REPORT OF THE
COMPTROLLER AND AUDITOR GENERAL
OF INDIA

FOR THE YEAR ENDED 31 MARCH 1993
No 12 OF 1994

UNION GOVERNMENT (CIVIL)
MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)
PUBLIC DEBT

PREFACE

This Report has been prepared under Article 151 of the Constitution for submission to the President. It is a review of Public Debt arising out of audit of the Finance Accounts of the Union Government, and the subsidiary and initial accounts of transactions relating to loans raised in India and abroad, interest and repayment liability of the Union Government, guarantees and other related budgetary and fiscal matters.

Apart from data collected from the accounts and records of the Central Government and Public Debt Offices, use has also been made of publications like Economic Survey, Brochure on External Assistance, Reserve Bank bulletins, as well as those brought out by World Bank and other international agencies.

The Report generally covers five financial years upto 1992-93. Government have not finalised the 1993-94 Accounts so far (November 1994). However, provisional figures for 1993-94, Revised Estimates or upto September 1993, have been incorporated in some cases. Wherever significant trends are apparent, the Report goes back to earlier years. This review of the Public Debt offers a perspective view of the overall position of Public Finance highlighting the trends in and linkages between receipts, expenditure, borrowings, exports and budgetary measures of the Government of India.

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OVERVIEW

- **Public Debt** comprises of Internal and External Debt. It has vital links with all aspects of Public Finance: taxation and expenditure policies, budget surpluses and deficits, trade and balance of payments, development expenditure and economic growth. This audit review deals with Public Debt as seen from the accounts, budget documents and other publications of the Union Government. Generally the review covers the position and trends over the five financial years ending 31 March 1993. The Accounts for 1993-94 had still not been finalised by the Government.

- The Central Government **borrows on the security of the Consolidated Fund** of India. The **borrowed funds** are also a part of the Consolidated Fund and they presently constitute **more than 50 *per cent* of the Consolidated Fund**. Government has not so far created statutory or regulatory procedures for borrowing, compatible with principles of Public Finance and accountability to Parliament. ***[Para 1.1]***

- Apart from the borrowings accounted for in the Consolidated Fund of India, there are Small Savings, Provident Funds and various **other kinds of debt and repayable deposits** which are kept in a separate **Public Account**. The balances of the Public Account are carried forward annually. These amounts add substantially to the liabilities of the Government. ***[Table 2.2]***

- The Government is now in a situation where it is required to borrow from the market and apply the **bulk of internal borrowings** towards debt service obligations i.e. **to repay instalments of the loan and pay interest** dues. During 1992-93 Rs 93754 crores were raised from internal borrowings, while Rs 67404 crores were spent on repayment of old loans and Rs 13542 crores were paid as interest. In effect, **86 *per cent* of the internal borrowings was utilised towards debt service obligations.**

  [Para 2.3 & Table 2.3]

- Internal debt has grown very fast over the past five years. This deterioration in debt position of the Government is directly attributable to increase in the gap between revenue expenditure and receipts. **The deficit in the Revenue Account has increased from**

Rs 7579 crores in 1986-87 to Rs 18574 crores in 1992-93. This has been due to a combination of factors such as declining growth in tax revenues, sharp increase in tax arrears, poor returns from public enterprises and growing expenditure. During the last five years the expenditure on subsidies, defence and interest payments averaged 48 *per cent* of the total expenditure. The **total expenditure of the Government of India has doubled over the last five years** from Rs 84667 crores in 1986-87 to Rs 176827 crores during 1992-93. **Fiscal deficit** increased by 30 *per cent* over these years; it was **5.7 *per cent* of GDP** during 1992-93.

[Paras 2.4.1 to 2.4.6]

- Reserve Bank of India (RBI) credit to Central Government is in the shape of holdings of Treasury Bills and dated securities. Since December 1992, RBI has been selling a part of this stock to other banks through repurchase agreements auctions (Repos). In many cases these auctions take place a few days before the "Reporting Friday" and reversed a few days later. Thus RBI credit to Government on Reporting Friday, i.e. the **monetised deficit is often understated**. The cost of these Repos transactions during 1992-93 and 1993-94 was Rs 142.80 crores. ***[Para 2.4.8]***

- Treasury Bills are short term (three/six month) loans intended to fill transient resources gaps. In fact the Government has been methodically converting Treasury Bills to securities each year, having last year also introduced a 1-year Treasury Bill. **Effectively the Treasury Bill has become yet another instrument for long term borrowing.**

  [Para 3]

- The Union Government is constitutionally empowered to guarantee loans. No law has been enacted to regulate these powers. **On 31 March 1993 the outstanding guaranteed loans stood at Rs 58027 crores**, which is also a contingent liability of the Government. The **external loan guarantees were 49 percent** of this amount.

  [Para 5 & Annexure IV]

- **On 31 March 1993, Rs 135672 crores were owed to the Central Government** by State Governments, Union Territories and others. The **arrears** of principal and interest due amounted to **Rs 19644 crores,** aggravating the deficit.

  [Para 6 & Annexure V]

- The **external component of Public Debt stood at Rs 42269 crores** on 31 March 1993. The actual **liability of the Government** on that date, at exchange rates applicable, was almost three times as much: **Rs 120813 crores.** The ***Country's*** **External Debt** has also **more than doubled in the last few years:** from Rs 130278 crores in 1989-90 to Rs 280977 crores in 1992-93. **While fresh loans were being negotiated, loans already contracted for were chronically under-utilised or allowed to lapse**. The amount of "undrawn" loans had increased from Rs 37419.22 crores at the end of 1988-89 to Rs 74587.27 crores at the end of 1992-93

  [Paras 9 & 10 and Tables 1.2 & 9.1]

- Commitment Charges(CC) are payable on "undrawn" balances of some foreign loans according to the terms and drawal schedules. During 1988-93, Rs 367.26 crores were paid as CC. The World Bank (IBRD/IDA) loans/credits accounted for 75 *per cent* of the Commitment Charges paid during these years. Test-check in the course of audit revealed many cases of **avoidable and excess payment of Commitment Charges** due to delayed drawal from loans booked, loans being extended or not utilised or cancelled, poor project implementation etc. The small sample check revealed avoidable CC payments **totalling Rs 148 crores**, converted at current rates. ***[Para 11]***

- **External debt services were 44 *per cent* of our exports** during 1992-93 and total **debt service was over 30 *per cent* of current receipts** during the years 1989-93.

  [Para 13 and Table 9.1]

- A high level committee on Balance of Payments in its Report submitted in April, 1993 made wide ranging and concrete recommendations. The Committee suggested specific steps to avoid the widespread under-utilisation of foreign loans, poor implementation of projects for which the foreign loans were contracted, the Commitment Charges paid on unused loans, etc. A decision on these recommendations is still awaited (July 1994).

  [Para 15]

[illegible]

[illegible]

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PUBLIC DEBT

1. INTRODUCTION

1.1. Borrowing for Public Finance

Public borrowing is a recognised source of Public Finance. The Union Government is empowered under Article 292 of the Constitution to **"borrow upon the security of the Consolidated Fund of India, within such limits, if any, as may be fixed by Parliament by law."** Fixing of such limits on the borrowing powers of Government under this Article of the Constitution was recommended by the Public Accounts Committee from time to time. The Ministry of Finance has been of the view that the provisions embodied in Article 292 of the Constitution are "permissive" and not "mandatory". The Ministry was also of the view that no real advantage would be served by prescribing statutory limits on Government borrowing.

The Estimates Committee 1991-92 of the Tenth Lok Sabha in para 1.192 of the Twelfth Report recommended that a flexible approach in determining a ceiling on borrowing should be adopted. The Committee held that such a ceiling could be reviewed every year and adjusted in accordance with the requirements of the situation but only after a discussion and positive vote in the Parliament.

The Ministry of Finance, however, stated that Article 292 of the Constitution covers only borrowings on the security of the Consolidated Fund of India i.e. borrowings from market loans, Treasury Bills and external loans, which flow into the Consolidated Fund of India and does not cover borrowings like Small Savings, Provident Funds, deposits, etc. which flow into the Public Account of India. The Public Account is distinct from the Consolidated Fund. The Public Account balances of debt, deposit and remittances are carried forward and not closed annually like the accounts for budgetary grants under the Consolidated Fund

The Ministry further stated that feasibility of prescribing a statutory ceiling on borrowing on the security of the Consolidated Fund of India plus fresh liabilities arising in the Public Account of India which at the end of the financial year should normally be within a fixed percentage of the estimated Gross Domestic Product in that financial year was examined but not found operationally feasible as the GDP figures for any year were available only two years later.

The Ministry felt that any such scheme would require the Government to legislate at the beginning of each year for a permissible amount of borrowing fixed as a stated percentage of GDP. This would have to provide that any excess over the ceiling on this statutory prescribed borrowing has to be regularised by Parliament in due course, as in the case of excess expenditure over grants voted by the Parliament. The Ministry opined that such a scheme would not be an improvement over the present budgetary procedure and was of the view that there were no specific advantages to be derived from prescribing a statutory ceiling on Government borrowing.

The Estimates Committee, however, felt disappointed at the position taken by the Ministry and took the view that the Government could not absolve itself of the responsibility of keeping borrowing within reasonable limits by taking shelter behind technicalities. The Committee reiterated its stand that in view of the situation prevailing in the past few years a beginning be made for imposition of statutory ceiling on Centre's borrowing. No ceilings have been prescribed so far.

1.2. Public Debt & Government Indebtedness

Public Debt comprises of Internal as well as External Debt. As explained later (in paragraphs 2, 8 and 9) the Internal Debt and External Debt figures appearing in the Union Finance Accounts do not fully reflect the actual indebtedness of the Government. In addition to the Public Debt exhibited in the Finance Accounts there are, for instance, debt and deposits accounted for in the Public Account, which add to Government liabilities. There are also guarantees, commitments to State Governments and for subsidies, Non-Resident Indians' (NRI) deposits with RBI which also contribute indirectly to Public Debt. These figures are shown separately in the Finance Accounts, Economic Survey and other government and RBI publications. Indebtedness of the Government of India as on 31 March 1993, based on the Union Finance Accounts, is given in the table below:

Table 1.2 : Public Debt & Government Indebtedness (31 March 1993)

		(In crores of rupees)	**As Percentage of GDP ↓%**
	Gross Domestic Product (GDP)	705566	
1	**Internal Debt** (Statement 14A - Finance Accounts)	199100	28.22
2	**External Debt** (Statement 14)	42269[1]	5.99
3	**PUBLIC DEBT**	**241369**	**34.20**
4	**Other Internal Liabilities** (See para 2.1 & Table 2.2)	160554	22.76
5	**External Debt** (Statement 14, pp 438-439)	120813[2]	17.12
	INDEBTEDNESS as on 31.3.93 **(1+4+5)**	**480467**	**68.10**

Source: Union Government Finance Accounts,1992-93 and for GDP, Economic Survey

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[1] This is at the "historical" rates of Exchange

[2] This is the same External Debt, except that it is converted at exchange rates as on 31.3.93.

The most comprehensive definition of Indian Public Debt would include the indebtedness of all the three levels of Government and all public enterprises to the domestic private sector and to the external sector. However, for the purposes of this review only the debt shown in the accounts and records of the Central Government and the Reserve Bank of India have been covered. An extended concept of *Country's* External Debt, distinct from the External Debt of Government of India or Public Debt is discussed in paras 7 to 9.

1.3. Public Debt and the Consolidated Fund

It is noteworthy that the borrowed funds (Public Debt) of the Government constitute a substantial part of the Consolidated Fund of India which stands as security for further borrowings. In effect, this tantamounts to having a loan on a collateral, a substantial part of which comprises of borrowed funds. Public Debt receipts during the financial years 1988 to 1991 ranged between 54 to 60 *per cent* of the total receipts of the Government. This had declined to 45 *per cent* during 1991-92 and 1992-93, but the revised budget estimates for 1993-94 showed that it was again expected to be over 54 *per cent.* The table below illustrates the position:

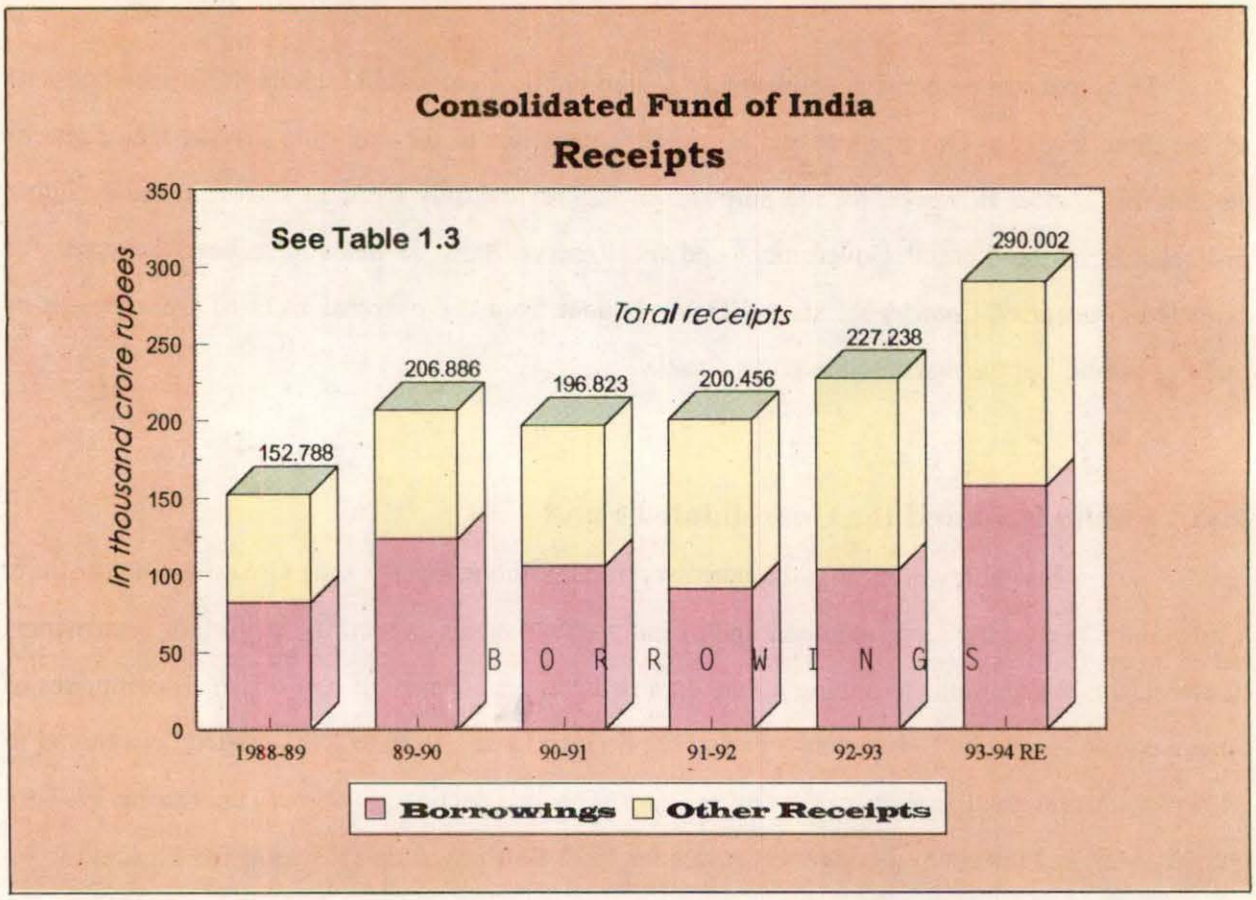
Table 1.3: Public Debt receipts— percentage of Consolidated Fund

(In crores of rupees) %

Year	Total Consolidated Fund receipts	Public Debt receipts	Public Debt receipts as percentage of Consolidated Fund
1988-89	152788	81835	53.6
1989-90	206886	123203	59.6
1990-91	196823	105652	53.7
1991-92	200456	90586	45.2
1992-93	227238	103379	45.5
1993-94 (RE)	290002	157491	Estimated: 54.3

Source: Union Government Finance Accounts and Annual Financial Statement 1994-95

See also graphic representation on next page ➔



1.4. Scope of Audit

This audit review of the Public Debt of the Government of India upto 1992-93 is based on the information available in the Union Government Finance Accounts, Reports of the Reserve Bank of India (RBI), Economic Surveys, budget documents of the Government of India, the Brochure on External Assistance and other Government Accounts and records. It incorporates the results of the examination of operation and management of Public Debt by the Public Debt Offices(PDOs) of RBI. For this purpose, records of the Public Debt Offices at New Delhi, Bombay, Nagpur, Madras, Calcutta, Hyderabad, Shillong, Thiruvananthapuram, Jaipur, Kanpur covering all operations including the debt management for State Governments were test-checked in Audit. The review also includes the results of audit of the accounts of external borrowings kept by Controller of Aid Accounts and Audit, Ministry of Finance (Department of Economics Affairs).

1.5. Organisational set up

In terms of the provisions of the Reserve Bank of India Act 1934, read with the provisions of the Public Debt Act, 1944, as amended from time to time, the Reserve Bank of India, as the statutory agent for the Central and State Governments is entrusted with the administration and management of Public Debt and issue of loans of these Governments in accordance with the agreements entered into by them with the Bank. RBI also manages the work relating to Permanent Debt through its 15 Public Debt Offices. In the Government of India, the Department of Economic

Affairs, Ministry of Finance, deals with Public Debt (both Internal and External), market loans, interest on Central Government borrowings and lending, etc.

2. INTERNAL DEBT

2.1. Definition and Scope

The term Internal Debt is confined to regular loans from the public in India and is also termed as "Debt raised in India". It includes market loans, special securities issued to Reserve Bank, compensation and other bonds, etc. It also includes borrowing through Treasury Bills issued to Reserve Bank of India, State Governments and other parties, as well as non-negotiable, non-interest-bearing rupee securities issued to International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD or World Bank), International Development Association (IDA), International Fund for Agricultural Development, African Development Fund Bank and Asian Development Bank (ADB).

Internal Debt does not cover other interest-bearing obligations of the Union Government such as Post Office savings bank deposits, deposits under Small Savings schemes, loans raised through Post Office cash certificates etc., Provident Funds (including non-government Provident Funds), depreciation and interest-bearing Reserve Funds of departments like Railways and Telecommunications and certain other deposits; though these also do form a part of the Government liabilities. As explained earlier such deposits are generally booked under the Public Account.

Internal Debt comprises of two main divisions (i) Permanent Debt and (ii) Floating Debt. Permanent Debt covers all debt raised by the Government in the open market. This debt, at the time when it is raised, has a currency of more than 12 months. Permanent Debt is further classified into (i) loans bearing interest (current loans) and (ii) loans not bearing interest (expired loans). The term Floating Debt represents borrowings of purely temporary nature such as Treasury Bills and ways and means advances from the Reserve Bank of India with a currency of not more than 12 months. As will be apparent later from this audit review, this dichotomy has become somewhat blurred by routine conversion of Treasury Bills into securities.

2.2. Growth of Internal Debt and other liabilities

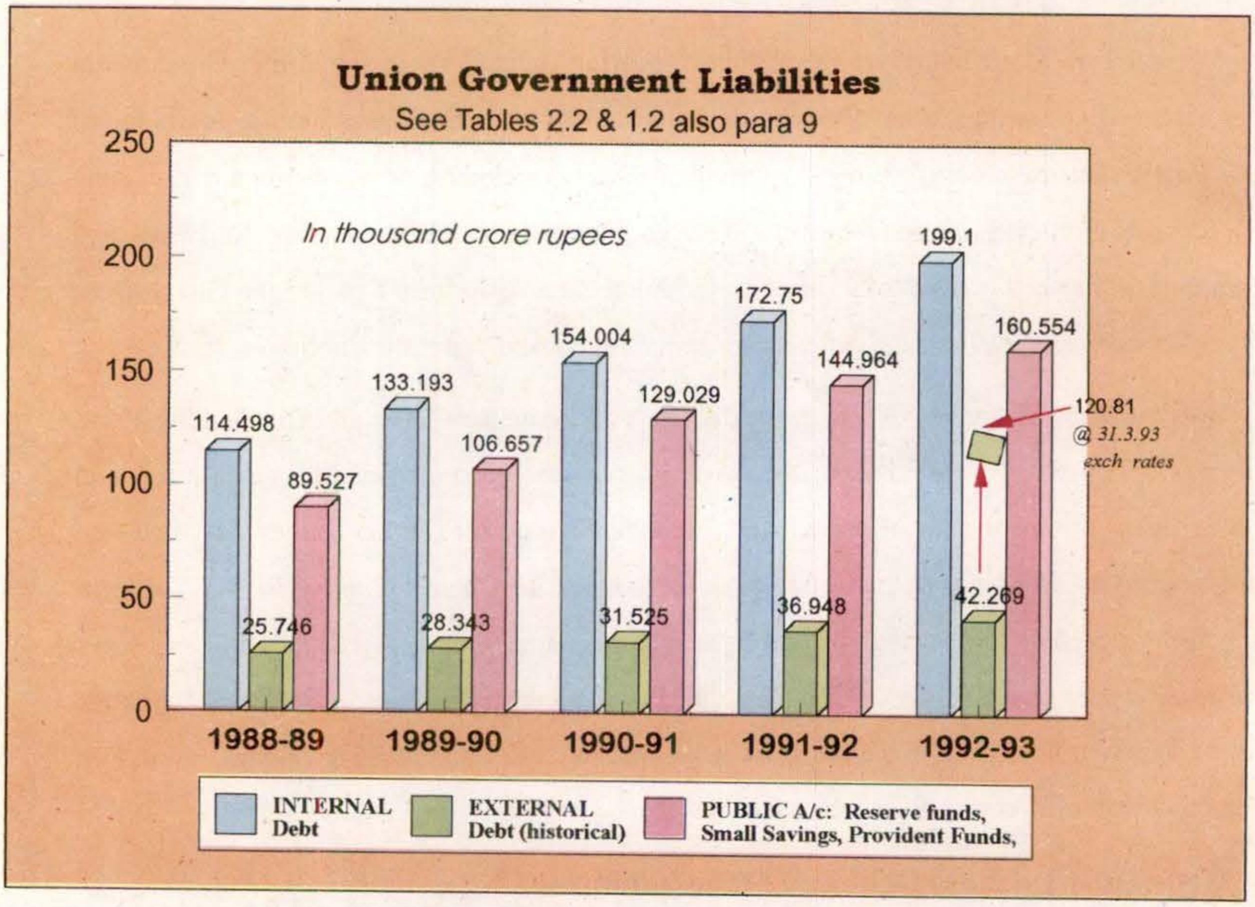
There has been phenomenal increase in the Internal Debt and total internal borrowing of the Union Government, during the period from 1986-87 to 1992-93 as indicated in the table given below:-

Table 2.2: Internal liabilities and as percentage of GDP

(In crores of rupees) %

Year	Internal Debt	Other Liabilities			Total Internal Liabilities	Gross Domestic Product (GDP) at market prices	Internal Liabilities as percentage of GDP
		Small Savings, Provident Funds etc.	Other Obligations, Reserve Funds	Total			
1986-87	86313	44928	15007	59935	**146248**	292949	49.92
1987-88	98646	54528	19164	73692	**172338**	333201	51.72
1988-89	114498	68536	20991	89527	**204025**	395779	51.55
1989-90	133193	87065	19592	106657	**239850**	456820	52.50
1990-91	154004	107107	21922	129029	**283033**	532030	53.20
1991-92	172750	121500	23464	144964	**317714**	615655	51.61
1992-93	199100	136802	23752	160554	**359654**	705566	50.97

Source: : Union Government Finance Accounts and Economic Survey, 1993-94



2.3. Amortisation of Internal Debt

In reply to a point arising out of para 1.10 of the Report of C&AG of India (No 1 of 1992) and para 1.157 of the Twelfth Report of Estimates Committee, 1991-92 the Ministry stated that the repayment of principal on account of Internal Debt is met from fresh borrowings while the payment of interest is met from revenue receipts. As regards preparing a profile of debt service payments, the Ministry stated that it was not likely that Government will be able to finance repayments from current revenues in the near future. Repayments have to be met out of fresh borrowings and such fresh borrowings will have to take into account not only the current requirement but also the amortisation and servicing of accumulated past debt. The details of debt servicing of Internal Debt for the last five year were as under:

Table 2.3 : Debt Service — Internal Debt

(In crores of rupees) %

Year	Borrowings during the year	Repayments	Interest payments	Total Debt Service	Debt Service as percentage of Borrowings
1	2	3	4	5 = (3+4)	6 = 5/2 %
1988-89	77819	61966	6913	68879	88.51
1989-90	118759	100065	8273	108338	91.22
1990-91	100313	79503	9814	89317	89.04
1991-92	82307	63561	11317	74878	91.00
1992-93	93754	67404	13542	80946	86.34

Source: Union Government Finance Accounts

It would be observed from the above table that 86 to 91 *per cent* of Internal Debt receipts were applied on repayment of principal and interest payments during the years 1988-89 to 1992-93.

2.4. Deficit

2.4.1. Increasing Revenue Expenditure and declining receipts

The growing indebtedness, accumulated in recent years at a rapid rate as apparent from Table 2.2, is directly associated with a widening revenue account gap. The deficit in the Revenue Account has increased from Rs 7579 crores in 1986-87 to Rs 18574 crores in 1992-93 while the projected deficit for 1993-94 is Rs 34058 crores (revised). The sharp increase in revenue deficit was due to revenue expenditure increasing at a faster pace than revenue receipts. Revenue expenditure increased from Rs 57911 crores in 1986-87 to Rs 132794 crores in 1992-93 — an increase of 129 *per cent*. Revenue receipts have grown by 127 *per cent* over the same period.

The lower rate of growth of receipts has been mainly due to the declining rate of growth of tax revenue during the last five years which decreased from 18.97 *per cent* in 1988-89 to 10.15 *per cent* in 1992-93. Tax revenue as percentage of GDP has also declined from 10.5 *per cent* in 1988-89 to 9.7 *per cent* in 1992-93.

Another important factor for the lower rate of growth of revenue is the sharp increase in tax arrears which had risen from Rs 5033.19 crores at the end of 1986-87 to Rs 13860.34 crores at the end of 1991-92. An equally important factor was that the share of tax revenue retained by the Union Government fell sharply due to the recommendations of the Seventh/Eighth Finance Commissions which increased the States' share of Central Excise duties from 20 *per cent* to 40/45 *per cent*. The non-tax revenues also did not grow much because of the poor returns from public enterprises and subsidised rates of interest charged on loans to State Governments. During 1992-93 the Public Sector Undertakings and Corporations contributed Rs 592 crores being 1.42 *per cent* return on an investment base of Rs 41858 crores. No dividend was received from 184 out of 241 Public Sector Undertakings.

The present position of the finances of the Union Government could be attributed mainly to large absorption of resources by non-plan expenditure. Interest payments, subsidies and defence have been the major elements of non-plan expenditure. Expenditure on interest, subsidies and defence, together ranged between 47.2 and 49.2 *per cent* of the total expenditure during the last five years.

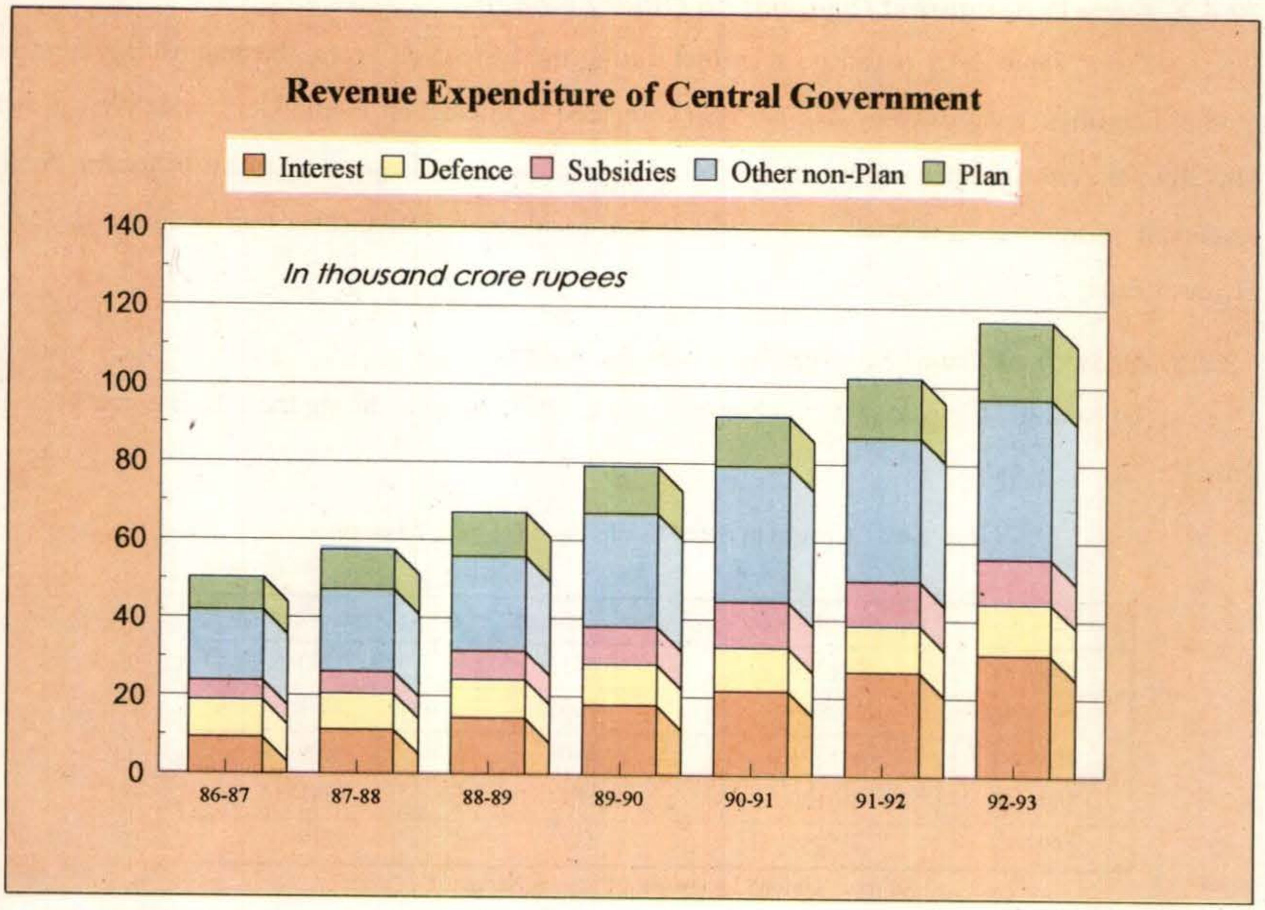
The trend of growth of interest payments for the period from 1986-93 is indicated in the table below. It is seen from this table, that the total interest payments increased from Rs 9246 crores during 1986-87 to Rs 31075 crores during 1992-93, an increase of 236.1 *per cent*, and average annual increase of 39.3 *per cent* in the interest burden. Interest payment accounted for 32 *per cent* of the non-plan expenditure during 1992-93 up from 22 *per cent* in 1986-87

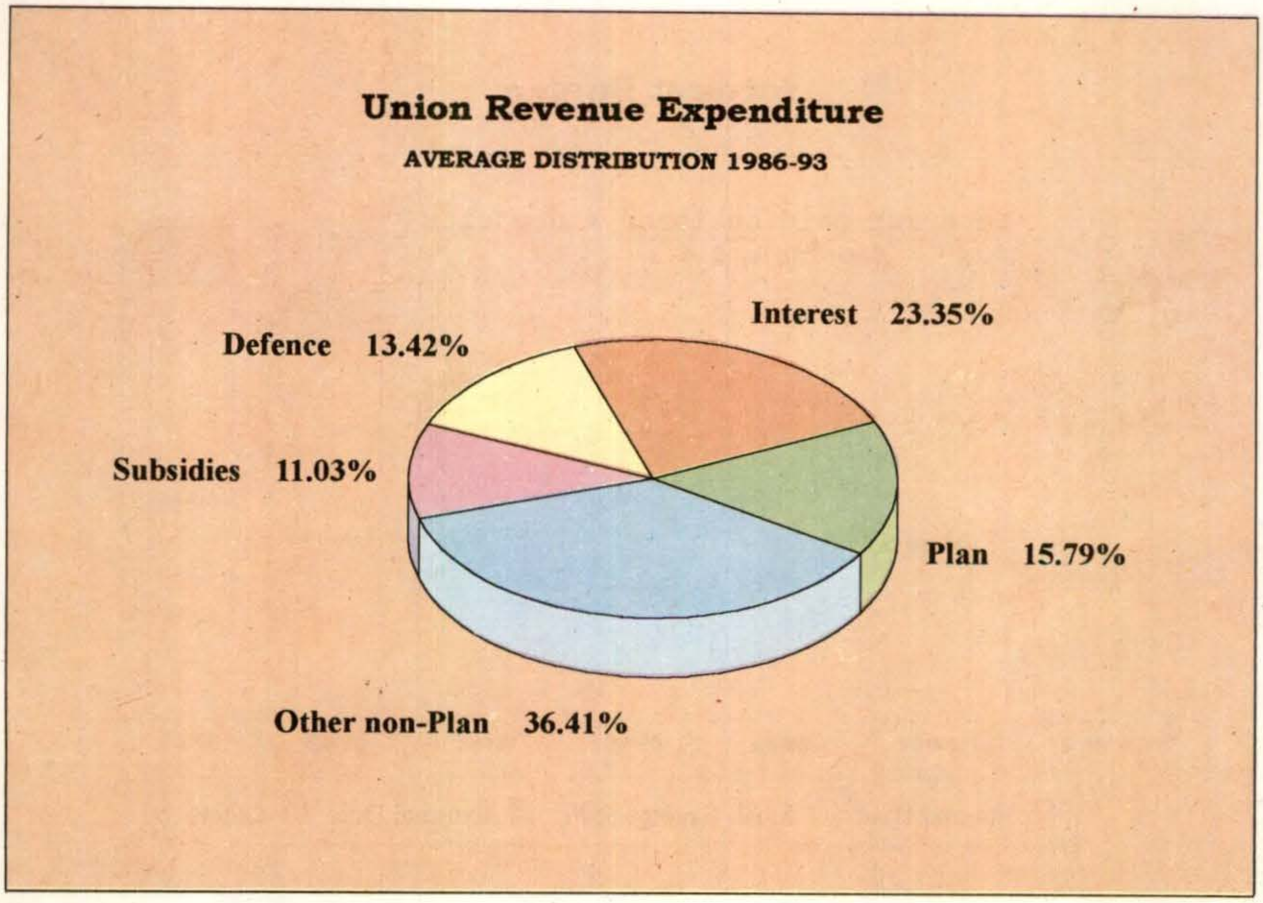
Table 2.4.1 : Interest burden

(In crores of rupees)

Year	**Interest on ⇩**				**Total**
	Internal Debt	**External Debt**	**Small Savings and PF**	**Others**	**Interest Payments**
1	**2**	**3**	**4**	**5**	**6**
1986-87	4763	766	3489	228	9246
1987-88	5514	977	4490	270	11251
1988-89	6913	1242	5801	322	14278
1989-90	8273	1494	7573	417	17757
1990-91	9814	1834	9413	437	21498
1991-92	11317	2704	12083	492	26596
1992-93	13542	3529	13436	568	31075
Percentage increase during 1986-87 to 1992-93			**%**		
	184	**361**	**285**	**149**	**285**
	Public Debt: **209 %**		Other Liabilities: **277 %**		**236**
Average annual percentage increase			**%**		
	31	**60**	**48**	**25**	**39**

Source: Union Government Finance Accounts


Revenue Expenditure of Central Government


Union Revenue Expenditure

AVERAGE DISTRIBUTION 1986-93

2.4.2. Growth in Interest Payment on Other Liabilities

From Table 2.4.1 it can be seen that during the last seven years, the interest payment on 'other liabilities' has grown by 277 *per cent* compared to interest on Public Debt, which has grown by 209 *per cent.* In other words, the burden of interest payment is growing much faster for Public Account borrowings like Small Savings, Provident Funds, and similar other borrowings outside the Consolidated Fund of India.

2.4.3. Growth of Small Savings and Interest Burden

To examine the case of Small Savings, the interest payment during the last five years was as under:

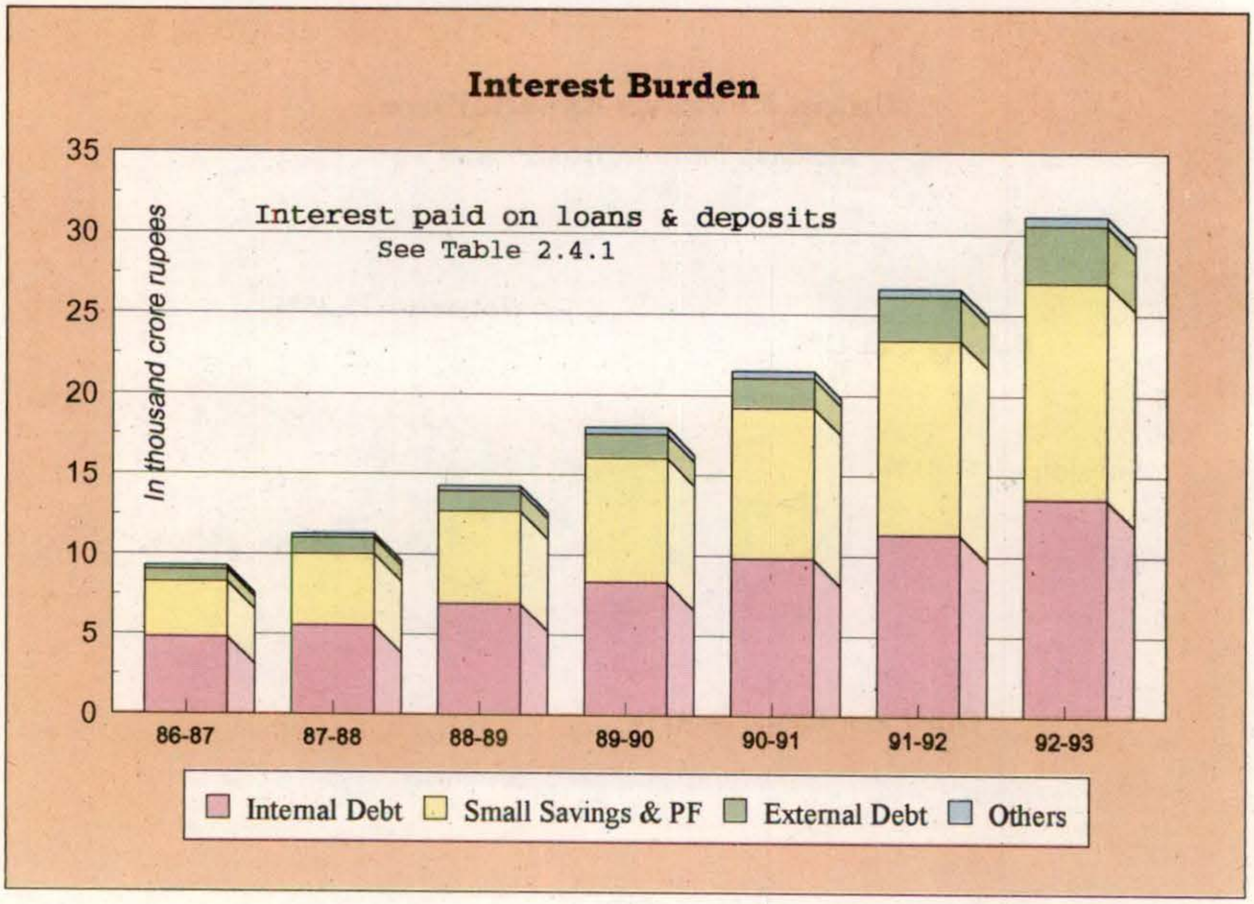
Table 2.4.3 : Growth of Small Savings and Interest Payments

(In crores of rupees)

Year	Opening Balance	Net Addition	Interest Payment
1988-89	28358	5475	2360
1989-90	33833	7958	2794
1990-91	41791	8309	4009
1991-92	50100	5654	4961
1992-93	55755	4373	5219

Source: Union Government Finance Accounts

Interest payments on Small Savings increased from Rs 2360 crores in 1988-89 to Rs 5219



crores in 1992-93, an increase of 121 *per cent*. On the other hand, while the total deposits grew by 77 *per cent*, the net addition decreased by 20 *per cent* over the same period. Interest includes management of Small Savings (charges like commission to agents) which increased from Rs 307 crores during 1988-89 to Rs 578 crores during 1992-93.

In response to a suggestion from the Estimates Committee 1991-92 (para 1.91 of their Twelfth Report) regarding lowering of interest rates so as to reduce the interest burden, the Ministry of Finance stated that while there was always a pressure for increase in the interest rates, the only area where reduction of the rate of interest was possible was Small Savings. The Ministry also stated that that was the objective of the Ministry. The above table however indicates that no concrete measures have materialised to reduce the interest burden on account of Small Savings.

2.4.4. Transfer of collections under Small Savings to the States and hidden subsidy

In terms of the recommendations of the Finance Commission, a substantial portion of the net collections under the Small Savings is transferred to States as loans. Details of these loans to States as their share of Small Savings during the last five years are as under:

Table 2.4.4 : States' share of Small Savings

(In crores of rupees)

Year	Small Savings transferred to States
1988-89	4205
1989-90	5742
1990-91	7026
1991-92	5481
1992-93	4264
1993-94 (RE)	5000 *(Estimated)*

Source: Receipt Budget 1994-95

The State Governments pay interest on these loans at a fixed rate of 13 *per cent* per annum. The States repay the loans over a 25 year period with an initial moratorium period of five years. Small Savings collections are routed through the Government of India and the Central Government is obliged to repay the investment within approximately 6 years together with interest and other incentives. The total cost of servicing Small Savings works out to 17-18 *per cent* of the collections. This differential in interest and collection charges as well as the difference between the higher outgo in repayments compared to the repayments from the States, are both borne by the Central Government. Thus the States are being allowed a hidden subsidy in the shape of lower rates of interest and longer period of repayment for their share of Small Savings. The Ministry of Finance also accepted the position indicated in para 1.93 of Twelfth Report of the Estimates Committee, 1991-92, that "more the Small Savings collections under this kind of arrangement..... more the inflow of money for the States, much more is the burden on the Government of India".

2.4.5. *Rising Overall Deficit*

The budgetary deficit on the revenue and the capital accounts taken together increased from Rs 8261 crores during 1986-87 to Rs 12312 crores during 1992-93 being 9.8 *per cent* and 7 *per cent* of the total Government expenditure in the respective years. This overall deficit has been computed after taking credit for full range of Government's borrowings including market loans, external loans and credits, Small Savings schemes, Provident Fund and sundry liabilities. However, if the credit for these elements is not taken into account, the picture that emerges is as under:

Table 2.4.5 : Government Expenditure — the rising "Gap"

Year	Overall Deficit	Internal Debt	External Debt	Treasury Bills(Net)	Total (2+3+4+5)	Total Expenditure excluding Treasury Bills	Percentage of Col 2 to Col 7	Percentage: Col. 6 to Col. 7
1	2	3	4	5	6	7	8	9
				(In crores of rupees)			%	
1986-87	8261	7753	3040	8962	28016	84667	9.8	33.0
1987-88	5816	7732	4069	5685	23302	91443	6.4	25.5
1988-89	5642	9917	4016	6678	26253	105197	5.4	24.9
1989-90	10592	9824	4443	11119	35978	125003	8.5	28.8
1990-91	11347	10232	5339	12072	38990	140712	8.1	27.7
1991-92	6855	11129	8279	9795	36058	153740	4.5	23.5
1992-93	12312	11308	9625	16564	49809	176827	7.0	28.2

i) Col. 2 Figures as per Union Receipts Budget, 1994-95
ii) Col.3 to 5 and 7 as per Union Govt. Finance Accounts

There has been a quantum jump in the total expenditure of Government of India, which has more than doubled from Rs 84667 crores during 1986-87 to Rs 176827 crores in 1992-93.

2.4.6. *Fiscal Deficit*

Fiscal Deficit is defined as the excess of revenue and capital expenditure (including net loans given) over revenue receipts (including grants and aid in kind), on the assumption that capital expenditure of government is to be financed ideally from revenue surplus. Fiscal Deficit provides a measure of macro-economic imbalance. It is thus, an index of overall financial market disequilibrium caused by the fiscal (borrowing) operations of the Government. The growth of Fiscal Deficit over the past five years is given below:

Table 2.4.6 : Trend of Fiscal Deficit

Year	Fiscal deficit	GDP at current market prices	Fiscal deficit as percentage of GDP
		(In crores of rupees)	%
1988-89	30924	395779	7.8
1989-90	35634	456820	7.8
1990-91	44632	532030	8.4
1991-92	36325	615655	5.9
1992-93	40173	705566	5.7

Source: C&AG 's Report, No 1 of 1994 and Economic Survey 1993-94

The Fiscal Deficit increased by 30 *per cent* over the years 1988-89 to 1992-93. However, in terms of percentage of GDP it declined from 7.8 to 5.7 *per cent* during the same period.

2.4.7. Monetised Deficit

The net RBI credit to Government is the monetised deficit which measures the monetary impact of fiscal operations provided by RBI's credit to the Government. In other words, monetary deficit is that part of Public Debt which is owed by Government of India to RBI. It is linked to the value of currency (notes or bills issued by the Central Bank). The trend of monetised deficit at the end of the last five years is given below:

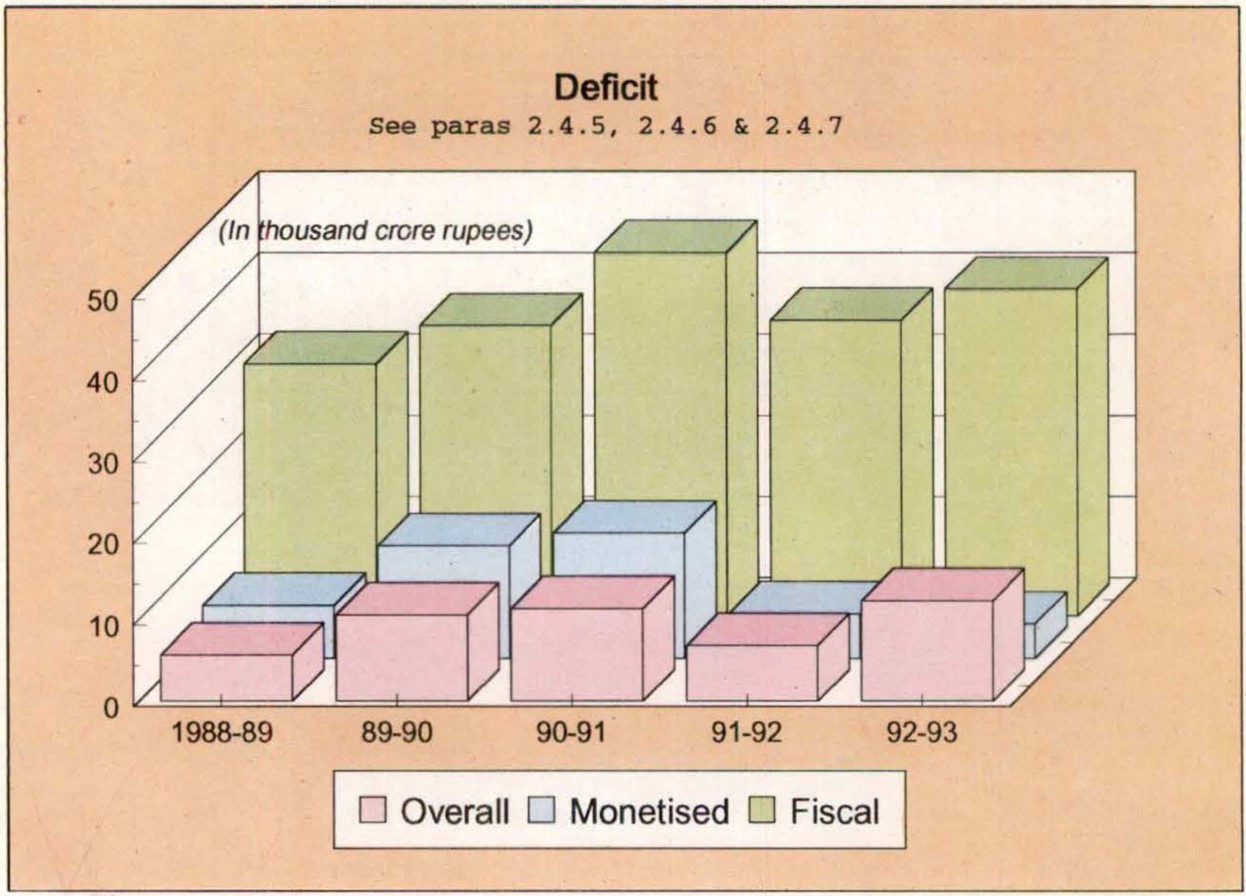
Table 2.4.7 : Monetised Deficit

(In crores of rupees)

Year	Monetised Deficit
1988-89	6503
1989-90	13813
1990-91	15374
1991-92	5508
1992-93	4257

Source: RBI Annual Reports

A study of the seasonal movements of the monetised deficit during 1992-93 (details in Annexure I and graph) reflects the tendency of this deficit measuring much above the estimated level for the major part of the year and dropping sharply in the last month of the year upon closure of Government Accounts. The budget estimates for 1992-93 estimated the level of monetised deficit at Rs 5389 crores. A representation of the trends in the three indicators of deficit is given in the graph below.



RBI has stated (vide para 4.9 of their bulletin for September 1993) that the net RBI credit to Central Government during the first quarter of 1993 has expanded rapidly. They have further stated that the information included in the bulletin did not capture the real liability impact since there took place considerable sales of government securities from RBI's folio on Repos basis (see next para below) almost continuously throughout the quarter. The Report further mentions that if a weighted average of the Repos transactions is considered, the expansion in net RBI credit over the quarter would be about Rs 17524 crore, a rise of 18.2 *per cent* compared with the rise of Rs 3913 crores or 4.2 *per cent* in the first quarter of 1992-93.

2.4.8. Impact of Repos sales on the monetised deficit of Government

Reserve Bank of India, as a part of its monetary policy introduced from 10 December 1992 a "scheme of repurchase agreements (Repos) auction" for dated securities of Central Government. The scheme was meant to improve the short term management of liquidity in the system and even out interest rates in call/notice money market. Repos auction sales were conducted weekly / bi-weekly. The securities were repurchased within 14 days.

The net RBI credit to the Central Government is in the shape of the Bank's holdings of Treasury Bills and dated securities. RBI has been selling a part of this stock to other banks by taking recourse to Repos auction to reduce the level of Central Government's borrowing from it. It was observed that these auctions take place a few days before the fortnightly Reporting Friday. The sale is reversed a few days later. RBI holding of Government debt is thus reduced on the Reporting Friday.

In the month of February and March 1993, the Repos sales were conducted every week. Ten Repos sales were conducted from 4 February, 1993 to 2 April 1993 (details at Annexure II(A)). The amounts involved in these Repos auctions ranged from Rs 824.96 crores for the sale conducted on 12 February 1993 to Rs 9114.05 crores for the auction sale conducted on 19 March, 1993. Total amount involved in the 10 Repos auctions was Rs 42468.14 crores. The net RBI credit to Government as on 5 February 1993 did not reflect an amount of Rs 1685.43 crores, the amount of Repos auction conducted on 4 February 1993. Similarly the figures as on 31 March 1993 did not reflect an amount of Rs 4820.17 crores which was the amount of Repos auction conducted on 30 March 1993. Repos auction conducted by the Reserve Bank of India has thus had the effect of understating its lending to the Central Government. The details given in Annexure II(A) further indicate that total expenditure of Rs 14.36 crores was incurred during 1992-93 on account of the sale and repurchase of the securities involved in these auctions.

During 1993-94 thirty seven more Repos sales involving securities worth Rs 90391.80 crores (details: Annexure-II(B)) were conducted. An additional expenditure of Rs 128.44 crores was incurred on account of discount offered on these securities. Total discount during 1992-93 and 1993-94 due to the Repos sales thus works out to Rs 142.80 crores. On an enquiry from Audit, RBI stated that Repos transactions affected the investment and interest accounts of the Bank and that there was no incidence of Repos transactions on Government of India accounts. As seen from the profit and loss account of the RBI, a net surplus was payable to the Government. Therefore in case Repos auctions had not taken place, the liability of Rs 142.80 crores would not have been incurred and surplus payable to the Government would have increased accordingly. The cost of Repos transactions thus do have an impact on the surplus payable by the Bank to the Government.

2.4.9. *Capital Receipts and inter-relation between deficit and debt*

Capital receipts of the Union Government consist of market borrowings, external assistance, recovery of loans, Small Savings, Provident Funds, etc. The details of capital receipts during the years 1986-87 to 1992-93 are shown in the table at Annexure III.

There is a close inter-relationship between deficit and Internal Debt. The increases in the deficit are invariably associated with corresponding increase in public borrowings and deficit financing. To the extent the tax and non-tax revenue receipts are not sufficient to meet the expenditure of Government, there is need to borrow, resulting in increase in the debt liability of the Government which includes not only market loans and Treasury Bills but also non-marketable debt viz., deposits and borrowings like Small Savings, Provident Funds etc.

Revenue deficit is thus directly related to the Internal Debt burden of the Government. The increase of revenue deficit from Rs 7579 crores during 1986-87 to Rs 18574 crores during 1992-93 resulted in increased internal borrowing of the Government from Rs 13626 crores during 1986-87 to Rs 18872 crores during 1992-93.

3. TREASURY BILLS AND CONVERSION OF TREASURY BILLS INTO SECURITIES

Treasury Bills are financial instruments issued by the Government of India on the Reserve Bank of India for raising short terms loans of 91/182/364 days to temporarily fill a gap in resources. Ad hoc Treasury Bills were for the first time created in December 1941 as it was felt that a ways and means advance, if raised at that time could not have been repaid within a period of three months. Since the increase in ad hoc Treasury Bills resulted in a steady and permanent addition to the Central Government's liability, the Reserve Bank of India and the Central Government agreed to convert every year from 1 March 1958 to the end of March 1982, ad hoc Treasury Bills upto an amount, to 'dated' Central Government securities.

Details of Treasury Bills of 91 days currency, ad hoc Treasury Bills and connected securities issued to the Reserve Bank of India, 182/364 days Treasury Bills outstanding at the end of the year and interest payments made on these during the period from 1986-87 to 1992-93 are indicated in the table given below:

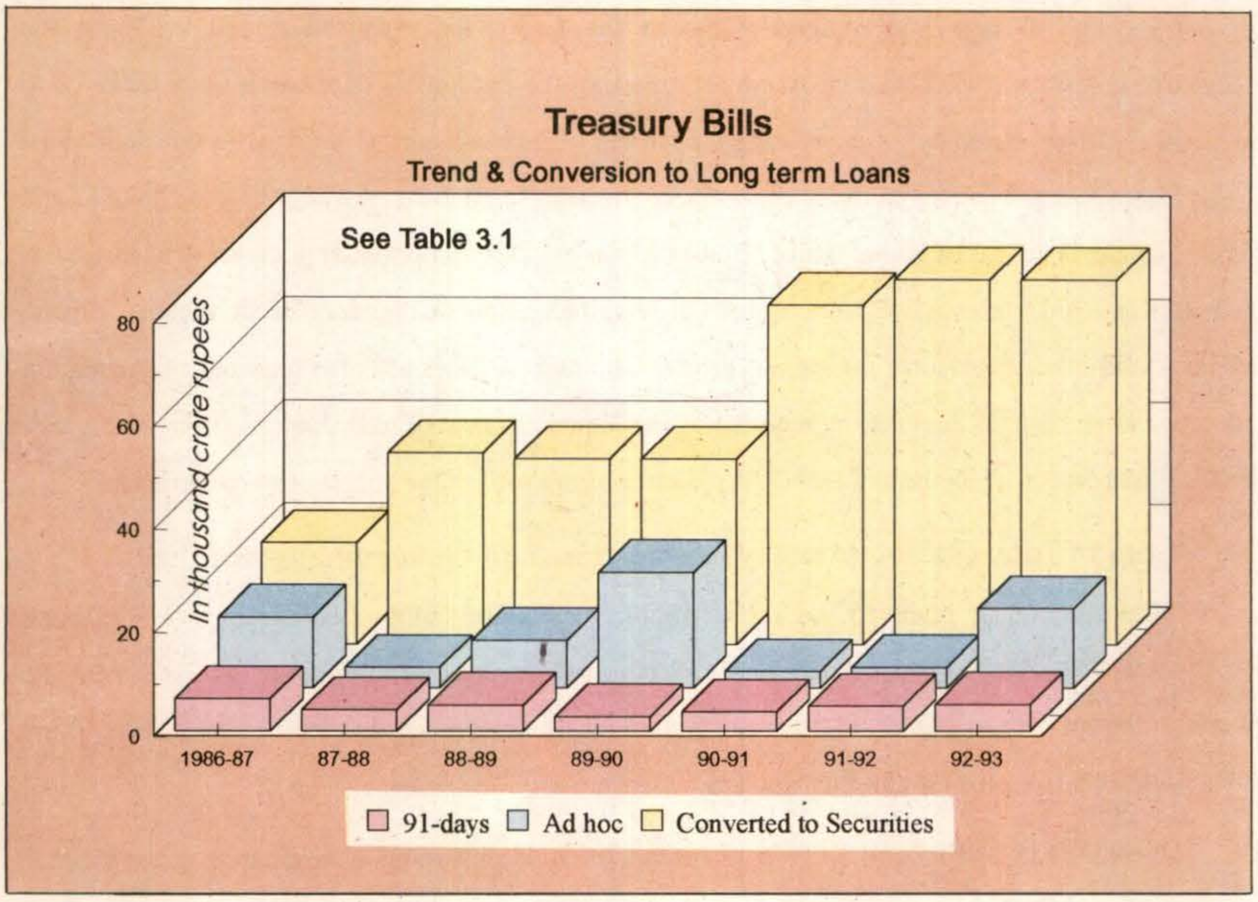
Table 3.1 : Treasury Bills

(In crores of rupees)

Year	Treasury Bills			Total Bills & Securities issued to RBI	Interest payments made on amounts in col. 5	182/364 days Treasury Bills	Interest payments made on amounts in col. 7
	of 91 days currency	ad hoc	converted into securities				
1	2	3	4	5 (2+3+4)	6	7	8
1986-87	6231	13645	19650	39526	1633	100	0.12
1987-88	4103	3925	37150	45178	1787	133	14
1988-89	5078	9195	36000	50273	2320	566	53
1989-90	2799	22385	36000	61184	2763	774	87
1990-91	3718	3235	66000	72953	3245	1078	147
1991-92	4855	3985	71000	79840	3513	3986	276
1992-93	5184	15430	71000	91614	4256	8777	989

Source: Union Government Finance Accounts

Although Treasury Bills were acknowledged and intended instruments for meeting short term needs of the Government, the trend of growth of liability on this account indicates that these were, in fact, being used as a long term financing instrument by the Government. This would also be evident from the decision of the Government to convert 364/91 days Treasury Bills worth Rs 10991.76 crores into 12.75 *per cent* Government stock 1996 / 12 *per cent* Government stock 1995 during 1994-95. This would not only result in postponing liability but also incurring additional liability on account of higher rates of interest on these stocks as the average rate of interest on 364 days / 91 days Treasury Bills during 1992-93 was 9.85 *per cent* and 9.4 *per cent* respectively.



Treasury Bills

Trend & Conversion to Long term Loans

See Table 3.1

4. MANAGEMENT OF INTERNAL DEBT AND WORKING OF THE PUBLIC DEBT OFFICES

The issue and management of Central loans is a statutory function of the Reserve Bank of India. The Reserve Bank of India advises the Central Government regarding the amount to be borrowed every year. The policy is determined after considering the outgo on account of maturity of Central loans, accretion of bank deposits, absorptive capacity of the market, money supply and credit situation in the country. This is followed by decisions regarding the extent of borrowing, timing of floatation and terms and conditions of new issues.

4.1. Functions of Public Debt Office

The functions of the Public Debt Offices (PDOs) of the Reserve Bank of India comprise of issue of scrips against applications for new loans, payment of periodical interest, enfacement of securities for payment of interest, renewal, conversion, consolidation and sub-division of different kinds of securities and redemption of matured loans. The PDOs are also required to guide the branches of the agent banks and the treasuries / sub-treasuries in their area, steering the transactions relating to the securities of the Central and State Governments.

The preliminary work connected with the loans floated by the Union/ State Governments, i.e. the receipt of applications/subscriptions to the new loans, realisation and crediting the subscribed amounts to Government Account, reporting the particulars of subscriptions received to the Central Office, Bombay, issue of scrips, payment of interest, etc., is handled by the individual Public Debt Office. The consolidated central accounts of all new loans are kept by the Central Debt Section of the Reserve Bank of India, Bombay. Each PDO receiving applications/subscriptions against these loans maintains separate issue registers, interest check registers, account sheet ledgers, day book and other subsidiary registers. These Public Debt Offices are also required to maintain a loan agreement register to ensure agreement of the ledger balance of each loan. Results of the test-check of the records of the Public Debt Offices are summarised in the succeeding paragraphs.

4.2. Loss of Interest due to delay in remittance to Government Account

Money/cheques received as subscriptions towards loans floated by Central/State Governments are required to be remitted to Government Account within one or two days with the exception that in case of partial allotment of State loans, money/cheques received may be remitted by the ninth day from the date of their receipt.

During the period 1 April 1990 to 31 March 1993, 44 new loans were floated by the Central Government and Rs 22730 crores were subscribed for these loans. Similarly, 156 State Government loans against which Rs 9738 crores were subscribed, were floated during the same period. There were no cases of partial allotment as the amounts oversubscribed towards Central loans were retained. A mention was also made in CAG's Report No 1 of 1992-Union Government-Civil in Para 12.4 on "Loss of Interest to Government by default of its agents".

A test-check of the records of Public Debt Office, New Delhi showed that there were 121 cases in which there were delays upto 22 days in remittance to Central Account Section, RBI, Nagpur for crediting to the concerned Government Account of moneys and cheques received towards subscription to various loans floated by the Central/State Governments during the years 1990-91 to 1992-93.

As interest becomes payable to the subscribers/ applicants from the date of floatation of the loan, delays in remittance of collections to the Central Accounts Section, RBI, Nagpur by the Public Debt Office at New Delhi, Jaipur, Kanpur and Madras resulted in loss of interest of Rs 59.93 lakhs. The delay in remittance ranged upto 129 days.

4.3. Excess payment of Interest

It was seen in PDO, Hyderabad that excess credit of Rs 50 lakhs was afforded on 13 November 1991 in 11.5 % Central loan 2008 against SGL Account No. HDSLO10 of Canara Bank on receipt of post copy of telex message No.4613 of 31 October 1991. The wrong credit was reversed on 20 January 1992. Meanwhile interest on the balance of 50 lakhs for the half year ending 22 January 1991 amounting to Rs 2.88 lakhs (gross) was paid to Canara Bank on 23 November 1991 after adjusting income tax of Rs 0.62 lakh and surcharge of Rs 0.09 lakh (Total Rs 0.71 lakh). The Bank has retained the unauthorised credit of Rs 2.17 lakhs in its current account since 23 November 1991.

4.4. Irregular payment of brokerage for investment by semi-Government organisations, autonomous bodies, Government corporations and companies

In order to avoid the expenditure on brokerage, Government of India, Ministry of Finance, issued instructions in June 1960 to various Ministries for guidance of semi-Government organisations, autonomous bodies, Government corporations and companies to make their investment in Government securities directly to RBI without going through banks and brokers, for which latter, brokerage is payable to them by RBI. Paragraph 445 of the PDO Manual reiterates the position. The Public Debt Offices were required to ensure that these organisations strictly adhered to this procedure and if the PDO found that these bodies had contravened these instructions a list of such institutions were to be prepared and forwarded to the Central Office for further action. A mention was also made in Para 7.2 -"Avoidable payment of brokerage charges" of CAG's Report No 1 of 1994-Union Government-Civil.

A test-check of the records of Public Debt Offices Bombay and Calcutta showed that amounts of Rs 21.08 lakhs and Rs 1.91 lakhs were paid by these PDOs as brokerage for such investments in 21 cases and 18 cases respectively during the period 1990-91 to 1992-93 in contravention of the instructions issued by the Government.

4.5. Old outstanding loan balances not credited to Revenue Account

In terms of the procedure prescribed by the Government, the outstanding balances of the loans (i.e. amounts not claimed by creditors) notified for discharge are written off and credited to revenue, 20 years after the notification or due date of discharge.

A test-check of the records of the Public Debt Offices, New Delhi, Kanpur, Bombay, Nagpur, Patna and Jaipur revealed that amounts totalling of Rs 3.59 crores relating to several discharged Central/ State Government loans were lying in the books of these Public Debt Offices and had not been written off to revenue account.

4.6. Old pending applications for Central/ State Government loans

During the test-check of the records of Public Debt Office, New Delhi, it was noticed that acceptance of 10 loan applications involving Rs 41.41 lakhs tendered as subscriptions to various Central/ State Government loans were still pending with the Public Debt Office. Loans to which these applications relate were floated during 1984-1993. Similarly one application relating to 9 year UP State Development Loan 1999 floated in September, 1984 was still pending with PDO Kanpur.

4.7. Issue of Scrips

As per the provisions laid down in para 46 of Public Debt Office Manual, the maximum time allowed for the issue of scrips for new loans is seven clear working days from the date of receipt of border forms (blank stock certificates) by the Public Debt Office. Test-check of the records including the register of cash applications in the various Public Debt Offices showed that there were many cases of delay in issue of stock certificates from the date of receipt of application, receipt of confirmation of credit of the amount to Government Account and issue of scrips.

Test-check of the records of the PDO Bombay/Nagpur showed that in 181 cases the delays ranged from one month to three months while in one case scrip was issued 5½ months after the date of floatation of the loan. In the case of Public Debt Office, Madras, out of 321 cases test-checked, scrips in 207 cases were delayed upto three months while in three cases delay ranged between three to six months and in 6 cases scrips were delayed beyond six months.

The position was no better in the PDOs at Guwahati, Calcutta and Hyderabad. During the period 1 April 1986 to 31 March 1993, the Public Debt Office, Guwahati managed 96 loans and IFCI/ RDBI bonds. For 44 loans the scrips were issued within the stipulated period of seven days. 52 cases were delayed out of which 10 cases were delayed beyond 6 months. PDO, Calcutta and PDO, Hyderabad received subscriptions towards 21 and 24 loans respectively during 1990-91 and

1991-92. The delay in issue of scrips in respect of 20 and 23 loans by the PDO, Calcutta and PDO, Hyderabad respectively was upto 3 months while in the remaining one case each both the PDOs delayed it beyond three months. Due to fluctuating markets, it is imperative that the scrips are issued within the stipulated time to protect the interest of both the subscribers and the Governments floating the loans.

4.8. Avoidable loss due to over-indenting of printed border forms

According to the procedure prescribed for issuing Government loans, border forms (GP Notes and blank stock certificates) are printed separately for each Central/State Government loan and these blanks are supplied to the Public Debt Offices against the indents placed by them. These specially printed border forms are used for issuing scrips to the subscribers of loans and unused forms are retained in the Public Debt Offices till the notification of redemption of the particular loan, for meeting the contingency of issuing duplicate securities. The balance stock of unused border forms relating to each loan is destroyed in the Public Debt Offices after the expiry of the period of maturity of loan.

With a view to avoiding large number of unused border forms accumulating and also to minimise excess printing of border forms, leading to periodical destruction, the Central Office of RBI had instructed all the Public Debt Offices during September 1984 that the assessment and requirement of border forms should be made on the basis of past experience before placing indents.

The test-check of the records of the following Public Debt Offices showed that the instructions of the Central Office and the procedure envisaged in para 28 of the PDO Manual for indenting the border forms were not followed by the PDOs as a result of which large stocks of forms of discharged loans remained unused and had to be destroyed much later. PDO-wise details of the unused blank border forms destroyed or lying unused are given in the table below::

Table 4.8.1 : Blank border forms in stock

Name of the PDO	Blank border forms destroyed	Blank border forms lying unused	Total
		(*numbers*)	
Madras	70112 (Central loans) 16939 (State loans)		87051
Kanpur	14412		14412
Delhi	16643		16643
Guwahati	8188	8689	16877
Nagpur/Bombay	34830	185743	220573
Jaipur	511		511
Thiruvananthapuram	5015		5015
Total	**166650**	**194432**	**361082**

These forms are of a special nature and even if a nominal amount of Rs 5.00 is taken as the cost of one form the total extra expenditure on this account works out to more than Rs 18.05 lakhs.

4.9. Operation of Subsidiary General Ledger (SGL) Accounts

4.9.1. Books Relating to SGL Accounts

The Public Debt Offices have Subsidiary General Ledger (SGL) Accounts which are operated like bank accounts of subscribers to Government loans. Purchase, sales, matured loan amounts, interest can be conveniently credited or debited to this account in the name of the subscriber. RBI Bombay which was operating around 50 *per cent* of the SGL Accounts did not make available vital records relating to the Subsidiary Ledger Accounts, original transfer forms, day book, RBI objection memo records, statement of balances in SGL Accounts, etc. which were under the custody of CBI. Hence the Bombay SGL Accounts and reconciliation of balances in these SGL Accounts could not be examined/verified in Audit.

4.9.2. Transfer of stock in SGL Accounts from one bank to another.

The operations of the Subsidiary General Ledger Accounts are governed by the PDO Manual and guidelines issued by the Reserve Bank of India. As per these guidelines inter-bank ready forward deals in securities between banks are prohibited. An examination of the transfer forms and the other connected records of the Public Debt Office, Madras revealed cases of transfer of stock in SGL Accounts from one bank to another and the transactions of sale of stock was subsequently reversed after a certain period i.e., bank 'A' which bought securities sold them back to the bank 'B' which had sold the securities to the bank 'A' originally. Twenty seven cases of this kind with transactions totalling Rs 95.50 crores during the period from October 1991 to July 1992 were noticed in Audit. The possibility of involvement of inter-bank ready forward deals in these transfers cannot be ruled out and therefore needs to be investigated.

4.9.3. Operation of the Subsidiary General Ledger Accounts in the absence of Indemnity bonds

Para 212 of the PDO Manual provides that a Subsidiary General Ledger Account be opened in the Register Form PDO-120 on receipt of an application in Form PDO-143 together with a bond of indemnity in Form 143-A, indemnifying the Reserve Bank of India and the Government concerned against any counter-claim that may be preferred in respect of all securities to be cancelled and credited to such account holder. A separate bond is required for securities of each Government.

A test-check of the records in the PDO, Hyderabad revealed that there were 7 SGL Accounts being operated in respect of which no indemnity bond had been obtained from the holders of the accounts. Similarly, scrutiny of the records at PDO, Nagpur brought out a case where the holder of an account had furnished an indemnity bond only for securities of the Central Government. Despite this limited bond, the account holder's application for State loans was accepted and subscription amount credited to his SGL Account. Acceptance of subscriptions towards a loan and their credit to SGL Account without obtaining separate indemnity bonds for securities of the concerned Government was contrary to the provision of the Manual and fraught with risks.

4.9.4. *Statement of verification of balances.*

As laid down in paragraph 223 of Public Debt Office Manual, the account holder of a Subsidiary General Ledger Account is required to furnish to the PDO one week before the date of interest falling due, a statement showing the number, name and the balance under the loan held in his account. This statement is an essential prerequisite for issue of the interest warrant.

A test-check of the records relating to SGL Accounts however revealed that no statement of verification of balance was received during the period 1990-93 from the respective account holders by the Public Debt Offices at New Delhi, Jaipur and Kanpur although the half-yearly interest warrants had been released.

4.9.5. *Return of Transfer forms*

From an analysis of the reasons for the returning of transfer forms submitted at PDO, Bombay for transactions in SGL Accounts during the period 5 May 1992 to 31 March 1993 for State loans and 17 September 1992 to 23 July 1993 for Central loans it transpired that forms were returned due to — State loans: inadequate balances (10), signature not tallying (16), non-availability of indemnity bonds(10) and Central loans: inadequate balance (1) and non-tallying of signature.(6).

Necessary instructions are required to be issued to account holders to submit transfer forms after verification of their records so that such instances of returning the transfer forms do not arise.

It was noticed that, according to the present procedure, transfer forms are immediately entered into the day book of the concerned section in RBI on receipt from the banks. However, if the forms are retrieved for any reason the only available reference to these forms is the number of entry in the day book. Thus, it is desirable that the transfer forms should be serially numbered and issued by RBI. This will ensure a proper check on SGL transactions relating to sales and purchase of securities.

5. GUARANTEES GIVEN BY THE UNION GOVERNMENT

Under Article 292 of the Constitution, the Union Government **"may give guarantees within such limits, if any, as may be fixed by Parliament by law."** No law prescribing the limit has, so far, been enacted in spite of the recommendations of the Public Accounts Committee in paragraph 1.11 of their Sixty Fourth Report (Fourth Lok Sabha, 1968-69) for working out a workable limit on borrowings for purpose of incorporation in a statute as contemplated in Article 292 of the Constitution. The position regarding the maximum amount of guarantees for which Government have entered into agreements and sums guaranteed outstanding at the end of the years 1988-89 to 1992-93 is indicated in the table at Annexure IV. It is seen from this that the sums guaranteed outstanding, which constitutes a contingent liability of the Government of India, has increased from Rs 33240 crores on 31 March 1989 to Rs 58027 crores on 31 March 1993.

During the last five years the total guarantees outstanding have grown by 75 per cent whereas the total external guarantees increased by 178 per cent over the same period. At the end of March 1993 the total outstanding external guarantees were 49 percent of the total outstanding guarantees.

6. LOANS AND ADVANCES TO STATE GOVERNMENTS

Government of India has been advancing loans to States/ Union Territories for developmental and non-developmental activities. Loans are also advanced by the Government to Government corporations, non-Government institutions, local funds under the State Governments etc. Details of the loans sanctioned by the Government to the States/ Union Territories and others, the outstandings and the recoveries of arrears at the close of the year for the years 1986-87 through 1992-93 are given in the table at Annexure V.

It is seen from this table that the outstanding balances of loans and advances recoverable from the State Governments / Union Territories and Others increased from Rs 43706 crores and Rs 27313 crores at the end of the year 1986-87 to Rs 91555 crores (increase of 109 *per cent*) and Rs 44117 crores (increase of 62 *per cent*) respectively at the end of 1992-93.

The amounts of principal and interest, in arrears, due from the States/Union Territories increased from Rs 1 crore and Rs 17 crores at the end of 1986-87 to Rs 242 crores and Rs 396 crores respectively at the end of 1992-93. In the case of "Others" the increase in arrears was from Rs 2278 crores and Rs 2492 crores at the end of 1986-87 to Rs 8683 crores and Rs 10323 crores at the end of 1992-93. In case these arrears had been paid up, the Government would have had to borrow correspondingly lesser amounts from the market at higher rates of interest.

7. EXTERNAL DEBT

Until 1988 there was no formal definition of External Debt. For the first time, the International Working Group on External Debt Statistics, constituted in 1988 jointly by the major international agencies concerning international debt statistics, namely the World Bank, the International Monetary Fund, the Organisation for Economic Cooperation and Development and the Bank for International Settlement gave a formal and exhaustive definition of External Debt. In the year 1992 the Task Force and the Policy Group on External Debt Statistics of India set-up by the Reserve Bank of India in consultation with the Ministry of Finance submitted its Report which suggested a standardised and uniform format for compilation and Reporting of India's External Debt statistics.

The Policy Group and the Task Force adopted the core definition of External Debt that was agreed upon by four organisations constituting the international Working Group of 1988. According to this definition ***"the gross External Debt is the amount at any given time, of disbursed and outstanding contractual liabilities of residents of a country to non-residents to repay the principal with or without interest or to pay interest with or without principal*"**. This definition has also been adopted in the Status Report on India's External Debt brought out by the Ministry of Finance in October 1993.

However, as already mentioned earlier **External Debt has two distinct connotations**:

i) **Loans raised abroad by Government of India** and **forming a part of Public Debt**
   a) Stated in rupees at historical value, or
   b) Stated in rupees at current rates of exchange, and
ii) **Country's External Debt** as defined above.

The Country's External Debt is discussed in para 9 below.

8. ACCOUNTING OF EXTERNAL DEBT

The loans received by the Government of India enter the accounts of the Government at the rate of exchange prevailing on the date of transaction/receipt. The moneys in foreign exchange lie with Reserve Bank of India and equivalent rupee amounts received enter the accounts of the Government. Rupees which have to go out as repayment instalments are, generally, higher amounts than amounts received because of adverse changes in exchange rates. The excess outgo on repayments, over the receipt in rupees, initially accounted as a debt under the Public Debt head is written off as loss by exchange. The Controller of Aid Accounts and Audit in the Ministry of Finance, Department of Economic Affairs maintains subsidiary accounts of loans received. Reserve Bank of India also accounts for the moneys in foreign exchange.

9. COUNTRY'S EXTERNAL DEBT

India's External Debt has been rising steadily as can be seen from the following figures:

Table 9.1 : India's External Debt & Debt Service — Key Indicators

	1988-89	1989-90	1990-91	1991-92	1992-93
Period-end outstanding debt stock					
US $ billion	57.33*	75.90	83.96	85.33	90.09
Rs thousand crores	89.84*	130.28	163.31	253.03	280.98
Change in debt stock US $ billion	—	—	8.06	1.37	4.76
Debt-service payments US $ billion	5.65	7.60	8.13	8.22	8.17
Debt as *per cent* of GDP	—	28.50	30.70	41.10	39.82
Debt service as *per cent* of current receipts	—	31.70	31.90	31.20	30.80

Source: Table 5.8 & S-110-112 of Economic Survey 1993-94

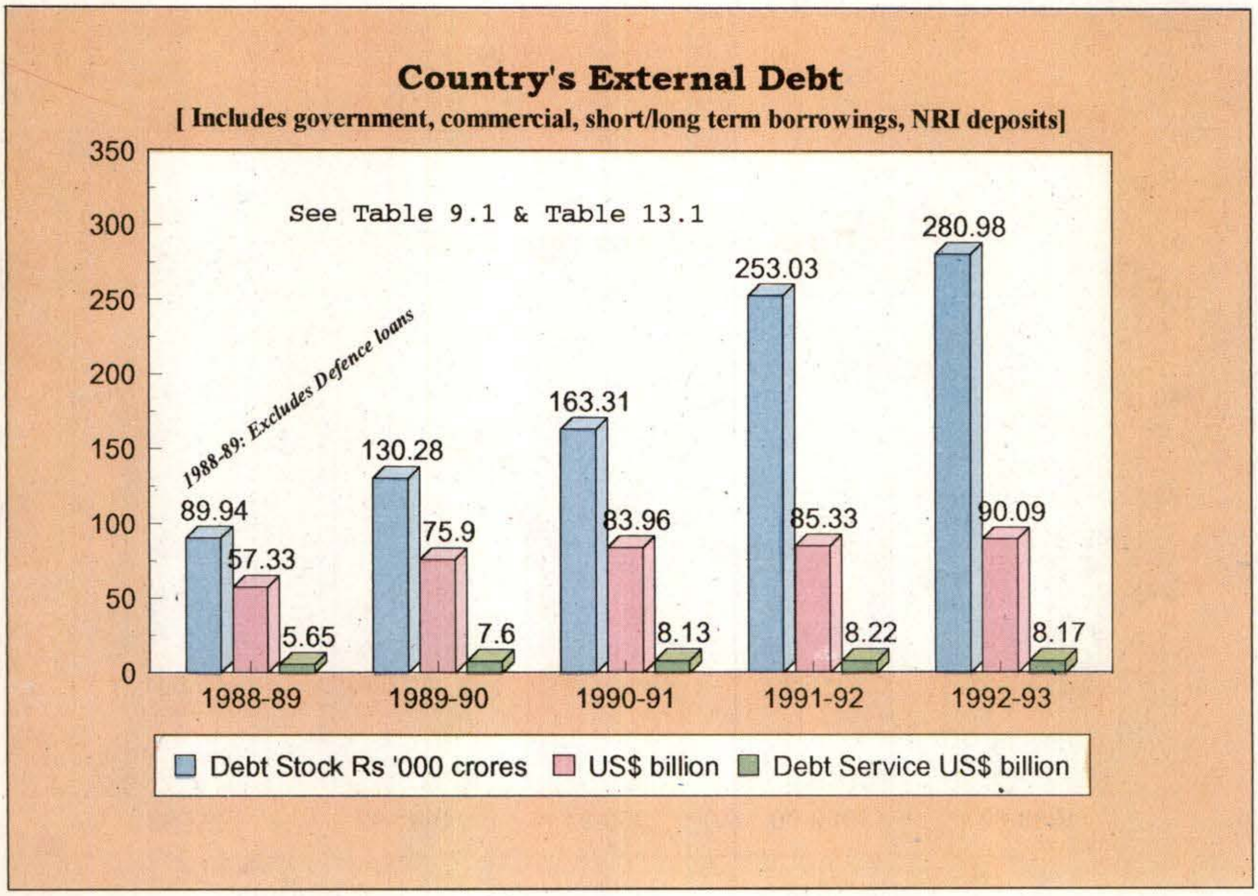
*: Excludes Defence Debt

External borrowings of Government of India, both the historical value and the liability based on exchange rates on 31 March 1993, as given in the Finance Accounts is shown in **Table 1.2**. India's External Debt as per the wider definition is given in Annexure VI, in two parts, stated in rupees and US dollars. The data is for the period 1 April 1989 till end September 1993. It includes long term and short term debt, public sector and private sector borrowings and imports funded from foreign loans, Non-Resident Indians' (NRI) and other foreign currency (FC) deposits and accounts, commercial borrowings and rupee (say rouble) debt. Defence debt is shown separately. These Annexures also include Government borrowings (bilateral and multilateral) which is the External Debt part of Public Debt. It will be seen from Annexure VI (A), extracted from the Government Economic Survey, that the outstanding balance was Rs 114506 crores on 31 March 1993. The Government Finance Accounts exhibit the amount, converted at exchange rates applicable on the same date, as Rs 120813 crores. The difference needs to be explained.

The total outstanding stock of the country's External Debt (including defence) increased sharply from US $ 75.90 billion in 1989-90 to US $ 90.09 billion in 1992-93. When this debt is converted into rupees, the External Debt more than doubled from Rs 130278 crores in 1989-90 to Rs 280977 crores in 1992-93.

External Debt comprises of long term and short term debt. Long term debt is defined as debt that has an original or extended maturity of more than one year and that is owed to non-residents and repayable in foreign currency, goods or services. This debt has three components namely public, publicly guaranteed and private non-guaranteed External Debt. The long term debt has increased from US $ 51.4 billion in 1988-89 to US $ 83.7 billion in 1992-93 showing an increase of 63 *per cent*. As percentage to total outstanding debt stock, the long term debt increased from 89.7 *per cent* in 1988-89 to 93 *per cent* in 1992-93. The short term debt means debt that has an original maturity of one year or less and it increased from US $ 5 billion in 1988-89 to US $ 6.3 billion during 1992-93, which constituted 7 *per cent* of the total outstanding debt in 1992-93. However, the Indian Government data on External Debt and that of World Bank also differ. The aggregate External Debt of India according to World Bank Debt Tables, 1993-94 Vol. II, is US $ 76983 million for 1992-93 (excluding defence debt). The corresponding figure as computed by Indian authorities is US $ 79221 million. The difference of US $ 2238 million requires reconciliation.

As a proportion of GDP total debt (including defence) rose from 28.5 *per cent* of GDP in 1989-90 to 41.1 *per cent* in 1991-92 before declining to 39.8 *per cent* in 1992-93. Total debt service during 1992-93 amounted to US $ 8.17 billion constituting 30.8 *per cent* of current receipts.



10. UNUTILISED LOANS/ CREDITS

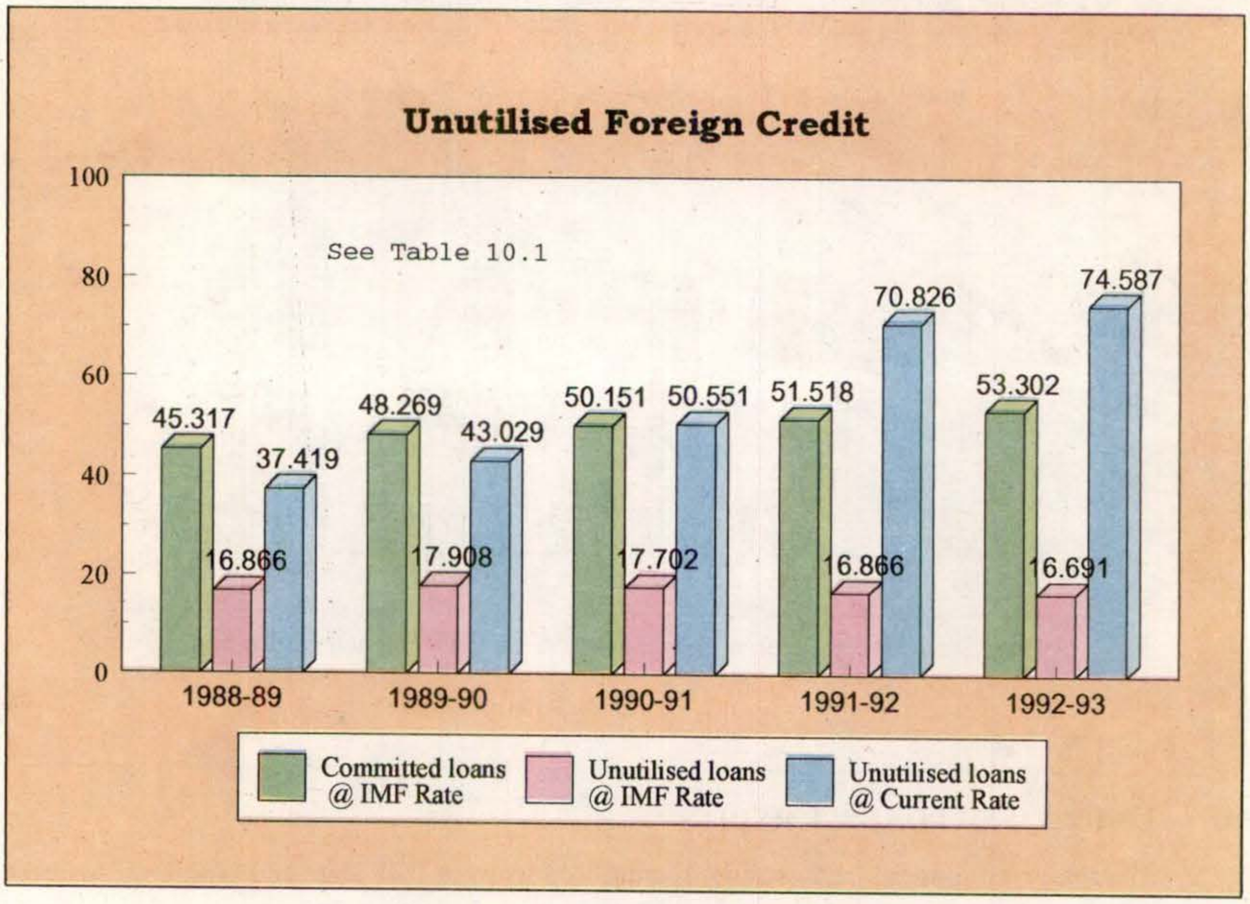
The total commitment (authorisation), unutilised loans at IMF Rate and unutilised loans at current rate during 1988-89 to 1992-93 were as below:

Table 10.1 : Commitment & Unutilised loans

Year	Commitment at IMF Rate	Unutilised loans at IMF Rate	Unutilised loans at Current Rate	Percentage of unutilised loans to commitment at IMF Rate
			(In crores of rupees)	%
1988-89	45,316.51	16,866.23	37,419.22	37
1989-90	48,268.83	17,907.85	43,028.61	37
1990-91	50,150.98	17,701.88	50,551.19	35
1991-92	51,517.68	16,865.64	70,826.40	33
1992-93	53,301.74	16,690.47	74,587.27	31

Source: Brochure on External Assistance Page VIII Statement I
Note: IMF Rate means pre-December 1971 IMF Parity Rates

From this table it is evident that although the unutilised amount of commitment at IMF Rate has fallen from 37 *per cent* at the end of 1988-89 to 31 *per cent* at the end of 1992-93 at Current Rate, yet it has increased by 99 *per cent* from Rs 37,419.22 crores at the end of 1988-89 to Rs 74,587.27 crores at the end of 1992-93.



The sector-wise details of commitment and unutilised amounts of loans were as below:

Table 10.2 : Commitment and Unutilised loans — sector-wise

(In crores of rupees)

Sector	1988-89 Commitment Unutilised	1989-90 Commitment Unutilised	1990-91 Commitment Unutilised	1991-92 Commitment Unutilised	1992-93 Commitment Unutilised	Unutilised amount ✡ 31.3.93
Power	8425.68 5469.59	11888.81 7798.35	12711.33 8010.91	12678.93 7488.65	12983.57 7435.95	33956.13
Irrigation	4805.80 2103.99	4358.13 1774.28	4384.81 1554.94	4182.11 1098.15	4191.93 926.02	3870.93
Industry	3564.58 632.84	3812.34 800.50	4109.34 878.33	4245.41 829.66	4245.40 680.09	2945.77
Railways	1987.49 614.11	1991.94 468.29	1991.94 371.80	2205.55 499.78	2284.30 534.18	2421.39
Social	321.61 161.79	690.71 441.93	1172.15 854.64	1465.84 1079.18	1683.35 1201.56	5121.20
Others	26211.35 7883.91	25526.50 6624.50	25781.41 6031.26	26739.84 5870.22	27913.19 5912.67	26271.85
Total	**45316.51 16866.23**	**48268.83 17907.85**	**50150.98 17701.88**	**51517.68 16865.64**	**53301.74 16690.47**	**74587.27**

✡ ..at Current Rates as on 31.3.1993

Source:- Brochure on External Assistance, Page XII.

Power Sector having approximately 25 *per cent* of the total commitment of external assistance of the country has failed to utilise 57 to 66 *per cent* of its commitment and its unutilised amount stood at Rs 33,956.13 crores at the end of 1992-93. Similarly unutilised foreign aid by the Social Sector had increased from 50 *per cent* at the end of 1988-89 to 71 *per cent* at the end of 1992-93. The other major sectors with their large unutilised commitments are Irrigation, Industry and Railways.

Thus, while fresh loans were contracted for year after year, those already contracted for were under-utilised or unutilised. "Undrawn" balances of foreign loans had been increasing year after year. These undrawn balances were usually subject to "Commitment Charges."

11. COMMITMENT CHARGES

11.1. Avoidable payment of Commitment Charges

11.1.1. World Bank and other foreign loans - drawal schedules.

For loans from World Bank(IBRD, IDA, etc.) and some countries, the contract provides for payment of Commitment Charges (CC) on the amounts of principal scheduled for later drawal. The rates of levy of CC vary from 0.25 to 0.75 *per cent* of the contracted loan amount balances. These charges, are generally levied on the first drawal 60 days after the agreement, thereafter on the balance outstanding including for the period upto delayed drawal. CC is in addition to the interest, payable on the amounts already drawn and service charges. The details of payment of Commitment Charges over the years 1988-89 to 1992-93 are given below:

Table 11.1.1 : Commitment Charges paid

(rupees in crores at current rates of exchange)

Sl. No.	Name of the Lender	1988-89	1989-90	1990-91	1991-92	1992-93
1.	**Germany**	1.41	2.19	2.63	4.03	4.59
2.	**France**	0.33	0.34	1.34	1.05	1.22
3.	**IBRD**	76.13	74.60	31.14	40.23	40.18
4.	**IDA**	15.50	0.00	0.00	0.00	0.00
5.	**ADB**	2.00	4.24	7.73	13.07	21.68
6.	**Sweden**	0.00	0.00	19.89	0.99	0.72
7.	**Netherlands**	0.00	0.00	0.00	0.01	—
8.	**Spain**	0.00	0.00	0.00	0.02	—
	Total	**95.37**	**81.37**	**62.73**	**59.40**	**68.39**

Source: Brochure on External Assistance for the year 1992-93

The World Bank (IBRD & IDA) loans/credits accounted for 75 *per cent* of the Commitment Charges paid during the years 1988-89 to 1992-93. While CC is a contractual and obligatory requirement, audit test-checks revealed cases where due to delayed drawal or cancellation of loans booked, huge avoidable amounts had to be paid as Commitment Charges.

11.1.2. Delayed drawal of loans

There was inordinate delay between the date of signing of agreements, the period of 60 to 90 days allowed thereafter and the date of first drawal of loans/ credits contracted between 1985-86 to 1992-93 resulting in avoidable extra payment of CC/interest charges amounting to Rs 102.64 crores upto the date of first drawal of loan as tabulated below:

Table 11.1.2 : Delays in first drawal of loans

Name of lender	Total loans credits	Number of cases where first drawal commenced between					Commitment Charges paid *(Rs in lakhs)*	Remarks Reasons for delay
		1 to 6 months	6 to 12 months	1 to 2 years	3 to 5 years	5 years and above		
IBRD	57	18	9	17	8	5	8811.66	Not available
IDA	8	1	4	3	—	—	375.42	do
Germany	40	25	6	8	—	1	129.17	do
France	9	5	3	1	—	—	26.10	do
ADB	13	4	1	6	2	—	*782.57	do
*CC dues are adjusted against loan drawal which bears interest: Interest on CC→							+138.99	
Total							**10263.91**	**Say Rs 102.64 crores**

The reasons for delay in the drawal of loans resulting in these avoidable payments of extra Commitment Charges amounting to Rs 102.64 crores were not available.

11.1.3. Commitment Charges paid for loans not utilised

Eleven loans (details in Annexure VII) contracted for US $ 181.30 million by the Government of India with IBRD between 1987-88 to 1990-91 were subsequently cancelled on 5 December 1991 without any utilisation. Government had to pay Commitment Charges amounting to US $ 1061 thousands equivalent to Rs 325.79 lakhs. Further, in the case of two IBRD loans contracted in June 1983, only US $ 0.447 million could be utilised out of their contracted value of US $ 179.1 million and the remaining amount was cancelled on 5 December 1991 resulting in payment of CC amounting to US $ 9.046 million equivalent to Rs 12.50 crores. The reasons for cancellation of these loans are still (February 1994) awaited.

In one case, an ADB loan, No.857-IND contracted on 16 December 1987 for US $ 190 million for a Railway Project, no amount could be utilised up to 1992-93 as a result CC amounting to US $ 4.264 million equivalent to Rs 10.19 crores had to be paid on the entire undrawn amount of loan.

11.1.4. Non-adherence to drawal schedules of loans — Payment of additional Commitment Charges due to extension of terminal date

The utilisation of loans/credits was often not in conformity with the 'draw down' schedule as incorporated in the Staff Appraisal Reports prepared by the World Bank before signing of each credit agreement. The inadequate draw down relative to prescribed schedules automatically resulted in undisbursed balance at any particular time being greater than what was envisaged resulting in payment of avoidable Commitment Charges. In 26 projects (see **Table 11.1.4** below) the terminal date of drawal of loans/credits had been got extended due to delay in implementation resulting in payment of avoidable Commitment Charges amounting to Rs 16.80 crores in the case of loans, the terminal dates of which fell between 1 April 1985 to 30 June 1992.

Table 11.1.4 : Avoidable Commitment Charges due to delayed programmes

Sl. No	Loans Number & Description	Original Terminal date	Extended Terminal date	CC paid for the extended period
				(Rs in thousands)
1	2	3	4	5
IBRD loans				
1.	1648-IN Ramagundam Thermal Power	31-12-1986	30-6-1987	4821
2.	1887-IN Farakka Thermal Power	31-3-1987	30-6-1989	7078
3.	1897-IN Kandi Watershed & Area Development	31-3-1986	31-3-1988	3002
4.	2076-IN II Ramagundam Thermal Power	30-6-1988	31-3-1993	9047
5.	2123-IN Refineries Rationalisation	30-9-1986	30-9-1988	3012
6.	2165-IN III Rural Electrification	30-6-1986	30-6-1988	10576
7.	2186-IN Kallada Irrigation & Tree Crop	31-3-1987	31-3-1989	3199
8.	2205-IN Godavari Petroleum exploration	31-3-1986	31-3-1989	16418
9.	2210-IN II Railway Modern & Maintenance	30-9-1987	30-3-1989	28497
10.	2241-IN Offshore Gas Development	31-12-1985	31-12-1988	19733
11.	2278-IN Upper Indravati Hydro.	30-6-1991	31-12-1991	5089
12.	2283-IN Central Power Transmission	31-3-1989	31-3-1993	37893
13.	2308-IN Maharashtra Water Utilisation	31-3-1989	31-8-1990	99
14.	2329-IN Madhya Pradesh Urban Development	30-6-1990	30-6-1991	406
15.	2505-IN Maharashtra Petrochemicals	30-9-1990	30-9-1991	636
16.	2653-IN NABARD Credit	31-12-1989	30-6-1991	534
17.	2555-IN Rihand Power (RF)§	31-12-1992	8-7-1993	336
18.	2415-IN Madhya Pradesh Fertiliser	30-6-1992	5-5-1993	36
19.	2387-IN Nava Sheva Port (RF)§	30-6-1992	5-5-1993	730
			Total:-	**151142**
IDA credit				
1.	1219-IN Andhra Pradesh Agricultural Extension	31-3-1988	31-3-1989	83
2.	1269-IN Kallada Irrigation & Power Corporation	31-3-1987	31-3-1989	464
3.	1286-IN Social Forestry	31-3-1988	31-3-1991	633
4.	1289-IN Subarnarekha Irrigation	31-3-1987	31-3-1989	6183
5.	1299-IN II Railway Modern & Maintenance	30-9-1987	30-9-1989	4254
6.	1332-IN II Uttar Pradesh Tube Wells	31-3-1988	31-3-1991	2070
7.	1397-IN Orissa Irrigation-II	31-12-1987	31-3-1988	3159
			Total:-	**16846**
		Grand Total	**IBRD + IDA:-**	**167988**
			(Say)	**Rs 16.80 crores**

§ RF = Revolving Fund

11.2. Overpayment of Commitment Charges

In terms of the provisions of Para 3.02 of General Conditions applicable to loans and guarantee agreements, the borrower is required to pay Commitment Charges till the date of cancellation of the loan. The Ministry of Finance had stated in one case that the unutilised portion of loan shall get automatically cancelled after the closing date. But a sum of Rs 72.81 lakhs was paid as CC after the closing date in respect of four loans as shown below resulting in overpayment of Commitment Charges:-

Table 11.2 : Overpayment of Commitment Charges

Sl No	Name of lender	Particulars of loan	Terminal closing date	Commitment Charges overpaid *after closing date*	
				Foreign Currency	Indian rupees
1	2	3	4	5	6
1.	ADB	842-IND dt.16-12-1987 Port Development Project	31-12-92	US $77786.50	2418732.00
2.	IBRD	2283-IN dt.8-6-1983 Central Power Transmission	31-3-92	¥ 11747679.00 NGL 6283.65	2851378.00 113321.00
3.	IBRD	2403-IN dt.25-5-1984 Bombay Basin Petro	31-10-92	NGL 48491.03	827918.00
4.	IBRD	1887-IN dt.11-7-1980 Farakka Thermal Power Project-I	30-6-89	US $91791.96 ×½ US $24158.13 US $*(-)6610.45	772009.50 417239.00 *(-)119972.00
				Total	**Rs 7280625.50**

* minus figures indicate adjustment of overpaid amount

The reasons for delay in drawal of loans which resulted in payment of avoidable Commitment Charges were given as paucity of rupee resources or inadequate counterpart rupee funding, inadequate budgetary allocations for the State Projects, procurement and procedural bottlenecks, tardy progress in implementation of works and unsatisfactory project management. These were avoidable or could have been anticipated and a feasible profile for loan drawal obtained from the State Government or other implementing agencies.

It is evident from the above that proper assessment of the requirement of foreign loans was not made before negotiating external assistance. A test-check of the pre-agreement process revealed that in the case of IBRD loan agreement No.3470-IN and credit agreement No.2365-IN for US $ 153 million each for Second National Highway Project, the Ministry of Surface and Transport informed the Ministry of Finance, Department of Economic Affairs on 16 June, 1992, of the delay in the invitation of bids as pre-qualification of contractors had not yet been settled. In consequence the claims for the reimbursement would be possible only in the latter part of the year 1993. (Bids had not been finalised even up to March 1994). Without keeping in view the above factors, the Ministry of Finance, Department of Economic Affairs concluded the loan/credit agreement with the

World Bank at Washington on 18 June 1992. No withdrawal had, however, been made from the loan/credit agreements till date (March, 1994) and Commitment Charges amounting to Rs 1.88 crores had to be paid on the entire undrawn loan of US $ 153 million up to February 1994.

12. RECOMMENDATIONS OF PARLIAMENTARY COMMITTEES

In paragraph 2.35 of its Fifty Fifth Report (Fourth Lok Sabha), the Public Accounts Committee (1968-69) reiterated its recommendations made in paragraph 1.25 of its Fifty Fourth Report (3rd Lok Sabha), that payments on account of Commitment charges should be minimised. The committee also drew attention to the observations of the Estimates Committee in paragraph 4.38 of its Eleventh Report (Fourth Lok Sabha) about the need for advance detailed planning and realistic assessment of foreign assistance requirements, so as to reduce to the minimum, payment of Commitment Charges. In June 1969, the Ministry issued instructions that the objectives underlying these recommendations were to be achieved by ensuring that the formulation of projects requiring external assistance and their implementation were carried out in an expeditious manner and based on realistic estimates.

But the continuing instances of huge amounts of unutilised balances of loans and credit reveal that appropriate steps have not been taken to improve the position through concurrent portfolio review and improved monitoring and implementation procedures for effective deployment and scheduling of external assistance so as to minimise the payment of Commitment Charges.

No distinct head/column existed for showing the payment of Commitment Charges (in respect of each loan/credit in the Status Report on External Assistance prepared by the Controller of Aid Accounts & Audit. Such charges are apparently included in the amount shown under interest charges.

13. SERVICING THE EXTERNAL DEBT

13.1. Debt Service Ratio

The debt service ratio i.e. the ratio of interest payments and amortisation of foreign loans by Government of India, as a percentage of exports was 29 *per cent* in 1985-86 and 44 *per cent* in 1992-93 as shown below:-

Table 13.1: Debt Service — External Debt

Year	Total external - debt repayments including interest	Exports	Debt Service as a percentage of exports %	Foreign exchange reserves (excluding gold and SDR)	Debt Service as a percentage of foreign exchange reserves
				(In US $ million)	%
1985-86	2,610	8,904	29	5,972	44
1988-89	5,650	13,970	40	4,226	134
1989-90	7,600	16,612	46	3,368	226
1990-91	8,130	18,143	45	2,236	364
1991-92	8,220	17,865	46	5,631	146
1992-93	8,170	18,537	44	6,434	127

Source: Economic Survey1992-93 & 1993-94

As would also be observed from **Table 9.1**, the debt service was mostly over 30 *per cent* of current receipts during the years 1989-90 and 1992-93. The erosion in the external value of the rupee has aggravated the debt service burden. Further, while the exports had gone up from Rs 10895 crores in 1985-86 to Rs 44041 crores in 1991-92, the value of imports had also gone up from Rs 19658 crores in 1985-86 to Rs 47851 crores during the same period. The solution for improving the situation is to achieve a substantial and sustained growth of exports, effective import substitution and effective debt management.

13.2. External Commercial Borrowings (ECB)

Annexure VI of this review shows the stock of the outstanding debt including commercial borrowings. These External Commercial Borrowings (loans contracted for more than a year) from banks and financial institutions abroad are contracted mostly by Public Sector Undertakings and Financial Institutions in India. ECBs are indirect External Debt of the Government of India as the Government is the guarantor of the debt. Some significant features in servicing of ECBs during the years 1988-89 to 1992-93 are given in the table below:

Table 13.2: Servicing of External Commercial Borrowings

Year	Authorisation	Gross disbursed	Debt servicing	Net transfer	Net transfer as percentage of ECBs disbursed
				(Rs in crores)	%
1988-89	4314	4069	2224	1845	45
1989-90	5479	4196	3041	1155	28
1990-91	3414	3050	4006	(-)957	(-)31
1991-92	5276	7169	5414	1755	25
1992-93	6786	3118	6980	(-)3862	(-)124

Source: Ministry of Finance (ECB Division)

It is seen that debt servicing of External Commercial Borrowings increased from Rs 2224 crores in 1988-89 to Rs 6980 crores in 1992-93, which constituted an increase of 214 *per cent* whereas the net transfer of ECBs decreased by 109 *per cent* over the same period. The net inward capital transfer through ECB as a percentage of ECB disbursed during 1988-89 was 45 *per cent* but in 1992-93 there was a net outward flow of 124 *per cent* of disbursements in respect of this category of borrowings.

The Estimates Committee 1991-92 (Twelfth Report - in para 1.209) of Tenth Lok Sabha recommended a conservative approach towards External Commercial Borrowings and stated that they would like Government to encourage direct foreign investment to not only restrict commercial borrowings but also redeem some of these debts to the extent possible.

13.3. FCNR Deposits

FCNR Deposits form an important component of India's External Debt. There are two types of deposits: Non-Resident (External) Rupee Accounts {NR(E)RA} and Foreign Currency Non-Residents Accounts {FCNRA}. Deposits in both the accounts are repatriable; in the case of the former, the exchange risk is borne by the depositor while in the case of the latter, the exchange risk is borne by the Reserve Bank of India. Year-wise details of FCNR Accounts deposits liability for the years 1988-89 to 1992-93 were as under:-

Table 13.3: Debt Liability under FCNR Deposits

Year	FCNR Accounts	
(March end)	*(Rs in crores)*	*US $ Million*
1988-89	8255	5257
1989-90	11324	6586
1990-91	13405	6838
1991-92	13608	5256
1992-93	16572	5287

Source: Reserve Bank of India Bulletin 1993

During the year ended 30 June 1992, the exchange loss borne by the Reserve Bank on FCNR Account was Rs 5532 crores. The exchange loss however, decreased to Rs 2570 crores during the year ended 30 June 1993. The Government of India had agreed to take over the exchange risk liability on account of FCNR Deposits from 1 July 1993. The Government has made a provision of Rs 5721 crores for exchange losses on FCNR Deposits in the 1994-95 budget.

14. OUTSTANDING RECOVERIES FROM IMPORTERS

Importers holding licences for imports to be financed out of foreign loans and credits under the direct payment procedure were required to deposit in advance the rupee equivalent of the foreign currency. This is calculated at a composite rate of exchange arrived at after the addition of 1 *per cent* to the daily rate of exchange for the particular foreign currency ruling on the date of payment to the foreign suppliers (determined in accordance with the Public Notice issued by the Ministry of Commerce). It was observed that a sum of Rs 1365 crores representing the amount recoverable from the importers was lying under the head "Suspense Account for Purchases etc. Abroad" as on 30 June 1992. The earliest outstanding amount pertained to the year 1984-85 as would be seen from the year-wise break up given in Annexure VIII. The details of major defaulters are given in Annexure IX.

The reasons for releasing the import documents for the purpose of clearance of the consignment without obtaining advance deposits from the importers were not intimated.

15. RECOMMENDATIONS OF THE HIGH LEVEL COMMITTEE ON BALANCE OF PAYMENTS.

The undesirable consequences of large unutilised aid are well recognised. Firstly, it reflects adversely on the absorptive capacity of the economy and the management of projects and may reduce the possible continued support from the multilateral agencies. Secondly, delayed implementation of the projects involves locking up of resources without productive results. Thirdly there are instances where committed amounts of aid had to be cancelled as a result of such delays. Fourthly, over a longer period, there are distortions in implementation both on account of cost escalation and the changes in the rupee value — the latter adversely affecting the amount of foreign currency resources that should be available against rupee expenditure. Fifthly, substantial amounts are paid as Commitment Charges on unutilised aid.

The High Level Committee on Balance of Payments, in its Report submitted in April, 1993 had noted that the large amount of committed but undisbursed aid is a most serious problem in regard to multilateral flows. The Committee also noted the major suggestions made by the Ninth Finance Commission in its Report for 1990-95 regarding the utilisation of external assistance as well as the suggestions made by the National Development Council (NDC) at its 43rd meeting held in October, 1990.

Considering the vital role that can be played by timely utilisation of external assistance in placing the country's balance of payments position on a sound footing, the Committee recommended that immediate action could be considered in the following areas:-

a) A review of the existing projects with a view to identifying those where the progress is slow, those that required redefining of project scope or coverage and where cancellation would be better than continuing to pay commitment fees and keeping them in our books.

b) As recommended by the NDC, 100 *per cent* external assistance may be passed on to the State for all sectors.

c) Additional Central assistance may be released to the States on a monthly basis. The advances at any point of time may be limited to around 8 *per cent* of the accepted reimbursement during the year.

d) Since the availability of rupee resources is one of the major constraints, priority may be accorded to externally-aided projects in making plan allocations for both Five Year and Annual Plans and corresponding budget provisions. However, overall resources availability has to be increased to ensure adequate, and timely absorption of external aid without sacrificing the larger segment of non-externally aided projects.

(e) The contracting procedures will have to be streamlined and decentralised.

(f) The approval procedures and monitoring mechanisms will have to be reviewed to ensure adequate preparedness and timely action.

Besides, in a review of the existing practices with regard to administering the external assistance, the Committee found certain ambiguities more particularly in the backdrop of the recent reform measures in the external sector of the economy. These related to the inadequate plan provision for externally aided projects executed by the Government departments, terms and conditions of the assistance passed on to PSUs and States, absorption of concession in assistance by the Government and use of concessional flows for commercial purposes. The Committee therefore recommended the following broad approach to reorient the administering of external assistance:

Department of Economic Affairs may have to continue to play the role of nodal agency, in terms of developing the pipeline, negotiating external assistance and monitoring implementation. In particular there is need for a medium-term framework of the project pipeline which will specifically address disbursement to resource availability, commitment of user-unit and issues of direct lending/on-lending/ additionality. The issue of direct lending vs. on-lending should recognise the need for dis-intermediation by Government.

A decision on/ implementation of the recommendations of the High Level Committee is awaited (July 1994).

16. SUMMING UP

Public Debt on 31 March 93 comprising of Internal and External Debt stood at **Rs 241369 crores.** However, the **actual indebtedness** of the Government was almost twice as much : **Rs 480467 crores** taking (a) the additional borrowings and other liabilities outside the Consolidated Fund and (b) converting the External Debt at the rates of exchange on 31 March 1993. **Borrowings** during the years 1988-93 constituted **46 to 60 *per cent* of the total receipts**. Public Debt forms a substantial part of the Consolidated Fund of India which is being used as security for further borrowings.

16.1. Internal Debt

— Internal Debt, increased from Rs 86313 crores to Rs 199100 crores between 1986-87 and 1992-93. The actual **internal liability of the Union Government** (i.e. Internal debt plus deposits, Provident Funds, Small Savings, etc.) at Rs 359654 crores was **51 *per cent* of GDP at the end of 1992-93.** During 1992-93 the total receipts from internal borrowings were Rs 93754 crores, while Rs 67404 and Rs 13542 crores were paid during the year towards repayment of earlier loans and as interest. Thus **86 *per cent* of the Internal Debt was, in effect, utilised for debt service obligations**.

— Increasing gap between revenue receipts and revenue expenditure resulted in **sharp growth of revenue deficit** from Rs 7579 crores in 1986-87 to Rs 18574 crores in 1992-93. **Tax revenue declined** during the last five years from 18.97 *per cent* in 1988-89 to 10.15 *per cent* in 1992-93 and non-tax revenues stagnated due to **poor returns from the huge investment in Public Sector Undertakings.**

— Expenditure on interest, subsidies and defence together ranged between 47.2 and 49.2 *per cent* of the total expenditure during the last five years.

— While the net addition to Small Savings showed a declining trend, interest payments rose by 121 *per cent* during 1988-93. A substantial portion of Small Savings collections are transferred to State Governments as loans at a subsidised rate of interest and repayable over a much longer period. This continuously increases the liability of Government of India.

— Fiscal deficit was Rs 40173 crores and the net RBI credit to Central Government was Rs 4257 crores during 1992-93.

— RBI sold Treasury Bills and securities to other banks and repurchased them shortly afterwards through Repos auctions. The cost of these transactions during 1992-94 was Rs 142.80 crores. The Repos auctions resulted in understatement of the monetised deficit.

— Government has been resorting to conversion of **Treasury Bills** into Government stock. Thus a purely short term or ad hoc instrument is **being utilised to add to the permanent debt**.

— Test-check of Public Debt Offices showed cases of delay in remittance of subscription towards loans floated by Central/ State Governments and irregular payment of brokerage.

— According to existing guidelines inter-bank ready forward deals in securities between banks are prohibited. Twenty-seven cases of ready forward deals involving transactions of Rs 95.50 crores were noticed in audit.

— **Guarantees** which constitute a **contingent liability** of the Union government increased from Rs 26646 crores in 1989 to **Rs 58027 crores in March 1993**. A substantial and increasing portion of the guarantees are for foreign loans.

— Outstanding balances of loans and advances recoverable from the State Governments/Union Territories and *Others* increased from Rs 43706 crores and Rs 27313 crores at the end of 1986-87 to Rs 91555 crores and Rs 44117 crores respectively at the end of 1992-93. As of 31 March 1993, **Rs 19644 crores were overdue as arrears of loans and interest**, mostly from "*Others*".

16.2. External Debt

— The total outstanding **External Debt** (including defence) **of the Union Government** on 31 March 1993 was shown in the Finance Accounts at its historical value of Rs 42269 crores; but at the exchange rates on that date it was **Rs 120813 crores**. The ***Country's* External Debt more than doubled** from Rs 130278 crores in 1989-90 to Rs 280977 crores in 1992-93. The total debt rose from 28.5 *per cent* of GDP in 1988-89 to 39.8 *per cent* in 1992-93. The total debt servicing charges paid by the country during 1992-93 constituted 30.8 *per cent* of current receipts and accounted for 44 *per cent* of the exports.

— **Huge amounts of foreign aid contracted for remained unutilised**. At the same time new loans were being negotiated. Unutilised foreign loans stood at Rs 74587 crores at the end of 1992-93. Power Sector which accounts for 25 *per cent* of the total commitment of the country's external assistance, failed year after year, to utilise 57 to 66 *per cent* of its commitment. The other major sectors with unutilised commitment were Irrigation, Industry and Railways. There were **several cases of avoidable (extra) payment of Commitment Charges** due to delays in utilising foreign loans or their not being at all utilised. Audit test-checks revealed cases for which avoidable payments for such lapses amounted to **Rs 148 crores**.

— **Rs 1365 crores was recoverable** as on 31 March 1993 **from importers** who had not deposited in advance the rupee equivalent of the foreign currency for the imports financed by them out of foreign loans/credits arranged and repayable by Government of India.

— No decision has been taken on recommendations of the High Level Committee of the Finance Ministry on Balance of Payments to streamline measures to contain External Debt. (July 1994)

(B M OZA)
Principal Director of Audit
Central Revenues

Delhi
The 8 December 1994

Countersigned

(C G SOMIAH)
Comptroller and Auditor General of India

Delhi
The 8 December 1994

ANNEXURE I

(Refer to para 2.4.7)

Centre's Budget Deficit or Monetised Deficit

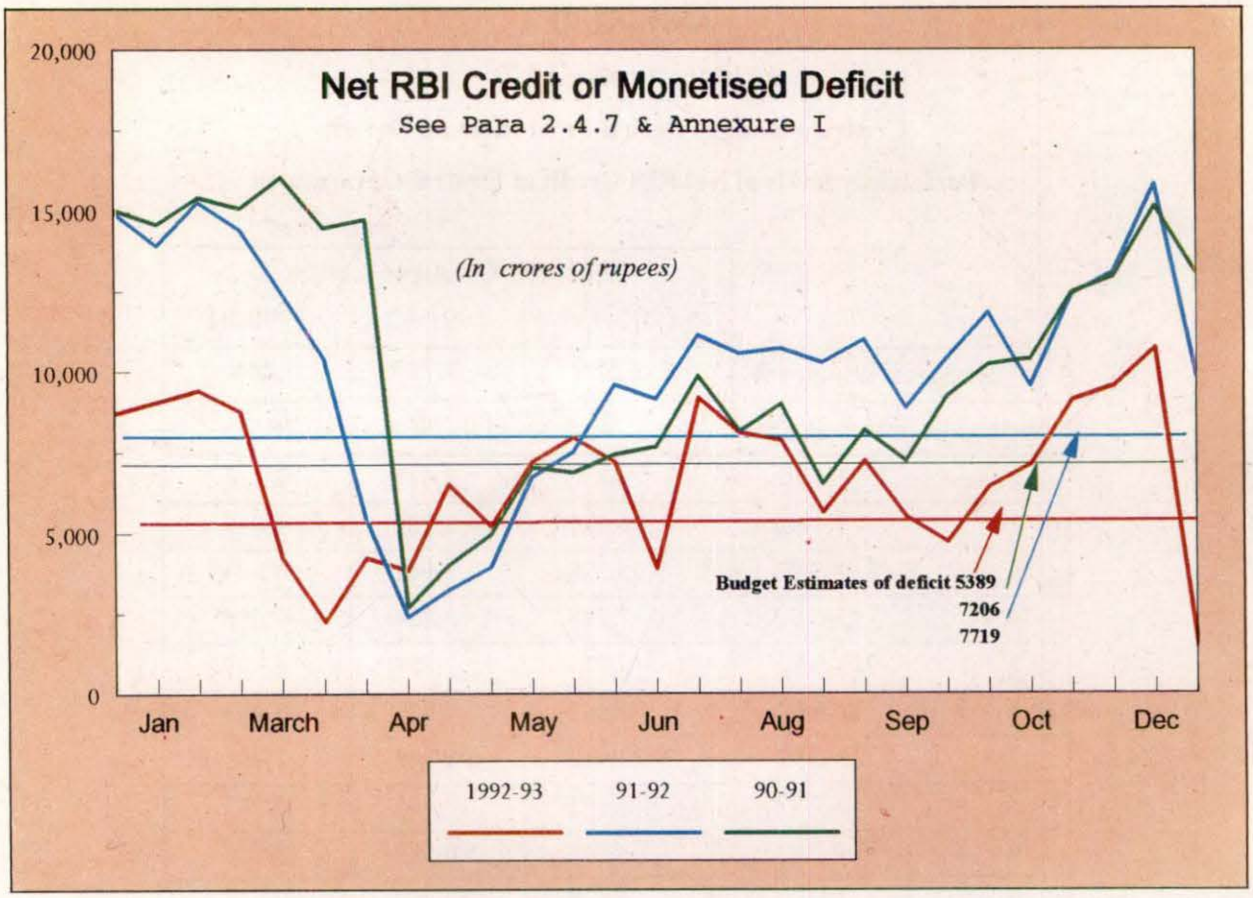
Fortnightly levels of Net RBI Credit to Central Government

(In crores of rupees)

		Net RBI Credit to Centre		
		1992-93	1991-92	1990-91
Budget Estimates➔		**5,389**	**7,719**	**7,206**
Fortnight commencing ↓		↓ Fortnightly ↓ Actuals ↓		
1	3-4-92	3,847	2,427	2,712
2	17-4-92	6,522	3,269	4,050
3	1-5-92	5,229	3,962	4,994
4	15-5-92	7,218	6,764	7,058
5	29-5-92	7,985	7,534	6,907
6	12-6-92	7,192	9,607	7,463
7	26-6-92	3,912	9,168	7,703
8	10-7-92	9,193	11,165	9,883
9	24-7-92	8,113	10,580	8,185
10	7-8-92	7,872	10,759	9,018
11	21-8-92	5,657	10,303	6,543
12	4-9-92	7,236	11,029	8,209
13	18-9-92	5,512	8,890	7,269
14	2-10-92	4,723	10,445	9,245
15	16-10-92	6,424	11,866	10,241
16	30-10-92	7,111	9,564	10,438
17	13-11-92	9,110	12,418	12,476
18	27-11-92	9,549	13,117	12,978
19	11-12-92	10,744	15,830	15,159
20	25-12-92	1,450	9,812	13,029
21	8-1-93	8,725	14,979	15,055
22	22-1-93	9,065	13,961	14,621
23	5-2-93	9,441	15,305	15,447
24	19-2-93	8,773	14,454	15,107
25	5-3-93	4,254	12,485	16,064
26	19-3-93	2,262	10,452	14,486
27	31-3-93	4,257	5,508	14,746

Source: Reserve Bank of India Bulletin September 1993 (Supplement)

See also graphic representation on next page ➔



ANNEXURE II(A)

(Refer to para 2.4.8)

Details of Repos auctions conducted during 5-2-1993 to 2-4-1993

(In crores of rupees)

Date of Credit	Date of Debit	Amount credited	Amount debited	Duration	Difference in amount
5-2-93	6-2-93	1685.43	1685.65	One day	0.22
12-2-93	13-2-93	824.96	825.19	-do-	0.23
18-2-93	20-2-93	3542.25	3543.18	Two days	0.83
26-2-93	27-2-93	866.56	866.81	One day	0.25
5-3-93	6-3-93	7926.16	7927.88	One day	1.72
12-3-93	13-3-93	6307.01	6309.04	One day	2.03
19-3-93	20-3-93	9114.05	9116.28	One day	2.23
26-3-93	27-3-93	4455.49	4457.19	One day	1.70
31-3-93	2-4-93	4820.17	4824.92	Two days	4.75
2-4-93	3-4-93	2925.96	2926.36	One day	0.40
Total		42468.14	42482.50		14.36

ANNEXURE II(B)

(Refer to 2.4.8)

Details of Repos auctions held during the year 1993-94 (1-4- 1993 to 31-3-1994)

(In crores of rupees)

Date of Auction	Date of credit	Date of debit	Amount credited	Amount Debited	Difference
1-4-93	2-4-93	3-4-93	2925.96	2926.36	0.40
7-4-93	8-4-93	10-4-93	377.75	377.99	0.24
8-4-93	10-4-93	17-4-93	425.19	425.99	0.80
22-4-93	23-4-93	3-5-93	469.57	470.51	0.94
4-5-93	5-5-93	15-5-93	955.46	957.38	1.92
12-5-93	13-5-93	15-5-93	1505.02	1505.34	0.32
19-5-93	20-5-93	29-5-93	1624.88	1627.55	2.67
22-5-93	24-5-93	29-5-93	1415.91	1416.89	0.98
28-5-93	29-5-93	12-6-93	1416.61	1420.50	3.89
3-6-93	4-6-93	5-6-93	2839.83	2840.35	0.52
10-6-93	11-6-93	12-6-93	7357.52	7358.71	1.19
17-6-93	18-6-93	19-6-93	8945.11	8947.04	1.93
24-6-93	25-6-93	26-6-93	9829.73	9831.63	1.90
25-6-93	26-6-93	10-7-93	1346.47	1350.56	4.09
30-6-93	2-7-93	10-7-93	2739.87	2743.64	3.77
13-7-93	14-7-93	24-7-93	4364.53	4371.70	7.17
16-7-93	17-7-93	24-7-93	665.18	666.00	0.82
23-7-93	24-7-93	7-8-93	3715.29	3724.26	8.97
29-7-93	30-7-93	7-8-93	923.46	924.65	1.19
6-8-93	7-8-93	21-8-93	4876.85	4887.69	10.84
20-8-93	21-8-93	4-9-93	3948.09	3956.94	8.85
3-9-93	4-9-93	18-9-93	4039.04	4047.93	8.89
17-9-93	18-9-93	4-10-93	3686.21	3695.69	9.48
1-10-93	4-10-93	16-10-93	1594.06	1597.28	3.22
15-10-93	16-10-93	30-10-93	3356.93	3364.78	7.85
29-10-93	30-10-93	16-11-93	2259.52	2265.97	6.45
12-11-93	16-11-93	27-11-94	1809.38	1812.92	3.54
26-11-93	27-11-93	11-12-93	1933.14	1937.96	4.82
10-12-93	11-12-93	27-12-93	2838.13	2845.47	7.34
24-12-93	27-12-93	08-01-94	1150.23	1152.55	2.32
07-01-94	08-01-94	22-01-94	805.53	807.42	1.89
21-01-94	22-01-94	5-02-94	31.93	32.00	0.07
4-02-94	5-02-94	19-02-94	1219.75	1222.58	2.83
18-02-94	19-02-94	5-03-94	444.86	445.91	1.05
4-03-94	5-03-94	19-03-94	784.00	785.71	1.71
18-03-94	19-03-94	02-04-94	799.63	801.36	1.73
31-03-94	04-04-94	16-04-94	971.18	973.03	1.85
Total			90391.80	90520.24	**128.44**

ANNEXURE - III

(Refer to para 2.4.9)

Capital receipts of Government of India

(In crores of rupees)

	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
Total Capital Receipts	**15771**	**18417**	**24961**	**28535**	**31230**	**27325**	**24191**
(1) Market Borrowing (net)	5531	5862	8418	7404	8001	7510	3676
(2) External loans (net)	2145	2923	2521	2595	3180	5421	5319
(3) Small Savings (net)	3276	3633	5475	7958	8309	5654	4373
(4) Other Accounts (including special deposits)	3917	4828	7226	8845	9739	6482	7979
(5) Provident Funds	902	1171	1321	1733	2001	2258	2952

Source: Union Government Finance Accounts

ANNEXURE IV

(Refer to para 5)

Guarantees given by the Union Government

(In crores of rupees) %

Position at the end of the year	Maximum amount of guarantee for which Government have entered into agreement	Total guarantees outstanding (Internal & External)	External Guarantees outstanding	Percentage Col 4 to Col 3
1	2	3	4	5
1988-89	40743	33240	10139	30.5
1989-90	60917	54537	13478	24.7
1990-91	49353	40394	20964	51.9
1991-92	55063	46744	19857	42.5
1992-93	79552	58027	28194	48.6

Source: Union Government Finance Accounts

ANNEXURE - V

(Refer to para 6)

Loans and advances to States/ UTs and Others

(In crores of rupees)

Year	States/ UTs Governments				Others			
	Balance of loans	Recovery in arrears			Balance of loans	Recoveries in Arrears		
	Outstanding	Principal	Interest	Total	Outstanding	Principal	Interest	Total
1986-87	43706	1	17	18	27313	2278	2492	4770
1987-88	49558	3	29	32	29679	2933	3383	6361
1988-89	56288	45	62	107	33102	3664	4108	7772
1989-90	64242	102	117	219	36734	4628	4732	9360
1990-91	74111	98	94	192	40614	7839	8758	16597
1991-92	83529	155	153	308	42874	7305	8307	15612
1992-93	91555	242	396	638	44117	8683	10323	19006

Source: Union Government Finance Accounts

ANNEXURE VI (A)

(Refer to para 9)

INDIA'S EXTERNAL DEBT

(In crores of rupees))

			End-March					End-Sept
			1989	1990	1991	1992	1993	1993 P
I.		**MULTILATERAL**	27535	32886	40386	68262	77758	79811
A		Government borrowing	26719	31575	38429	63787	72286	73811
	i)	Concessional	19333	21760	25849	40990	48206	49716
	a)	IDA	18477	21055	25221	40017	47167	48675
	b)	Others	856	705	628	973	1039	1041
	ii)	Non-concessional	7386	9815	12580	22797	24080	24095
	a)	IBRD	7362	9752	12161	21134	21602	21485
	b)	Others	24	63	419	1663	2478	2610
B.		Non-Government borrowing	816	1311	1957	4475	5472	6000
	i)	Concessional	0	0	0	0	0	0
	ii)	Non-concessional	816	1311	1957	4475	5472	6000
	a)	Public Sector	130	158	303	1424	1777	2235
	i)	IBRD	130	158	303	962	1300	1713
	ii)	Others	0	0	0	462	477	522
	b)	Financial Institutions	409	799	1270	2345	2883	2791
	i)	IBRD	278	503	872	1720	1791	1700
	ii)	Others	131	296	398	625	1092	1091
	c)	Private sector	277	354	384	706	812	974
	i)	IBRD	274	313	330	628	709	844
	ii)	Others	3	41	54	78	103	130
II		**BILATERAL**	20174	22993	27378	47603	50258	51813
A		Government borrowing	17625	19444	23065	40371	42220	43311
	i)	Concessional	17625	19444	23065	40371	42220	43311
	ii)	Non-concessional	0	0	0	0	0	0
B		Non-Government borrowing	2549	3549	4313	7232	8038	8502
	i)	Concessional	398	441	514	928	1243	1262
	a)	Public Sector	40	7	0	0	0	0
	b)	Financial Institutions	354	431	514	928	1243	1262
	c)	Private Sector	4	3	0	0	0	0
	ii)	Non-concessional	2151	3108	3799	6304	6795	7240
	a)	Public sector	1702	2581	2957	4472	4726	4863
	b)	Financial Institutions	196	271	527	1236	1571	1801
	c)	Private sector	253	256	315	596	498	576

Continued ⇒

ANNEXURE VI(A) continued

(In crores of rupees))

			End-March					End-Sept
			1989	1990	1991	1992	1993	1993 P
III.		**IMF**	3696	2572	5132	8934	14985	16024
IV		**EXPORT CREDIT**	4069	8002	8374	12418	13484	13658
	a)	Buyers credit	1958	1877	2230	3566	3989	4903
	b)	Suppliers credit	1049	950	933	1380	2050	2080
	c)	Export credit component of bilateral credit	1062	1340	1390	2428	3671	3766
	d)	Export credit for defence purchase	N/A.	3835	3821	5044	3774	2909
V		**COMMERCIAL BORROWING**	12803	15988	19727	35664	36251	36340
	a)	Commercial bank loans	9815	11453	13200	20933	20156	19740
	b)	Securitized borrowings (incl. IDB)	2749	4227	5840	13219	13990	14230
	c)	loans/ securitized borrowings etc., with multilateral/bilateral guarantee IFC(W)	239	308	687	1512	2105	2370
VI		**NRI** & FC(B&O) Deposits (above 1-yr maturity)	12342	15819	20350	27575	35265	37035
	a)	NRI deposit	12342	15819	20163	26928	34437	36370
	b)	FC(B&O) deposits	0	0	187	647	828	665
VII	*	**RUPEE DEBT**	N/A.	19075	25199	31956	33149	31974
	a)	Defence	N/A.	17276	22875	28796	30177	29002
	b)	Civilian+	1433	1799	2324	3160	2972	2972
VIII	**TOTAL LONG-TERM DEBT(I TO VII)**		80619	117335	146546	232412	261150	266655
IX		**SHORT-TERM DEBT**	7784	12943	16765	20620	19827	16249
	a)	NRI deposits (Up to 1 year maturity)	4043	5568	7008	6495	8154	6574
	b)	FC (B&O) Deposits(Upto 1 year maturity)	0	0	328	924	2433	2005
	c)	Others (trade-related)**	3741	7375	9429	13201	9240	7670
		of which, Short term debt of 6 months	1695	3472	4976	4738	5601	7061
X.	**GROSS TOTAL (excl.Defence debt)**		**89836**	**109167**	**136615**	**219193**	**247026**	**250993**
	GROSS TOTAL (incl.Defence debt)		**N/A.**	**130278**	**163311**	**253033**	**280977**	**282904**

P Provisional

*** Debt owed to Russia denominated in rupees and payable in exports.**

+ Includes Rupee suppliers' credit from end-March 1990 onwards.

**** This does not include LC-based trade credit for which no estimates are available**

Note: The data on NRI deposits are inclusive of accrued interest credited to the accounts under FCNRA, FCNR(B) and NR(E)RA schemes. These data differ significantly from those published earlier as the later included estimated accrued interest credit to FCNRA whereas the former include actual accrued interest which is based on an initial census count and are being subjected to a further special audit by the RBI.

Sources: Economic Survey,1993-94 (Deptt. of Economic Affairs) & Reserve Bank of India.

ANNEXURE VI (B)

(Refer to para 9)

INDIA'S EXTERNAL DEBT

(US $ million)

			End-March					End-Sept
			1989	1990	1991	1992	1993	1993 P
I.		**MULTILATERAL**	17530	19164	20900	23090	25008	25532
A		Government borrowing	17004	18399	19887	21651	23247	23612
	i)	Concessional	12304	12672	13377	14320	15503	15904
	a)	IDA	11759	12261	13052	13974	15169	15571
	b)	Others	545	411	325	346	334	333
	ii)	Non-concessional	4700	5727	6510	7331	7744	7708
	a)	IBRD	4685	5690	6293	6796	6947	6873
	b)	Others	15	37	217	535	797	835
B		Non-Government borrowing	556	765	1013	1439	1761	1920
	i)	Concessional	0	0	0	0	0	0
	ii)	Non-concessional	556	765	1013	1439	1761	1920
	a)	Public Sector	83	92	157	458	572	715
	i)	IBRD	83	92	157	308	418	548
	ii)	Others	0	0	0	150	154	167
	b)	Financial Institutions	296	465	657	754	928	893
	i)	IBRD	178	292	451	553	576	544
	ii)	Others	118	173	206	201	352	349
	c)	Private sector	177	208	199	227	261	312
	i)	IBRD	175	184	171	202	228	270
	ii)	Others	2	24	28	25	33	42
II.		**BILATERAL**	12843	13564	14168	15466	16154	16575
A		Government borrowing	11227	11489	11936	13099	13578	13855
	i)	Concessional	11227	11489	11936	13099	13578	13855
	ii)	Non-concessional	0	0	0	0	0	0
B		Non-Government borrowing	1616	2075	2232	2367	2576	2720
	i)	Concessional	242	261	266	348	400	404
	a)	Public Sector	26	4	0	0	0	0
	b)	Financial Institutions	214	255	266	348	400	404
	c)	Private Sector	2	2	0	0	0	0
	ii)	Non-concessional	1374	1814	1966	2019	2176	2316
	a)	Public sector	1087	1507	1530	1432	1513	1556
	b)	Financial Institutions	125	158	273	396	503	576
	c)	Private sector	162	149	163	191	160	184

Continued ⇒

ANNEXURE VI (B) continued

(US $ million)

			End-March					End-Sept
			1989	1990	1991	1992	1993	1993 P
III.		**IMF**	2365	1493	2623	3451	4799	5108
IV.		**EXPORT CREDIT**	2597	4655	4301	3990	4322	4365
	a)	Buyers credit	1251	1096	1154	1142	1277	1568
	b)	Suppliers credit	670	555	483	442	656	665
	c)	Export credit component of bilateral credit	676	790	719	791	1181	1205
	d)	Export credit for defence purchase	N/A.	2214	1945	1615	1208	927
V.		**COMMERCIAL BORROWING**	8176	9335	10209	11700	11606	11625
	a)	Commercial bank loans	6268	6687	6831	6704	6453	6315
	b)	Securitized borrowings (incl. IDB)	1756	2468	3022	4512	4479	4552
	c)	loans/ securitized borrowings etc., with multilateral/bilateral guarantee IFC(W)	152	180	356	484	674	758
VI.		**NRI & FC(B&O) Deposits (above 1-year maturity)**	7896	9183	10372	10144	11238	11806
	a)	NRI deposit	7896	9183	10277	9894	10973	11594
	b)	FC(B&O) deposits	0	0	95	250	265	212
VII		**RUPEE DEBT***	N/A.	11021	12847	10420	10616	10196
	a)	Defence	N/A.	9972	11645	9222	9661	9245
	b)	Civilian+	917	1049	1202	1198	955	951
VIII		**TOTAL LONG-TERM DEBT(I TO VII)**	51437	68415	75420	78261	83743	85207
IX		**SHORT-TERM DEBT**	4974	7489	8539	7073	6347	5179
	a)	NRI deposits (Up to 1 year maturity)	2586	3232	3572	2489	2610	2095
	b)	FC (B&O) Deposits(Up to 1 year maturity)	0	0	167	357	779	639
	c)	Others (trade-related)	2388	4257	4800	4227	2958	2445
		of which, Short term debt of 6 months	1082	2004	2533	1517	1793	2251
X.		**GROSS TOTAL (excl.Defence debt)**	57328	63718	70369	74497	79221	80214
		GROSS TOTAL (incl.Defence debt)	N/A.	75904	83959	85334	90090	90386

P **Provisional**

***** **Debt owed to Russia denominated in rupees and payable in exports.**

+ **Includes Rupee suppliers' credit from end-March 1990 onwards.**

****** **This does not include LC-based trade credit for which no estimates are available**

Note: The data on NRI deposits are inclusive of accrued interest credited to the accounts under FCNRA, FCNR(B) and NR(E)RA schemes. These data differ significantly from those published earlier as the later included estimated accrued interest credit to FCNRA whereas the former include actual accrued interest which is based on an initial census count and are being subjected to a further special audit by the RBI.

Sources: Ministry of Finance (Deptt. of Economic Affairs) & Reserve Bank of India.

ANNEXURE-VII

(Refer to para 11.1.3)

Cancelled IBRD loans on which interest/Commitment Charges were paid without any utilisation

Sl. No.	Loan Amount US $ million	Loan No. & date	CC paid upto 31-3-92 US $ thousand
1.	20.00	2797-IN dt.21-12-87 UP Urban Development	353
2.	30.00	3045-IN dt.16-6-89 Vocational Training Project	219
3.	30.00	3065-IN dt.16-6-89 Nation Sericulture	172
4.	11.30	3108-IN dt.11-9-89 VIth Population Project	58
5.	15.00	3144-IN dt.9-2-90 Punjab Irrigation	60
6.	10.00	3181-IN dt.23-5-90 Hyderabad Water Supply & Sanitation Project	36
7.	25.00	3195-IN dt.13-8-90 Technical Education	74
8.	7.00	3197-IN dt.22-8-90 Integrated Watershed Development (Plains)	22
9.	10.00	3199-IN dt.23-10-90 VIIth Population	27
10.	10.00	3253-IN dt.23-10-90 ICDSI	19
11.	13.00	3175-IN dt.11-1-91 Integrated Watershed Development (Hills)	21
Total	**181.30**		**1061**

Note: The information has been compiled from the Brochure on External Debt for the year 1991-92.

Continued ⇒

In the following two cases a major portion of the loan was cancelled and huge amounts were paid on account of interest/ Commitment Charges.

(US $ million)

SL. No.	Loan No (IBRD)	Original Loan Amount	Loan Amount Utilised	Loan Amount Cancelled	Payment of interest /CC
1.	2278-IN dt.8-6-83 Upper Indravati Hydro Electric	156.4	0.390	156.010	8.034
2.	2308-IN dt.30-6-83 Maharashtra Water Utilisation	22.7	0.057	22.643	1.012
Total		**179.1**	**0.447**	**178.653**	**9.046**

ANNEXURE-VIII

(Ref. to paragraph 14)

Total amounts owed by importers

(rupees in crores)

Sl. No	Country/ Institution	Upto 1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
1.	Austria	0.00	0.00	0.00	0.00	0.00	6.76	1.71	0.19	1.03
2.	Canada	0.00	0.00	0.00	0.00	0.00	0.00	0.06	0.99	2.69
3.	Denmark	0.00	0.00	0.00	0.00	0.00	0.00	36.38	11.47	0.13
4.	France	0.04	1.18	25.90	45.38	4.42	2.22	0.64	3.50	40.45
5.	FRG	0.00	0.26	0.14	0.06	0.53	0.24	2.46	22.13	270.83
6.	Netherlands	0.00	0.00	0.00	0.00	0.00	0.60	26.18	0.84	0.41
7.	Japan	0.00	0.05	1.76	0.65	66.56	7.21	23.03	0.00	243.25
8.	Switzerland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	15.47	38.40
9.	UK	0.00	12.53	9.38	45.12	0.23	0.16	15.17	44.29	67.02
10.	USSR	0.88	4.54	14.68	1.66	0.87	3.66	1.20	13.42	27.13
11.	Italy	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.11
12.	IDA/IBRD	0.40	0.08	0.20	0.39	0.08	0.30	3.25	1.00	131.24
13.	Czechoslovakia	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
14.	Spain	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
15.	Sweden	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	31.41
16.	ADB	0.00	0.00	0.00	0.00	0.00	0.00	3.87	0.00	40.71
17.	Belgium	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.96	3.97
18.	Saudi Fund	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
19.	EEC	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(-) 5.83
20.	Australia	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.91
	Total	1.32	18.64	52.06	93.26	72.69	21.15	113.96	116.26	895.86

Difference between Department & Accounts figures as on 31-3-1993	(-) 20.12
Finance Accounts, 1992-93: Major Head 8658- Suspense Account- Purchase etc. Abroad outstanding	1365.08

ANNEXURE-IX

(Ref. to paragraph 14)

Major Amounts owed by-Importers

As on 31-3-1993

(In crores of rupees)

SL. No	country	Name of the Importer	Amount	Period from which the amounts are awaited
1	2	3	4	5
1.	Austria	Tamil Nadu Magnetic, Salem	8.67	89-91
2.	Canada	NHPC	2.58	92-93
		ONGC, Dehra Dun	0.16	89-93
		KSEB.	1.00	90
			3.74	
3.	Denmark	Deptt. of Ocean Development	0.03	90
		Optic Fibre Project, IIT Naini, Allahabad	0.04	90-91
		-do-, HCL, Allahabad	13.80	90 to
		Windmill Farms Project	34.11	90-91
			47.98	
4.	FRG	NTPC.	3.44	85-86,88-89, 91-92
		Hindustan Shipyard	0.44	86-87,87-88
		Railway Board	1.69	88-89,90-93
		RINL	0.15	90-91
		Makume Solmex	0.08	90-91
		SAIL.	0.14	91-92
		NDDB.	2.63	92-93
		Parasarampuria	0.07	92-93
			8.64	
5.	Netherlands	Passenger Ferries, Lakshadweep	0.96	8/89,11/91
		Cochin Port Trust	0.42	90 to 93
		Hooghly Farway Development Project, Dredging Corp.of India	26.65	90 to 93
			28.03	
6.	Japan	Separate list attached ‡	137.44	
7.	ADB	Videsh Sanchar Nigam, Bombay	18.79	90 to 93
		Hindustan Cables	25.79	92 to 93
			44.58	

continued ⇒

ANNEXURE-IX - continued

1	2	3	4	5
8.	Australia	State Government of Orissa	**2.91**	3/93
9.	Switzerland	Delhi Electric Supply Undertaking	31.55	91-92 &92-93
		Central Power Research Institute, Bangalore	0.04	92-93
		Parasarampuria Synthetics	0.39	-do-
		Steel Authority of India	4.83	-do-
		National Textiles Corp., Coimbatore	16.39	-do-
		Tata Electric Co.	0.67	-do-
			53.87	
10.	Sweden	National Hydro Electric Power Corp	0.31	92-93
11.	UK	Ministry of Railways	12.76	11/89,91-92& 92-93
		AP State Electricity Board	2.85	90-91,91-92& 92-93
		Singareni Collieries, AP	2.88	92-93
		Coal India Ltd.	0.78	91-92 & 92-3
		National Hydro Electric Power Corp.	5.57	-do-
		Hindustan Zinc, Udaipur	60.56	91-92 & 92-93
		Pawan Hans	108.50	86-87,87-8888-89
			193.90	
12.	Italy	ONGC, Bombay	0.11	92-93
		Central Power Research Institute, Bangalore	0.01	90-91
			0.12	
		Grand Total	**530.19**	

‡ List for Japan on next page ⇒

LIST OF AMOUNTS OUTSTANDING IMPORTER-WISE AS ON 31-3-93 UNDER JAPANESE LOAN/GRANTS

Sl. No	Name of Importer	Total Amount Due Rs	Years
1.	ANPARA (UPSEB)	66,71,20,825.00	89--93
2.	Deptt. of Telecommunication	1,19,54,558.72	86--93
3.	IFFCO, New Delhi	1,38,63,194.25	86--93
4.	Gas Authority of India,	15,39,021.71	-do-
5.	Fertiliser & Chemicals of Travancore (FACT)	46,08,738.00	87--93
6.	Railway Board, New Delhi	80,65,993.00	88-89 & 90-91
7.	West Bengal State Electricity	1,96,09,491.00	88--93
8.	Small Industries Development Bank of India, New Delhi	14,47,120.00	89--92
9.	Assam Gas Turbine Power Station	69,03,982.00	89--93
10.	Haldia Dock, Calcutta Port Trust Project	1,39,939.00	90--93
11.	MMTC, New Delhi	1,40,36,985.00	91--93
12.	Hindustan Copper	10,57,83,633.00	89--91
13.	Ministry of Tourism	2,01,149.00	90-91 & 92-93
14.	MMTC.	37,73,417.00	-do-
15.	Madras Cancer Institute	5,78,93,982.00	90-91
16.	Karnataka Power Corporation	6,10,133.00	91-92
17.	Ministry of Home (Fire Fighting)	22,55,147.00	-do-
18.	Irrigation (Ground Water Resources)	1,65,791.00	91-92
19.	Purulia Pumped Storage Projects (EIS)	93,95,301.00	92-93
20.	Basin Bridge, Tamil Nadu	16,30,960	-do-
21.	NTPC, New Delhi	29,02,52,316.00	-do-
22.	Indira Gandhi Nahar Project, Rajasthan	60,26,876.00	-do-
23	Govt. College of Engineering	14,70,96,921.00	-do-
	Grand Total	**1,37,43,75,473.68** **Say Rs 137.44 cr..**	

GLOSSARY[#]

Amortisation:	The retirement of debt by serial payments of principal and interest, usually over a period of time.
Balance of Payments:	The difference in a given time period between a country's payments for goods, services and capital investment *to* abroad, and its receipts from abroad denominated in current monetary units. This includes *balance of trade.*
Border Form:	A blank form of the scrip used by Public Debt Offices. It is supplied by India Security Press, Nasik to the printing presses attached to Calcutta and Nagpur PDOs where the text of the loan (under issue) is printed within the blank space.
Commitment Charges:	Charges on the balance amount of a foreign loan kept available. It is payable on credit available according to drawal schedule specified in the contract, beyond specified dates and until actual drawal (or cancellation of contract).
Consolidated Fund of India (CFI):	The fund constituted under Article 266(1) of the Constitution of India into which all receipts, revenues and loans flow. All expenditure from the CFI is by appropriation voted or charged. It consists of two main divisions namely Revenue Account (Revenue Receipts and Revenue Expenditures) and Capital Account (Public Debt and Loans etc.). See also *Public Account.*
Debt service:	Payments to creditor(s) of matured principal and of interest. It usually includes service charges, etc.
External Debt:	Debt contracted by the Government from abroad, mostly in foreign currency and also mostly from World Bank(IBRD, IDA, etc.). But see para 7 for a more comprehensive definition covering *Country's External Debt.*
Fiscal Deficit:	Excess of Capital and Revenue Expenditure over Revenue Receipts and recoveries of Loans and Advances.
Indemnity Bond:	A bond indemnifying the Reserve Bank of India and the Government of India or a State, against any counter-claim that may be preferred in respect of all securities to be cancelled and credited to a Subsidiary General Ledger(SGL) Account. It is executed by the Account-holder on opening the Subsidiary General Ledger Account.
Internal Debt:	Internal Debt comprises of regular loans from the public in India, also termed 'Debt raised in India'. It is confined to loans credited to the Consolidated Fund.
Monetised Deficit:	Net RBI credit to Government of India.
Public Account:	All moneys other than those included in the Consolidated Fund, received by or on behalf of Government of India are credited to the Public Account of India [Article 266(2) of the Constitution of India]. It includes transactions relating to 'debt' other than those included in the Consolidated Fund. Public Account transactions are not subject to vote/appropriation by Parliament and the balances are carried forward.

Public Debt: (of India)	Borrowing by the Government of India internally as well as externally.
Ready Forward Deal:	A deal in securities between two parties with an understanding to reverse the same after a certain period, at predetermined rates. It means that a person buying securities at a price sells the same securities back to the person who had sold them to him originally, at a price determined at the time of the first transaction.
Repos Auction:	Scheme of 'repurchase agreement' for Treasury Bills and dated securities operated by Reserve Bank of India. These weekly auctions are usually followed by repurchase a few days later. The transactions are not unlike a *Ready Forward Deal.*
Scrip:	A paper certifying the issue of securities with distinctive numbers to named persons. It is transferable either by endorsement and delivery or by executing a transfer deed depending on the form of security.
Statutory Liquidity Ratio:	The percentage amount of net demand and time liabilities of a bank which has to be statutorily maintained in cash/ approved trustees securities. Bulk of these securities are held in Subsidiary General Ledger Accounts.
Stock:	A form of Government security held as stock certificate and not transferable by endorsement and delivery but by executing a transfer deed and by registering the transfer in the books of the Public Debt Office.
Subsidiary Ledger General Account:	These accounts are maintained at Public Debt Offices of Reserve Bank of India. SGL is an account of stock held by a party (a person or a bank or other body). It can be operated like a bank account by making deposits into (by purchases of securities) and withdrawals (sales of securities) from the SGL A/c.
Transfer Forms:	A form printed on semi-security paper used to effect transfer of securities between Subsidiary General Ledger Accounts.
Treasury Bills:	A form of security by which Government borrows money for short periods, say 91 days, but of late even upto 364 days. These are issued to Reserve Bank of India. *Ad hoc* Treasury Bills are without specified maturity and resorted to when prescribed limits are exceeded

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[#] The explanation of technical words and phrases is mostly in the restricted context of this audit review.

ERRATA

Page	Line	For	Read
16	7th	18872	18980
46	Annexure III Total Capital Receipts 1992-93	24191	24299
47	Annexure V Recoveries in Arrears Total for 1987-88	6361	6316