

GOVERNMENT DEBT

STATUS AND ROAD AHEAD

**MINISTRY OF FINANCE
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Executive Summary

Discussions on the optimum level of government debt in any economy, whether developed or developing, have generated great interest among various stakeholder groups and individuals. Finance Minister in his Budget Speech for 2010-11 has indicated his intention to bring out a status paper giving detailed analysis of the government's debt situation and a road map for curtailing the overall public debt. Accordingly, this paper has been brought out with detailed analysis on status of Central Government debt at the same time it also charts out a well calibrated roadmap for reduction in the overall debt as percentage of GDP for the general government during the period 2010-11 to 2014-15.

The overall objective of the Government debt management policy is to meet Central Government's financing need at the lowest possible long term borrowing costs and also to keep the total debt within sustainable levels. Additionally, it aims at supporting development of a well functioning and vibrant domestic bond market.

Of the overall Central Government debt, about 92 per cent is internal debt and 8 per cent is external debt. The internal debt largely consists of market loans in the form of dated securities which are contracted through auction. Most of the dated securities (97 per cent) are fixed coupon and only the balance 3 per cent are floating rate bonds. The weighted average maturity of these dated securities is about 10 years while the weighted average interest rate is about 7.8 per cent per annum. The above three attributes of government debt namely, primacy of domestic nature of debt with fixed interest rate and long residual maturity gives India a distinct advantage of lower refinancing risk of maturing debt. In the medium term the Government envisages to have larger share of its deficit to be financed through dated securities. *It is the endeavour of the Government to*

elongate the maturity profile of debt to reduce redemption pressure in short to medium term.

While explaining the composition of the overall debt of the Central Government (as reported in Budget Documents), it is felt that some of the components need special mention. These components include liabilities on account of Market Stabilisation Scheme (MSS) and National Small Savings Fund (NSSF) which are not used for financing the deficit of the Central Government. At the same time, the external debt reporting needs to be at current exchange rate rather than at book value with historic exchange rate. Components having nature of inter-government transaction like 14-days Treasury Bills, which are investment from States, and loans from Central to State Governments need to be adjusted while arriving at the consolidated debt of the General Government.

After factoring in the impact of above mentioned modifications, the Central Government debt is arrived at 50.5 per cent of GDP for the year ending March 2010. The trends in accumulated debt and liabilities show that the Government of India debt steadily declined from 53.4 per cent of GDP in 2004-05 to 46.2 per cent in 2007-08. This correction is largely attributed to fiscal consolidation which was achieved through gradual reduction in the fiscal deficit. However as the Government had to undertake counter-cyclical measures to protect Indian economy from the adverse impact of global economic crisis, this trend got reversed during 2008-09 and 2009-10. Central Government debt as percentage of GDP has therefore gone up from 46.2 per cent in 2007-08 to 50.5 per cent in 2009-10. With the decision of the government to resume the path of fiscal consolidation, this percentage is estimated to marginally reduce to 50.3 per cent in 2010-11. *The principles of 'counter cyclical policy' adopted during the bad years needs to*

be followed by fiscal consolidation and creation of fiscal space in the good years. This would help in recapturing the gains lost during bad years and would provide fiscal space for implementing counter-cyclical policy during the bad years.

The revision in GDP data has resulted in lower base year figure for debt as percentage of GDP than what was estimated by the 13th Finance Commission. *This has given two options for the Central Government while preparing its roadmap for debt reduction in the coming years. These are*

- to have larger than the recommended deficit by the 13th Finance Commission and yet achieve the prescribed target of debt at 45 per cent of GDP; or
- fulfil the commitments for fiscal consolidation made in terms of reduction in fiscal deficit and target for even lower debt level by 2014-15.

While designing a debt reduction strategy for the period 2010-11 to 2014-15, in this paper it is suggested to follow the second option under which the commitment made in the Medium Term Fiscal Policy Statement of the Government (presented in the Budget 2010-11) regarding reduction in fiscal deficit would be honoured. It is projected that the fiscal deficit would be reduced to 3 per cent of GDP by 2014-15 and accordingly debt as percentage of GDP would come down from 50.5 per cent in 2009-10 to 43 per cent in 2014-15. The projections for fiscal deficit depend on assumptions made on GDP growth rate along with revenue and expenditure of the government in the coming years. Slippage in any of these parameters would result in change in the deficit level and thereby would affect the debt reduction path as well. The debt reduction target for the Centre looks an ambitious one; however, it has to be seen in the background of performance during the fiscal consolidation period of 2004-05 to 2007-08

wherein the reduction in debt as percentage of GDP was 7.2 per cent.

The outstanding debt of State Governments is estimated at 26.3 per cent of GDP for 2009-10. However, after netting of the liabilities on account of investments made in 14-days treasury bills of Central Government, this comes down to 24.8 per cent of GDP. The roadmap for States has been prepared with fiscal deficit as percentage of GDP at the recommended level of the 13th Finance Commission. With the above assumption on fiscal deficit, consolidated debt for State Governments are estimated to reduce from 24.8 per cent of GDP in 2009-10 to 23.1 per cent in 2014-15.

After factoring in the impact of Central loans to States, the consolidated debt of General Government has come down from 79.3 per cent in 2004-05 to 68.7 per cent in 2007-08. However, it has subsequently increased during the global economic crisis period to 71.1 per cent in 2008-09 and further to 73 per cent of GDP in 2009-10. *It may be recalled that the 12th Finance Commission had recommended the consolidated debt for the Centre and State Governments at 74 per cent of GDP for the year 2009-10. Even with slippage in 2008-09 and 2009-10 on fiscal deficit targets, the overall general government debt at 73 per cent of GDP in 2009-10 has remained within the recommended target.*

The suggested roadmap for consolidated general government debt sets a target of reduction from 73 per cent of GDP in 2009-10 to 64.9 per cent in 2014-15. This shows reduction of 8.1 per cent of GDP in the consolidated debt for the General Government. It may be seen in the background of past performance during the fiscal consolidation period of 2004-05 to 2007-08 wherein the reduction in general government debt as percentage of GDP was 10.6 per cent.

In the roadmap suggested for debt reduction during the period 2010-11 to 2014-15, the

government's commitment towards fiscal consolidation has been reiterated. With the reduction in fiscal deficit for 2010-11, the trend witnessed in the last two years of increasing debt has been arrested. *The Government has undertaken concerted efforts in reducing the fiscal deficit gradually so as to bring down the debt as percentage of GDP lower to the pre-crisis level of 68.7 per cent by 2013-14 and further improve to about 65 per cent of GDP in 2014-15.*

The present crisis in Euro Zone has brought into focus that sustainability analysis in classical terms may not be the sole tool to gauge the fiscal health of the country. Some of the important parameters for determining the stability and vulnerability level of public debt for example could be maturity profile, composition, carrying cost, external or domestic investor base along with savings rate, potential and realised tax to GDP ratio etc.

In the case of India, the gradually declining level of general government debt estimated over the medium term does answer the sustainability issue positively. At the same time the characteristics of existing debt stock and economic parameters put India in a distinct

category when compared to developed as well as other emerging market economies. The high percentage of domestic debt together with higher rate of domestic savings along with fixed interest rate and long maturity of government debt show that India has positive attributes compared to both developed and emerging market economies and is less vulnerable to risky parameters seen either in developed and other emerging market economies with respect to refinancing risk.

With the estimated level of correction in this paper, Interest payment as percentage of net tax revenue to the Central Government could also be brought down to the level of 2007-08 in the year 2013-14 and would further come down to 36.5 per cent in 2014-15. It would be the endeavour of the Government to further reduce this percentage in the coming years to unlock more resources for its developmental needs. It is pertinent to emphasise at this point that even though there is minimal risk for India for its refinancing requirement of existing debt, the government is taking efforts to return to the path of fiscal consolidation. The exit strategy of the government is so calibrated that it would not hurt the recovery process.

Introduction

In the Budget speech for 2010-11, Hon'ble Finance Minister announced his intention to bring out a status paper giving detailed analysis of the government's debt situation and a road map for curtailing the overall public debt. He also announced that this paper would be followed by an Annual Report on the subject. As a follow up of the above announcement, this paper on public debt has been prepared. This paper covers both the status of public debt and liabilities with detailed analysis thereof as well as a road map for reduction in debt to GDP ratio for the period 2010-2015.

This debt paper is in line with the endeavour of the Government to improve transparency in dissemination of information related to public debt and its commitment to implement prudent debt management strategies to ensure that the public debt remains within reasonable limits and does not crowd out private borrowing. Medium-term fiscal policy of the Government is driven by the principle of gradual reduction of public debt to GDP ratio. The Central Government debt and liabilities stood at 51.5 percent of GDP at the end of March 2010 as estimated in RE 2009-10. In the medium term, the Government intends to lower the level of public debt and liabilities to 48.2 per cent of GDP by the end of financial year 2012-13.

Though information on government debt is available in a number of official publications including the Annual Budget presented in Parliament as well as reports of Reserve Bank of India, the general government debt¹ information is now sought to be further simplified and made more accessible to the general public and other stakeholders.

The overall objective of the Government debt management policy is to meet Central Government's financing need at the lowest possible long term borrowing costs and also to keep the total debt within sustainable levels. Additionally, it aims at supporting development of a well functioning and vibrant domestic bond market.

One of the key public debt management reforms under implementation is the establishment of a Debt Management Office in the Ministry of Finance. As a first step, the Middle Office has been set up and is now being strengthened in terms of manpower, capacity and functioning.

The overall debt for Government of India includes debt and liabilities contracted in the Consolidated Fund of India (technically defined as Public Debt) as well as liabilities in Public Account². Major proportion of overall debt (82 per cent) is in the form of above mentioned public debt in the Consolidated Fund - which is further classified into Internal and External Debt. **Internal Debt constitutes about 89.8 per cent of public debt and External debt is only 10.2 percent of the same. External debt constitutes 8.4 per cent of overall Central Government debt and 5.5 per cent of overall general government debt.**

The overall debt and liabilities position of the Government of India as reported in the Receipts Budget is shown in Table 1.1.

Internal Debt for Government of India largely consists of fixed tenure and fixed coupon (dated securities and treasury bills) which are issued through auction. Maturity profile of existing debt could be classified into three categories namely – short, medium and long term having maturity in less than 1 year, from one year up to 7 years and more than 7 years respectively. Most of these instruments carry fixed rate of interest, however there is a small proportion of floating rate instruments benchmarked to treasury bill yields.

External Debt is a small proportion of the overall public debt of the Government of India. It is largely used for financing specific projects at the Central and State levels. States are not permitted to contract external debt and therefore in the existing system all external debt (even those not used for financing Central Govt. projects) are first contracted in the Consolidated Fund of India and then on-lent to States³. Most of the external debt is from Multilateral agencies such as IDA, IBRD, ADB etc. and a small proportion of existing external debt comes from bilateral agencies. These loans are generally long term variable rate loans linked to LIBOR. While calculating effective rate of interest for these loans, impact of exchange rate variation needs to be taken into account.

¹ It includes Central and State Governments consolidated debt

² In respect of receipts into the Public Account, the Government is acting as a Banker or Trustee and refunds the money on demand after completion of the implicit contract/event.

³ This would require necessary correction while computing the consolidated debt for the country to remove inter-government transactions.

Government Debt : Status and Road Map

Table 1.1 : Debt Position of the Central Government

	(₹ crore)						
	ACTUALS				Provisional	Estimates	
						RE	BE
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
A. PUBLIC DEBT (B+C)	1336849	1484001	1647691	1920390	2151595	2477263	2898799
B. INTERNAL DEBT (i+ii)	1275971	1389758	1544975	1808359	2028549	2337682	2736754
(i) Under MSS							
(a) Dated Securities	25000	11000	22000	128317	79773	2737	50000
(b) Treasury Bills	39211	18062	40974	42237	9000	0	0
Total (a+b)	64211	29062	62974	170554	88773	2737	50000
(ii) Market Loans							
(a) Dated Securities	872330	967677	1074608	1206084	1435210	1833621	2178651
(b) Treasury Bills	49092	91489	112901	140382	239979	236075	236075
(c) Compensation & Other Bonds	66424	72760	62092	71321	47506	37753	31369
(d) Securities issued to International Financial Institutions	21644	25152	25798	24719	23085	20244	20152
(e) Securities against small savings	202271	203618	206602	195299	193997	207252	220508
Total (a+b+c+d+e)	1211760	1360696	1482001	1637805	1939776	2334945	2686754
C. External Debt	60877	94243	102716	112031	123046	139581	162045
D. Other Liabilities (Pub.A/c)							
(a) National Small Savings Fund	329760	413499	468010	478290	470141	473335	475927
(b) State Provident Fund	60717	66262	71440	75330	83377	91877	98877
(c) Other Account	174107	186921	220160	236373	325383	335988	341136
(d) Reserve funds & Deposit	92989	109462	131295	127043	128682	137443	129859
Bearing Interest	46203	53650	62705	73056	78384	78077	83345
Not bearing interest	46786	55812	68591	53987	50298	59366	46513
Total (a+b+c+d)	657573	776144	890905	917035	1007583	1038643	1045799
E. TOTAL LIABILITIES							
(A+D)	1994422	2260145	2538596	2837425	3159178	3515906	3944598

Liabilities in Public Account can be classified into two broad categories: viz. Interest and Non-interest bearing liabilities. These liabilities consist of National Small Saving Fund (NSSF), Provident fund, Deposit and Reserve funds and other liabilities. As on 31st March, 2010 (R.E.) public account liabilities account for about 18 per cent of overall liabilities of Central Government. Some of the liabilities in the public account have accrued not exactly out of the need for financing Central Government's deficit and therefore have to be netted off against matching assets while calculating the consolidated debt of the Country. One such example is the liability on account of NSSF with matching assets in the form of investment in Special Securities of States under NSSF.

There are certain components of liabilities which require special mention as these would otherwise distort the overall debt status. These liabilities are backed with matching assets in liquid form and have not been acquired to finance deficit or get factored in both at central and state levels. Therefore when consolidation takes place, items like loans from NSSF to States, Loans from Central Government to States, liabilities on account of 14-days treasury bills and Market Stabilisation Scheme (MSS) need to be dealt with separately.

In the present system of disclosure, some of the ambiguities are not properly explained e.g. incremental debt during the year is not the sole function of fiscal deficit. Similarly there are issues related to double counting of existing debt at the Centre and State Governments level. These ambiguities have been tried to be explained with better understanding.

With public debt in India being largely funded through domestic savings and Government debt paper having special status in the form of maintenance of pre defined Statutory Liquidity Ratio (SLR) for Banks, the sustainability analysis should factor in the projected savings rate in the economy in the medium to long term. Also, the maturity profile of existing debt puts India at different footing from some of the other economies of the world. The stress test on debt servicing has to factor in the existing, somewhat lower, tax to GDP ratio which is likely to improve in coming years with the introduction of further reforms in direct and indirect tax systems. This would result in lowering of interest payment as a proportion of total revenue receipts in medium term.

Public Debt

Public Debt (excluding liabilities in public account and including external debt at book value) as percentage of GDP has shown steady decline from 43.1 per cent in 2003-04 to 38.8 per cent in 2007-08. The decline during this period is even more pronounced (from 43.1 per cent to 35.4 per cent) after netting of liabilities on account of MSS accrued during this period. The reduction in public debt to GDP ratio could be attributed largely to correction in fiscal deficit in absolute terms and also to high rate of growth of GDP in the above mentioned period.

The corrective trend however underwent a reversal during 2008-09 and in 2009-10 as the fiscal deficit went up due to the counter cyclical measures undertaken by the Government to stimulate Indian economy from the adverse impact of global economic meltdown. At the same time, there was also moderation in the growth rate of GDP during 2008-09 and 2009-10. As a result of the above, the public debt to GDP ratio (net of MSS) deteriorated from 35.4 per cent in 2007-08 to 37 per cent in

2008-09, 40.1 per cent in RE 2009-10 and further to 41.1 per cent in BE 2010-11. During this period, the percentage of public debt (net of MSS) in total debt increased from 65.9 per cent in 2007-08 to 73.1 per cent in BE 2010-11. This shows larger reliance on market related instruments for deficit financing.

Public Debt consists of both internal and external debts of the government.

A. Internal Debt

Internal Debt for Government of India largely consists of fixed tenure and fixed rate government papers (dated securities and treasury bills) which are issued through auction. Other components of internal debt are special securities converted into marketable securities, securities against small savings, securities issued to the international financial institutions and compensation and other bonds including floating rate bonds. Trends in internal debt as percentage of GDP, both including and excluding debt raised under the Market Stabilisation Scheme, are shown in Table 2.1.

Table 2.1 : Internal Debt Position of the Central Government

<i>(in % of GDP)</i>							
	ACTUALS				Provisional	Estimates	
						RE	BE
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
A. INTERNAL DEBT (i+ii)	39.4	37.5	36.1	36.5	36.4	37.9	39.5
(i) Under MSS							
(a) Dated Securities	0.8	0.3	0.5	2.6	1.4	0.0	0.7
(b) Treasury Bills	1.2	0.5	1.0	0.9	0.2	0.0	0.0
Total (a+b)	2.0	0.8	1.5	3.4	1.6	0.0	0.7
(ii) Loans							
(a) Dated Securities	26.9	26.1	25.1	24.4	25.7	29.7	31.4
(b) Treasury Bills	1.5	2.5	2.6	2.8	4.3	3.8	3.4
(c) Compensation & Other Bonds	2.1	2.0	1.4	1.4	0.9	0.6	0.5
(d) Securities issued to International Financial Institutions	0.7	0.7	0.6	0.5	0.4	0.3	0.3
(e) Securities against small savings	6.2	5.5	4.8	3.9	3.5	3.4	3.2
Total (a+b+c+d+e)	37.4	36.7	34.6	33.1	34.8	37.9	38.7

Details on various components of internal debt have been explained in the following sections.

a. Market Loans – Dated Securities

Dated securities constitute the most important component of instruments which are used for financing the fiscal deficit. For example, in the financial year 2010-11 this component is estimated to finance 90.5 per cent of fiscal deficit. During the fiscal consolidation period i.e. 2004-05 to 2007-08, the stock of dated securities outstanding (net of MSS) steadily declined from 26.9 per cent of GDP in 2004-05 to 24.4 per cent of GDP 2007-08. However, due to the fiscal expansion during 2008-09 and 2009-10, this has increased to 25.7 per cent in 2008-09, 29.7 per cent in RE 2009-10 and 31.4 per cent in BE 2010-11.

Increased borrowings of the Central Government in the last two years have been **Commercial banks' holding of dated Securities under SLR category has been higher than the mandated floor. However, in recent years, share of their holding (including banks acting as Primary Dealers) in total outstanding Government Securities has dropped.** conducted without disrupting the market. However, this level of increase in volume of dated securities may not be sustainable in long term. The present level of stock of dated securities has also to be seen in the context of existing floor mandated (25 per cent of Net Demand and Time Liabilities) as Statutory Liquidity Ratio (SLR) for commercial banks. As against the mandated requirement of 25 per cent, commercial bank's holding under SLR category was 28.8 per cent at the end of March 2010. At the same time, ownership pattern of Government of India dated securities shows that the share of commercial banks in the total outstanding Government of India securities, including the holding of banks acting as Primary Dealers, has dropped from 50.9 per cent in March 2008 to 47.2 per cent in March 2010. The share of RBI in the total outstanding Government of India securities has gone up from 4.8 per cent to 11.8 per cent for the same period. With the current change in monetary policy stance, holding under SLR category by banks may further increase beyond the level of 28.8 per cent in March 2010.

In the medium term the Government envisages to have larger share of its deficit to be financed through dated securities. *It is the endeavour of the Government to elongate the maturity profile*

of debt to reduce redemption pressure in short to medium term. Maturity profile of existing dated securities could be classified into three categories, namely – short, medium and long term having maturity of less than 1 year, from one year up to 7 years and more than 7 years respectively. The details of maturity profile of existing dated securities are given at Annex-I. During the year 2008-09 and 2009-10 the weighted average maturity of issued securities was 13.8 years and 11.16 years respectively. This was an outcome of market preference for government securities of shorter maturity.

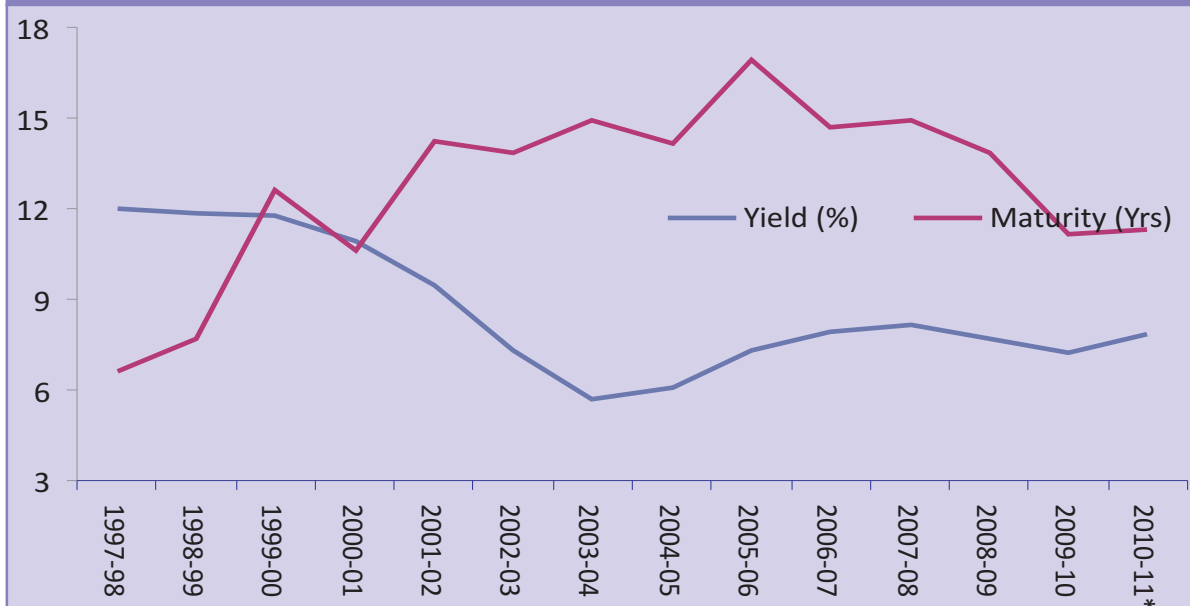
In the current financial year 2010-11, the redemption of ₹.1,12,133.06 crore is of the order of 5 per cent of stock which amounts to 1.6 per cent of GDP. At present about two third of the existing dated securities are due for redemption in the coming 10 years i.e. up to 2019-20. It is the endeavour of the Government to further elongate the maturity profile of accumulated debt to reduce redemption pressure. The longest maturity paper now floated is of 30 years. The weighted average maturity of existing dated securities is 9.9 years as of August 2010. The Government of India in consultation with the RBI is determining the appropriate maturity basket for new issuances.

In order to further improve the liquidity in the secondary market for dated securities several steps have been taken which inter alia include reissuance of existing securities, introduction of instruments like Floating Rate Bonds and improvement of trading and settlement infrastructure with diversification of investor base. These steps have shown positive results with increase in average daily volume to the order of ₹.15,000 crore.

The trends on yield and maturity pattern of primary issuances of dated securities are shown in Chart 2.1.

Most of these dated securities carry fixed rate of interest. However, there is small proportion of floating rate instruments (about 3 per cent of dated securities) whose coupon is benchmarked to cut-off yield in treasury bill auctions. The weighted average coupon of dated securities is 7.78 per cent as on August 2010. About 25 per cent of existing dated securities have fixed coupon rate of less than 7 per cent, 37 per cent carry coupon rate of 7 to 8 per cent, 18 per cent carry coupon rate of 8 to 9 per cent and about 17 per cent of total dated securities carry interest rate of more than 9 per cent and up to 12.6 per cent. Balance 3 per cent of existing dated securities are floating rate instruments. This reflects that about two third of

Chart 2.1 : Yield and Maturity of Primary Issuances



* upto 31.10.2010

the existing dated securities carry interest rate of up to 8 per cent. ***It would be the endeavour of the government to further reduce the cost of borrowings by gradually bringing down the deficit financing requirement in the medium term.***

The details of maturity and yield of Central Government's dated securities in the recent years are given in Table 2.2.

b. Treasury Bills (91,182 and 364 days)

Treasury Bills are used for meeting short term financing requirements of the Government and at the

same time these instruments offer short term investment opportunity to financial institutions. These instruments also work as benchmark for the short term interest rates in the economy. These are primarily issued under the normal auction programme of the Government and also provide opportunities for non-competitive bids. 91-days treasury bills are auctioned every week and 182 and 364 days treasury bills are put to auction every fortnight. The notified amounts for the coming quarter are fixed in advance in consultation with the RBI.

Table 2.2 : Yield and Maturity of Central Government's Market Loans

Year	Issues during the year		Outstanding Stock	
	Weighted Avg. Yield (% age)	Weighted Avg. Maturity (Years)	Weighted Avg. Yield (% age)	Weighted Avg. Maturity (Years)
1	2	3	4	5
2003-04	5.71	14.94	9.30	9.78
2004-05	6.11	14.13	8.79	9.63
2005-06	7.34	16.9	8.75	9.92
2006-07	7.89	14.72	8.55	9.97
2007-08	8.12	14.9	8.50	10.59
2008-09	7.69	13.81	8.23	10.45
2009-10	7.23	11.16	7.89	9.67
2010-11*	7.81	11.31	7.80	9.81

* upto 31.10.2010

Generally these instruments are not used for financing of deficit for the government in the full financial year. These are used to take care of temporary mismatch in budgeted receipts and expenditure during the financial year.

These instruments could also be used for financing desired level of cash build up at the end of financial year, which can be redeemed with proceeds from market borrowing of next financial year. In the current financial year 2010-11, the net financing from these treasury bills is estimated as nil. The accumulated stock of these 3 instruments at the end of March 2010 is ₹.1,37,411.65 crore amounting to 2.2 per cent of GDP and 3.9 per cent of total debt and liabilities of the Central Government.

The stock of these instruments though still not very high in the overall proportion, has gone up significantly in absolute terms during 2008-09. It has increased from ₹.71,752.44 crore in March 2008 to ₹.1,41,315.65 crore in March 2009 which has subsequently been reduced. The net increase during 2008-09 was primarily due to the decision of the government to partly finance the increased deficit arising on account of stimulus packages implemented during the second half of 2008-09 through treasury bills. The trends on details of outstanding Treasury Bills in recent years are shown in Chart 2.2.

c. 14 Days Treasury Bills

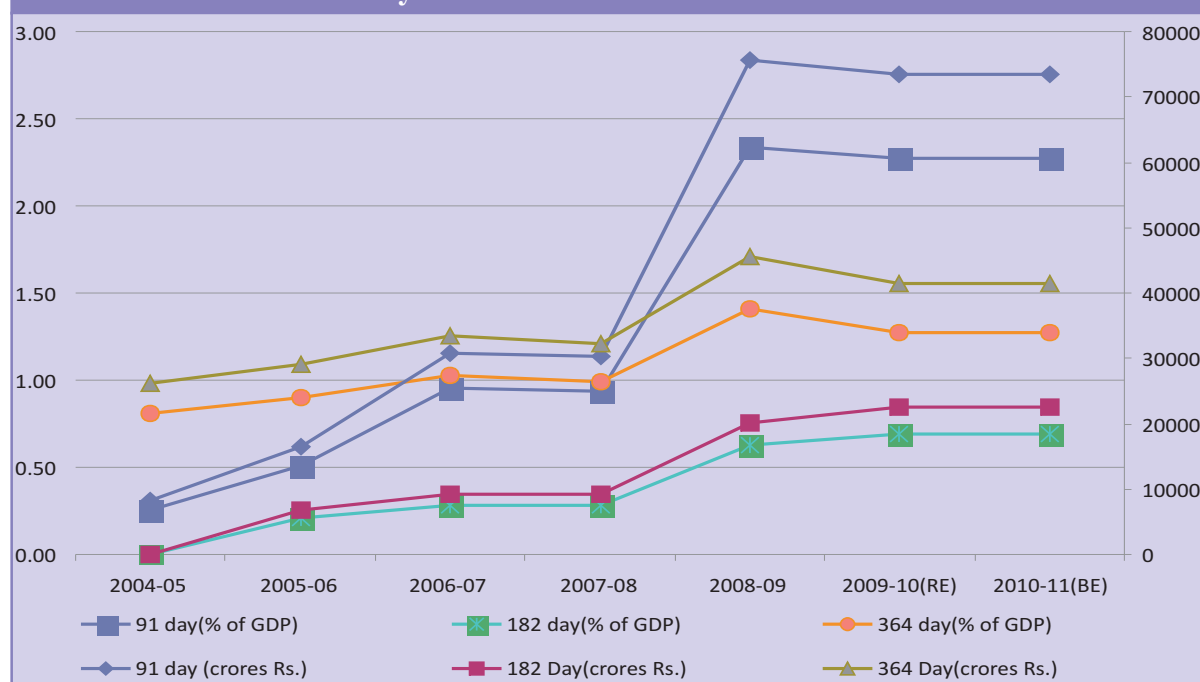
Government of India also issues 14 days Intermediate Treasury Bills. These are used by State

Governments⁴ for deployment of short term cash surpluses. The present rate of interest for this instrument is fixed at five⁵ per cent per annum.

During recent years surplus cash balances of States have increased significantly. This indicates a positive deviation from the historic trend of State Governments' reliance on Ways and Means advances from the RBI. The surplus cash balances of State Governments have increased steadily from ₹.7,184 crore at the end of March 2004 to ₹.98,663 crore in March 2009 amounting to 1.8 per cent of GDP. During 2009-10, it has declined marginally to ₹.93,776 crore (end of March 2010) amounting to 1.5 per cent of GDP. Trends in recent years on outstanding 14 days Treasury Bills are shown in Chart 2.3.

Central Government has practically no control over the accumulation of this component of debt. This primarily depends on the liquidity situation of respective States. Although this instrument was for deployment of temporary cash surpluses of States; over the years, accumulation under this instrument has assumed a more durable nature. The increased accumulation over the years has resulted in partial financing of deficit of Central Government by the State Governments. ***Over the medium term, this component of investment from the State Governments needs to be reduced. States with deficit budget take recourse to debt financing and the marginal rate for this financing is certainly higher than the return they get from 14-days Treasury Bills. Thus, this***

Chart 2.2 : Trend in Treasury Bills



⁴ Apart from State Governments, Union Territory of Ponducherry also invests surplus cash in 14-days Treasury Bills.

⁵ Interest rate is fixed as 100 basis points (1%) lower than the Bank Rate of RBI.

investment in 14-days Treasury Bills beyond the temporary cash surplus results in negative return for States. It would be a desired step for States to factor in this resource while finalising their borrowing plan for financing the fiscal deficit in coming years.

Huge accumulations in 14-days Treasury Bills pose a risk for the Central Government due to its unpredictable nature. In the scenario of State Governments suddenly drawing down on these investments, the Central Government has to quickly refinance this cash outgo from new borrowings.

Also for the Central Government, investment of huge surpluses in 14-days Treasury Bills result in payment of interest at two stages for the same amount of borrowed money. At the first instance the interest accrues from Centre's borrowing to finance its budgeted deficit partly arising on account of expenditure budgeted as releases to States. This released money from the Centre comes back to it as investment in 14 days treasury bills by the State Governments, thus creating interest burden for the second time for the Central Government and also reducing the availability of liquidity in the system.

While consolidating the general government debt, this component of 14-days Treasury Bills needs to be netted out from State Governments' debt as this is in the form of inter-government transaction.

d. Cash Management Bills

During 2009-10 the Government of India, in consultation with the Reserve Bank of India, has introduced a new short-term instrument, known as Cash Management Bills, to meet the temporary cash flow mismatches of the Government. The Cash Management Bills are non-standard, discounted instruments issued for maturities less than 91 days. These instruments have the generic character of Treasury Bills. However, the Non-Competitive Bidding Scheme for Treasury Bills, are non-standard, discounted instruments issued for maturity less than 91 days to meet the temporary cash flow mismatches of the Government.

requirement of the Government. The Central Government used this instrument for the first time in the 1st quarter of 2010-11 to the extent of ₹.12,000 crore to meet its temporary cash requirement.

e. Special Securities

(i) Special Securities converted into Marketable Securities

Upto 1997, the Government of India used to issue ad hoc treasury bills to the RBI for financing

Chart 2.3 : Trend in 14-Days Treasury Bills



of deficit⁶. Periodically, the accumulated ad hoc treasury bills were converted as special securities at a fixed interest rate of 4.6 per cent. These rates were not determined through market auction. To correct this anomaly, the special securities were gradually converted to marketable securities carrying coupon rate in line with prevailing secondary market rate for matching maturity. Government of India has completed the conversion of existing special securities during 2003-04. The outstanding stock of these securities at the end of March 2010 is ₹.76,817.95 crore amounting to 1.2 per cent of GDP. The weighted average coupon rate and maturity for these securities are 6.33 per cent and 10.07 years respectively.

The Government of India has also completed the conversion of Recapitalisation Bonds with the Nationalised Banks into marketable securities during the year 2007-08. The outstanding stock under this category as at the end of March 2010 is ₹.20,808.75 crore amounting to 0.3 per cent of GDP. The weighted average coupon rate and maturity for these securities are 8.25 per cent and 16.2 years respectively.

(ii) Securities issued to International Financial Institutions

These securities are issued to the International Monetary Fund, International Bank for Reconstruction and Development, International Development Association, Asian Development Bank, African Development Fund & Bank and

International Fund for Agricultural Development. These special securities are issued primarily towards

- India's subscriptions/contributions to these institutions;
- against Special Drawing Rights (SDRs) for subscribing to India's quota increase;
- towards maintenance of value obligations and
- towards purchase transactions under the Financial Transaction Plan.

These liabilities are non-interest bearing in nature. The total outstanding value of these rupee securities issued to International Financial Institutions as at the end of March 2010 is ₹.20,244.23 crore amounting to 0.3 per cent of GDP.

(iii) Compensation and other Bonds

Various types of interest carrying bonds were issued in the past by the Government of India. Some of these bonds were also open for retail subscription. These bonds carry fixed rate of interest which were not determined through market auction. This component of liability has been reduced from ₹.72,760.38 crore in 2005-06 amounting to 1.96 per cent of GDP to ₹.37,753.33 crore in 2009-10 amounting to 0.6 per cent of GDP. It is further estimated to reduce to ₹.31,368.70 crore at the end of March 2011.

f. Market Stabilisation Scheme (MSS)

The Market Stabilization Scheme to assist Reserve Bank of India for sterilisation of its exchange market intervention was started in 2004-

Chart 2.4 :-Trend in MSS Debt



⁶ It may be noted that section 5 sub section (1) read with sub section (3) of the FRBM Act prescribes that the Central Government shall not borrow from the RBI with effect from 1st April 2006. This means that the RBI can't subscribe to the primary issues of the Central Government securities.

05. This scheme is governed by the Memorandum of Understanding between the Central Government and RBI. The MoU provides for borrowings in addition to the normal borrowings of the Centre to

MSS is to assist RBI for sterilisation of its exchange market intervention and the proceeds under this scheme are not used for financing the deficit of Government.

finance its deficit. The borrowings under this scheme are conducted with the intention of absorbing excess liquidity from the system arising on account of large inflow of foreign exchange. The proceeds so realised from these borrowings are sequestered in a separate cash account with RBI and are not used for purpose other than redemption of dated securities or treasury bills raised under this scheme. However the interest payments are met by the Government. Trends in recent years on outstanding liabilities under this scheme are in Chart 2.4.

The above trend shows that outstanding liabilities under MSS increased sharply to 3.5 per cent of GDP in 2007-08. This in turn increased the reported debt and liabilities of GoI to that extent and negated the impact of fiscal consolidation which actually reduced the debt to GDP ratio for the period 2004-05 to 2007-08. The outstanding liabilities have been reduced to 0.04 per cent of GDP at the end of March 2010. This reduction was partly on account of de-sequestering of ₹.45,000 crore from the MSS cash account during 2008-09 and 2009-10. The de-sequestering was enabled through amendment in the MoU in 2008 on mutual agreement between the Government of India and the RBI. It facilitated transfer of a part of the amount in the MSS cash account to the normal cash account of the government to finance its deficit. This transfer has to be followed by transfer of an equivalent amount of government securities issued under the MSS to the normal market borrowing of the government.

The estimated MSS borrowing in BE 2010-11 is ₹.50,000 crore amounting to 0.72 per cent of GDP. The actual utilisation of this borrowing limit will depend on the impact of foreign capital inflow on the overall liquidity position in the market. The amount outstanding in MSS account as on 31st March 2010 was ₹.2,737 crore.

Liabilities on this account are difficult to predict in medium term and consideration of this as a normal debt would destabilise the targeted

reduction of debt over GDP under fiscal consolidation. While reporting the general government debt and liabilities, this component has to be dealt with separately for the following reasons:

- This is not used for financing the deficit of GoI;
- Proceeds from these borrowings are sequestered in a separate cash account with RBI and the government has no access to use this cash;
- Whenever a decision on de-sequestering of certain amount takes place and cash is transferred from the MSS cash account to normal cash account of the Government, an equivalent amount of securities issued under MSS would form part of the normal debt of the government.

g. Securities against small savings (National Small Savings Fund)

All deposits under small savings schemes (see Box 3.1 for small saving schemes) are credited to the “National Small Savings Fund” (NSSF), established in the Public Account of India with effect from 1.4.1999. All withdrawals by the depositors are made out of the accumulations in this Fund. The balance in the Fund is invested in special Government securities of States and Centre as per norms decided from time to time by the Central Government.

At present, small savings collections (net) are shared between the States and the Centre in the ratio of 80:20 with the option to the States to take upto 100 per cent of their net collections. The revised sharing pattern was made effective from 1st April, 2007.

The liability of outstanding balances under various small savings schemes at the close of 31st March, 1999 was borne by the Central Government by treating the same as investment of NSSF in special Central Government securities. During 1999-2000 to 2001-2002, 80% and 20% of the net collections (gross collections minus withdrawals by depositors) were invested by National Small Savings Fund in special securities issued by the State and Central Governments respectively. However, during 2002-03 to 2006-07, 100 per cent of net collections were invested in special securities issued by the various State/UT governments.

At present, small savings collections (net) are shared between the States and the Centre in the ratio of 80:20 with the option to the States to take upto 100 per cent of their net collections. The revised sharing pattern was made effective from 1st April, 2007.

The sums received in NSSF on redemption of special securities are being reinvested in special Central Government securities. The special Central Government securities issued to NSSF constitute a part of the internal debt of the Government of India under the consolidated fund. At the end of March 2010, the outstanding liabilities in the form of special Central government securities is ₹.2,07,252 crore amounting to 3.3 per cent of GDP. There are three kinds of the Central Government Special Securities issued under NSSF:

(i) Against outstanding balance as on 31st March, 1999 subsequent to the creation of NSSF in Public Account:

These are the liabilities contracted when the government decided to shift small savings liabilities from the Consolidated Fund of India to the Public Account of India with effect from 1st April, 1999. These liabilities amounted to ₹.1,76,221 crore. This was in the nature of perpetual bonds carrying interest rate of 10.5 per cent. However, from time to time, some of these liabilities have been prepaid. During the period 2002-03 to 2004-05, prepayment to the extent of ₹.92,652 crore was done with the help of proceeds received from the debt swap scheme implemented for States. Further during 2007-08, sum of ₹.10,000 crore was prepaid to take care of cash requirement for NSSF. The outstanding balance as on 31st March 2010 under this liability is ₹.73,569 crore amounting to 1.1 per cent of GDP. Details of existing securities are shown in the Annex-II.

As these instruments still carry interest rate of 10.5 per cent which is higher than market rates for long term instruments, there is a strong case for the government to exercise the call option to reduce its interest commitment.

(ii) Against net collections during the year based on the existing sharing pattern between Central and State Governments as decided from time to time:

A sub-committee of the National Development Council (NDC) was set up on the Debt Outstanding of States against the National Small Savings Fund in September, 2005 under the Chairmanship of Union Finance Minister. Pursuant to the recommendations of the sub-committee, the sharing pattern of net small savings collections has been revised with effect from 1st April, 2007. It is now being shared between the States and the Centre in the ratio of 80:20 (vis-a-vis the earlier arrangement of 100 per cent transfer of collections to the State Governments) with the option to the States to take upto 100 per cent of their collections.

The debt against these special securities is for a period of 25 years. These have to be repaid in 20 equal annual instalments after 5 years of moratorium. These instruments carry interest rate notified from time to time. Interest at the rate of 9.50 per cent per annum is being paid on the special securities issued against net collections since 1st April, 2003⁷. At the end of March 2010, the outstanding liabilities under this category are ₹.23,329 crore amounting to 0.4 per cent of GDP. The details of existing special securities are shown in the Annex-II.

(iii) Against sums received on redemption of special securities of Central and State Governments

The sums received in NSSF during the financial year on redemption of special securities issued by Central and State Governments are reinvested in special Central Government securities. These securities are issued at market rate of interest of matching maturity in the secondary market for the relevant financial years. These securities are in the form of bonds payable at the end of 20 years. During the period 2002-03 to 2004-05, the proceeds received from prepayment of liabilities in the category (i) above were also reinvested in this category at market determined rate of interest.

⁷ The 13th Finance Commission has recommended to reduce the interest rate to 9 per cent for NSSF loans to States contracted upto 2006-07 and outstanding as on 31st March 2010. The Government has accepted this recommendation in principle.

Government Debt : Status and Road Map

At the end of March 2010, the outstanding liability under this category is ₹.1,10,354 crore amounting to 1.8 per cent of GDP. The details of existing special securities with applicable interest rates are shown in the Annex-II.

B. External Debt

The Central Government is mandated under the Article 292 of the Constitution of India to borrow upon the security of the Consolidated

There is less reliance on external debt for financing of deficit. Most of the external debt contracted is on concessional terms with long maturity from Multilateral Institutions. Fund of India within such limits, if any, as may from time to time be fixed by Parliament by law. This provides the authority to the Central Government to borrow from within as well as outside the territory of the Country⁸. The Central Government receives external loans largely from multilateral agencies and to some extent from friendly foreign countries also.

The total outstanding external debt as on 31st March 2010 for the Central Government is ₹ 2,49,304 crore (US \$ 55.27 billion). This is calculated on the prevailing exchange rate on 31.3.2010 (₹.45.11 per US \$). The trends in external debt at book value and current exchange rate are shown in Table 2.3.

It may be seen from the Table 2.3 that external debt (at current exchange rate) as percentage of GDP has largely shown declining trend during the period 2004-05 to 2010-11. In case of India, there is less reliance on external debt for financing of deficit. Even out of this external debt, about 68.5 per cent is from Multilateral Institutions¹¹ which are largely on concessional terms with long maturity. The details on agency wise outstanding loans as on 31.3.2010 are shown in the Annex-III.

Apart from the Multilateral Institutions, external debt has also come from friendly countries for development projects. As per the extant policy on Bilateral Development Cooperation, Bilateral Development Assistance which inter alia includes loans is presently being accepted only from all G-8 countries¹² as well as the European Commission.

Table 2.3 : Trends in Central Government External Debt

	(₹ crore)						
	ACTUALS					Estimates	
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
External Debt							
(at Book Value)	60877	94243	102716	112031	123046	139581	162045
percentage of GDP	1.9	2.5	2.4	2.3	2.2	2.2	2.3
External Debt							
(at current Value) ⁹	191144	194070	201199	210086	264062	249304	271768 ¹⁰
percentage of GDP	5.9	5.2	4.7	4.2	4.7	4.0	3.9

⁸ Executive power of State Governments extends only to borrow within the territory of India as per the Article 293 of the Constitution.

⁹ Provided by CAAA

¹⁰ BE 2010-11 is arrived at by adding 2009-10 provisional with net external debt estimated in BE 2010-11.

¹¹ IDA, IBRD, ADB.

¹² USA, UK, Japan, Germany, France, Italy, Canada and Russian Federation

Public Account Liabilities

According to clause (2) of Article 266 of the Constitution of India all Public Money received by or on behalf of the Government of India, other than those which are for credit to the Consolidated Fund of India, shall be credited to the Public Account of India. The same provision applies for State Governments also. The receipts into the Public Account and disbursements out of it are generally not subject to vote by the Parliament. In respect of receipts into the Public Account, the Government is acting as a Banker or Trustee and refunds the money on demand after completion of the implicit contract/event.

Receipts under this account mainly come from the contributions into Public Provident Fund and saving deposits along with sale of Savings Certificates which are part of the NSSF liabilities held in Public Account, contribution into General

Receipts into the Public Account and disbursements out of it are generally not subject to vote by the Parliament. Government, in these cases, is acting as a Banker or Trustee. Liabilities on account of 'below the line items' in the form of securities issued in lieu of subsidies are part of public account liabilities.

Provident Fund by government employees, Security and other Deposits received by the Government including special securities issued in lieu of subsidies to oil marketing companies, fertiliser companies, Food Corporation of India etc. and proceeds into other Funds and Reserves maintained in the Public Account. Some of the liabilities

in the public account are interest bearing and the Government has to credit interest from the Consolidated Fund of India at the pre defined rates on the amount outstanding in the Public Account.

The Public Account also includes various suspense and remittance heads which are used for temporary transaction and to settle payments on account of inter governmental transactions.

Public Account is broadly divided into six subdivisions which are explained in this chapter.

A. Small Savings, Provident Funds, Insurance and Pension Funds, Special Deposits and Accounts etc.

This largely consists of liabilities under:

- National Small Savings Fund (NSSF);
- State Provident Funds consisting of General Provident Fund, Defence Services Officers and Personnel Provident Funds, State Railways Provident Fund etc.;
- Postal Insurance and Life Annuity Fund, Employees' Group insurance Scheme;
- Special Deposits by Provident, Superannuation and Gratuity Funds; and
- Special securities issued to various organizations like Oil Marketing Companies, Fertiliser companies, Food Corporation of India, Unit Trust of India, IDBI etc.

Except for the NSSF liabilities, details of which are explained in the following section, all the above components are interest bearing liabilities for the Government of India. Interest rates for provident funds are fixed from time to time¹³ by the Government of India whereas interest rates for special securities are fixed at the time of issuance. Liabilities on account of 'below the line items' in the form of securities issued in lieu of subsidies have increased significantly in the recent years as shown in Table 3.1

a. National Small Savings Fund (NSSF)

NSSF was established in the Public Account of India with effect from 1st April, 1999 and all deposits under Small Saving Schemes are credited to this fund.

All withdrawal by the depositors are made out of the accumulation in this Fund. The balance in the Fund is invested in special state and Central

Box 3.1 : Small Savings Schemes

The small savings schemes currently in force are:

- Post Office Savings Account, Post Office Time Deposits (1, 2, 3 & 5 years),
- Post Office Recurring Deposit, Post Office Monthly Income Account, Senior Citizens Savings Scheme, National Savings Certificate (VIII-Issue), Kisan Vikas Patra and Public Provident Fund.

¹³ Presently interest rate on General Provident fund is 8 per cent per annum

Table 3.1: Provident Funds, Insurance and Pension Funds

	2004-05	2005-06	2006-07	2007-08	2008-09
1. State Provident Funds	60717.01	66262.14	71439.92	75336.46	83377.44
<i>Percentage of GDP</i>	<i>1.9</i>	<i>1.8</i>	<i>1.7</i>	<i>1.5</i>	<i>1.5</i>
2. Other Accounts (2A+2B)	185659.62	205477.05	246298.41	274847.29	358609.47
<i>Percentage of GDP</i>	<i>5.7</i>	<i>5.5</i>	<i>5.7</i>	<i>5.6</i>	<i>6.4</i>
Of this					
2 (A) Special Deposits of Non Government Provident Funds, etc	118640.96	118256.90	117697.77	116451.90	114119.03
<i>Percentage of GDP</i>	<i>3.7</i>	<i>3.2</i>	<i>2.7</i>	<i>2.4</i>	<i>2.0</i>
2 (B). Special securities issued to various agencies	43472.19	61064.16	99790.25	125738.12	208267.56
<i>Percentage of GDP</i>	<i>1.3</i>	<i>1.6</i>	<i>2.3</i>	<i>2.5</i>	<i>3.7</i>
2 (B) (i) Public Sector Banks	20374.22	20837.03	20740.16	18634.13	18563.35
<i>Percentage of GDP</i>	<i>0.6</i>	<i>0.6</i>	<i>0.5</i>	<i>0.4</i>	<i>0.3</i>
2 (B) (ii) Oil Marketing companies (Petroleum Bonds)	9348.63	26611.48	50733.76	71287.60	133886.97
<i>Percentage of GDP</i>	<i>0.3</i>	<i>0.7</i>	<i>1.2</i>	<i>1.4</i>	<i>2.4</i>
2 (B) (iii) Food Corporation of India	0.00	0.00	16200.00	16200.00	16200.00
<i>Percentage of GDP</i>	<i>0.0</i>	<i>0.0</i>	<i>0.4</i>	<i>0.3</i>	<i>0.3</i>
2 (B) (iv) Fertilizer companies	0.00	0.00	0.00	7500.00	27500.00
<i>Percentage of GDP</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.2</i>	<i>0.5</i>

Government securities as per norms decided from time to time by the Central Government.

As explained in the Chapter 2 of this paper, the liability of outstanding balances amounting to ₹.1,76,221 crore under various small savings

Sums received in NSSF schemes at the close of on redemption of 31st March, 1999 was special securities are borne by the Central reinvested in special Government by treating Central Government the same as investment securities as well as in of NSSF in special other instruments. Central Government securities. States' share

of net collections (deposits minus withdrawals by the subscribers) under small savings schemes in each State and Union Territory (with legislature) with a floor of 80 per cent and ceiling of 100 per cent is advanced to the concerned State/ Union Territory Government as investment in its special securities and the balance, if any, invested in special Central Government securities. The sums received in NSSF on redemption of special securities are reinvested in special Central Government Securities.

With effect from 2007-08, the redemption values can be invested in other instruments. Accordingly, a sum of ₹ 1,500 crore has invested as loan at the rate of 9 per cent

per annum (payable annually), in India Infrastructure Finance Company Limited (IIFCL) in 2007-08 for financing infrastructure development projects/schemes, and repayable by IIFCL in lump sum after a period of 15 years.

The debt servicing of Government securities is an income of the Fund while the cost of the interest paid to the subscribers and cost of management of small savings schemes are expenditure of the Fund. The special Central Government securities issued to NSSF constitute a part of the internal debt of the Government of India. This has been explained in details in Chapter 2.

Revisiting National Small Savings Fund

Presently interest at the rate of 9.50 per cent per annum is payable on the special securities issued by Central and State Governments. The Thirteenth Finance Commission in its report has recommended that the interest rate on loans from National Small Savings Fund (NSSF) to States contracted till the end of 2006-07 and outstanding as at the end of 2009-10 be reset at 9 per cent per annum. The implication of this relief during the award period (2010-2015) is estimated by the Commission to be ₹.13,517 crore. The financial implication over the entire period till the maturity of the last loan covered in this relief measure is estimated to be ₹.28,360 crore. The Commission has also recommended that structural reforms should be brought in the NSSF to make it more market linked. The Government has accepted **in principle** the recommendation relating to interest rate reset on NSSF loans to the States.

However, since the recommendations are comprehensive and cover other structural aspects like interest rate mismatch, tenor

mismatch and other administrative matters, Ministry of Finance has constituted a Committee to work out detailed modalities for implementation of this recommendation.

After factoring in liabilities from NSSF included in the Internal Debt of the Government of India, the balance liabilities of NSSF are presently shown as liabilities in the Public Account of India. However, as explained in the Chapters 2 and 4 of this paper, these liabilities in the Public Account under NSSF are not used for financing the deficit of Central Government. At the same time, these liabilities are matched with assets held as securities issued by State Governments towards NSSF. Therefore these liabilities are not included as part of the Central Government liabilities for the analysis in this paper.

B. Reserve Funds

Reserve Funds in Public Account are constituted by the Central and State Governments under statutory provisions or otherwise. These funds are created with the objective of expending money accumulated under the funds on the specific and particular purposes for which they have been constituted.

Reserves or Reserve Funds may be classified under the following three categories according to the sources from which they are funded:-

- (i) Funds accumulated from grants made by another Government and at times aided by public subscriptions (examples are relief funds etc.),
- (ii) Funds accumulated from sums set aside by the Central or State Governments from the Consolidated Fund of India or the Consolidated Fund of the State, as the case may be, to provide reserves for expenditure to be incurred by

Table 3.2 : Reserve Funds - Bearing Interest

	2004-05	2005-06	2006-07	2007-08	2008-09
					(₹ in crore)
Reserve Funds-Bearing interest	9318.21	12748.62	16601.57	22348.20	15626.63
Percentage of GDP	0.3	0.3	0.4	0.5	0.3

themselves on particular purposes, (for example, the various Depreciation or Renewal Reserve Funds created in respect of commercial departments and undertakings);

- (iii) Funds accumulated from contributions made by outside agencies to the Union or State Governments (examples are autonomous bodies like ICAR etc.)

Where reserves are created (either part or in full) out of money set aside by the Government from the Consolidated Fund of India, the transfers to and the expenditure from the reserves are required to be voted by the Parliament. This procedure may not apply to certain Reserve Funds which are governed by special arrangements.

Reserve Funds are classified into two categories according to requirement of interest payment. They are

- Reserve Funds bearing interest and
- Reserve Funds not bearing interest.

a. Reserve Funds bearing interest

The major components of reserve funds bearing interest are pertaining to Railways Government Commercial Departments and Undertakings. The total outstanding liabilities at the end of March 2009 under reserve funds bearing interest is ₹.15,626.63 crore. Of this, liabilities pertaining to railway reserve funds account for about 80 per cent. These reserve funds related to railways are Railway Depreciation Reserve Fund, Railway Development Fund, Railway Capital Fund and Railway Pension Fund.

The trends of outstanding liabilities in this category are shown in Table 3.2.

b. Reserve Funds not bearing interest

Total outstanding liabilities at the end of March 2009 under this category is ₹.18,620.57 crore. Some of the major components with their outstanding liabilities at the end of March 2009 are shown in Table 3.3.

The trends in liabilities under this component in the recent years are shown in Table 3.4.

Table 3.3 : Reserve Funds - Not Bearing Interest

	2004-05	2005-06	2006-07	2007-08	2008-09
					(₹ in crore)
Reserve Funds- Not Bearing interest	8631.59	10094.36	17849.90	22497.23	18620.57
Percentage of GDP	0.3	0.3	0.4	0.5	0.3

Table 3.4 : Major Components of Non Interest Bearing Reserve Funds

Sr. no.	Major Components	Outstanding Liabilities
		(₹ in crore)
1.	Central Road Fund	3696.57
2.	Railway Safety Fund ¹⁴	2974.24
3.	Sugar Development Fund	1120.51
4.	Prarambhik Sikhsha Kosh	1777.26

¹⁴ Including Special Railway Safety Fund

Table 3.5 : Deposits - Interest and Non Interest Bearing

	2004-05	2005-06	2006-07	2007-08	2008-09
Deposits	75039.35	86618.81	96844.34	81941.30	94434.54
Percentage of GDP	2.3	2.3	2.3	1.6	1.7
<i>Bearing interest</i>	<i>36884.58</i>	<i>40901.34</i>	<i>46103.72</i>	<i>50714.86</i>	<i>62757.24</i>
<i>Percentage of GDP</i>	<i>1.1</i>	<i>1.1</i>	<i>1.1</i>	<i>1.0</i>	<i>1.1</i>
<i>Not bearing interest</i>	<i>38154.77</i>	<i>45717.47</i>	<i>50740.62</i>	<i>31226.44</i>	<i>31677.30</i>
<i>Percentage of GDP</i>	<i>1.2</i>	<i>1.2</i>	<i>1.2</i>	<i>0.6</i>	<i>0.6</i>

C. Deposits and Advances

a. Deposits

In the Public Account certain sums of money are received to be held as deposits with Government. This flow of money as deposit comes by virtue of certain statutory provision or general or special orders of Government. The total outstanding liabilities under Deposits at the end of March 2009 is ₹.94,434.54 crore. This includes both interest bearing deposits and non interest bearing deposits.

Under the deposits bearing interest, the outstanding liabilities as on end March 2009 is ₹.62,757.24 crore. Of this, ₹.41,343.15 crore is on account of Employees Pension Scheme, 1995; ₹.11,322.29 crore is under Field Deposits;

Flow of money as deposit into public account comes by virtue of certain statutory provision or general or special orders of Government. There are both interest bearing as well as non interest bearing deposits. ₹.5,019.05 crore is under Miscellaneous Deposits and ₹.3,763.86 crore is under Coal Mines Family Pension and Insurance linked scheme. These components account

for about 98 per cent for interest bearing deposits presently. *As the Government is paying fixed interest rate on these deposits which are fixed from time to time and not directly linked to market*

rates, there are possibilities of looking at the existing mechanism to reduce interest burden of the Government.

The outstanding liabilities under Deposits not bearing interest at the end of March 2009 is ₹.31,677.30 crore. These deposit accounts largely consist of Civil Deposits like Security Deposits, Civil Court Deposits, Public Works Deposits, Deposit for purchase abroad, Defence Deposits, Railway Deposits, Postal Deposit, Telecommunication Deposits and balance account of Union Territories.

The trends in outstanding liabilities for Deposits are shown in Table 3.5

b. Advances

Government occasionally makes loans and advances to public and quasi-public bodies and to individuals, some under special laws and others for special reasons or as a matter of recognized policy. The monitoring of the conditions of repayment of a loan or advance is done and a close watch over repayment of principal and realization of interest, if any, is maintained. Under advances in the Public Account, for the period ending 31st March 2009 there is a balance of (-) ₹.9,816.77 crore which is mainly attributed to Defence advance of (-) ₹.8,551.49 crore, Postal advance of (-) ₹.609.48 crore and Telecommunication advance of (-) ₹.323.28 crore. The trends in outstanding advances in the Public Account are shown in Table 3.6.

Table 3.6 : Advances

	2004-05	2005-06	2006-07	2007-08	2008-09
Advances	-3348.80	-3302.35	-3341.52	-4466.66	-9816.77
Percentage of GDP	-0.1	-0.1	-0.1	-0.1	-0.2

Table 3.7 : Outstanding Balance under Suspense Accounts

	2004-05	2005-06	2006-07	2007-08	2008-09
Suspense	-8702.42	-8560.40	-13725.61	-6524.85	-18880.85

D. Suspense and Miscellaneous

a. Suspense

Under Suspense heads in the Public Account, all such transactions are recorded which are ultimately removed either by payment or recovery in cash or by book adjustments. *Unless otherwise provided for by rules, the use of Suspense heads for provisional adjustment of transactions are to be avoided.*

The unadjusted balances under these heads continue to represent bonafide assets or liabilities of Government capable of being realized or settled, as the case may be. *All balances in suspense heads must be reviewed at short intervals and in reviewing the balances it should be insured that no item remains unadjusted longer than is reasonably necessary to bring about its clearance in the ordinary course with due regard to the rules applicable to each case, as prescribed by the Controller General of Accounts in consultation with the C&AG. However, there are instances of amounts remaining unadjusted at the end of the year thereby leading to under reporting of deficit of the Government to some extent.*

The outstanding under various suspense heads administered by various Ministries/Departments at the end of March 2009 is (-) ₹.18,880.85 crore. *Necessary steps have to be taken to reduce this amount in the coming years.* The trends in absolute terms in outstanding balance under suspense accounts are shown Table 3.7.

b. Miscellaneous

Under the miscellaneous heads, one important component is cheques and bills. The outstanding liabilities for this component at the end of March 2009 is ₹.25,143.04 crore. *It would be the endeavour of the Government to gradually*

reduce the liabilities under this component as most of the liabilities are pending for more than one financial year.

All other components under Miscellaneous heads show negative value which need to be adjusted. After factoring in the liability under Cheques and Bills, the overall liability under Suspense and Miscellaneous heads in the public account is (-) ₹.22,283.37 crore.

The trends of liabilities under Miscellaneous components are shown in Table 3.8.

E. Remittances

In the case of Remittance transactions, debits and credits are cleared either by receipt or payment in cash or by book adjustment under the relevant Service or Revenue heads of accounts, or are paired off by corresponding credits or debits within the same or in another accounting circle. *The scrutiny of balances from month to month should be done in such a manner to effect their early clearance. Accuracy of the outstandings at the end of the year should be maintained effectively.* The outstanding under various Remittances components are (-) ₹.5,724.98 crore at end March 2009. The trends in outstanding in absolute terms under this component are shown in Table 3.9.

F. Cash Balance

This shows the cash balance of the Government of India with RBI, CAS, Nagpur. This is depicted as debit if the Government has surplus cash at the end of the reporting period. Such surplus cash at the end of reporting period is invested by RBI on behalf of the Government upto ₹.50,000 crore. Surplus exceeding ₹.50,000 crore are held as cash balance in Government Account with RBI.

Table 3.8 : Outstanding Balance under Miscellaneous Accounts

	2004-05	2005-06	2006-07	2007-08	2008-09
Miscellaneous	-9217.13	-8996.74	-6526.91	-4385.97	-3402.52
Percentage of GDP	-0.6	-0.5	-0.5	-0.2	-0.4

Table 3.9 : Outstanding Remittances

	2004-05	2005-06	2006-07	2007-08	2008-09
Remittances	-2368.19	-2172.17	-4047.41	-2890.35	-5724.98

Summary

All the components of Public Account of the Government of India have been explained. Of the total liabilities considered here (excluding NSSF liabilities in the Public Account), interest bearing liabilities amount to ₹.5,20,368.24 crore at the end of March 2009. The trends in various components as percentage of GDP are summarised in Table 3.10:

Public Account liabilities have shown consistent decline during the reporting period

(2004-05 to 2008-09) except for the year 2008-09. Increase in liabilities as percentage of GDP in the year 2008-09 is mainly on account of large issuance of Securities in lieu of Petroleum and Fertiliser subsidies. The positive trend on declining public account liabilities have been restored in 2009-10 and 2010-11. *With the change in policy on subsidy payment in form of cash only, the overall liabilities in public account as percentage of GDP is expected to show consistent decline over the medium term.*

Table 3.10 : Public Account Liabilities (as percentage of GDP)

Public Account Liabilities ¹⁵	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
<i>Percentage of GDP</i>							
1. State Provident Fund	1.9	1.8	1.7	1.5	1.5	1.5	1.4
2. Other Account	5.4	5.0	5.1	4.8	5.8	5.4	4.9
3. Reserve funds & Deposit	2.9	3.0	3.1	2.6	2.3	2.2	1.9
3 (a) Bearing Interest	1.4	1.5	1.5	1.5	1.4	1.3	1.2
3 (b) Not bearing interest	1.5	1.5	1.6	1.1	0.9	0.9	0.7
Total (1+2+3)	10.1	9.8	9.9	8.8	9.6	9.1	8.2

¹⁵ Excluding liabilities on account of NSSF liabilities not used for financing of Central Govt. deficit

Trends in Central Government Debt and Liabilities

In the preceding sections various components of Central Government debt and liabilities have been explained. Though the information on this had been made available regularly in a number of official publications including the Annual Budget presented in Parliament as well as reports of Reserve Bank of India, the general Debt information now explained may further simplify the understanding to the general public and other stakeholders. To start with, the Table 4.1 gives the data on public debt as presented in the Receipts Budget 2010-11 and in the following sections further analysis of trends in public debt and liabilities has been made.

Table 4.1 above shows the overall debt and liabilities for the financial year ending March 2010 at ₹.35,15,906 crore amounting to 56.4 per cent of GDP. This includes ₹.24,77,263 crore of Public Debt (including both internal and external debt) amounting to 39.8 per cent of GDP and ₹.10,38,643 crore of Other Liabilities in the Public Account of

the Government of India amounting to 16.7 per cent of GDP.

Within these components of public debt and liabilities, some of the components namely external debt, MSS, NSSF (liabilities in Public Account) and 14-days Treasury Bills require special mention and further analysis as these would otherwise give somewhat misleading analysis of the overall debt status. In the following sections each of these components has been analyzed separately and the adjusted debt with the corrections has been explained.

Impact of External Debt calculation at Current Exchange Rate

The above data for public debt includes external debt at book value. However, for better depiction of current liabilities, this historic value of external debt contracted over the years has to be updated with its current value in rupee term. The correction in external debt data has been

Table 4.1 : Debt Position of the Central Government

	(₹ crore)						
	ACTUALS					Estimates	
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1. Total Debt (2+5)	1994422	2260145	2538596	2837425	3159178	3515906	3944598
Percentage of GDP	61.6	61.0	59.3	57.3	56.7	56.4	56.3
2. Public Debt ¹⁶ (3+4)	1336849	1484001	1647691	1920390	2151595	2477263	2898799
Percentage of GDP	41.3	40.0	38.5	38.8	38.6	39.8	41.4
3. Internal Debt	1275971	1389758	1544975	1808359	2028549	2337682	2736754
Percentage of GDP	39.4	37.5	36.1	36.5	36.4	37.5	39.0
4. External Debt ¹⁷	60877	94243	102716	112031	123046	139581	162045
Percentage of GDP	1.9	2.5	2.4	2.3	2.2	2.2	2.3
5. Other Liabilities ¹⁸ (public account)	657573	776144	890905	917035	1007583	1038643	1045799
Percentage of GDP	20.3	20.9	20.8	18.5	18.1	16.7	14.9
6. GDP ¹⁹	3239224	3706473	4283979	4947857	5574449	6231171	7010067

¹⁶ Refers to debt in the Consolidated Fund of India

¹⁷ External debt at book value at historical exchange rates

¹⁸ Liabilities in the Public Account of Central Government

¹⁹ With revised base of 2004-05 and CSO released data for RE 2009-10. For 2010-11, 12.5 per cent nominal growth has been assumed over 2009-10

Table 4.2 : Central Government Debt and Liabilities-External Debt at current exchange rate

	ACTUALS					Estimates	
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1. Total Debt	1994422	2260145	2538596	2837425	3159178	3515906	3944598
percentage of GDP	61.6	61.0	59.3	57.3	56.7	56.4	56.3
Of this							
2. External Debt							
(at Book Value)	60877	94243	102716	112031	123046	139581	162045
percentage of GDP	1.9	2.5	2.4	2.3	2.2	2.2	2.3
3 External Debt							
(at current Value) ²¹	191144	194070	201199	210086	264062	249304	271768 ²²
percentage of GDP	5.9	5.2	4.7	4.2	4.7	4.0	3.9
4. Total Debt with external debt at current exchange rate (1-2+3)	2124688	2359972	2637079	2935481	3300194	3625629	4054322
percentage of GDP	65.6	63.7	61.6	59.3	59.2	58.2	57.8

arrived at by adopting end date exchange rate for conversion of outstanding loans denominated in foreign currencies to rupees for each year. The following table gives the details of the impact of this correction on the overall debt and public liabilities. During the period 2004-05 to RE 2009-10, the adjusted debt²⁰ and liabilities show a

For true depiction of current liabilities, historic value of external debt contracted over the years has to be updated with its current value in rupee term.

reduction from 65.6 per cent to 58.2 per cent. While the correction with external debt at book value during the above mentioned period is of the order of 5.2 per cent of GDP (61.6 per cent in 2004-05 minus 56.4 per cent in estimates for 2009-10), the same with external debt at current value is 7.4 per cent of GDP (65.6 per cent in 2004-05 minus 58.2 per cent in estimates for 2009-10).

NSSF liabilities not used for financing Central Government deficit

This component of liability is reflected in the Public Account of the Central Government. As was explained in the previous chapters, all deposits under small savings schemes are credited to the “National

Small Savings Fund” (NSSF), established in the Public Account of India with effect from 1.4.1999. All withdrawals by the depositors are made out of the accumulations in this Fund. The balance in the Fund is invested in special Central and State Government securities as per norms decided from time to time by the Central Government²³.

The liability of outstanding balances amounting to ₹.1,76,221 crore under various small savings schemes at the close of 31st March, 1999 was borne by the Central Government by treating the same as investment of NSSF in special Central Government securities. The sums received in NSSF on redemption of special securities are being reinvested in special Central Government securities. The special Central Government securities issued to NSSF constitute a part of the internal debt of the Government of India under the consolidated fund. In the RE 2009-10, the outstanding liabilities in the form of

While calculating the overall debt and liabilities of the Central Government, the component of NSSF liabilities in the Public Account of the Government not used for financing Central Government's deficit needs to be netted out to correctly depict the overall debt.

Central government special securities issued towards NSSF liability is ₹.2,07,252 crore

²⁰ For the same period, without this adjustment for external debt at current value the reduction is from 61.6 per cent to 56.4 per cent of GDP.

²¹ Provided by CAAA

²² BE 2010-11 is arrived at by adding 2009-10 provisional with net external debt estimated in BE 2010-11.

²³ With effect from 1st April 2007, small savings collections (net) are being shared between the States and the Centre in the ratio of 80:20 with the option to the States to take upto 100 per cent of their net collections.

Government Debt : Status and Road Map

amounting to 3.3 per cent of GDP. In the overall debt and liability of the Central Government, as reported in the Receipts Budget 2010-11, apart from the above ₹.2,07,252 crore further ₹.4,73,335 crore has also been included as other liability towards NSSF in RE 2009-10. Thus the total liability on account of NSSF comes to ₹.6,80,587 crore.

There is no ambiguity in considering ₹.2,07,252 crore (for which Central Government Special Securities have been issued to NSSF) as part of the overall debt and liability of the Central Government. However, the balance liability of ₹.4,73,335 crore on account of NSSF (as shown in estimates of 2009-10) towards Central Government needs to be seen in the context of the above amount not exactly being used for financing deficit of the Central Government. This part of the liability is matched with assets in the form of State Governments' Special Securities issued towards NSSF and the amount was used for financing respective State Governments' deficit. Therefore, while calculating the overall debt and liabilities of the Central Government, the component of NSSF liabilities in the Public Account of the Government not used for financing Central Government's deficit needs to be netted out to correctly depict the overall debt. Table 4.3 shows the impact of this adjustment

over the already adjusted debt on account of factoring in external debt at current exchange rate in the Table 4.2.

The above adjustment brings out two important observations:

- The trend of reduction in debt over GDP from 2004-05 gets reversed in the year 2008-09. This was due to higher fiscal deficit observed during 2008-09 and 2009-10; and
- Liabilities on account of NSSF (not used for financing Central Government deficit) as percentage of GDP has reduced from 10.2 per cent of GDP in 2004-05 to 6.8 per cent in estimates for 2010-11.

During the FRBM Act regime, for the period 2004-05 to 2007-08, the process of fiscal consolidation helped in gradually reducing the debt to GDP ratio from 55.4 per cent to 49.7 per cent. However, during 2008-09 and 2009-10 due to the counter cyclical measures taken by the Government, the fiscal deficit went up and accordingly the debt to GDP ratio increased to 50.8 per cent in 2008-09 and declined marginally to 50.6 per cent in RE 2009-10. It was still higher than the level achieved at the end of financial year 2007-08.

Table 4.3 : Central Government Debt and Liabilities - Net of NSSF Liabilities not used for financing Central Government Deficit

(₹ crore)							
	ACTUALS					Estimates	
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1. Total Debt with external debt at current exchange rate	2124688	2359972	2637079	2935481	3300194	3625629	4054322
percentage of GDP	65.6	63.7	61.6	59.3	59.2	58.2	57.8
Of this							
2. Liabilities on account of NSSF not used for financing Central Govt. deficit	329760	413499	468010	478290	470141	473335	475927
percentage of GDP	10.2	11.2	10.9	9.7	8.4	7.6	6.8
3. Total Debt net of liabilities towards NSSF not used for financing Central Govt. deficit (1-2)	1794928	1946473	2169070	2457191	2830054	3152295	3578394
percentage of GDP	55.4	52.5	50.6	49.7	50.8	50.6	51.0

Market Stabilisation Scheme (MSS)

The extent of correction in debt to GDP ratio and the reversal of the same during the above mentioned period can't be fully explained without considering the impact of MSS during the period 2004-05 to 2007-08.

As explained in the earlier chapter, the Market Stabilization Scheme was started in 2004-05 to assist Reserve Bank of India for sterilisation of its exchange market intervention by absorbing excess liquidity from the system arising on account of large inflow of foreign

Extent of correction in debt to GDP ratio and the reversal of the same during 2004-2005 to 2009-2010 can be explained after factoring in the impact of MSS.

exchange. This scheme provided for borrowings in addition to the normal borrowings of the Centre to finance its deficit. The MSS borrowings are done through the instruments of dated securities and treasury bills. The proceeds so realised from these borrowings are sequestered in a separate cash account with RBI and are not used for purpose other than redemption of dated securities or treasury bills raised under this scheme. However the interest payments are met by the Government.

The outstanding liabilities under MSS went up to as high as 3.5 per cent of GDP in 2007-08. This, in turn, has increased the reported debt of the Central Government to that extent and negated the impact of fiscal consolidation which actually aided in reducing the debt to GDP ratio for the period 2004-05 to 2007-08.

Accumulation of debt under MSS is primarily a function of the extent of sterilisation required by the monetary authority in meeting its monetary policy objectives. There is only limited correlation in the fiscal side in the form of interest obligation on the above mentioned debt. While evolving a path of fiscal

consolidation for the future years, this component of debt is difficult to predict in medium term. At the same time, cash raised under this scheme is not used for financing the deficit of the Central Government. Therefore consideration of this component as a normal debt and including it for future projection of targeted debt would affect the committed roadmap for reduction of debt over GDP. In view of the above, while reporting the general government debt and liabilities, this component has to be dealt with separately.

One may argue, that in the past part of the cash under this scheme has been de-sequestered and used for financing the deficit of the Central Government. But whenever a decision on de-sequestering of certain amount takes place and cash is transferred from the MSS cash account to normal cash account of the Government, an equivalent amount of securities issued under MSS would form part of the normal debt of the government and will get reported as debt of the Government.

After adjusting for the debt under MSS, the correction in debt to GDP ratio is more pronounced during the fiscal consolidation period and the deterioration in debt to GDP ratio during 2008-2009 and 2009-2010 is also much on the higher side in line with the change in the fiscal policy.

Table 4.4 : Central Government Debt and Liabilities - Net of NSSF and MSS Liabilities not used for financing Central Government Deficit

	(₹ crore)						
	ACTUALS					Estimates	
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Total Debt net of liabilities towards NSSF not used for financing Central Govt deficit	1794928	1946473	2169070	2457191	2830054	3152295	3578394
percentage of GDP	55.4	52.5	50.6	49.7	50.8	50.6	51.0
Of this							
MSS	64211	29062	62974	170554	88773	2737	50000
percentage of GDP	2.0	0.8	1.5	3.4	1.6	0.0	0.7
Total Debt net of liabilities under MSS and towards NSSF not used for financing Central Govt. deficit	1730717	1917411	2106096	2286637	2741281	3149558	3528394
percentage of GDP	53.4	51.7	49.2	46.2	49.2	50.5	50.3

Government Debt : Status and Road Map

After adjusting for the debt under MSS, the correction in debt to GDP ratio would be more pronounced during the above mentioned period. Similarly, the deterioration in debt to GDP ratio during 2008-09 and 2009-10 is also much on the higher side in line with the increased deficit during this period. This could be seen from Table 4.4.

The debt as percentage of GDP (after adjusting for MSS and NSSF liabilities) has improved from 53.4 per cent in 2004-05 to 46.2 per cent in 2007-08. This shows improvement of 7.2 per cent of GDP during the above mentioned period of fiscal consolidation²⁴. Similarly, the debt to GDP ratio has deteriorated from 46.2 per cent in 2007-08 to 50.5 per cent in 2009-10 which amounts to 4.3 per cent of GDP as against only 0.9 per cent worsening²⁵ seen from debt data with MSS component.

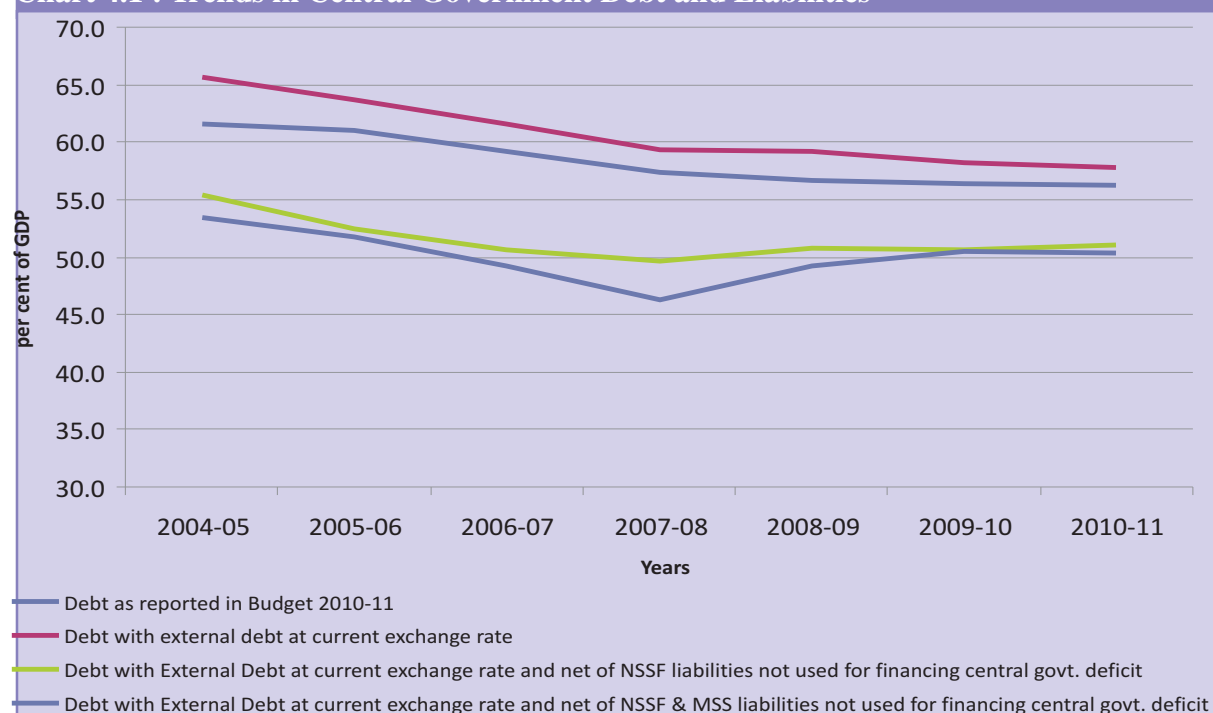
The following chart depicts this trend even better. It could be seen that overall debt as reported in the Budget document is declining even during 2008-09 and 2009-10; the years in which country was running higher fiscal deficit due to the counter cyclical measures undertaken to protect the economy from the adverse impact of the global financial meltdown. This trend goes against the normal understanding. However, to break this myth that the Country can sustain higher fiscal deficit with debt as percentage of GDP still declining, one needs to look at the trend net of MSS and NSSF

liabilities which are not used for financing deficit of Central Government.

During the period 2004-05 to 2007-08, the accretions under MSS liabilities were quite significant. This led to over projection of existing debt for the Central Government during the above mentioned period. This component partially negated the improvement in the level of debt achieved due to fiscal consolidation.

During 2008-09 and 2009-10 the liabilities under MSS got liquidated and accretion under NSSF also slowed down. This resulted in lower contribution of these two components in the overall debt as reported in the budget document. For example, MSS liabilities have reduced from 3.4 per cent of GDP in 2007-08 to zero per cent in 2009-10. Similarly the outstanding liabilities under NSSF not used for financing the Central Government deficit, but reported in the overall liabilities of the Central Government, reduced from 9.7 per cent of GDP in 2007-08 to 7.6 per cent of GDP in 2009-10. Thus these two components got reduced from the overall reported debt during this period to the extent of 5.5 per cent of GDP (3.4 per cent for MSS and 2.1 per cent for NSSF). It may be seen from the Table 4.4 that the overall debt of the Central Government (with external debt at current value and NSSF and MSS liabilities taken into consideration) has

Chart 4.1 : Trends in Central Government Debt and Liabilities



²⁴ Correction in debt to GDP ratio for the same period without netting of MSS impact is only 5.7 per cent of GDP.

²⁵ Debt as percentage of GDP increased from 49.7 per cent in 2007-08 to 50.6 per cent in 2009-10.

Box 4.1 : Variations in incremental Debt with Fiscal Deficit

Ideally incremental debt during the financial year should be in line with the fiscal deficit during the respective year adjusted with increase/decrease in the cash balance of the Government. However, in the case of Central Government, over the years it could be seen from the following table that incremental debt is not the sole function of fiscal deficit.

Table 4.5 shows that the variation in accrued debt and fiscal deficit is very high for the period 2004-05 to 2007-08. This variation could be explained by considering liabilities explained in this chapter such as NSSF liabilities not used for financing Central Government deficit and MSS. Similarly, below the line items (e.g. securities issued in lieu of subsidies) which are not factored in fiscal deficit calculation would certainly have impact on overall debt.

Table 4.5 : Incremental Debt and Fiscal Deficit

	(₹.in crore)						
	Actuals				Estimates		
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1. Incremental Liabilities	257743	265723	278451	298829	321753	356728	428692
% of GDP	8.0%	7.2%	6.5%	6.0%	5.8%	5.7%	6.1%
2. Fiscal Deficit	125794	146435	142573	126912	336992	414040	381409
% of GDP	3.9%	4.0%	3.3%	2.6%	6.0%	6.6%	5.4%
3. Difference (1 - 2)	131949	119288	135878	171917	-15239	-57312	47283
% of GDP	4.1%	3.2%	3.2%	3.5%	-0.3%	-0.9%	0.7%

After adjusting for MSS and NSSF liabilities not used for financing Central Government Deficit and at the same time adding commitments on account of securities issued in lieu of subsidies on the deficit side, the variation between incremental debt and fiscal deficit narrows down. In Table 4.6 the impact of these liabilities on the variation could be seen.

The roadmap for debt reduction should factor in the anomaly created by the above mentioned components. Fiscal deficit calculation should factor in below the line items as these items create future liability for the Government and thereby increases the debt level.

For projecting debt in the medium term, one has to assume that incremental debt would align with projected fiscal deficit. Therefore NSSF debt not used for financing Central Government deficit and debt under MSS has to be dealt with separately and also below the line items, if any, has to be accounted for within the projected deficit level.

Table 4.6: Incremental Debt and Fiscal Deficit - Variations

	(₹.in crore)						
	Actuals				Estimates		
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1. Incremental Liabilities*	96744	217133	190028	180969	411683	439570	378836
% of GDP	3.0%	5.9%	4.4%	3.7%	7.4%	7.1%	5.4%
2. (1) - fiscal deficit	-29050	70698	47455	54057	74691	25530	-2573
% of GDP	-0.9%	1.9%	1.1%	1.1%	1.3%	0.4%	0.0%
3. Bonds issued in lieu of Subsidies	0	17263	40321	28054	95942	10306	0
4. Difference (2 - 3) #	-29050	53435	7134	26003	-21251	15224	-2573
% of GDP	-0.9%	1.4%	0.2%	0.5%	-0.4%	0.2%	0.0%

* Incremental Liabilities are net of MSS and NSSF not used for financing Central Govt. deficit

Indicates difference between Incremental Liability and Fiscal Deficit inclusive of Bonds issued in lieu of Subsidies.

declined only marginally from 59.3 per cent of GDP in 2007-08 to 58.2 per cent of GDP in 2009-10. Thus the decline of 5.5 per cent of GDP in the two components of MSS and NSSF was offset to the extent of 4.4 per cent of GDP in these two years due to the higher fiscal and primary deficit.

Therefore it may be seen from the Chart 4.1 that the last trend in the chart i.e. debt net of NSSF and MSS liabilities not used for financing Central Government deficit and with external debt at current exchange rate gives the real depiction of movement in debt level along with the variation in fiscal policy of the Government. Debt as percentage of GDP has started going up after 2007-08 due to the larger fiscal deficit and has in fact increased from 46.2 per cent of GDP in 2007-08 to 50.5 per cent in 2009-10. With the reduction in fiscal deficit in 2010-11, it is showing a flattening trend.

14-days Treasury Bills

One of the debt components which requires separate analysis is 14-days Treasury Bills as this involves inter government transaction between Centre and State Governments. This is used for financing Central Government deficit and at the same time this instrument is used by State Governments for deployment of short term cash surpluses²⁶. However, over the years, accumulation under this instrument has assumed a more durable nature, thereby resulting in partial financing of Central Government deficit on consistent basis by the State Governments.

This has created an anomaly in the presentation of combined debt and liabilities of the Central and State Governments. State Governments are running deficit budget and at the same time investing cash surplus (which is more durable in nature) on

Accumulation under 14-days Treasury Bills has assumed a more durable nature, thereby resulting in partial financing of Central Government deficit on consistent basis by the State Governments. consistent basis in debt instrument of the Central Government. In a hypothetical situation if the State Governments reduce their borrowings in a particular year to such extent so as to bring down their level of investment in 14-days

Treasury Bills to zero or a lesser amount, the debt reported for State Governments would be reduced to that extent without any under financing of deficit. At the same time, there will be reduction

in financing side of the Central Government deficit which would trigger fresh market borrowings to the same extent by the Central Government. Thus, the level of debt for Central Government would remain the same as one instrument of debt will be replaced by another instrument. But the level of debt for the State Governments in this hypothetical situation would be reduced by the extent of cash draw down from investment in 14-days Treasury Bills. Presently, this component of debt is being counted both at the Centre and State level. While presenting the combined debt for Central as well as State Government debt, this double counting has to be therefore corrected and State Government's debt needs to be netted to the extent of their investment in 14-days Treasury Bills instrument.

Summary

It could be seen from above that after adjusting for external debt at current exchange rate, NSSF liabilities not used for financing Central Government deficit and debt under MSS the overall debt and liabilities of the Central Government as percentage of GDP has come down to 50.5 per cent in the estimates for 2009-10. There was a consistent trend of reduction in debt to GDP ratio for the Central Government during the period 2004-05 to 2007-08. This is in line with the fiscal consolidation path followed during the above mentioned period. The correction of the order of 7.2 per cent²⁷ of GDP in three financial years is heartening and shows that by consistently maintaining fiscal deficit at a prudent level over the medium term the overall debt as percentage of GDP could be curtailed to a more sustainable level. However, two years of slippage²⁸ in the form of higher fiscal deficit (during 2008-09 and 2009-10) due to much needed counter cyclical measures, has reduced the gain by 4.3 percentage point. This brings in the issue of consistency in conducting fiscal policy over the medium term. *The principles of 'counter cyclical policy' adopted during the crisis years needs to be followed by fiscal consolidation and creation of fiscal space in the normal years. This would help in recapturing the gains lost during crisis years and would provide fiscal space for implementing counter-cyclical policy during the crisis years.*

²⁶ Apart from State Governments, Union Territory of Puducherry also invests surplus cash in 14-days Treasury Bills.

²⁷ From 53.4 per cent in 2004-05 to 46.2 per cent in 2007-08

²⁸ From 46.2 per cent in 2007-08 to 50.5 per cent in 2009-10

Roadmap for General Government Debt

In the preceding chapters the ambiguities regarding reporting of the Central Government debt in the present system have been explained. This would certainly bring in more clarity and help in informed decision making for coming years. After discussing the stock of debt and trends in debt accumulation in the previous chapters, focus here shifts to the future roadmap.

The principles determining the accumulation of debt and liabilities in the coming years would be driven by the mandate to bring down debt as percentage of GDP to not more than 45 per cent

Roadmap for the Central Government Debt is driven by the principle to reduce debt as percentage of GDP to not more than 45 per cent for the Central Government and 68 per cent for General Government for the Central Government and 68 per cent for General Government²⁹ by the end of year 2014-15. These targets were recommended by the 13th Finance Commission and have been accepted in principle by the Central Government. Table 5.1 shows the recommended fiscal consolidation path

for reduction in debt as percentage of GDP for the period 2010-11 to 2014-15.

The recommended debt reduction in five years is 9.4 percentage of GDP and is primarily back loaded as could be seen from the Table 5.1. In the first two years the projected reduction in debt as percentage of GDP is of the order of 1.7 per cent of GDP whereas in the last three years it is 7.7 per cent of GDP. In the above projection, GDP for 2009-10 has been taken as ₹.58,56,569 crore. This was the estimated GDP in BE 2009-10 at market prices in 1999-2000 price series. However this estimation has undergone change with revision in base year as 2004-05 instead of 1999-2000 and the same has been used in this paper. At the same time the growth in GDP at market price during 2009-10 was more than the earlier estimated growth. Therefore the GDP for 2009-10 in this paper stands revised from ₹.58,56,569 crore to ₹.62,31,171 crore.

With this updated data for GDP for 2009-10 and same level of debt as estimated by the 13th FC in absolute terms, debt as percentage of GDP for 2009-10 would be 50.9 per cent as against 54.2

Table 5.1: Fiscal Consolidation Path for the Centre ³⁰

	<i>(per cent of GDP)</i>					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Fiscal Deficit	6.8	5.7	4.8	4.2	3.0	3.0
Outstanding Debt (Adjusted)	54.2	53.9	52.5	50.5	47.5	44.8

Table 5.2: Fiscal Consolidation Path for the Centre ³¹ with revised GDP

	<i>(per cent of GDP)</i>					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
GDP as projected by the 13th FC (₹ in crore)	5856569	6588640	7445163	8450260	9591046	10885837
Revised GDP (as in this paper) (₹ in crore)	6231171	7010067	7921376	8990762	10204515	11582124
Outstanding Debt (as projected by the 13th FC)	54.2	53.9	52.5	50.5	47.5	44.8
Outstanding Debt (projection adjusted with revised GDP)	50.9	50.7	49.3	47.5	44.6	42.1

²⁹ Consolidated debt for Central and State Governments.

³⁰ As per the 13th Finance Commission recommendations.

³¹ As per the 13th Finance Commission recommendations.

per cent. This estimate is in line with the estimated debt to GDP ratio for the Central Government in 2009-10 at 50.5 per cent in chapter 4 of this paper³².

Table 5.2 shows the impact of change in GDP estimates on the projected debt level with the fiscal deficit retained at the same absolute value as projected by the 13th Finance Commission.

As explained above, the base from which debt reduction has to take place has changed significantly. With this change, in order to achieve the recommended level of Debt (45 per cent of GDP), the correction required would be only 5.9 per cent of GDP (from 50.9 per cent to 45 per cent) instead of 9.2 per cent of GDP (from 54.2 per cent to 45 per cent). The reduction required from 50.5 per cent (estimated in this paper in 2009-10) would be even lower i.e. 5.5 per cent of GDP to achieve the recommended debt level of 45 per cent for the Central Government.

This leads to two options for the Central Government while preparing its roadmap for debt reduction in the coming years. These are :

- to have larger than the recommended deficit by the 13th Finance Commission and yet achieve the prescribed target of debt at 45 per cent of GDP; or
- fulfil the commitments for fiscal consolidation made in terms of reduction in fiscal deficit and target for even lower debt level by 2014-15.

The first option would require larger borrowings by the Central Government and would lead to 'elbowing out' of the private sector which is a significant driver of GDP growth, in mobilising their resources for investment. At the same time, this may lead to higher interest rate regime which

The debt reduction strategy has been designed in line with the commitments made in the Medium Term Fiscal Policy Statement 2010-11.

the Government would not like to have as it would be an impediment in driving the economy towards double digit growth trajectory. It should also be seen in the context of managing absolute volume of market borrowings required which the debt manager may find quite challenging. In absolute terms, the net market borrowings has increased about three times from ₹.1,19,667 crore in 2007-08 to ₹.3,45,010 crore in BE 2010-11 to finance a deficit of 5.5 per cent of GDP.

Borrowings will continue to be very high in absolute terms even with declining deficit. In the medium term maintaining this level of fiscal deficit would be unsustainable as financing of this through dated securities would be difficult, especially on a fast growing GDP base.

In the above circumstances the first option is desirable. *While designing a debt reduction strategy for the period 2010-11 to 2014-15, it would therefore be prudent to follow the second option under which the commitment made in the Medium Term Fiscal Policy Statement of the Government (presented in the Budget 2010-11) regarding reduction in fiscal deficit would be honoured.*

Fiscal Consolidation Roadmap for the Central Government

The suggested roadmap for reduction in debt as percentage of GDP is based on certain assumptions. These assumptions and risks associated with them are explained here.

Assumptions and associated risks

A. Incremental Liability and Fiscal Deficit

The historic trend has shown that incremental liability in a financial year is not the sole function of fiscal deficit. However, in the Box titled 'Variations in Incremental Debt with Fiscal Deficit' in the previous chapter this variation has been explained. It could be seen that by identifying components of liabilities which were not used for financing of deficit and adjusting for them along with adjustment in fiscal deficit by including below the line items, if any, during that year; the correlation between fiscal deficit and incremental liability is somewhat more pronounced. The difference appearing even after these adjustments may be explained through increase/decrease in the cash investment or cash balance of the government during the year. In the medium term, increase or decrease in this component would balance out and therefore *it would be a safe assumption to state that incremental liability during the year is a sole function of fiscal deficit during the year.*

Risks associated with these assumptions need to be noted as they may affect the projections in the medium term. The most threatening one could be resuming the practice of issuance of securities in lieu of subsidies or any payment commitment which are not factored in the reporting of fiscal deficit by the Government. The projected fiscal

³² The difference could be on account of treatment of debt under MSS

deficit would include all below the line items during the year, if any. With this approach, the risk could be mitigated.

Other important risk which could affect this assumption would be over financing of deficit. This may happen if the market borrowings are not adjusted according to the flow of fund through automatic route such as reinvestment of redemption proceeds against securities issued towards NSSF. In order to mitigate this risk, other windows of reinvestment of such proceeds from NSSF may be explored.

B. GDP growth rate

Following growth rates in nominal terms³³ have been assumed for GDP:

- 2010-11 : 12.5%
- 2011-12 : 13.0%
- 2012-13 : 13.5%
- 2013-14 : 13.5%
- 2014-15 : 13.5%

These assumptions are based on the principle that economy would gradually recover from the crisis faced during 2008-09 and 2009-10. It would revert back to the path of higher growth trajectory with moderate inflation during this period.

Risks under these assumptions are both on positive as well as negative side. On the positive side, the first year nominal growth could be even higher on account of higher than estimated real growth in economy as well as higher value of GDP deflator. Though higher nominal growth is good, however, higher deflator though not commendable will still increase the GDP value in nominal terms and thereby would reduce the percentage of Debt as GDP in the first year 2010-11 itself. For example, if the nominal growth in GDP comes to 16 per cent instead of 12.5 per cent estimated here, for the same level of fiscal deficit³⁴ in absolute terms in 2010-11

(as presented in the BE 2010-11), the debt as percentage of GDP would decline from 50.3 per cent estimated here to 48.8 per cent.

As recovery in the global economy is still fragile, on the negative side, there is possibility that the projected growth rate may undergo change due to external factors. This would result in lower GDP growth and may lead to lower tax revenue growth. However looking at the structural rigidity in the components of expenditure and requirement of increased government investment during the down turns, it would be difficult to correct overall expenditure in line with reduced revenues of the Government. This could increase the fiscal deficit which would require higher than estimated borrowing. Together with lower denominator in the form of lower than estimated GDP, this may lead to a situation where the debt as percentage of GDP may increase from the estimated level.

C. Fiscal Deficit

Fiscal deficit projections here are in line with the commitment made under the Medium Term Fiscal Policy Statement of the Government in the Budget 2010-11. The targets for 2010-11, 2011-12 and 2012-13 are already in public domain and are estimated at 5.5 per cent, 4.8 per cent and 4.1 per cent of GDP respectively. For the projection of Debt in the present paper, these targets for fiscal deficit have been retained. These targets are slightly better than the recommended targets of the 13th Finance Commission³⁵. As the correction in fiscal deficit is front loaded in the first three years, ***in the fourth year, i.e. 2013-14, fiscal deficit is estimated at 3.5 per cent of GDP instead of recommended level of 3 per cent of GDP by the 13th Finance Commission. For the terminal year 2014-15, the target for fiscal deficit has been kept at 3 per cent of GDP which is the same as recommended by the 13th Finance Commission.***

Table 5.3 : Assumptions for Projections

	(as per cent of GDP)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Gross Tax Revenue	10.8	11.5	11.8	12.0	12.2
Non Tax Revenue	2.1	1.6	1.5	1.5	1.4
Non-Debt Capital Receipts	0.7	0.6	0.5	0.3	0.3
Total Expenditure	16.0	15.3	14.7	14.0	13.5

³³ Growth rate at market prices at current prices (2004-05 series)

³⁴ The Government would not like to increase the fiscal deficit in absolute terms due to higher GDP on account of higher inflation

³⁵ 13th FC recommended targets for 2010-11, 2011-12 and 2012-13 are 5.7%, 4.8% and 4.2% of GDP respectively

Table 5.4 : Fiscal Consolidation Path for the Centre

Projections	(as per cent of GDP)					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Fiscal Deficit	6.6	5.5	4.8	4.1	3.5	3.0
Debt and Liabilities	50.5³⁷	50.3	49.3	47.6	45.4	43.0

This projected level of fiscal deficit could be achieved with the broad assumptions as shown in Table 5.3 on revenue and expenditure side.

The projections for fiscal deficit depend on all the above parameters. Slippage in any of these parameters would result in change in the deficit level. Gross tax revenue which reached 12 per cent of GDP in 2007-08 is projected to reach the same level in 2013-14. This is justified as economy returns to the high growth trend. The non tax revenue has been projected to decline as percentage of GDP after netting out one time proceeds received from 3G and BWA auction during 2010-11. The non debt capital receipts are also estimated to decline over the period as estimated receipts from disinvestment of PSUs for the year 2013-14 and 2014-15 can not be at the level of BE 2010-11. Further, recovery in loans and advances will decline as Central Government has discontinued³⁶ the practice of giving loans to State Governments.

Total expenditure of the Central Government is estimated to decline to 14.0 per cent of GDP in 2013-14 which is in line with the average level of expenditure during 2005-06 to 2007-08 at 13.9 per cent of GDP. The **expenditure compression could be achieved by controlling growth in subsidy related expenditure and lower growth in salary, pension and interest related expenditure** (without restricting the developmental expenditure) than the nominal growth in GDP.

D. Other assumptions

Other assumptions made while projecting the roadmap for debt reduction are that proceeds under

MSS and NSSF not used for financing Central Government deficit would not be taken for consideration for projecting Central Government debt for the reasons explained in the previous chapter.

Debt reduction roadmap

With the above mentioned assumptions, the fiscal roadmap for debt reduction in the medium term has been arrived. The Table 5.4 shows the projected fiscal deficit and debt and liabilities as a percentage of GDP for the period 2010-11 to 2014-15.

It may be seen that the terminal year debt is projected to reduce from 50.5 per cent of GDP in 2009-10 to 43.0 per cent of GDP reflecting correction of the order of 7.5 per cent of GDP in five years. It looks an ambitious target; however, it has to be seen in the background of performance during the fiscal consolidation period of 2004-05 to 2007-08. During this period the reduction in debt as percentage of GDP was 7.2 per cent in three financial years itself. It will be the endeavour of the Government to implement the fiscal consolidation roadmap presented above.

State Government Debt- Trends and future roadmap

After charting out the debt reduction strategy for the Central Government, the focus shifts to the suggested roadmap for State Governments. It may be recalled that the 13th Finance Commission has recommended reduction of the consolidated debt of the Central and State Governments to 68 per cent of GDP by the end of year 2014-15. The

Table 5.5 : Fiscal Consolidation Path for the States ³⁸

	(per cent of GDP)					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Fiscal Deficit	2.8	2.6	2.5	2.5	2.4	2.4
Outstanding Debt	27.1	26.6	26.1	25.5	24.8	24.3

³⁶ Loans for Externally Aided Projects (EAPs) are still given to State Governments on back to back basis.

³⁷ As estimated in Chapter 4 of this paper (debt net of NSSF and MSS liabilities not used for financing Central Government deficit with external debt at current exchange rate).

³⁸ As per the 13th Finance Commission recommendations

breakup of recommended targets for State Governments by the 13th Finance Commission is given in Table 5.5.

As explained in the earlier section on roadmap for Central Government debt, GDP for 2009-10 was taken as ₹.58,56,569 crore in the above projection as per the estimated GDP in BE 2009-10 (at market prices in 1999-2000 price series). However this estimation has undergone change with revision in base year as 2004-05 instead of 1999-2000 and at the same time the growth in GDP at market price during 2009-10 was more than the earlier estimated growth. Therefore the GDP for 2009-10 in this paper stands revised from ₹.58,56,569 crore to ₹.62,31,171 crore.

For the purpose of absolute value of outstanding debt for State Governments, the consolidated data for all the State Governments as published in the RBI publication – ‘Study of State Finances’ for 2009-10 has been used in this paper.

With this updated data for GDP for 2009-10 and same level of debt as estimated in BE 2009-10 in absolute terms, debt of the States as percentage of GDP for 2009-10 would be 26.3 per cent as against 27.1 per cent in the 13th Finance Commission report. The Table 5.6 shows the impact of change in GDP estimates on the projected debt level with the fiscal deficit retained at the same absolute value as projected by the 13th Finance Commission.

It may be seen that the correction recommended by the 13th FC has reduced from 2.8 per cent of GDP (27.1 per cent minus 24.3 per cent) to 2.4 per cent of GDP (26.3 per cent minus 23.9 per cent). Also the terminal year debt target under this roadmap is 23.9 per cent of GDP as against 24.3 per cent recommended by the 13th FC.

Before proceeding further on the suggested roadmap for State Governments in this paper, one component of liabilities which needs to be discussed here is 14-days treasury Bills. The nature of this component has been explained in detail in the Chapters 2 and 4 of this paper. In order to recapitulate, the impact of this instrument on consolidation of Central and State Governments debt is further explained.

14-days Treasury Bills involve inter government transaction between Centre and State Governments. This instrument is used by State Governments for deployment of short term cash surpluses and at the same time it is also a financing item for Central Government deficit⁴⁰. However, over the years, accumulation under this instrument has assumed a more durable nature, thereby resulting in partial financing of Central Government deficit on consistent basis by the State Governments. This has created an anomaly in the presentation of consolidated debt and liabilities of the Central and State Governments. While it forms part of Central Government’s debt, the State Government debt on the other hand gets overstated to that extent in as much as this investment in 14-days T. Bills is generated through State Governments’ borrowing programme.

State Governments having deficit budget on consistent basis over the medium term should not have surplus cash of durable nature. However, in the present situation, State Governments are investing cash surplus on consistent basis in debt instrument of the Central Government.

In a hypothetical situation if the State Governments reduce their borrowings in a particular year to such extent so as to bring down

Table 5.6 : Fiscal Consolidation Path for the State Government³⁹ with revised GDP

	<i>(per cent of GDP)</i>					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
GDP as projected by the 13th FC						
(₹ in crore)	5856569	6588640	7445163	8450260	9591046	10885837
Revised GDP						
(as in this paper)						
(₹ in crore)	6231171	7010067	7921376	8990762	10204515	11582124
Outstanding Debt						
(as projected by the 13 th FC)	27.1	26.6	26.1	25.5	24.8	24.3
Outstanding Debt						
(projection adjusted with revised GDP)	26.3	25.9	25.5	24.9	24.4	23.9

³⁹ As per the 13th Finance Commission recommendations.

⁴⁰ Apart from State Governments, Union Territory of Puducherry also invests surplus cash in 14-days Treasury Bills.

Government Debt : Status and Road Map

their level of investment in 14-days Treasury Bills to zero or a lesser amount, the debt reported for State Governments would be reduced to that extent without any under financing of deficit. At the same time, there will be reduction in financing side of the Central Government deficit which would trigger fresh market borrowings to the same extent by the Central Government. Thus, the level of debt for Central Government would remain the same as one instrument of debt will be replaced by another instrument. But the level of debt for the State Governments in this hypothetical situation would be reduced by the extent of cash draw down from investment in 14-days T. Bills. To put it differently, the surplus cash consistently deployed by the States in 14-days T. Bills are generated from their respective borrowings. This component of cash is thus already a part of their debt. Depicting this cash surplus again as a part of Central Government debt therefore results in double counting. Hence this component needs to be netted from State Governments' debt.

Therefore, while presenting the consolidated debt for Central as well as State Government, this double counting has to be corrected and State Government's debt needs to be netted to the extent of their investment in 14-days Treasury Bills instrument.

Fiscal Consolidation Roadmap for State Governments

While netting 14-days treasury bills investment amounting to ₹.93,776 crore outstanding at the end

of March 2010 from the State Debt estimated at ₹.16,36,403 crore in BE 2009-10, the outstanding debt as percentage of GDP will decline from 26.3 per cent to 24.8 per cent of GDP. With this correction⁴¹ in the level of debt for 2009-10, the base year debt itself at 24.8 per cent of GDP has become equal to the 13th FC projected debt level of the penultimate year i.e. 2013-14. ***In view of this, while taking forward the process of fiscal consolidation and as part of the strategy to reduce overall debt of the General Government, a new roadmap for fiscal consolidation for State Governments have to be charted out. This has been done with following assumptions:***

Fiscal deficit of State Governments as percentage of GDP has been estimated at the recommended level by the 13th FC. This assumption though will lead to higher fiscal deficit in absolute terms for respective years due to higher value of revised GDP. Another option would have been to take fiscal deficit in absolute terms at the recommended level of the 13th FC. This would have given even better correction in debt in the medium term. However, it would be desirable to be more conservative in designing the debt reduction strategy for States and to go for the first option. The difference in the debt level for both the options at the end of 2014-15 would be only 0.6⁴² per cent of GDP. This may be seen in the tables given below. The first table below shows the roadmap with the option of fiscal deficit as percentage of GDP projected at the 13th FC recommended level. Table 5.8 shows the roadmap with fiscal deficit in

Table 5.7 : Debt Roadmap for States with Fiscal Deficit as percentage of GDP at the 13th FC remmended level

	2009-10 ⁴³	2010-11	2011-12	2012-13	2013-14	2014-15
1. Fiscal Deficit ⁴⁴						
(₹ in crore)	163984	182262	198034	224769	244908	277971
as per cent of Revised GDP	2.6	2.6	2.5	2.5	2.4	2.4
2. Outstanding Debt⁴⁵						
(projections of 13 th FC as per cent of revised GDP)	26.3	25.9	25.5	24.9	24.4	23.9
3. Outstanding Debt and Liabilities net of 14-days Treasury Bills (₹ in crore)	1542627	1724889	1922923	2147692	2392601	2670572
as per cent of Revised GDP	24.8	24.6	24.3	23.9	23.4	23.1

⁴¹ Two factors attributed for this correction are increase in GDP for 2009-10 and netting of 14-days treasury bill investments by the States

⁴² 23.1 per cent of GDP for the first option and 22.5 per cent of GDP for the second option

⁴³ As estimated in BE 2009-10

⁴⁴ This is calculated in absolute terms from the fiscal deficit as percentage of GDP recommended by the 13th Finance Commission (with revised GDP)

⁴⁵ Including investment in 14-days Treasury Bills

Table 5.8 : Debt Roadmap for States with Fiscal Deficit in absolute terms at the 13th FC recommended level

	2009-10 ⁴³	2010-11	2011-12	2012-13	2013-14	2014-15
1. Fiscal Deficit ⁴⁶						
(₹ in crore)	163984	171305	186129	211257	230185	261260
as per cent of Revised GDP	2.6	2.4	2.3	2.3	2.3	2.3
2. Outstanding Debt⁴⁷						
(projections of 13 th FC per cent of revised GDP)	26.3	25.8	25.2	24.5	23.9	23.3
3. Outstanding Debt net of 14-days Treasury Bills						
(₹ in crore)	1542627	1713932	1900061	2111317	2341502	2602762
as per cent of Revised GDP	24.8	24.4	24.0	23.5	22.9	22.5

absolute terms maintained at the derived level from the 13th FC recommendations.

In the first option which is the suggested option in this paper, the *reduction in debt as percentage of GDP in the suggested roadmap is 1.7 per cent of GDP which is less than the recommended correction of 2.8 per cent of GDP by the 13th Finance Commission. However, with the change in base year debt, the terminal year debt at 23.1 per cent of GDP is lower than the 13th FC recommended level of 24.3 per cent of GDP.* Other assumptions and risks associated with this projection are of the same nature as explained in the section for the Central Government. The added risk for the State Governments could be the impact of pay commission on revision in salaries in the coming years.

The suggested roadmap may be seen in the background of past performance of the State Governments during the 12th Finance Commission award period. Most of the States have enacted the Fiscal Responsibility legislation and largely adhered to the mandated goals. With gradual reduction in the fiscal deficit during the above mentioned period, the debt of State Governments (net of 14-days treasury bills investment) has declined from 30.9 per cent in 2004-05 to 24.8 per cent in 2009-10. This shows correction of 6.1 per cent of GDP in five financial years. In the background of this credible performance, the debt reduction roadmap suggested above would be achievable.

For the purpose of further analysis, the debt reduction path suggested in the Table 5.3 will be taken for consideration.

Consolidated Debt of Central and State Governments

Trends during FRBM Act regime (2004-05 to 2009-10)

For arriving at consolidated General Government debt all inter government transactions have to be netted out. In the analysis presented in Chapter 4, the Central Government Debt has been arrived at 50.5 per cent of GDP for the year 2009-10. Similarly, in the present Chapter, State Governments debt has been arrived as 24.8 per cent of GDP for 2009-10. Before consolidating the above two data, all other loans⁴⁸ from Central Government to State Governments which have not been netted out in the above analysis have to be netted to avoid double counting of debt. Table 5.9 shows the trends in the consolidated general government debt with the above mentioned adjustments.

It may be seen from the above table that the correction in debt as percentage of GDP for the period during the FRBM Act regime was heartening. During 2004-05 to 2007-08, reduction in debt as percentage of GDP for the Central and State Governments were 7.2 per cent and 5.4 per cent respectively. The Consolidated debt of General Government has also shown reduction of 10.6 per

⁴⁶ This is calculated in absolute terms from the fiscal deficit as percentage of GDP recommended by the 13th Finance Commission

⁴⁷ Including investment in 14-days Treasury Bills.

⁴⁸ Refers to Central loans to States (other than loans from NSSF) outstanding at the end of 2009-10.

Table 5.9 : Trends in General Government Debt and Liabilities

(₹ crore)						
	ACTUALS				Estimates	
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1. Central Government Debt net of liabilities under MSS and NSSF not used for financing Central Govt. deficit with external Debt at current exchange rate	1730717	1917411	2106096	2286637	2741281	3149558
percentage of GDP	53.4	51.7	49.2	46.2	49.2	50.5
2. State Governments Debt net of 14-days Treasury Bills	999460	1108377	1202101	1259672	1364092	1542627
percentage of GDP	30.9	29.9	28.1	25.5	24.5	24.8
3. Outstanding Central Loans to State Governments	160045	157004	146653	145098	143870	141161
percentage of GDP	4.9	4.2	3.4	2.9	2.6	2.3
4. General Government Debt (1+2-3)	2570132	2868784	3161544	3401211	3961503	4551024
percentage of GDP	79.3	77.4	73.8	68.7	71.1	73.0

cent of GDP. However, this trend has undergone a reversal during 2008-09 and 2009-10 due to the high fiscal deficit on account of counter cyclical measures undertaken by the Government. While debt as percentage of GDP has increased by 4.3 per cent of GDP for the Central Government in these two years, the pace of growth in reduction of debt for the State Governments has slowed down during the same period. The reduction in debt as percentage of GDP for State Governments is 0.7 per cent of GDP in these two years. Consequently, the overall gain during 2004-05 to 2009-10 in consolidated debt for General Government has been restricted to 6.3 per cent of GDP.

It may be recalled that the 12th Finance Commission had recommended the consolidated debt for the Centre and State Governments at 74 per cent of GDP for the year 2009-10. Even with

slippage in 2008-09 and 2009-10 on fiscal deficit targets, the overall general government debt at 73 per cent of GDP in 2009-10 has remained within the recommended target.

Consolidated General Government debt roadmap (2010-11 to 2014-15)

For the period 2010-11 to 2014-15, the roadmap for consolidated General Government Debt is given in the following table. The projections for Central and State Governments have already been explained in the respective sections of this Chapter. For the purpose of projecting outstanding loans from Central Government to State Governments, the 13th Finance Commission has estimated that net outstanding loans including externally aided project loans from Central Government to States would not increase in absolute terms.

Table 5.10 : Roadmap for General Government Debt and Liabilities

	Estimates					
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
1. Central Government Debt ⁴⁹	50.5	50.3	49.3	47.6	45.4	43.0
2. State Governments Debt ⁵⁰	24.8	24.6	24.3	23.9	23.4	23.1
3. Outstanding Central Loans to State Governments ⁵¹	2.3	2.0	1.8	1.6	1.4	1.2
4. General Government Debt (1+2-3)	73.0	72.9	71.8	69.9	67.4	64.9

⁴⁹ net of liabilities under MSS and NSSF not used for financing Central Govt. deficit with external Debt at current exchange rate

⁵⁰ net of 14-days Treasury Bills investment

⁵¹ The absolute value of outstanding loans has been taken as constant in the coming years.

It is estimated therefore that outstanding loans from Central Government to State Governments would decline as percentage of GDP in the coming years due to growing GDP base. Central Government has stopped lending to State Governments except for Externally Aided Projects (EAPs) which are being lent on back to back basis. Based on the trends⁵² in pass through of external debt to States and repayment of existing Central loans by

Roadmap shows reduction of 8.1 per cent of GDP in the consolidated debt for the General Government. It may be recalled that during the fiscal consolidation period of 2004-05 to 2007-08, the reduction in debt as percentage of GDP was 10.6 per cent.

States, it may be assumed that net stock of the Central loans to States would not increase in absolute terms. With increase in GDP, the outstanding central loans to States as percentage of GDP will decline.

It may be seen that the suggested roadmap shows reduction of 8.1 per cent of GDP in the consolidated debt for the General Government. It may be recalled that during the fiscal consolidation period of 2004-05 to 2007-08, the reduction in debt as percentage of GDP was 10.6 per cent. In view of this past performance, the suggested roadmap is achievable. In the year 2014-15, the targeted debt is 64.9 per cent of GDP even lower than the recommended debt of 68 per cent by the 13th Finance Commission.

⁵² According to the 13th FC, the net inflow for EAPs would be of the same order as that of repayments by the States on existing Central Govt. loans.

Sustainability of Government Debt in India

After analysing the nature of existing debt stock and suggesting a debt reduction roadmap for the Government over the medium term, it is necessary to look at issues related to debt sustainability debate around the globe. While assessing the health of economy, public debt is always an important parameter in the matrix of economic theory. The discussions on the optimum level of public debt in any economy, whether developed or developing, have generated large interests among various stakeholder groups and individuals.

Year 2008 represents a watershed in the policy design for public finance management. Economies across the globe have undertaken massive fiscal expansionary measures to mitigate the adverse impact of global economic slowdown. While this shift in policy had helped global economy to move towards recovery, the future outlook for the global economic growth is still not the same as it was before the advent of the financial crisis in 2007. While implementing the expansionary fiscal policy during 2008 and 2009, most of the countries have contracted very high level of debt in order to provide stimuli to protect their economies and to finance higher level of public expenditure with lower revenues. This in turn has resulted in significant increase in the level of public debt and liabilities as percentage of GDP for most of the countries. This has made the debate on sustainable public debt level all the more relevant in the present context and this issue has become the fulcrum of discussion for designing future fiscal policy.

During the period of financial crisis, the decoupling theory has been called into question. Emerging market economies felt the impact of this crisis and the degree of adverse effect on a particular country was the function of existing policies in that country. Indian economy has come

out from the adverse impact of global economic meltdown relatively fast, but it can not be construed that it was not affected during the crisis period.

During 2008-09 and 2009-10, various fiscal and monetary measures were undertaken to insulate Indian economy from the adverse impact of global slowdown. These measures resulted in the reversal of fiscal consolidation trend witnessed during the period 2004-05 to 2007-08. While Central Government debt as percentage of GDP improved during this period from 53.4 per cent to 46.2 per cent, the same has deteriorated to 50.5 per cent of GDP at the end of 2009-10. Similarly, the consolidated debt of

Indian economy has come out from the adverse impact of global economic meltdown relatively fast, but it can not be construed that it was not affected during the crisis period. Consolidated debt of General Government during the crisis had increased as percentage of GDP reversing the trend during the fiscal consolidation period.

general government improved from 79.3 per cent of GDP in 2004-05 to 68.7 per cent in 2007-08 and subsequently worsened to 73 per cent in 2009-10. This reversal in trend has generated worries about the sustainability of government debt in India. At the same time, the developments in Euro Zone have further intensified the debate on the sustainability issues.

In the roadmap suggested for debt reduction during the period 2010-11 to 2014-15, the government's commitment towards fiscal consolidation has been reiterated. With the reduction in fiscal deficit for 2010-11, the trend witnessed in the last two years of increasing debt has been arrested. *The Government has undertaken concerted efforts in reducing the fiscal deficit gradually so as to bring down the debt as percentage of GDP lower to the pre-crisis level of 68.7 per cent by 2013-14 and further improve to about 65 per cent of GDP in 2014-2015.*

The present crisis in Euro Zone has brought into focus that sustainability analysis in classical

terms⁵³ may not be the sole tool to gauge the fiscal health of the country. Some of the important parameters for determining the stability and vulnerability level of public debt for example could be maturity profile, composition, carrying cost, external or domestic investor base along with savings rate, potential and realised tax to GDP ratio, etc.

In the case of India, the gradually declining level of general government debt estimated over the medium term does answer the sustainability

Declining level of General Government Debt projected over the medium term along with certain characteristics of existing debt and economic parameters put India in a distinct category when compared to developed as well as other emerging market economies. issue positively. At the same time the following characteristics of existing debt stock and economic parameters put India in a distinct category when compared to developed as well as other emerging market economies. The following analysis of the above mentioned characteristics would

show that India has positive attributes compared to both Developed and Emerging Market economies and is less vulnerable to risky parameters seen either in developed and other EMEs.

Maturity profile of Central Government Dated Securities

The weighted average maturity for outstanding stock of Central Government dated securities is about 10 years. In the recent years, the average maturity of these securities issued during respective years is even higher than the average maturity of the entire stock. This would result in further elongated maturity profile of the government debt in the coming years and would help in reducing redemption pressure in the coming years. The trends in the maturity profile of the stock and flow in the recent years for the Central Government dated securities are shown in Table 6.1.

The above maturity profile may be seen in the context of average maturity profile of 7.1 years in the case of Central Government debt in local currency for Advanced Economies⁵⁴ as in 2009.

Share of External Debt

External debt for the Government at current exchange rate is 4.0 per cent of GDP at the end of 2009-10. The consolidated debt of the General Government is estimated at 73 per cent of GDP for the same period. The share of external debt to the general government debt works out to about 5.5 per cent. Most of the external debt is from multilateral and bilateral creditors. Foreign institutional investment in Government securities accounts for less than one per cent of total public debt and that too in domestic currency. This

Table 6.1 :-Maturity Profile of Central Government Securities

Year	Issued During the year	Outstanding Stock
	Weighted Average Maturity (yrs)	
1	2	3
2003-04	14.94	9.78
2004-05	14.13	9.63
2005-06	16.90	9.92
2006-07	14.72	9.97
2007-08	14.90	10.59
2008-09	13.81	10.45
2009-10	11.16	9.67
2010-11*	11.31	9.81

* upto 31.10.2010

⁵³ Principles related to Primary deficit along with differential in interest and growth rate.

⁵⁴ Source: OECD Central Government Debt Yearbook (1980-2009) (Annex III)

mitigates the refinancing risks of maturing debt as about 94 per cent of the General Government debt is domestic debt. *While Developed economies have larger share of local currency debt in their overall Central Government debt, in most of the emerging market economies, external debt constitutes fairly large proportion of overall debt when compared to India. This gives India a distinct advantage in refinancing its maturing debt which was the main reason for triggering Greek sovereign debt crisis.*

Fixed or variable Interest Rate

Floating rate bonds constitute only about 3 per cent of outstanding Central Government Dated securities. That implies that the future risk on inflation movement is not high for India for the existing stock.

Domestic Savings Rate

During the 1980s and 90s, Domestic Savings rate in India as percentage of GDP was hovering in 20s till it crossed the 30 per cent barrier for the first time in 2003-04. Thereafter it increased steadily to 36.4 per cent of GDP in 2007-08 and continues to be in 30s even during the crisis period (32.5 per cent of GDP in 2008-09). The high rate of domestic savings as proportion of GDP has worked as the *growth propeller* for the Indian economy. This further gives India an edge over the developed economies with potential for higher investment rate in coming years, thereby aiding in future growth of economy. *The increase in GDP at higher rate is expected to further contribute to the revenue mobilization of the Government and in turn improve the debt service ratio.*

All these characteristics point towards a stable debt scenario for India. However, being a country with huge financing need for social and physical infrastructural requirement, where total expenditure as percentage of GDP is still very low, it would not be prudent to further increase the share of expenditure on interest payments in the

overall expenditure as this would result in lower resources availability for financing the developmental needs.

Trends in Interest Payment

The trends in interest payment as a percentage of net tax revenue of the Central Government in the recent years are given in Table 6.2.

It may be seen from the Table 6.2 that 56.5 per cent of net tax revenue to the Central Government was being used for meeting interest payment commitments of past debt during the year 2004-05. However, with the process of fiscal consolidation during 2004-05 to 2007-08 along with low interest rate regime during 2004-05 and 2005-06, this percentage came down to about 38.9 per cent. This correction helped in deployment of more resources for developmental needs. **During the Fiscal consolidation period, interest payment as percentage of Net Tax Revenue for the Central Government decreased significantly. With expansionary fiscal policy during the crisis period, share of interest payment from Net Tax Revenue has gone up significantly.**

However, with expansionary fiscal policy undertaken in 2008-09 and 2009-10, share of interest payment from the net tax revenue has again increased to 47.2 per cent in 2009-10. *This clearly indicates that the level of incremental debt which was acquired during 2008-09 and 2009-10 has contributed to increasing the interest commitment significantly. This level of increase in interest payment may not be sustainable in the long term.*

With the projected level of fiscal deficit for the period 2010-11 to 2014-15 and with assumption that weighted average rate of interest for incremental debt during this period may not be more than 8 per cent, projections have been made for interest payment. This coupled with the assumed level of gross tax revenue as in chapter 5 of the paper, gives the scenario on the above parameter in Table 6.3.

Table 6.2 : Trends in Interest Payment

						RE	BE
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Interest Payment	126934	132630	150272	171030	192204	219500	248664
% of Net Tax Revenue	56.5	49.3	42.8	38.9	43.4	47.2	46.6

Table 6.3 : Projections for Interest Payment

	BE10-11	2011-12	2012-13	2013-14	2014-15
Interest Payment	248664	279363	310124	340202	369199
Percentage of Net Tax Revenue	46.6	42.9	40.9	38.8	36.5

This projection shows that with the estimated level of correction as in chapter 5 of this paper, Interest payment as percentage of net tax revenue to the Central Government could be brought down to the level of 2007-08 in the year 2013-14 and would further come down to 36.5 per cent in 2014-15. It would be the endeavour of the Government to further reduce this percentage in the coming

years to unlock more resources for its developmental needs. It is pertinent to emphasise at this point that even though there is minimal risk for India for its refinancing requirement of existing debt, the government is taking efforts to return to the path of fiscal consolidation. The exit strategy of the government is so calibrated that it would not hurt the recovery process.

Government Debt : Status and Road Map

Annex - I : Statement showing Maturity Profile of Market Loans including Floating Rate Bonds (FRBs), and Conversion of special Securities to Banks and Special Securities to others as on 31st March, 2010

Year of Maturity	MARKET LOANS				SPECIAL SECURITIES							Grand Total Col.(7) + Col.(12)
	Dated Securities	Floating Rate Bonds	Conversion of Special Securities issued to	Others	Dated Securities under MSS	Total Col.(2) to Col.(6)	Oil Marketing Companies	Fertiliser Companies	Food Corporation of India	Others	Total Col.(8) to Col.(11)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
2010-11	112133.06	0.00	0.00	0.00	2737.00	114870.06	0.00	0.00	0.00	0.00	0.00	(Amount in Rupees Crore) 114870.06
2011-12	67581.19	6000.00	0.00	0.00	0.00	73581.19	4000.00	0.00	362.00	0.00	4362.00	77943.19
2012-13	74074.13	5000.00	0.00	0.00	0.00	79074.13	5762.85	0.00	0.00	0.00	5762.85	84836.98
2013-14	87008.84	4000.00	0.00	4000.00	0.00	95008.84	0.00	0.00	0.00	0.00	0.00	95008.84
2014-15	158018.36	5000.00	0.00	5000.00	0.00	168018.36	3500.00	0.00	0.00	0.00	3500.00	171518.36
2015-16	107243.95	12000.00	0.00	3000.00	0.00	122243.95	0.00	0.00	0.00	0.00	0.00	122243.95
2016-17	166129.84	6000.00	0.00	0.00	0.00	172129.84	0.00	0.00	0.00	0.00	0.00	172129.84
2017-18	124773.60	3000.00	0.00	11000.00	0.00	138773.60	0.00	0.00	0.00	0.00	0.00	138773.60
2018-19	139347.88	0.00	0.00	6130.00	0.00	145477.88	0.00	0.00	0.00	0.00	0.00	145477.88
2019-20	106000.00	0.00	0.00	12000.00	0.00	118000.00	0.00	0.00	0.00	0.00	0.00	118000.00
2020-21	11000.00	5000.00	0.00	0.00	0.00	16000.00	0.00	0.00	0.00	100	100.00	16100.00
2021-22	98213.32	0.00	1632.33	0.00	0.00	99845.65	10000.00	0.00	0.00	400	10400.00	110245.65
2022-23	44000.00	0.00	5464.69	11000.00	0.00	60464.69	0.00	20000.00	5000.00	0.00	25000.00	85464.69
2023-24	19000.00	0.00	0.00	8000.00	0.00	27000.00	31150.00	3890.00	0.00	9996.01	45036.01	72036.01
2024-25	10000.00	0.00	0.00	0.00	0.00	10000.00	52860.17	0.00	5000.00	0.00	57860.17	67860.17
2025-26	0.00	0.00	0.00	16687.95	0.00	16687.95	0.00	3610.00	0.00	0.00	3610.00	20297.95
2026-27	65000.00	0.00	4388.55	0.00	0.00	69388.55	36913.00	0.00	6200.00	0.00	43113.00	112501.55
2027-28	15000.00	0.00	2679.57	0.00	0.00	17679.57	0.00	0.00	0.00	0.00	0.00	17679.57
2028-29	11000.00	0.00	0.00	0.00	0.00	11000.00	0.00	0.00	0.00	0.00	0.00	11000.00
2031-32	39000.00	0.00	2687.11	0.00	0.00	41687.11	0.00	0.00	0.00	0.00	0.00	41687.11
2032-33	59000.00	0.00	3956.50	0.00	0.00	62956.50	0.00	0.00	0.00	0.00	0.00	62956.50
2034-35	60000.00	350.00	0.00	0.00	0.00	60350.00	0.00	0.00	0.00	0.00	0.00	60350.00
2035-36	42000.00	0.00	0.00	0.00	0.00	42000.00	0.00	0.00	0.00	0.00	0.00	42000.00
2036-37	59000.00	0.00	0.00	0.00	0.00	59000.00	0.00	0.00	0.00	0.00	0.00	59000.00
2038-39	13000.00	0.00	0.00	0.00	0.00	13000.00	0.00	0.00	0.00	0.00	0.00	13000.00
Total	1687524.17	46350.00	20808.75	76817.95	2737.00	1834237.87	144186.02	27500.00	16200.00	10858.01	198744.03	2032981.90
Memo Items:												
Unclaimed Amount/ Outstanding against matured Securities						630.46						
Total						1834868.33						

Annex - II : Statement showing Weighted Average Interest Rate of Interest (Maturity year wise) on Market Loans including FRBs Conversion of Special Securities to Banks and Special Securities to others as on 31st March, 2010

Year of Maturity	MARKET LOANS				SPECIAL SECURITIES							Total Col.(8) to Col.(11)	Yearwise Weighted Average Rate of Intt. Col.(11)	
	Dated Securities	Floating Rate Bonds	Conversion of Special Securities issued to		Dated Securities under MSS	Total	Oil Marketing Companies			Fertiliser Companies	Food Corporation of India			Others
			Banks	Others			(8)	(9)	(10)					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)		
(Weighted Average Rate of Interest in percent)														
2010-11	9.77	0.00	0.00	0.00	7.98	9.72	0.00	0.00	0.00	0.00	0.00	9.72		
2011-12	10.19	3.89	0.00	0.00	0.00	9.68	7.46	0.00	0.00	6.10	7.34	9.15		
2012-13	8.36	7.81	0.00	0.00	0.00	8.32	7.00	0.00	0.00	0.00	7.00	8.23		
2013-14	8.12	4.81	0.00	7.27	0.00	7.95	0.00	0.00	0.00	0.00	0.00	7.95		
2014-15	7.61	4.01	0.00	7.37	0.00	7.49	7.60	0.00	0.00	0.00	7.60	7.50		
2015-16	7.95	4.19	0.00	7.38	0.00	7.57	0.00	0.00	0.00	0.00	0.00	7.57		
2016-17	8.07	3.91	0.00	0.00	0.00	7.92	0.00	0.00	0.00	0.00	0.00	7.92		
2017-18	7.51	4.12	0.00	6.81	0.00	7.38	0.00	0.00	0.00	0.00	0.00	7.38		
2018-19	7.49	0.00	0.00	5.69	0.00	7.42	0.00	0.00	0.00	0.00	0.00	7.42		
2019-20	6.78	0.00	0.00	6.18	0.00	6.71	0.00	0.00	0.00	0.00	0.00	6.71		
2020-21	11.11	3.79	0.00	0.00	0.00	8.82	0.00	0.00	0.00	11.50	11.50	8.82		
2021-22	8.62	0.00	8.20	0.00	0.00	8.61	7.94	0.00	0.00	9.75	8.01	8.55		
2022-23	8.35	0.00	8.10	5.87	0.00	7.87	0.00	6.74	8.15	0.00	7.02	7.63		
2023-24	6.26	0.00	0.00	6.17	0.00	6.23	8.17	8.30	0.00	8.35	8.22	7.48		
2024-25	7.35	0.00	0.00	0.00	0.00	7.35	7.41	0.00	8.03	0.00	7.47	8.04		
2025-26	0.00	0.00	0.00	5.97	0.00	5.97	0.00	7.95	0.00	0.00	7.95	6.32		
2026-27	8.69	0.00	8.24	0.00	0.00	8.66	7.40	0.00	8.23	0.00	7.52	8.22		
2027-28	6.01	0.00	8.27	0.00	0.00	6.35	0.00	0.00	0.00	0.00	0.00	6.35		
2028-29	6.13	0.00	0.00	0.00	0.00	6.13	0.00	0.00	0.00	0.00	0.00	6.13		
2031-32	8.28	0.00	8.28	0.00	0.00	8.28	0.00	0.00	0.00	0.00	0.00	8.28		
2032-33	7.95	0.00	8.32	0.00	0.00	7.97	0.00	0.00	0.00	0.00	0.00	7.97		
2034-35	7.50	6.49	0.00	0.00	0.00	7.49	0.00	0.00	0.00	0.00	0.00	7.49		
2035-36	7.40	0.00	0.00	0.00	0.00	7.40	0.00	0.00	0.00	0.00	0.00	7.40		
2036-37	8.33	0.00	0.00	0.00	0.00	8.33	0.00	0.00	0.00	0.00	0.00	8.33		
2038-39	6.83	0.00	0.00	0.00	0.00	6.83	0.00	0.00	0.00	0.00	0.00	6.83		
Weighted Average Interest Rate as on 31st march, 2010														
	8.05	4.51	8.23	6.32	7.98	7.89	7.60	7.12	8.14	8.36	7.61	7.87		

Government Debt : Status and Road Map

Annex - III : Donor-wise Debt Outstanding of the Country as on 31st March, 2010

(US\$ in Million & Rs. in Crore)

Sl. No.	Donor	Government Loan	
		(US\$)	(INR)
1	Asian Development Bank	5719.94	25802.65
2	Japan	12450.42	56163.85
3	IBRD	6400.75	28873.80
4	IDA	25393.97	114554.19
5	IFAD	288.13	1299.74
6	EEC	28.69	129.42
7	Germany	2459.42	11094.43
8	France	421.38	1900.83
9	Italy	0.37	1.69
10	Russian Federation	1703.35	7683.82
11	Switzerland	4.39	19.80
12	United States of America	380.25	1715.29
13	OPEC	14.26	64.31
Grand Total		55265.32	249303.82

Note

1. DOD in INR calculated as prevailing rate i.e. @Rs. 45.11 as on 31st March, 2010
2. Figures include details of External Assistance and exclude PPF (Project Preparatory Fund) (Advance), IMF, FII Debt and Defence.

Annex - IV : Debt Structure, Advanced Economies and Emerging Markets

(in percent)

Advanced Economies (2009)	Central Government Debt (% of GDP)	Local Currency share of Cent. Govt. Debt	Average Maturity of Debt in Local Currency
Japan	158.2	100	6.1
Greece	116.6	100	7.9
United States	48.5	100	4.4
Ireland	47.3	100	6.0
Spain	42.6	99	6.4
United Kingdom	55.5	100	14.1
France	57.0	100	60.7
Portugal	65.9	98	6.0
Netherlands	44.8	98	6.6
Italy	90.3	100	7.0
Avarage	72.7	99	7.1

Source: For advanced economies, data is from OECD Central Government Debt yearbook (1980-2009) and relates to marketable debt.

Government Debt : Status and Road Map

Annex - V : Central Government Securities issued to NSSF

(Rs. In crore)

	Year	Rate of Interest %	Amount	Period	Securities redeemed upto 31.3.2010	Outstanding securities as on 31.3.2010
(A)	1999 - 2000	10.50	176220.92	On call basis	102651.73	73569.19
	1999 - 2000	13.50	8978.88	25 Years	2244.72	6734.16
	2000 - 2001	12.50	8316.26	25 Years	1663.25	6653.01
	2001 - 2002	11.00	8754.55	25 Years	1313.18	7441.37
	2009 - 2010	9.50	2500.00	25 Years	0	2500.00
(B)	Total		28549.69		5221.15	23328.54
	2003 (April)	7.00	13765.58	20 Years	0	13765.58
	2003 (Sept.)	6.00	32602.28	20 Years	0	32602.28
	2004 (March)	5.95	13608.87	20 Years	0	13608.87
	2004 (December)	6.96	22665.00	20 Years	0	22665.00
	2005 (March)	7.00	10010.00	20 Years	0	10010.00
	2005 (Sept.)	7.50	888.00	20 Years	0	888.00
	2006 (March)	7.60	907.87	20 Years	0	907.87
	2006 (Sept.)	8.17	2015.85	20 Years	0	2015.85
	2007 (March)	7.88	1832.89	20 Years	0	1832.89
	2009 (Sept.)	7.64	6000.00	20 Years	0	6000.00
	2009 (March)	8.21	6058.00	20 Years	0	6058.00
(C)	Total		110354.34			110354.34
	Total outstanding securities (A+B+C)		315124.95		107872.88	207252.07