-98, declined to 5.29 *per cent* in 1998-99. One of the reasons for decline was redemption of petroleum bond of Rs 6382 crore. The percentage of net inflow of resource over the five years would suggest that major part of borrowings and increase in other liabilities are consumed in repayment of the principal and the payment of interest.

7.10 External debt of the Union Government

The growth of outstanding external debt at the close of the last five years at historical exchange rates was as under :

Table 7.10 (i) : Growth of external debt

	<i>(Rupees in crore)</i>				
	1998-99	1997-98	1996-97	1995-96	1994-95
Opening balance ^γ	55335	54241	51251	50931	47347
Addition	10014	7859	9535	6759	9050
Repayment of principal	8095	6768	6547	6441	5469
Closing balance at historical rate	57254	55332	54239	51249	50928
As %age of GDP	3.25	3.54	4.25	4.66	5.38
Closing balance at current rate of exchange	177934	161442	149077	148583	142389
As %age of GDP at current rate of exchange	10.09	10.32	11.67	13.52	15.06

The outstanding amount of external debt at historical rate of exchange as percentage of GDP decreased from 5.38 *per cent* in 1994-95 to 3.25 *per cent* in 1998-99. However, in absolute terms the external debt increased from Rs

^γ Change in opening balances due to prior period adjustment

50928 crore at the end of 1994-95 to Rs 57254 crore at the end of 1998-99 which constituted an increase of about 12.42 *per cent*.

External debt inflow has turned negative since 1994-95.

However, since repayments of principal and payment of interest is made at the current rate of exchange, the real magnitude of external debt is its value at the prevailing exchange rate. The Government Accounts, however, reflect the external debt at historical rate. At current rates of exchange the external debt stood at Rs 177934 crore, which was 10.09 *per cent* of GDP at the end of 1998-99.

The trend of net inflow of external debt (addition during the year minus repayment of principal and payment of interest) for the last five years was as under:-

Table 7.10 (ii) : Net inflow of external debt

(Rupees in crore)

Year	Addition during the year	Debt servicing		Net inflow	Net inflow
		Repayment	Interest payment		
1998-99	10014	8095	4364	(-) 2445	(-) 24.42
1997-98	7859	6768	4110	(-) 3019	(-) 38.41
1996-97	9535	6547	4223	(-) 1235	(-) 12.95
1995-96	6759	6441	4414	(-) 4096	(-) 60.60
1994-95	9050	5469	4026	(-) 445	(-) 4.92

It would be observed from the above table that debt service payments as percentage of the inflow of external debt which was 105 *per cent* in 1994-95 shot up to 124 *per cent* in 1998-99 resulting in Rs 2445 crore of net outflow from the Union Government's resources. The pressure of debt servicing has turned the net inflow of external debt negative from the year 1994-95. The net inflow as percentage of debt servicing was negative 4.92 *per cent* in 1994-95 which aggravated to 60.60 *per cent* in 1995-96 but recovered to 24.42 *per cent* in 1998-99.

7.11 Unutilised committed external assistance

Large amounts of committed external assistance remained unutilised on which commitment charges of Rs 47.59 crore were paid.

As on 31 March 1999, unutilised committed external assistance was of the order of Rs 50157 crore. The low rate of utilisation of external assistance is particularly worrying now, when net inflows have turned negative. Much of the unutilised external assistance is for projects in the infrastructure sector. Some of the important sector are Power Rs 10320 crore, Social Rs 13353 crore, Water Resource Management Rs 7205 crore and Roads Rs 5044 crore. The sectorwise details of unutilised external aid as on 31 March 1999 are given in Appendix XIII.

The trend of unutilised committed external assistance for the last four years was as under :-

Table 7.11 Unutilised committed external assistance
(Rupees in crore)

Year	Amount
1998-99	50156.67
1997-98	47031.39
1996-97	44770.61
1995-96	48573.60

Unutilised committed external assistance increased from Rs 47031.39 crore in 1997-98 to Rs 50156.67 crore in 1998-99, constituting an increase of 6.65 per cent.

The Standing Committee on Finance (1995-96) - Tenth Lok Sabha in their Thirteenth Report took a serious view of the fact that a significant portion of the country's external debt is lying unutilised and the country has to pay commitment charges on these undrawn amounts. The Committee, therefore, felt that there was an urgent need to review these foreign aided projects so as to identify the reasons for delay in their implementation and recommended that suitable steps should be taken to improve the utilisation of loans.

7.12 Commitment charges

The agreement relating to external loans raised from World Bank and other foreign governments provides payment of commitment charges 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. The details of the charges paid to various bodies/governments during the last five years was as under:-

Table 7.12 :- Commitment charges

(Rupees in crore)						
Sl No	Name of lender	1998-99	1997-98	1996-97	1995-96	1994-95
1.	A.D.B.	22.83	25.74	69.52	35.37	31.80
2.	France	0.21	0.25	0.27	0.30	0.22
3.	Germany	0.66	1.60	2.09	2.43	2.57
4.	IBRD	23.89	22.06	21.41	20.12	24.25
5.	Sweden	--	--	0.48	0.72	0.79
	Total	47.59	49.65	93.77	58.94	59.63

Addition of market loan at a higher rate of interest doubled whereas soft external loans remained unutilised.

It is interesting to note that as already mentioned in paragraph 7.7, the addition of market loans, which was Rs 43389 crore during 1997-98 increased to Rs 83753 crore. It almost doubled, in one year, on which Government was paying interest at much higher rate ranging between 10 and 14 *per cent* in respect of loans raised internally as compared to the soft external loans raised from World Bank and other sources, which varied between 0.75 and 6.98 *per cent*, but these loans remained unutilised and Government had to pay commitment charges as mentioned above.

Despite the concern expressed by Public Accounts Committee in 1968-69 in paragraph 2.35 of its Fifty Fifth Report (Fourth Lok Sabha) and Estimates Committee in paragraph 4.38 of its Eleventh Reports (Fourth Lok Sabha) on the payment of commitment charges, it went up from Rs 59.63 crore in 1994-95 to Rs 93.77 crore in 1996-97 but came down to Rs 49.65 crore in 1997-98 and further came down to Rs 47.59 crore in 1998-99.

The reasons for sudden drop in payment of commitment charges in the back drop of increasing undrawn committed external assistance during last two years which was unusual, were not furnished by the Controller of Aid Accounts and Audit.

7.13 Indebtedness of the Union Government

The total indebtedness of the Union Government for the last five years reckoning the external debt at current rate of exchange was as under:-

The above indebtedness of the Union Government is based on the Union Government Finance Accounts and is different from the total external indebtedness of the country. In addition to the external debt exhibited in the Finance Accounts, there are other liabilities like public sector borrowings from abroad, imports funded from foreign loans, Non-Resident Indian (NRI) and other Foreign Currency (FC) deposits and accounts, commercial borrowings, as well as guarantees given by the Union Government which also contribute indirectly to the external debt of the country.

7.14 Guarantees given by Union Government

Government grants guarantees to promote certain economic enterprises by reducing the credit risk for investors, especially in those activities where the nature of investment is characterised by long gestation periods. While guarantees do not form part of debt as conventionally measured, in the eventuality of default, this has the potential of aggravating the debt position of the Government as the total liability of the Union Government is already high. The issue of guarantees assumes significance in the context of the growing need for infrastructure and participation by the private sector in projects requiring large investments.

The position regarding the maximum amount of guarantees for which Government have entered into agreements and sums guaranteed outstanding at the end of the years 1994-99 is given below :

Table 7.14 : Guarantees given by Union Government

(Rupees in crore)

<i>Position at</i>	<i>Maximum amount</i>	<i>Sums</i>	<i>External</i>	<i>% age</i>
<i>the end of the year</i>	<i>of guarantee for which Government have entered into agreement</i>	<i>Guaranteed Outstanding (internal & external)</i>	<i>guarantees outstanding</i>	<i>col.4 to col.3</i>
1	2	3	4	5
1998-99	125210	74606	36530	48.96
1997-98	122044	73877	33445	45.27
1996-97	124705	69748	30839	44.21
1995-96	94761	65573	29345	44.75
1994-95	89563	63153	30268	47.93

7.14.1 Guarantee fee

As per the extant instructions of the Union Government, Ministries/Departments of the Government are required to levy guarantee fee at the rate of one *per cent* on internal and 1.2 *per cent* on external borrowings. Guarantee fee was to be levied on the date of guarantee and thereafter on 1 April every year. Where the guarantee fee is not paid on due date, it should be

charged at double the normal rate. Recoveries of guarantee fee due were not effectively monitored by the departments of the Government as indicated in the table below resulting in short receipt of Government revenue. The trend of sums guaranteed outstanding and guarantee fee due and received for the last five years was as under:-

Table 7.14.1 Guarantee fee

(Rupees in crore)

<i>Year</i>	<i>Sums guaranteed outstanding</i>			<i>Guarantee fee due</i>			<i>Total guarantee fee received</i>	<i>%age of fee received to total outstanding guarantee</i>
	<i>Internal</i>	<i>External</i>	<i>Total</i>	<i>Internal</i>	<i>External</i>	<i>Total</i>		
1998-99	38076	36530	74606	381	438	819	320	0.43
1997-98	40432	33445	73877	404	401	805	221	0.30
1996-97	38909	30839	69748	389	370	759	146	0.21
1995-96	36228	29345	65573	362	352	714	167	0.25
1994-95	32885	30268	63153	329	363	692	194	0.31

It would be observed from the above table that the recoveries of guarantee fee are not effectively made resulting in short recovery of the guarantee fee of Rs 2741 crore over a period of five years despite the instructions of the Union Government.

Examination of records in the Ministry of Chemicals and Fertilizers revealed that on account of failure to repay the loan by Indian Drugs and Pharmaceuticals Ltd. to Life Insurance Corporation of India, the Department of Chemicals and Petrochemicals also failed to redeem the guarantee consisting of principal and compound interest of Rs 20.39 crore invoked by Life Insurance Corporation in 1986.

In another case, in 1988 Life Insurance Corporation invoked the guarantee against Department of Fertilizer following the failure by Food Corporation of India to repay the principal of Rs 16 crore and compound interest of Rs 36.38 crore due as at the end of March 1999. This guarantee was also not redeemed.

Observations of Comptroller and Auditor General of India on failure of the Government to honour its sovereign guarantee have been included in Report No.2 of 1999 and 2000 (Civil).

7.15 Impact of public debt

The ever increasing amount of public debt has inevitable impact on other areas of expenditure and aspects of Public Finance. The committed liability towards debt service obligations account for nearly half of public expenditure and

Government has to resort to more borrowings to meet the liability of debt servicing besides raising resources to meet the expenditure. Therefore, the requirements for increased spending in various sectors have to be reconciled with the need to curb the expenditure and reduce deficit.

7.15.1 Parliamentary control over the budget

As a result of the sharp rise in debt servicing an overwhelming proportion of the total disbursement out of the Consolidated Fund of India is charged on the Fund i.e. it is not subject to the vote by Parliament. Less than *one-third* of the total budgetary expenditure is now within the ambit of the discretion of Parliament and is subjected to vote. During 1998-99, out of a total disbursement of Rs 694929 crore from the Consolidated Fund of India, 67.45 *per cent* i.e Rs 468701 crore was charged. Of the charged expenditure, 85.46 *per cent* was applied towards debt service obligations i.e. to repay instalments of the loan and pay interest.