

Chapter 5

MANAGEMENT OF FISCAL LIABILITIES

5.1 Fiscal liabilities of the Union Government arise due to borrowings from internal or external sources and withdrawals from the public account maintained by the government. Government is required to incur these liabilities to meet resource requirements for repayment of debt; discharge of liabilities on the public account, capital expenditure and such revenue requirements as may remain uncovered by revenue and non-debt capital receipts.

5.2 Management of these fiscal liabilities calls for working out a suitable mix of alternative debt instruments, such as internal debt, external debt, withdrawals from public account and borrowing from the Central bank. Internal debt puts pressure on the interest rates and may lead to crowding out of private investment as this leads to a transfer of resources in favour of the government. External debt has a bearing on the exchange rate and its servicing requires access to lender country's currency through export of goods and services. Borrowing from the RBI may influence money supply and inflation. Owing to interdependence of economic variables, the effects of borrowing from any channel may spread to various sectors and prices.

Aggregate Fiscal Liabilities: Trends and Composition

5.3 Table 5.1 presents aggregate liabilities of the government including internal debt and external debt reckoned both at the current rate of exchange and at the historic rate (the rate at which the debt was originally contracted) and the Public Account at the end of the financial year over the last seventeen years. **Appendix-V** gives the total liability of the government for the last 26 years since 1976-77.

Table 5.1: Aggregate Fiscal Liabilities- Trends & Composition

(Rupees in crore)

	Internal Debt	External Debt*	Total Debt	Public Account Liabilities	Total liabilities	External Debt	Total liabilities
						<i>(Historic Rate)</i>	
1985-86	71039	18153	89192	48293	137485	18153	137485
1995-96	307869	148583	456452	247115	703567	51249	606233
1999-2000	714254	186075	900329	219720	1120049	58437	992419
2000-01	803698	190017	993715	245127	1238842	65945	1114770
2001-02	913061	199897	1112958	286582	1399540	71546	1271189
Average Annual Trend Rate of growth (in per cent)							
1985-2002	16.70	18.54	17.11	11.95	15.62	8.66	14.58
VII Plan (1985-90)	16.65	11.95	15.74	21.97	18.04	11.95	18.04
VIII Plan (1992-97)	14.13	5.88	11.27	14.80	12.48	5.95	13.62
IX Plan (1997-02)	25.42	5.05	20.34	-7.05	11.85	6.77	12.80
Annual rate of growth (in per cent)							
1999-2000	55.37	4.58	41.20	-41.39	10.62	2.07	11.28
2000-01	12.52	2.12	10.37	11.56	10.61	12.85	12.33
2001-02	13.61	5.20	12.00	16.91	12.97	8.49	14.03

* at current exchange rate

Note: External debt prior to 1990-91 is at historic rate and as such growth rates prior to that are not strictly comparable.

5.4 Aggregate fiscal liabilities have grown over ten times in the last seventeen years from Rs 137,485 crore in 1985-86 to Rs 1,399,540 crore in 2001-02, at an average trend rate of around 16 *per cent*. The annual average growth of aggregate fiscal liabilities declined to 11.85 *per cent* during IX Plan (1997-2002). Growth of external debt sharply decelerated to less than an average of six *per cent* during VIII and IX Plan periods. Liabilities on Public Account grew at an average trend rate of 11.95 *per cent* during 1985-2002. The growth turned negative during 1997-2002, due to the creation of NSSF in 1999-2000 and issue of debt securities for the outstanding balances.

5.5 In 2001-02, fiscal liabilities of the Union Government increased by 12.97 *per cent*, compared to the long-term trend growth of 15.62 *per cent*. Increase in external debt liabilities at current exchange rate was 5.20 *per cent*. This rate of increase was, however, lower than the rate of growth of external liabilities reckoned at the historic rate (8.49 *per cent*), because of two reasons. Firstly, for the external loans, which have not yet been fully paid, exchange losses on account of the depreciation are still to be adjusted. This results in carrying of negative external debt liabilities for these loans in Finance Accounts. The external debt liabilities at the current exchange rate do not show negative balances. Secondly, as the external debt at the current rates is higher in volume, rate of growth for a similar increase in absolute terms would be lower. The combined effect of these two factors was greater than the effect of depreciation, which would increase the absolute value of debt. Liabilities on account of internal debt and Public Account recorded a growth of 13.61 and 16.91 *per cent* respectively.

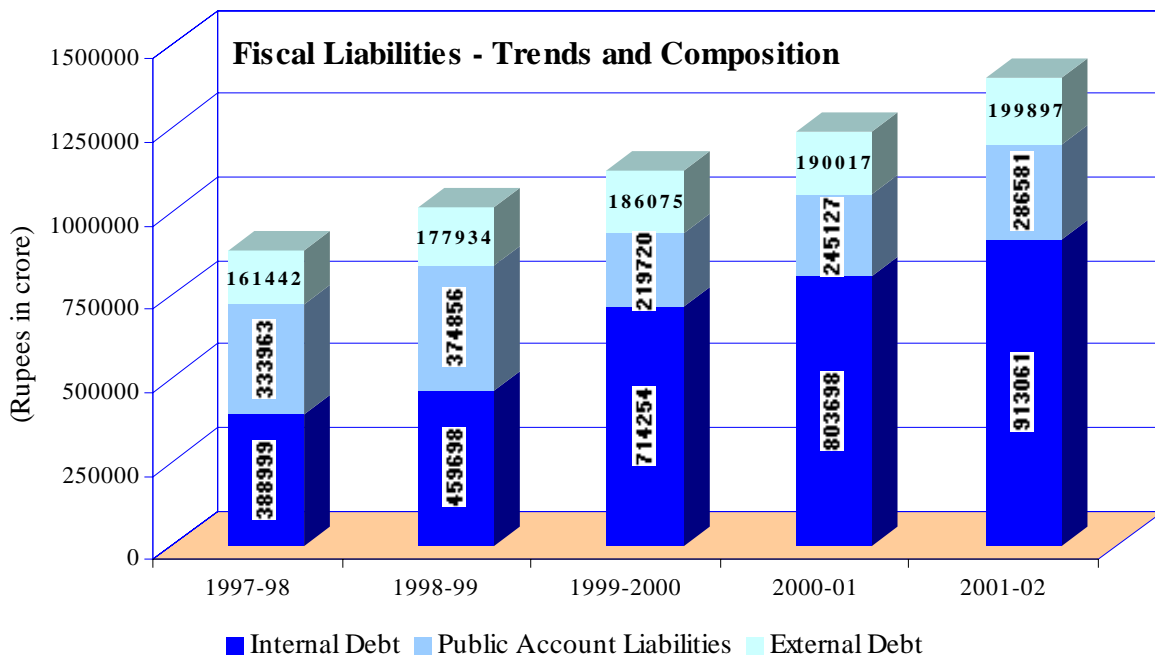
Fiscal Liabilities relative to GDP

5.6 Table 5.2 gives the overall fiscal liabilities of the Union Government relative to GDP. Debt-GDP ratio (debt inclusive of the public account liabilities and with external debt at current exchange rate) peaked during 1991-92 when it reached 65.43 *per cent* of GDP. In the last three years, fiscal liabilities – GDP ratio again worsened and started increasing at rates faster than the GDP rates. The long term tendency of the ratio of fiscal liabilities to GDP ratio was of acceleration with an average annual rate of shift of 0.75 *per cent* during 1985-2002. At the historic exchange rate, overall fiscal liabilities were a little over 55 *per cent* of GDP. However external debt when reckoned at the current exchange rate increased these liabilities by around 6 *per cent*. External debt liabilities are now less than 9 *per cent* of GDP, while internal debt and liabilities on account of Public account together have reached 52 *per cent* of GDP.

Table 5.2: Fiscal Liabilities Relative to GDP

(in per cent)

	Internal debt	External Debt	Total Debt	Public Account Liabilities	Total liabilities	External Debt	Total liabilities
						<i>(Historic Rate)</i>	
1985-2002	28.77	10.04	38.81	19.44	58.25	4.91	53.12
VII Plan (1985-90)	27.14	6.31	33.45	20.12	53.57	6.31	53.57
VIII Plan (1992-97)	26.52	13.70	40.22	21.17	61.39	4.89	52.59
IX Plan (1997-02)	33.46	9.66	43.12	15.82	58.94	3.25	52.53
Annual Relative Share							
1999-2000	37.01	9.64	46.66	11.39	58.04	3.03	51.43
2000-01	38.49	9.10	47.59	11.74	59.33	3.16	53.39
2001-02	39.85	8.72	48.58	12.51	61.09	3.12	55.48



5.7 It would be appropriate to look at debt relative to the revenue receipts of the Union Government. Table 5.3 gives the ratio of outstanding fiscal liabilities as percentage to the non-debt receipts, revenue receipts and uncommitted receipts.

Table- 5.3: Outstanding Liabilities as percentage to Non-Debt Receipts, Revenue Receipts and Uncommitted Receipts

	Non-Debt Receipt	Revenue Receipt	Uncommitted Receipt
1985-2002	414	448	1010
VII Plan (1985-90)	351	384	714
VIII Plan (1992-97)	449	482	1061
IX Plan (1997-02)	442	475	1281
Average Annual rate of Shift in the Ratio (per cent)			
1985-2002	1.90	1.71	4.78
Annual Relative Share			
1999-2000	417	440	1158
2000-01	451	484	1404
2001-02	483	528	1554

Note:- Non-Debt Receipts are Revenue Receipts (net of the States' share in taxes) and non-debt capital receipts. Uncommitted receipts are the Revenue Receipt (net of the States' share in taxes) minus the committed liabilities of salary, pensions and interest payments.

5.8 It would be evident from the table above that debt-receipts ratios were increasing sharply in recent years. While the debt- GDP ratio in 2001-02 was still lower than the average of 1992-97 (VIII Plan), current debt receipts ratio had overtaken the values that existed during 1992-1997. The ratio of debt to revenue receipts increased to 528 *per cent* in 2001-2002 and that with non-debt receipts to a level of 483 *per cent*. The ratio of debt to uncommitted receipts also continued to increase over the plans. All the three ratios rose very sharply in the last two years, with values significantly above the trends. Outstanding liabilities grew much faster compared to the receipts. Rate of growth of revenue receipts in 2000-01 and 2001-02 was just 0.57 and 3.61 *per cent* respectively compared to a growth of 10.61 and 12.97 *per cent* in fiscal liabilities. Non-debt receipts at 2.27 and 5.35 *per cent* in last two years grew at much lower rates than debt.

Fiscal Liabilities - Relative Share

5.9 Internal debt accounts for nearly 65 *per cent* of the total liabilities of the Union Government. Liabilities on Public Account constituted another 20 *per cent* and external debt constitutes the balance 15 *per cent*. Table 5.4 indicates the relative share of various components of fiscal liabilities and shifts in their shares over the three Plan periods.

Table 5.4: Fiscal Liabilities – Relative Share (in per cent)

	Internal Debt	External Debt	Total Debt	Liabilities in Public Account
1985-2002	49.54	16.93	66.48	33.52
VII Plan (1985-90)	50.69	11.81	62.49	37.51
VIII Plan (1992-97)	43.24	22.22	65.46	34.54
IX Plan (1997-02)	56.65	16.41	73.07	26.93
Relative Annual Share				
1999-2000	63.77	16.61	80.38	19.62
2000-01	64.87	15.34	80.21	19.79
2001-02	65.24	14.28	79.52	20.48

Debt Sustainability

5.10 Debt (inclusive of the public account liabilities) is considered sustainable if the debt/GDP ratio does not grow to explosive proportion. A necessary condition for this stability is also that the average interest rate on total debt should be less than the rate of growth of GDP.

5.11 The debt/GDP ratio of the Union Government shows wide annual fluctuation. The average annual rate of increase in its share relative to GDP was 0.75 per cent during 1985-2002. The rates of increase in Union Government's liabilities relative to GDP further accelerated in the last two years and were 61.09 per cent of GDP in 2001-02. The average interest rate (nominal) on total debt over time, as indicated in Table 5.5 remained lower than the rate of growth of GDP at the market prices during 1985-2002. However, in the last two years, rate of growth of GDP remained lower than the average interest rates on internal debt. This violated the necessary condition of debt sustainability. Further with a large debt overhang, moderation/softening of interest rates failed to make much impact on the interest burden of the government.

Table 5.5: Average Interest Rate on fiscal liabilities (in per cent)

	Internal Debt	External debt	Total Debt	Rate of growth of GDP	Interest Spread
1985-2002	8.94	7.04	7.99	14.76	5.82
VII Plan (1985-90)	7.37	4.68	7.02	15.28	7.91
VIII Plan (1992-97)	9.29	8.75	7.84	16.54	7.25
IX Plan (1997-02)	10.39	7.48	9.02	10.51	0.12
Annual Interest Rate and growth rate of GDP (per cent)					
1999-2000	10.79	7.87	9.34	10.84	0.05
2000-01	10.58	7.55	9.22	8.21	-2.37
2001-02	10.48	6.50	9.22	9.73	-0.75

Note: - Debt includes the outstanding liabilities on public account.

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

5.12 A positive spread between rate of growth of GDP and the average interest rate alone may not suffice for sustainability, because it does not ensure that the initial stock of debt would be equal to the discounted value of the primary surpluses in the future. Alternatively, debt sustainability may mean such primary surpluses as may annually be necessary which at a given discount rate would make them equal to the initial stock (current) of debt. The rationale for such an analysis is that the redemption of debt would need generation of primary surpluses by the government. Table 5.6 gives the required annual primary surplus at varying discount rates and over different time horizons of debt liquidation.

Table 5.6: Required Primary Surplus (Rupees in crore)

Discount Factor	Time Horizon			
	10 years	15 years	20 years	30 years
9.0 per cent	218,090	173,636	153,324	136,235
9.5 per cent	222,914	178,794	158,825	142,315
10.0 per cent	227,783	184,015	164,400	148,472
10.5 per cent	232,699	189,297	170,045	154,699

5.13 Union Government had a negative primary surplus (primary deficit) during 1985-2002, which averaged 2.87 per cent of GDP. Primary surplus was a negative Rs 41,660 crore in 2001-02 or equal to 1.82 per cent of GDP. The generation of the primary surplus of the order indicated above at varying discount rates and over different time horizons would need non-debt revenue receipt of the Union Government to increase to around 20-23 per cent of GDP and faster than its expenditure, from the present level of 11.58 per cent in 2001-02.

5.14 Another issue in debt sustainability is the ratio of the debt redemption to total debt receipts. A higher ratio would indicate that to the extent debt receipts were used in debt redemption, there was less net accrual of resources. Table 5.7 gives the ratio of debt redemption to debt receipts during 1985-2002, over three plan periods and the three most recent years.

Table – 5.7: Ratio of Debt redemption to Debt Receipts

	Debt Receipts	Debt Repayment		Debt Repayment/ Debt Receipts	Debt Repayment (2) / Debt Receipts
		(Principal)	(Principal+ Interest)		
	<i>(Rs in crore) (Annual Average)</i>			<i>(per cent)</i>	
1985-2002	305153	237777	283956	77.92	93.05
VII Plan (1985-90)	175347	145194	157202	82.80	89.65
VIII Plan (1992-97)	266443	203787	248066	76.48	93.10
IX Plan (1997-02)	530341	411106	502208	77.52	94.70
Annual Values					
1999-2000	650587	545668	640261	83.87	98.41
2000-01	485037	367378	470602	75.74	97.02
2001-02	524176	366629	480802	69.94	91.72

Debt receipt and payments are average of the years indicated and is net of Ways and Means Advances.

5.15 If debt receipts were used to create income-generating assets, it would enhance debt-servicing capabilities. However, between 1985-2002, over 45 per cent of the incremental liabilities had no matching assets as these liabilities were used to meet the excess of revenue expenditure over revenue receipts.

Ways and Means Advances

5.16 The Union Government and the Reserve Bank of India signed an agreement in March 1997 to discontinue issuing ad-hoc treasury bills to replenish Union Government's cash balance with effect from 1 April 1997. The Union Government could now meet temporary mismatches between receipts and expenditure through Ways and Means Advances (WMA) provided by the RBI, with their size and cost being determined on the basis of mutual agreement. Amounts drawn beyond the WMA limit are to be treated as overdraft. When 75 per cent of the WMA are utilised, RBI would float fresh government securities. Table 5.8 gives details of cumulative amounts of WMA obtained by the Union Government for the last five years.

Table 5.8: Ways and Means Advances

(Rupees in crore)

Year	Opening Balance	Addition during the Year	Discharge during the Year	Outstanding Ways and Means Advances
1997-98	--	17239	15239	2000
1998-99	2000	92257	91215	3042
1999-2000	3042	124972	127032	982
2000-01	982	131300	126887	5395
2001-02	5395	170953	171172	5176

5.17 The system of WMA was introduced with a view to imposing fiscal discipline on the government. The government resorted to the advances on a continuous basis for the major part of the year because of mismatches in expenditure and receipts.

Unutilised Committed External Assistance

5.18 As on 31 March 2002, unutilised committed external assistance was of the order of Rs 62,565 crore. Much of the unutilised external assistance was for projects in the infrastructure sector (details in **Appendix-VI**). Table 5.9 shows the year wise unutilised committed external assistance.

Table 5.9 Unutilised Committed External Assistance

(Rupees in crore)

Year	Amount
1990-91	50551
1995-96	48574
1999-2000	56917
2000-01	56920
2001-02	62565

5.19 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 5.10 indicates charges paid to various bodies/governments during 1990-02 as commitment charges for rescheduling of drawal of assistance at a later date. This points to continued inadequate planning in this regard.

Table 5.10: Commitment Charges

(Rupees in crore)

Year	ADB	France	Germany	IBRD	Sweden	Total
1990-91	7.73	1.34	2.63	31.14	19.89	62.73
1995-96	35.37	0.30	2.43	20.12	0.72	58.94
1998-99	22.83	0.21	0.66	23.89	--	47.59
1999-2000	15.71	0.36	0.37	25.33	--	41.77
2000-01	13.52	0.27	0.19	26.25	--	40.23
2001-02	12.84	0.22	0.76	34.64	--	48.46

Source: External Assistance Brochure 2001-02

Growth in Contingent Liabilities of the Union Government

5.20 Government gives 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. 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 and its increasing probability of being invoked, which could convert these contingent liabilities into actual payment obligations. Table 5.11 gives the position regarding the maximum amount of guarantees and sums guaranteed and outstanding at the end of the financial year during 1991-92 to 2001-02.

Table 5.11: Guarantees Given by Union Government

(Rupees in crore)

Position at the end of the year	Maximum amount of guarantee	Sums Guaranteed Outstanding	External Guarantees Outstanding	External Guarantees Outstanding as % to sums Guaranteed Outstanding
1991-92	55063	46744	20908	44.73
1995-96	94761	65573	29345	44.75
1998-99	125210	74606	36530	48.96
1999-2000	144438	83954	47663	56.77
2000-01	135678	86862	55664	64.08
2001-02	168712	96859	57006	58.65
Annual Rate of Growth	11.85	7.56	10.55	

5.21 Outstanding guarantees recorded a trend growth of 7.56 *per cent* during 1991-2002. These contingent liabilities as on 31 March 2002 were nearly 7 *per cent* of the aggregate fiscal liabilities of the Union Government. Total outstanding guarantees were nearly 4 *per cent* of GDP and 35 *per cent* of the revenue receipts that accrued to the union.

5.22 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 as per the instructions of the Union Government. Guarantee fee is to be levied on the date of guarantee and thereafter on 1 April every year. Where the guarantee fees is not paid on due date, it should be charged at double the normal rate. Table 5.12 indicates that the recoveries of guarantee fee have not been made effectively resulting in short recoveries.

Table 5.12: Guarantee Fee

(Rupees in crore)

Year	Sums guaranteed outstanding			Guarantee fee due			Total guarantee fee received	As per cent to total outstanding guarantee
	Internal	External	Total	Internal	External	Total		
1991-92	25836	20908	46744	258	251	509	2	--
1995-96	36228	29345	65573	362	352	714	167	0.25
1998-99	38076	36530	74606	381	438	819	320	0.43
1999-2000	36291	47663	83954	363	572	935	280	0.33
2000-01	31197	55664	86862	312	668	980	542	0.62
2001-02	39853	57006	96859	399	684	1083	484	0.50

5.23 As a result of the sharp rise in debt servicing, an overwhelming proportion of the total disbursement out of the CFI is charged on the Fund, i.e., it is not subject to vote by Parliament. During 2001-02, out of a total disbursement of Rs 767,216 crore, only 38 *per cent* was voted by the Parliament. 62 *per cent* of the total disbursement was applied towards debt service obligations, i.e., loan repayment and interest payment.