Issues in Public Finance

Committee on Public Finance & Government Accounting
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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FOREWORD

It gives me immense pleasure to know that the Committee on Public Finance and Government Accounting is coming up with its Publication titled "Issues in Public Finance" which would be extremely beneficial to our member's knowledge-base in the area of Public Finance.

The Committee aspires to be partner in Nation's Building and for that it becomes imperative to systematically analyse, review and make suggestions in the areas of Public Finance and Government Accounting. In today's time of improving global economic order, we see tremendous scope for the committee's services. The book would provide great insight into the various aspects of Central/ State Finances and to create familiarity with various relevant issues and their applicability.

I take this opportunity to urge the members to make full utilisation of this publication and contribute to make it a success. I congratulate the Chairman, CA. Anuj Goyal, Vice-Chairman, CA. Ravindra Holani and other officials of the Committee on Public Finance and Government Accounting for this commendable initiative.

CA. Amarjit Chopra
President, ICAI

FOREWORD

I feel privileged to know that Committee of Public Finance and Government Accounting is coming up with its Publication "Issues in Public Finance". It would surely enlighten the readers with rich information on various issues of Public Finance.

In today's global scenario, a CA is looked upon as a complete solution provider. But our role is not restricted to the corporate world only. We owe our responsibility to the Government and Society at large in ensuring effective utilization of Public Finance that involves major portion of budgetary allocation. In this regard functioning of the Committee would be of great help to the government organizations and local bodies through suggestions in improving their operations in order to achieve targets set off. This would help in creating familiarity with its various relevant issues and applications.

Bearing in mind our mission to emanate world-class professional knowledge, the Publication would act as a single-window out reach to the issues of State and central finances that concern us today. I congratulate the Chairman, CA. Anuj Goyal, Vice-Chairman, CA. Ravindra Holani for their Initiative. I extend my best wishes to one and all involved in this great effort.

CA. G. Ramaswamy
Vice President, ICAI

PREFACE

Public Finance is a vast subject and in any book there is inevitably an involved question of the choice of the problems and the relative emphasis accorded to them. In the present context the issue has been resolved with reference to the major issues involved in public finance with the hope this could make the book additionally useful to the readers. The style of the book is a lucid and simple one and an attempt has been made to clarify the nature of the issues involved along with the main body of the argument.

As our society is committed to a rapid economic growth along with economic justice there is an undercurrent of growth and welfare considerations in the treatment of the subject. It is therefore imperative that the tools of Public Finance should be used with judicious discretion and thoughtful planning. The book consists of five major issues concerning Public Finance like, Fiscal Policy, Direct and Indirect Tax Structure in India, FRBM Act, Public Expenditure and Control Measures and External Debt in India.

The usefulness of Fiscal policy lies only if it facilitates in achieving the socio-economic objectives of the society. With the popularity of planning and realisation for the need for accelerating the need for capital accumulation, Fiscal Policy has been accorded an important role in under developed countries also. There it is directed to not only towards stability but also towards promoting savings and investments as well as reduction in distributive inequalities and regional disparities.

The tax system in India reflects tremendous dependence of the Indian government on the revenue from the Indirect taxes that exceeds more than two-third of the total tax collections of the Indian government. The challenge is (as it has always been) how best to structure the tax system so that it is considered fair by community members, does not interfere with productivity and provides sufficient resources for the services that the public demands.

The Fiscal Deficit and Government Debt in India are higher than in any comparable emerging economies. But after the implementation of the FRBM Act 2003, there is continuous fall in Fiscal and also Revenue deficit. The elimination of Revenue deficit and generation of Revenue surpluses thereafter would release Fiscal space for further Public investment. The issue is not merely one of transparency in Fiscal operations or a defacto larger borrowing programme of the government than admitted but one with significant implications for the government, debt market and monetary management.

Management of Public Expenditure has always been an issue. It may be more dominant at critical times than at times of relative stability and prosperity but it has always been and will remain a matter of concern. Although tax payers may be more worried about the amount they pay today to the government, their concerned about the benefit is constant even if it less vocal and articulate than their opposition to taxes. More recently persistent growth in Fiscal problems in developing countries, former centrally planned economies and established western industrialised democracies, net efficacy of Public Expenditure Management has been increasingly discussed.

In the Indian context, External Debt is the main component of External liabilities. Therefore a comprehensive, comparable, reliable and regularly disseminated statistics on External Debt becomes crucial for policy makers, financial markets and others. The sustainability of External Debt can be measured by solvency and liquidity parameters such as Debt Service Ratio, Foreign Exchange Cover of External Debt, Ratio of External Debt to Gross Domestic Product and the component of concessional debt in total External Debt.

I also wish to place on record my thanks to CA. Amarjit Chopra, President ICAI and CA. G Ramaswamy, Vice-President ICAI for their vision and support to the Committee on Public Finance and Government Accounting.

I am also thankful to CA. Shalini Jindal, Dr. Nikhil Saket and the entire staff of the Committee for their effort.

I am sure that this book will be a fruitful resource material on Public Finance for the interested readers.

CA. Anuj Goyal
Chairman,
Committee on Public Finance and Government Accounting

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CHAPTER - I

FISCAL POLICY-RELEVANCE AND REALISM

Introduction

Budgetary or Fiscal Policy consists of steps and measures the government takes, both on the revenue and expenditure sides of its Budget. The field of fiscal policy is not very clearly demarcated from those of monetary policy and debt management, because they all deal with overlapping aspects of the economy. It is often maintained that fiscal policy should mean that policy which concerns itself "with aggregate effects of government expenditure and taxation on income, production and employment[1]. According to this limitation the micro level effects of various taxation and expenditure measures need not be considered as part of fiscal policy proper. Mrs Hicks says that "Fiscal Policy is concerned with the manner in which all the different elements of public finance, will still primarily concerned with carrying out their duties (as the first duty of a tax is to raise revenue) may collectively be geared to forward the aims of the economic policy[2]". The crux of a good and effective fiscal policy lies in keeping its ingredients like expenditure, loans, transfers, tax revenues, income from property, debt management and like in the proper balance so as to achieve the best possible results in terms of the desired economic objectives.

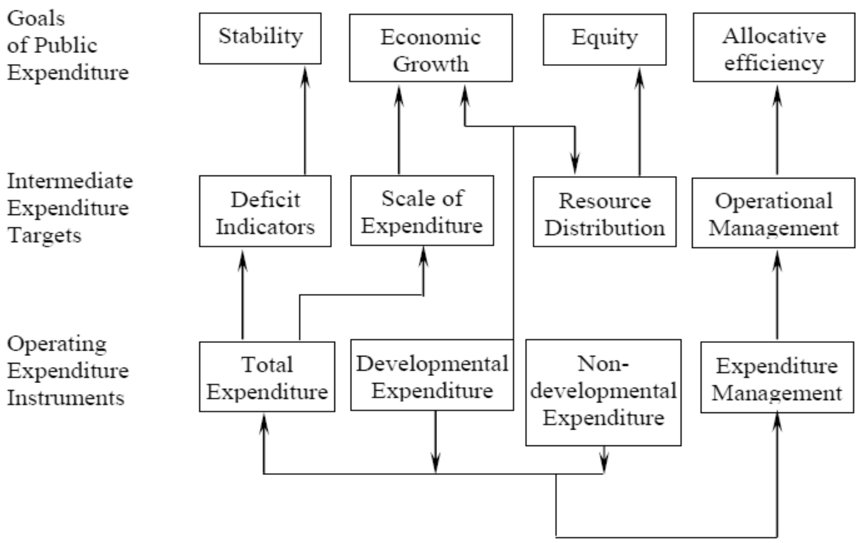
The usefulness of fiscal policy lies only if it facilitates in achieving the socio-economic objectives of the society[3]. The extent of its success, therefore largely depends upon the response of market forces to various policy measures initiated by the Government[4].

With the popularity of planning and realisation of the need for accelerating the rate of capital accumulation, fiscal policy has been accorded an important role in under developed countries also. There, it is directed not only towards stability, but also towards promoting savings and investment and achieving reduction in distributive inequalities and regional disparities[5]. At the same time, on account of severe rigidities in socio economic institutions and market the task of restructuring the fiscal policy is far more difficult in under developed countries. In such countries there is a need to simultaneously direct it at several targets, which also poses the added problem of priority mix and object rating[6]

In India, direct tax rates are quite progressive but have a narrow base and coupled with widespread tax evasion. The rate structure has been unable to make any sizeable progress in the reduction of inequalities. Indirect taxes on the other hand, add to effective inequalities due to their regressive incidence, cost and price cascading effects and consequently re-distribution of national income against wages[7].

Exhibit - 1

Fiscal Policy Operating Procedure and Public Expenditure



Fiscal policy obviously cannot be analysed in isolation. Monetary and exchange rate policies have to be considered in conjunction with it (not to mention- microeconomic policies and institutional reforms) for achieving desired coordination of growth and stability under realistic assumptions about sustainable overseas capital inflows[8].

Beyond projecting the aggregate outcomes (e.g. revenue expenditure) of India's fiscal policy adjustment, there are issues of distributional impact and hence of politics. Some such issues are-:

- What will be the incidence (proximate and ultimate) of different adjustments in expenditure and revenue policies across different sectors, classes and regions?

- What are the possible political impacts in terms of conflicts (with its own dangers in terms of lost potential output), or violating implicit (informal political bargains) and explicit (existing coalitions) political constraints?
- What are the Institutional impediments to fiscal restructuring?
- Are they legal, constitutional, or reflective of social norms?
- Can the deeper problems be overcome in time?
- What is the appropriate sequencing and timing of reforms that are necessary or desirable?

While correct answers may be difficult, nevertheless these questions will give some thoughtful insight into the problems that are being faced and the possible solution to overcome these problems should be tried by addressing these while formulating the fiscal policy. The questions also deal with several conflicts that also require a long-term solution and to ascertain impact of the fiscal policy in the developing countries. Both institutional and political mechanism need to be geared up to address these problems with possible growth targets in mind and resolving the conflicting priorities. Hence the importance of fiscal policy.

Political constraints are not immutable, institutions can be changed in ways that provide credible commitments and thus political constraints. The passage of the Fiscal Responsibility and Budget Management (FRBM Bill) and earlier reforms in the inter-governmental systems are examples.

A major concern with any fiscal adjustment is its potential cost in slowing down the economic development and in particular, its possible adverse effect on the poor, whose dependence on public services and income-support is larger than that of the non-poor[9].

Major planks of the administrative dimension of the reforms are (1) Computerization of departmental business processes (2) Encouragement to voluntary tax compliance through better taxpayer service (3) Reduction in compliance cost to the taxpayers including minimization of direct interface through improved e-governance.

Desired Policy Initiatives –

- Widening the tax base by reducing exemptions, incentives and concessions

- Reducing – multiplicity of rates
- Lowering tax rates
- Shifting the incidence of the burden from production to consumption
- Moving away from the excessive reliance on manufacturing and taxing all value additions including services
- Enhancing the neutrality between the present and future consumption
- Enhancing the neutrality to forms of business organizations and source of finance
- Reengineering business process of the tax system to overcome the evils of tax avoidance and evasion
- Imposing Agricultural holding tax

Exhibit - 2

What to be done by the Government for achieving the desired result of the fiscal policy.

Type of Governance	Action Required
Effective Government	• Providing services to the public within specified time and cost schedule • Achievement of allocative and technical efficiency • Ensuring that budgetary intent and outcome are congruent • Matching outlays with resources • Provision of management flexibility to the implementation agencies
Responsive Government	• Achievement of macro-economic stability • Responsiveness to changing economic situations • Responsiveness to the changing needs of the client consumer • Usher in an utilization culture in lieu of a spending culture

Accountable Government	• Accountability for results • Providing accurate information on the status of government finances

The Interim Budget 2009-10 has been presented in the backdrop of uncertainties prevailing in the World economy. The impact of this is seen in the moderation of the recent trend in growth in the Indian economy in 2008-09 which at 7.1% makes India the second fastest growing economy in the world. The measures taken by the Government to counter the effect of global meltdown on the Indian economy have resulted in a shortfall in revenues and substantial increase in Government Expenditure, leading to a temporary deviation from the physical consolidation path mandated under the FRBM Act during 2008-09 and 2009-10.

The revenue deficit and fiscal deficit for RE 2008-09 and BE 2009-10 are consequently higher than the target set under the FRBM Act and Rules. The fiscal policy for the year 2009-10 will continue to be guided by the objective of keeping the economy on the higher growth trajectory amidst global slow down by creating demand through increased public expenditure in identified sectors. However, the medium term objective will be to revert to the path of fiscal consolidation at the earliest, with improvement in the economic situation.

However, subsequent to the global meltdown, there was a compelling need to adjust the fiscal policy to take care of exceptional circumstances through which the economy has been passing[10].

Conclusion

The goal of fiscal policy in India over the years have been promotion of growth, equity and stability although the relative emphasis on each of them has varied across the different phases. Typically, the growth objective was assigned the prime importance during the first four decades of the planning era. As the Government's attention shifted more towards poverty alleviation and employment generation, equity became the overriding objective thereafter. With the fiscal imbalances turning unsustainable since the early Nineties, the objective of restoring stability was accorded priority and the fiscal consolidation programme was undertaken to correct the fiscal imbalances. A common feature across all these phases was the adoption of public expenditure management as the key operating fiscal policy instrument to pursue the objectives.

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CHAPTER - II

DIRECT AND INDIRECT TAX STRUCTURE IN INDIA

Introduction

Taxes are inevitable but no one likes paying taxes. However, raising money to pay for a community's government and services has been a feature of organized human existence for thousands of years. The challenge is (as it has always been) how best to structure the tax system so it is considered fair by community members, does not interfere with productivity, and provides sufficient resources for the services that the public demands.

Tax system in India is a three-tier one, controlled by the Central Government, the State Governments and the Urban and Rural /Local Bodies. In Indian Federal set up, the Union Government levies direct taxes such as personal income tax and corporate tax, and indirect taxes like custom duties, excise duties and central sales tax. The States are empowered to levy state sales tax (now VAT) apart from various other local taxes like entry tax, octroi etc.

The resultant skewness in the revenue raising powers of the Central Government and the State Governments is addressed through a system of inter-governmental transfers. The share in Central taxes, which devolves from the Central Government to different State Governments through the Finance Commission is the most important channel of inter- Governmental transfers in India. Currently, as per the recommendations of the 13th Finance Commission, share of states in net proceeds of shareable Central Taxes shall be 32 Percent every year for the period of the award.

The tax system in India reflects tremendous dependence of the Indian government on the revenue from the indirect taxes that exceeds more than two-thirds of the total tax collections of the Indian government.

India's Tax Structure

India's Tax Structure is divided in three parts and direct taxes involve the Taxes On Income, Taxes On Property And Capital Transaction.

Tax Structure in India

Centre		State		Local Bodies
Direct Tax	**Indirect Tax**	**Direct Tax**	**Indirect Tax**	**Tax**
Tax on Corporate Income	Excise Duty	Agriculture Income Tax	Sales tax	Tax on Properties
			State Sales Tax/Vat	
Capital Gains Tax	Customs Duty	Taxes On Professions, Trades, Callings And Employment	Central Sales Tax	Octroi Duties
			Sales Tax On Motor Spirit And Lubricants	
Personal Income Tax	Service Tax	Land Revenue	Surcharge On Sales Tax	Utility Taxes
Tax Incentives	Securities Transaction Tax	Stamps And Registration Fees	Receipts Of Turnover Tax	Tax on Markets
Double Taxation Avoidance Treaty		Urban Immovable Property Tax	State Excise	
			Taxes On Vehicles	
			Taxes On Goods And Passengers	
			Taxes And Duties On Electricity	
			Entertainment Tax	

Tax system in India

Since 1991 the tax system in India has undergone a radical change, in line with liberal economic policy and the country's commitments to the WTO. Notable changes are:

- Reduction in customs and excise duties
- Lowering the corporate tax rates
- Widening tax base and toning up the tax administration

The table below lists out the major direct and indirect tax legislations and authorities responsible for administering these acts. A system of advance ruling has also been introduced. At present, non-residents can apply for advance rulings on matters relating to levy of income tax.

Nature of tax	Relevant Legislation	Administrative Authority
Direct tax		
Income tax	Income Tax Act, 1961	Central Board of Direct Tax
Wealth tax	Wealth Tax Act, 1957	Central Board of Direct Tax
Gift tax*	Gift Tax Act, 1958	Central Board of Direct Tax
Indirect tax		
Central excise	Central Excise Act, 1944	Central Board of Excise and Customs (CBEC)
Customs Duty	Customs Act, 1962	CBEC
Central Sales Tax	Central Sales Tax Act, 1956	Union Government
State Sale Tax	Respective State Sales Tax Acts	Respective States

* Presently no gift tax is payable

The Indian tax system is regulated and administered by the Ministry of Finance under the Government of India. Taxation is the Government's main source of revenue and several types of taxes are applied to different categories of the population.

The following is a brief description of some of the major taxes that are levied in India:

Income Tax

The Income tax Act of 1961 stipulates that any person who qualifies as an assessee and whose gross income is more than the basic exemption limit is required to pay Income tax in accordance with the rates specified by the Finance Act every year.

Corporate Tax

Corporate tax is the tax charged on the profits and gains earned by associations and companies. The rate of corporate tax in India depends on whether the profits have been passed on to the shareholders or not.

Value Added Tax

This is the tax that a manufacturer needs to pay while purchasing raw materials and a trader needs to pay while purchasing goods. VAT is eventually expected to replace sales tax. All goods and services provided by business individuals and companies come under the ambit of VAT.

Capital Gains Tax

Capital gains can be defined as any income generated by selling a capital investment (business stocks, paintings, houses, family business, farmhouse, etc.). The 'gain' here is the difference between the price originally paid for the investment and money received upon selling it, and such gain is taxable.

Service Tax

As per Finance Act 1994, all service providers in India, except those in the State of Jammu and Kashmir, are required to pay a service tax.

Fringe Benefit Tax

In terms of Section 115WB of the Income Tax Act 1961 expenses incurred in respect of for employees, by an employer (individual/company/local authority/trader) for the purposes of entertainment, gifts, telephone, club memberships, festivals etc., will be treated as fringe Benefits and taxed accordingly.

India Tax revenue at a glance

Table 2.1

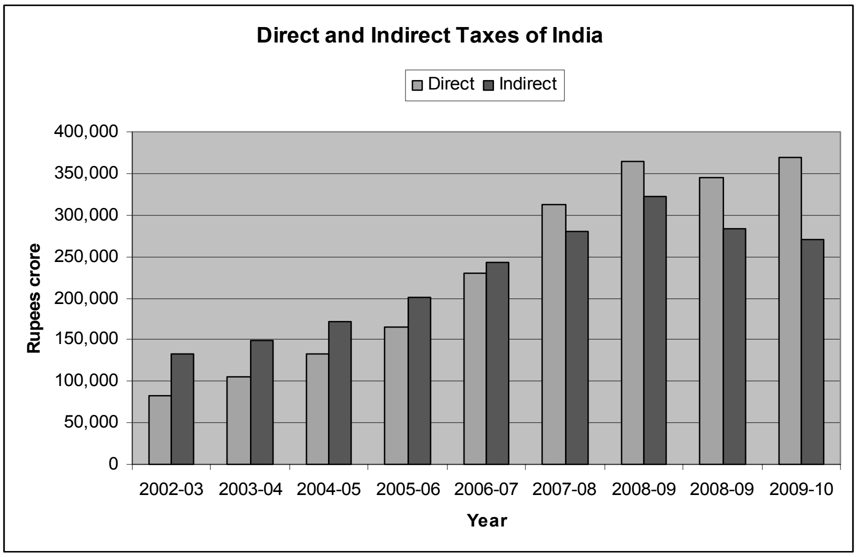
DIRECT AND INDIRECT TAX REVENUES OF THE CENTRAL AND THE STATE							
Yea r		**Centre (Gross)**			**Centre and States Combined**		
		Direct	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**
1		**2**	**3**	**4**	**8**	**9**	**10**
1995-96		33,563	77,661	1,11,224	41,603	1,33,248	1,74,851
	(a)	30.2	69.8	100.0	23.8	76.2	100.0
	(b)	2.8	6.5	9.3	3.5	11.2	14.7
2002-03		83,085	1,33,181	2,16,266	1,01,236	2,57,707	3,58,943
	(a)	38.4	61.6	100.0	28.2	71.8	100.0
	(b)	3.4	5.4	8.8	4.1	10.5	14.6
2003-04		1,05,090	1,49,258	2,54,348	1,25,621	2,89,961	4,15,582
	(a)	41.3	58.7	100.0	30.2	69.8	100.0
	(b)	3.8	5.4	9.2	4.6	10.5	15.1
2004-05		1,32,771	1,72,187	3,04,958	1,56,814	3,37,232	4,94,046
	(a)	43.5	56.5	100.0	31.7	68.3	100.0
	(b)	4.2	5.5	9.7	5.0	10.7	15.7
2005-06		1,65,201	2,00,949	3,66,150	1,95,412	3,91,607	5,87,019
	(a)	45.1	54.9	100.0	33.3	66.7	100.0
	(b)	4.6	5.6	10.2	5.4	10.9	16.4
2006-07		2,30,181	2,43,331	4,73,512	2,67,760	4,57,360	7,25,120
	(a)	48.6	51.4	100.0	36.9	63.1	100.0
	(b)	5.6	5.9	11.5	6.5	11.1	17.6

2007-08		3,12,198	2,80,949	5,93,157	4,36,581	5,90,798	10,27,379
	(a)	52.6	47.4	100.0	42.5	57.5	100.0
	(b)	6.6	5.9	12.6	9.2	12.5	21.8
2008-09		3,65,000	3,22,715	6,87,715	5,04,189	6,88,832	11,93,021
BE	(a)	53.1	46.9	100.0	42.3	57.7	100.0
	(b)	6.9	6.1	12.9	9.5	12.9	22.4
2008-09		3,45,000	2,82,949	6,27,949	4,83,157	6,43,924	11,27,081
RE	(a)	54.9	45.1	100.0	42.9	57.1	100.0
	(b)	6.5	5.3	11.8	9.1	12.1	21.2
2009-10		3,70,000	2,71,079	6,41,079	5,22,545	6,65,901	11,88,446
BE	(a)	57.7	42.3	100.0	44.0	56.0	100.0
	(b)	6.3	4.6	10.9	8.9	11.4	20.3
(Average)							
1998-99	(a)	40.9	59.1	100.0	30.6	69.4	100.0
to 2007-08	(b)	4.0	5.6	9.6	4.9	10.8	15.7
RE : Revised Estimates. BE : Budget Estimates.							
@ : Excluding States' share in Central Taxes as reported in Central Government budget documents.							
(a) : Represents percentages to total tax revenue.							
(b) : Represents percentages to GDP.							
Source : Budget Documents of the Central and the State Governments.							

Source: RBI-annual report 2007-08

Direct and Indirect Tax of India

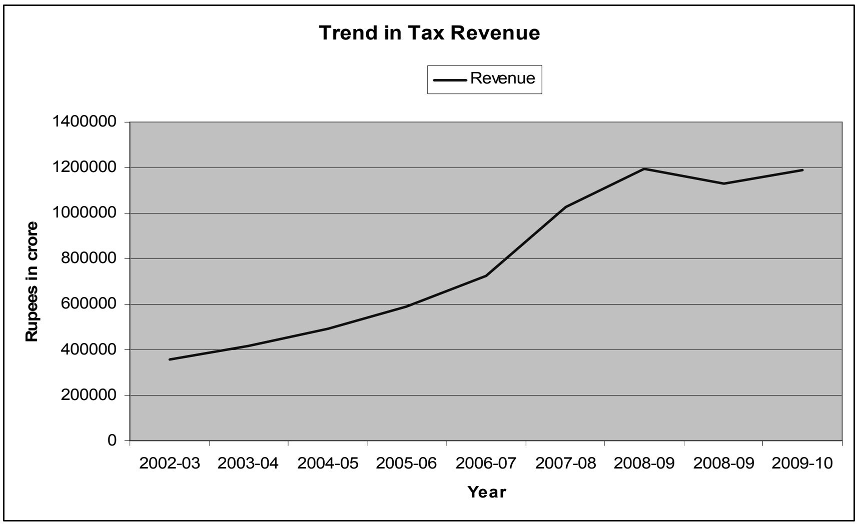
Figure 2.1



Source: Reserve Bank of India

Trend in Tax revenue

Figure 2.3



Source: Reserve Bank of India

An International comparison & FICCI's suggestions

The Federation of Indian Chamber of Commerce and Industry (FICCI) carried out an intensive study of the Indian Tax Structure and how it compares with the practices worldwide. The following table gives the highlights:

S. No.	SUBJECT	EXISTING POSITION AND SUGGESTIONS	INTERNATIONAL PRACTICE
1	Overall burden of Direct taxes on Companies	Corporate India today pays 30% Corporate Tax on its profits. Another 3 to 4% points, as dividend distribution tax, and another 3 to 4% points on Fringe Benefit Tax (FBT), which raises the burden. In addition, Corporate India pays another 3% points as surcharge and educational cess, and finally, the lowered depreciation rates, thrust an additional tax of 1 to 2% points. Corporate India's direct tax burden today stands at over 40% - There is need to reduce the overall incidence so as to make Indian companies competitive in the international market.	Corporate Tax Rates in other countries :- • Bulgaria – 19.5% • Canada – 22% • Germany – 25% • Hong Kong – 17.5% • Hungary – 18% • Korea – 27% • Malaysia – 28% • Mauritius – 25% • Nepal – 25% • Norway – 28% • Poland – 19% • Romania – 25% • Singapore – 22% • Sweden – 28% • Taiwan – 25%
2	Maximum tax slab for individual assesses	Presently 30% tax rate applies to income over Rs. 2.5 lakh. The maximum rate of 30% should be made applicable only on income	In China, 30% tax rate applies only to income above Rs.40 lakhs.

S. No.	SUBJECT	EXISTING POSITION AND SUGGESTIONS	INTERNATIONAL PRACTICE
		beyond Rs.5 lakhs with a target of enhancing it to Rs.10 lakhs in the coming years	
3	Standard Deduction	The concept of Standard Deduction has been discontinued for salaried employees on the premise of its being personal allowance – not in conformity with international practice and against the "Rule of Reason"	In many countries like Malaysia, Indonesia, Germany, UK, France, Japan, Thailand etc. allowance in the form of standard deduction is available for salaried employees for expenses.
4	Fringe Benefit Tax	Fringe benefit tax aims at taxing amounts, which are not income but are in nature of expenditure. Genuine business expenditure such as Sales promotion, including publicity, Conference (including conveyance, tour and travel and hotel, boarding and lodging expenses) should be allowed as deduction. Superannuation expenses should be outside the ambit of FBT. Uniformity should be made applied across the board in respect of deemed fringe benefits.	Taxable Fringe benefits in US include: • Cars provided by the employer • Flights on aircraft that employers provide • Free or discounted commercial flights, vacations • Discounts on property or services • Memberships in country clubs or other social clubs • Tickets to entertainment or sporting events In other countries, where the fringe benefit tax is prevalent, the individual

S. No.	SUBJECT	EXISTING POSITION AND SUGGESTIONS	INTERNATIONAL PRACTICE
		The amount paid as FBT should be allowed as deduction under section 40(a), as even in a similar case of tax paid by the employer on any perquisite given to employee is presently allowed as deduction. FBT should be allowed deduction on the lines of taxes paid such as Excise duty, Stamp duty, Customs duty etc.	and corporates are required to attach their tax statement along with their normal statement and they get due tax credit of the amount paid as fringe benefit tax.
5	Depreciation	Presently depreciation rate in case of Plant and Machinery is 15%. The same should be increased to 25% as was the position prior to last year's budget.	In Australia, the depreciation rate of the assets depends on the effective life. In Canada, depreciation on Plant and Machinery is allowed at the rate of 20%. However, for Plant and Machinery used in manufacturing and processing activities, the rate is 30%. In UK, there is a system of "free depreciation". Spain, which also had free depreciation system earlier, provides free depreciation now for certain specified assets. Finland had followed this system until the late 70's.

S. No.	SUBJECT	EXISTING POSITION AND SUGGESTIONS	INTERNATIONAL PRACTICE
			In Philippines, taxpayers may deduct a reasonable allowance for exhaustion and wear and tear (including obsolescence) of property used in a trade or business. The tax authorities have not specified permissible depreciation methods or rates.
6	Dividend Distribution Tax	Presently a company is required to pay Dividend Distribution Tax at the rate of 14.025% on its distributed profits. It would be desirable to do away with the dividend distribution tax altogether. However, if it is not possible then at least the rate be reduced to a nominal level of say 5 percent. The cascading effect of Dividend Distribution Tax (DDT) should be avoided.	In United States, dividends received from other US corporations qualify for 70% dividends received deductions, subject to certain limitations. In UK, dividends received from UK resident companies are not subject to further UK taxation in the hands of a UK recipient company. UK resident shareholders other than companies are subject to income tax on the distribution received plus the deemed tax credit. Dividends are not subject to tax in the Slovak Republic. Dividends received by a Romanian company from another Romanian company are subject to a 10% withholding tax and

S. No.	SUBJECT	EXISTING POSITION AND SUGGESTIONS	INTERNATIONAL PRACTICE
			not included in the taxable income of the recipient. Dividends paid by a Romanian company to individuals are subject to a 5% withholding tax. In Philippines dividends received by a domestic or resident foreign corporation from a domestic corporation are not subject to tax. In Peru, dividend tax @4.1% applies to profits distributed to non-residents and individuals. Dividends received by New Zealand resident companies from other New Zealand resident companies are taxable. However, dividends received from a wholly owned subsidiary resident in New Zealand are exempt. Dividends received by New Zealand resident companies from non-resident companies are also exempt.
7	Research and Development	Presently, weighted deduction benefit of 150% is allowed in select sectors. The weighted deduction so allowed in India results in a tax	In most of the developed countries including United States, Australia, France, Canada etc., tax incentives for promoting research and development are provided

S. No.	SUBJECT	EXISTING POSITION AND SUGGESTIONS	INTERNATIONAL PRACTICE
		advantage of only 7 to 8%. Government must provide the grant up to 35% on research as is the practice in most of the countries of the world. Or else to encourage research and development activities in the country, the existing benefit of weighted deducted of 150% should be extended to all sectors of the economy and that too on a long-term basis.	more or less on a permanent basis. In countries like Canada, Germany, UK, the Government provides up to 35% grant on research.
8	Tax Incentives	In India, tax incentives are provided for Infrastructure, Research and Development and other key sectors of the economy. Currently, the tax concession is available by way of deduction at varying percentages of income of the industrial undertakings and for varying periods, which has unnecessarily added to the complexities and confusion. It may be desirable to have a re-look at them with a view to providing some sort of	In China, the following Tax Holidays and significant deductions are available: • All Foreign Investment Enterprises (FIEs) engaged in production and manufacturing activities with an operating period of 10 years or more. • FIEs engaged in production and manufacturing activities in SEZs, the Pudong Development Zone and Technology Development Zones. • Export oriented and technologically

S. No.	SUBJECT	EXISTING POSITION AND SUGGESTIONS	INTERNATIONAL PRACTICE
		uniformity, rationality and simplicity and stability. It is suggested that all industrial undertakings should be granted 100% tax holiday benefit for any 10 consecutive years during the first 15 years after the commencement of commercial production/operations. 100% tax holiday incentive should also be given to the various types of activities involved in the complete supply chain of the food processing industry and agro-based industry. What is needed is that 100% tax holiday should be available for a period of at least 10 years and the assessee given an option to claim this tax holiday for any 10 consecutive years out of 15 years beginning with the year in which the undertaking commences business or commercial operations. There is a need to enlarge the scope of Infrastructure as emphasized by Dr	advanced FIEs • Infrastructure projects in SEZs and the Pudong Development Zone scheduled to operate 15 years or more. In Indonesia, special tax rate apply to companies as under: Petroleum: Petroleum companies are subject to tax at a flat rate ranging from 30% to 45%, depending on when their contracts were signed and approved. In addition, foreign petroleum companies are subject to a 20% withholding tax, which may be reduced by certain tax treaties, on their after tax taxable income. Mining: General mining companies are taxed at rates ranging from 30% to 45% depending on their contracts with the Indonesian government. Construction Companies: In limited circumstances, construction companies are subject to a final tax at a rate 2% of gross turnover. Construction, Design or

S. No.	SUBJECT	EXISTING POSITION AND SUGGESTIONS	INTERNATIONAL PRACTICE
		Rakesh Mohan in "India Infrastructure Report". The 'infrastructure facility' should include an integrated township development involving provision of residential, educational, medical, community, commercial or institutional buildings and creation of required facilities including roads, water supply, water treatment, sanitation and sewerage systems, solid waste treatment and management systems, electrification, landscaping and afforestation and other civic services needed in an integrated township. Infrastructure status should be granted to hotels, so as to give the benefits as prescribed in Section 80 IA of the Income tax Act. This would be in synergy with the amendment made previously to include hotel for the benefit under Section 10(23G) and Section 72A.	Supervision: In limited circumstances, companies engaged in construction, design or supervision, are subject to tax at a rate of 4% of their gross turnover. Foreign Drilling Companies: Foreign Drilling Companies are subject to corporate tax at a rate of 4.5% of their gross drilling income, as well as to a branch profit tax of 20% on their after tax profit, which may be reduced by certain tax treaties. Non-resident International Shipping Companies and Airlines: Non-resident international shipping companies and airlines are subject to a tax at a rate of 2.64% of gross turnover. In Malaysia, tax holidays or tax reductions are granted for participation in promoted activities or products, research and development activities, and capital expenditure on expansion projects and some other investments. In Korea, the Tax Incentives Limitation Law (TILL) grants tax incentives

S. No.	SUBJECT	EXISTING POSITION AND SUGGESTIONS	INTERNATIONAL PRACTICE
			to foreign investors approved by the Ministry of Finance and Economy. The TILL offers incentives to foreign companies that invest in high technology businesses and in Foreign Investment Zones (FTZs). In addition, a new tax incentive was introduced in 2003 for foreign investors in Free Economic Zones (FEZs). Depending on the type of investment, exemptions or reductions may apply to other taxes including acquisition tax, registration tax, property tax and customs duty. Royalties received in accordance with contracts classified as high technology accepted by Ministry of Finance and Economy under the TILL are exempt from Income Tax for 5 years. In Barbados, an investment allowance of 20% is granted on the cost of capital expenditure on new plant and machinery to be used in a basic industry. A 40% allowance is granted

S. No.	SUBJECT	EXISTING POSITION AND SUGGESTIONS	INTERNATIONAL PRACTICE
			for new plant and machinery to be used in manufacturing and refining sugar and in manufacturing products from clay and limestone. In Bulgaria, production companies qualify for a 100% reduction of corporate tax on income derived from production activities for 5 consecutive years subject to fulfillment of certain conditions prescribed in the statute. In Czech Republic, investors in manufacturing are eligible for any of the following incentives : • Corporate Income Tax relief for upto 10 years (subject to a maximum limitation on the total benefit). • Customs related benefits • Job creation grants • Grants for retaining of employees and • Property relative incentive The corporate income tax relief, customs related benefits and property related incentives are

S. No.	SUBJECT	EXISTING POSITION AND SUGGESTIONS	INTERNATIONAL PRACTICE
			offered throughout the Czech Republic. Job creation grants and training grants are offered only in regions with high unemployment.
9	Overall Incidence of Indirect Taxes	In India, the cascading effect of excise, customs, VAT/sales tax and local levies result in the effective consumption taxes amounting to over 35% of the final price to the consumer, double of what is in UK. According to the FICCI study, the average total incidence on selling price in case of consumer goods is 44.11%, capital goods 43.26%, basic goods 30.28% and intermediate goods 30.06%.	
10	Special Excise Duty (SED)	Special excise duty, which is presently imposed on few items such as aerated water, air-conditioners etc. should be done away with.	
11	Peak Customs Tariff	Peak Customs Tariff at present is 15%. Though India has to move towards the ASEAN rates of customs duty,	

S. No.	SUBJECT	EXISTING POSITION AND SUGGESTIONS	INTERNATIONAL PRACTICE
		the reduction in peak rate of customs duty should be accompanied with internal reforms to ensure competitiveness of domestic industry. In India, there exists a direct disability of 13 per cent vis-à-vis imports and a massive added disability vis-à-vis transaction cost of doing business. This is due to Inspector Raj and a large number of rules and regulations, which have to be set right.	
12	Anomalies in Duty Structure	Inverted Duty Structure in number of sectors right now – for eg. Consumer Electronics, Fuels like Furnace and LSHS. There should be a three-tier structure of import duty – lowest duty on raw materials, higher on intermediates and the highest on finished goods. No doubt over a period of time the anomalies in the duty structure have been corrected but still a lot remains and few	

S. No.	SUBJECT	EXISTING POSITION AND SUGGESTIONS	INTERNATIONAL PRACTICE
		have emerged due to free trade agreements signed by India with a number of countries. While going for further FTAs, it must be ensured that it does not lead to anomaly in the duty structure.	

The above table is reproduced from FICCI work.
SOURCE- An International comparison & FICCI's Suggestions

Tax Collection: Important facts on Tax collection in India

- The procedure of tax collection in India has evolved over the years and is now subject to several Acts and Rules enacted by the Government, and clarifications issued by the Income Tax department.
- Provisions under which the tax collection functions are performed have been specified in the Income Tax Rules, 1962 and the Income Tax Act, 1961.
- Tax and Revenue Department of the Central Government of India's Ministry of Finance is the nodal authority for legal administration of the provisions pertaining to the tax collection and recovery in India.
- Tax-to-GDP ratio has been raised to 12.5 per cent in 2007-08 and the ratio is expected to reach 13 per cent in 2008-2009.
- Designated due dates are specified for the purpose of filing of returns.
- Filing date is not extendable and late filing attracts the levy of interest.
- Returns pertaining to the losses have to be filed within the due dates.
- System of taxation is completely based on the personal assessment of income.
- All the medium and large sized taxpayers are subjugated to investigative assessment.

- Tax is deducted at source by the employers on behalf of the employees and from all kinds of defrayments to non-residents.
- Penalties and interest are imposed for non-payment of taxes and failure to file returns.

Indian tax collection could be bifurcated into in Central tax collection and States Tax collection.

Tax Collection by the centre

- In 1998-99, the Income tax Department had a tax base of 1.7 crore assessees. This had gone up to about 3.5 crore in 2007-08. Going forward, direct tax collections are expected to grow considerably on the back of the current economic growth momentum.
- In 2007-08 there was decline in the cost of direct tax collections as a proportion of total direct tax collections, leading to an all-time low of 0.54 per cent.
- Income-tax Department spends just 54 paise for every Rs 100 direct tax collected by it, which is among the lowest in the world.
- In 2007-08 direct tax collections recorded a steep increase of 36.6 per cent over the previous year.

SHOWING DECLINE

Financial Year	Direct Tax Collections (In Rs. cr.)	Cost of direct tax collections (In Rs. cr)	Collection cost as percentage of total collections (%)
1998-99	44,600	852	1.90
1999-00	57,959	894	1.54
2000-01	68,305	929	1.36
2001-02	69,198	993	1.44
2002-03	83,088	984	1.18
2003-04	1,05,088	1,050	1
2004-05	1,31,918	1,138	0.86
2005-06	1,65,208	1,227	0.74
2006-07	2,30,184	1,348	0.59
2007-08	3,14,468	1,689	0.54

SOURCE- Business Line, Monday, Jun 09, 2008, taxation, economy

Centre’s direct tax collections in 1998-99 stood at about Rs 44,600 crore and progressively increased to Rs 3, 14,468 crore in 2007-08.Non-Plan expenditure on the income tax Department has increased from Rs 852 crore in 1998-99 to about Rs 1,684 crore in 2007-08.

Buoyant Collections

			(in Rs. Crore)
	2007-08	**2006-07**	**% growth**
Corporate Tax	1,90,653	1,44,318	32.1
Personal Income Tax	1,14,277	80,397	42.1

SOURCE- Business Line Saturday, Jun 07, 2008, taxation, economy

In 2007-08, corporate tax collections grew by 32.1 per cent and personal income tax collections increased by 42.1 per cent. Government has surpassed the revised indirect tax collection targets for 2007-08 as the revenues from customs, excise and service tax touched about Rs2,79,000 crore. Total indirect tax collections included customs collections of around Rs.1,04,000 crore, excise collections of around Rs.1,25,000 crore and service tax amounting to over Rs 50,000 crore as on March 31, 2008. There was a marginal shortfall in excise duty collections against the revised target of Rs 1,27,947 crore for 2007-08, but it was more than met by the increase in customs and service tax collections.

Tax Collection by States

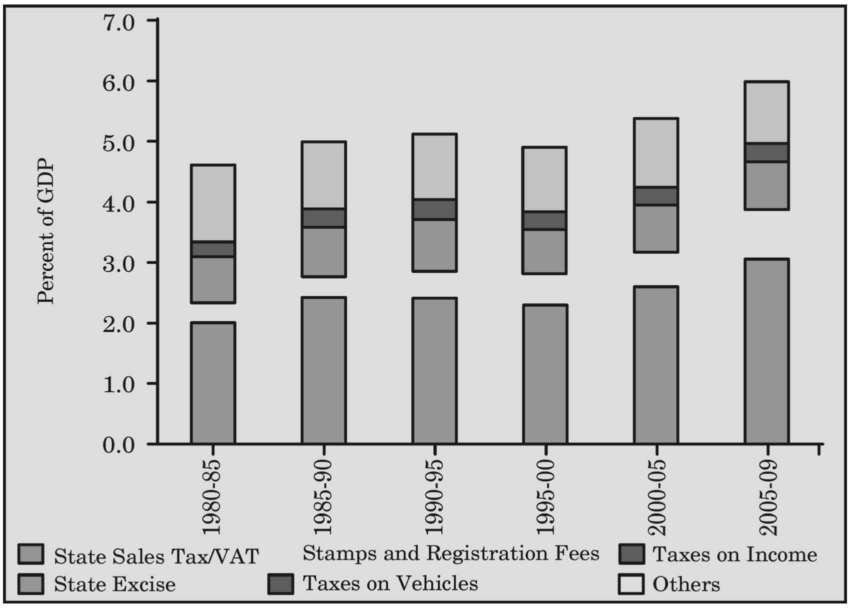
State Governments are witnessing a robust growth in revenue collection from sales tax on account of successful implementation of VAT across States.

Composition of Own Tax Receipts

Item	1980-85	1985-90	1990-95	1995-00	2000-05	2006-09
			(Average)			
1	2	3	4	5	6	7
A. Direct Taxes (a+b)	**9.9**	**10.6**	**11.3**	**11.9**	**12.5**	**15.2**
a. Taxes on Income of which :	1.5	1.6	1.6	1.5	1.7	1.1
Taxes on Professions						
Taxes and Employment	0.9	1.1	1.2	1.3	1.7	1.1
b. Taxes on property and						
Capital Transactions	8.4	9.0	9.6	10.4	10.9	14.1
of which:						
Land Revenue	2.2	2.5	1.8	1.5	1.3	1.3
Stamps and Registration Fees	6.1	5.4	7.8	8.8	9.5	12.7
B. Indirect Taxes – Taxes on	**90.1**	**89.4**	**88.7**	**88.1**	**87.4**	**84.8**
Commodities and Services of which						
State Sales Tax/Vat	42.7	45.5	45.1	46.5	47.3	50.4
State Excise	14.0	14.4	15.2	13.7	12.9	11.7
Taxes on Vehicles	5.8	5.8	5.4	5.9	6.0	5.4
C. Own Tax Revenue (A+B)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

SOURCE- RBI, Publications, State Finances A Study of Budgets of 2008-09

Major Components of Own Tax Revenue



SOURCE- RBI, Publications, State Finances A Study of Budgets of 2008-09

As regards Indirect taxes, taxes on commodities and services, on an average, increased to 5.2 per cent of GDP in 2005-09 from 4.5 per cent of GDP during 1995-00. State sales tax/VAT witnessed a rising trend, State excise showed a downward trend, while taxes on vehicles almost stagnated at around 0.3 per cent of GDP.

Collection of Stamp duty and registration fees, doubled to 0.8 per cent of GDP in 2005-09 from 0.4 per cent of GDP in the 1990s.

It is the so-called ‘‘BIMARU’’ or financially ailing States of Orissa, Madhya Pradesh, Rajasthan, Bihar and Uttar Pradesh which have done exceedingly well in controlling expenditure and increasing the revenue collections.

Impact of Slow down

Most Indian companies expect lower profits due to the impact of the global slowdown. Sector wide differences are an indication of the severity of the crisis impacting different segments of the economy. Banking, insurance and consumer product companies have emerged as clear leaders and are the highest contributors to the exchequer.

This is bound to challenge the government's ability to meet the revised gross tax revenue target of Rs 6,279 billion for fiscal year 2009.

- Reflecting a slowdown in economic activity, collections from customs and excise duties fell to Rs 18,664 crore in October 2008 as compared to Rs 19,646 crore in October 2007.
- Service tax collections, till September 2008, have also slowed down. Tax collections rose by 18% to Rs 5,766 crore in September 2008, up from Rs 4,888 crore in September 2007. In the first six months of the fiscal, collections from service tax registered an increase of 28.7% to Rs 29,867 crore.
- Indirect tax collections dipped five per cent in October 2008 reflecting the impact of the global financial crisis on Indian industry.

The need for an accelerated pace of tax reforms was never felt as much as in the present downturn. Though indirect tax breaks will boost demand in the short term, only deeper reforms will aid improved compliance and push tax collections in the medium to long term.

Challenges in Tax Collections

- Recognizing the need for strengthening their finances, States have initiated several measures towards enhancement/restructuring of various taxes, such as vehicle tax, entertainment tax, sales tax, electricity duty, etc.
- A main challenge is to make available millions of pages of Government policy, Acts, Ordinances and e-Forms not only in Hindi, the official language of Government of India, but in all the languages listed in Schedule VIII to the Constitution of India.
- Absence of this integration of localization at various levels of Governance standards.

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CHAPTER - III

FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT (FRBM) ACT- A STUDY OF CENTRE AND STATE FISCAL POSITION

Introduction

Since its external crisis of the early nineties, India has witnessed a turnaround on most indicators of macro-economic performance. The process of economic reform, including widespread liberalization and reduction in protectionism, launched in 1991, and steadily pursued thereafter has yielded positive results by eliminating some longstanding structural rigidities, and created potential for higher growth. Over the last decade or so India has made transition from an onerous trade regime to a market-friendly system encompassing both trade and current payments. Despite a decade of economic reform, there is still persistence of huge fiscal and revenue deficit thereby widening the gap between revenue and expenditure, forcing the political thinkers to enact a law for fiscal correction and ultimately during 2003-04, the Fiscal Responsibility and Budget Management Act was enacted and put into operation. Under this law, both the Centre and States were to wipe out revenue deficit and cut fiscal deficit to 3% of GDP by 2008-09.

The FRBM Act was enacted by Parliament in 2003 to bring in the much needed fiscal discipline. It received the President's assent in August the same year. The United Progressive Alliance (UPA) government notified the FRBM Rules in July 2004. As Parliament is the supreme legislative body, the Act and the Rules will bind the present and also the future Finance Ministers and Governments.

FRBM Act 2003

- FRBM Act 2003 came into force w.e.f. 5 July 2004.
- The Act required the Central Government to eliminate revenue deficit by March 2009 and to reduce fiscal deficit to 3% of GDP by March 2008.

- Under section 7 of the Act, the Central Government is required to lay before both Houses of Parliament Medium Term Fiscal Policy Statement, Fiscal Policy Strategy Statement and Macro Economic Framework Statement along with Annual Financial Statement and Demand for Grants.

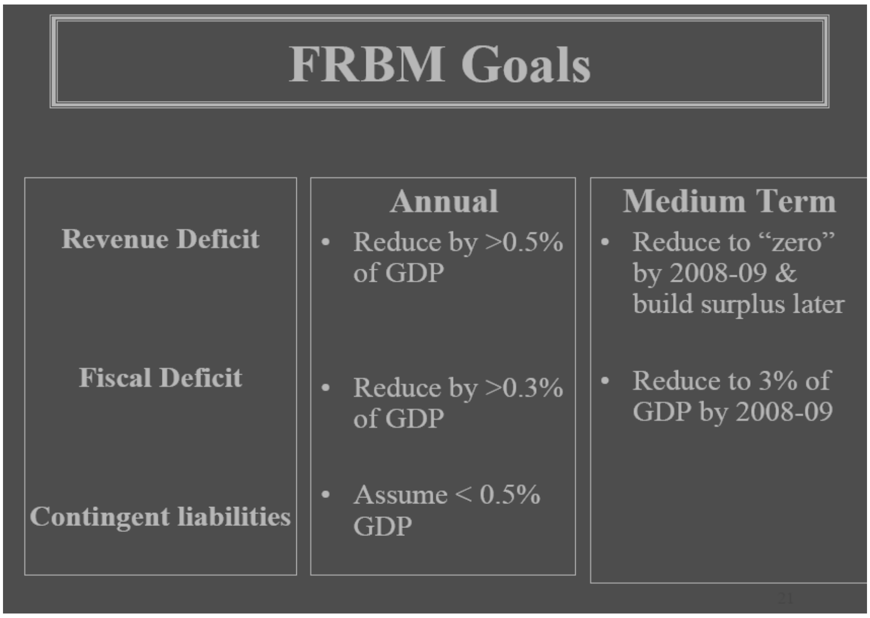
FRBM Rules 2004

- FRBM Rules also came into force w.e.f. 5th July 2004
- Reduction of revenue deficit by 0.5% of GDP or more every year.
- Reduction of gross fiscal deficit by 0.3% of GDP or more every year.
- No assumption of additional debt exceeding 9% of GDP for 2004-05 and progressive reduction of this limit by at least one percentage point of GDP in each subsequent year.
- No guarantee in excess of 0.5% of GDP in any financial year.
- Four fiscal indicators to be projected for the medium term. These include revenue deficit, fiscal deficit, tax revenue and total debt as % of GDP.
- Greater transparency in the budgetary process, rules, accounting standards and policies having bearing on fiscal indicators.
- Quarterly review of the fiscal situation.
- The Rules mandate the Central Government to take appropriate collective action in the case of revenue and fiscal deficits exceeding 45% of the budget estimates, or total non-debt receipts falling short of 40% of the budget estimates at the end of half of the financial year.
- The Rules also prescribe the formats for the mandatory statements.

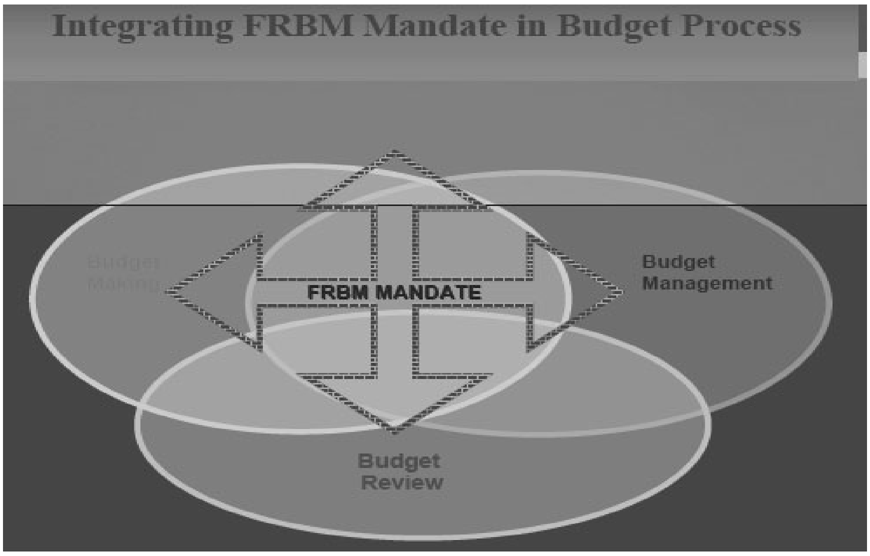
Objectives of FRBM act

- Eliminate the revenue deficit by 31-03-2008.
- Reduce revenue deficit @ 0.5% or more of GDP at the end of each Financial year beginning from 2004-05.
- Reduce the fiscal deficit by @ 0.3% or more of GDP at the end of each financial year beginning from 2004 – 05.

- Restrict the guarantees for borrowings to 0.5% of GDP in any financial year beginning from 2004 – 05.
- Reduce the possible progressive reduction of capital account liabilities.
- Improve the areas of fiscal transparency and to make it available to public domain.
- Improve fiscal planning and budget management.
- Identify major areas of achievement.
- Improve the review mechanism.
- Concentrate on the areas requiring greater attention.
- Disaggregated analysis of administrative expenditures.
- Retain minimum level of unspent balance.



Source: Ministry of Finance



Source: Ministry of Finance

Main Requirements of FRBM

1. Government to place before Parliament following three statements each year along with the Budget.
   a. Medium Term Fiscal Policy
   b. Fiscal Policy Strategy
   c. Macroeconomic Frame work
2. Government to prescribe a ceiling on guarantees.
3. The Act prohibits the Centre from borrowing from the Reserve Bank of India i.e. it bans ‘deficit financing’ through Money creation.
4. The Finance Minister is required to keep Parliament informed through quarterly reviews on the implementation. The Act provides that no deviation shall be permissible “without the approval of Parliament”.

FRBM Strategy Results*

- India pulled back from grim fiscal crisis.
- Central and consolidated deficit reduced sharply.
- Improvements in the debt/GDP ratio and in debt dynamics.

- It paved the way for long-term thinking on the part of policy makers.
- Reduction of the consolidated deficit helped to free up resources for private investment, which played a key role in accelerating GDP growth.
- By showing the private sector that government operated under rules rather than discretion, it increased confidence on the part of the private sector.

FRBM IN STATES**

- 26 States have enacted their Fiscal Responsibility & Budget Management Acts (FRBMA).
- Sikkim & West Bengal have not enacted their FRBMA.

How to Achieve Better results

- Close the loophole of off-balance sheet items.
- Close the loophole of financial repression.
- Setting more ambitious goals so that India can be well into an investment grade rating.
- Credible sanctions against a non-compliant Central Government.
- Bringing in business cycle sophistication
- Recognising differences between high-growth and low-growth States.

** Source: Business Standard*

*** Source: Indian Public Finance Statistics 2008-09*

International Experience (FRBM)

1. New Zealand introduced a Fiscal Responsibility Act in 1994.This Act has been hailed by many experts as a model and from an economist's point of view, it is conceptually and theoretically elegant.
2. In US, the first and radical legislative attempt to prescribe a ceiling on the deficit and then force the US Government to reduce it, was an object failure i.e. mandatory items like social security.
3. European Union and the Growth and Stability Pact of 1997.

Literature Review

The fiscal deficit and Government debt in India are higher than in many comparable emerging economies. But after implementation of the FRBM Act 2003, there is continuous fall in the fiscal and also revenue deficits. The main aim of this Act is to expose the fiscal position in the public. The most important thing to be noted is that the revenue receipts of both Centre and States are stable, which in turn resulted in collection of more tax revenue (Apoteker et al, 2005). From the expenditure side, the share of interest payments and pensions are increasing continuously.

The elimination of revenue deficit and generation of revenue surpluses thereafter would release fiscal space for further public investment (Pattnaik, 2008). The process of fiscal consolidation has set to resume in 2006-07, with a projected reduction in the revenue deficit to 2.1 per cent of GDP and fiscal deficit to 3.8 per cent of GDP (Mohan R, 2004, Rangarajan, 2005).

According to **Hausmann and Purfeild (2004)** the FRBM strengthens and broadens the institutions governing budget execution and reporting in a number of areas. In particular, the new framework also requires the Parliament to approve corrective action through tax or expenditure measures during the budget implementation process to avert or correct deviations from the fiscal target. The Act imposes more stringent reporting requirements on budget implementation and requires submission of quarter reports to the Parliament. The Controller General of Accounts will continue to compile data on budget implementation (i.e., ex-post) using existing accounting definitions, while a special unit of the Ministry of Finance will analyze and prepare the reports on fiscal performance and compliance (again, ex-post).

Reddy (2008) is of the opinion that FRBM Act has a positive effect of focusing attention on fiscal issues. At the same time, it may, sometimes, unintentionally lead to increased recourse to expanding off-budget fiscal liabilities. Such a practice is not entirely uncommon in many countries, but the magnitudes involved and the persistence in resorting to off-budget liabilities in India are noteworthy. The issue is not merely one of transparency in fiscal operations or a de facto larger borrowing programme of the Government than admitted, but one with significant implications for the Government debt market and monetary management.

Pattnaik,et.al. are of the view that Fiscal Responsibility and Budget Management (FRBM) Rules, 2004 spelt out the path for fiscal correction for the Central Government Finances. While the FRBM Act provides a strong institutional mechanism for making sustained progress in fiscal consolidation, the progress towards attaining the targets has been mixed. Although the FRBM Act was passed in August 2003, there were no explicit annual targets set for deficit reduction. Despite this, the fiscal year 2003-04 witnessed a marked reduction in all the key deficit indicators over the budgeted levels as well as the preceding year.

According to **Buiter & Patel (2005)** the fiscal rules adopted by the Indian Central Government under the Fiscal Responsibility and Budget Management Act do not address the key distortions imposed by the authorities on the private sector through financial repression, misguided regulations and inefficient ownership and incentive structures. Nor do they address the underlying fiscal sustainability problem faced by the Indian state. In addition, they create a mechanism for macro-economic volatility enhancing, pro-cyclical fiscal policy.

According to **Isaac and Ramakumar (2006)** are of the view that States do not spend because of legal constraints on spending. The Finance Ministry and the successive Finance Commissions have forced the States to enact fiscal responsibility legislations. As per these legislations, States were to eliminate the revenue deficit and reduce the fiscal deficit to 3 per cent of the GSDP by 2008-09.

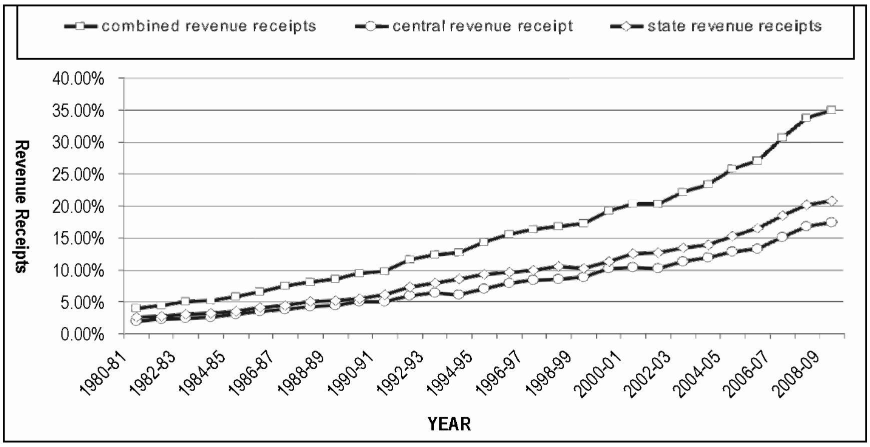
Fiscal Position of the Centre-Recent trends

Receipts side

- Revenue receipts of the Centre increased from Rs 12,373 Cr in 1980-81 to Rs 6,02,935 Cr in 2008-09 following a 16 per cent increase due to increase in sales tax, excise duties and corporate taxes. During the same period the revenue receipt of the States increased by 18 % point.
- Capital receipts of the Centre increased from Rs 7918 Cr to Rs 147978 Cr due to increase in interest receipts and increase in investment in the core sectors.
- Out of total receipts, tax revenue increased from Rs 19763 Cr to Rs 10,17,107 Cr of total tax receipts, the revenue from the corporation tax is highest.

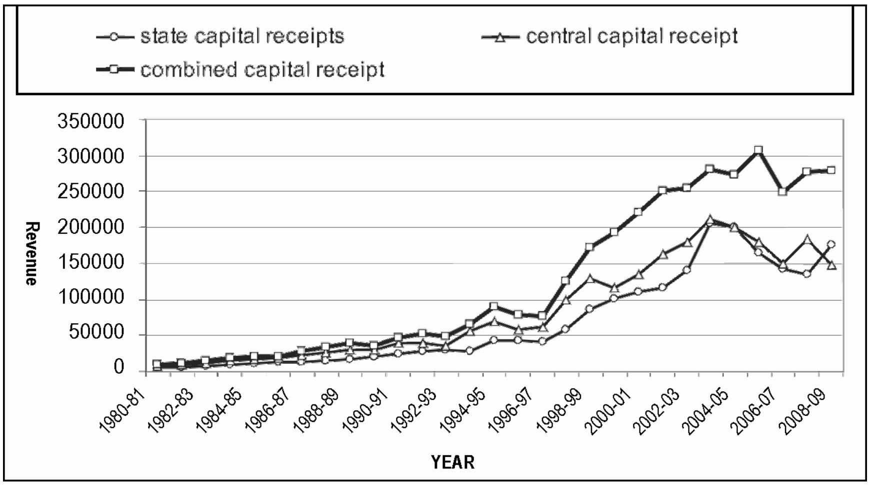
- Indirect tax collection is much more than the direct taxes on the side of excise duty because of growing industrialisation and infrastructural development.
- In the case of States, sales tax constitutes the highest share. States also depend heavily on the Centre to meet their ever increasing expenditure.
- The amount of loan that transferred to the States still comprise of major capital expenditure of the States.

Trend of the combined Revenue Receipt of the Centre and States



Source: compiled from various sources

Capital Receipt of the Centre and States



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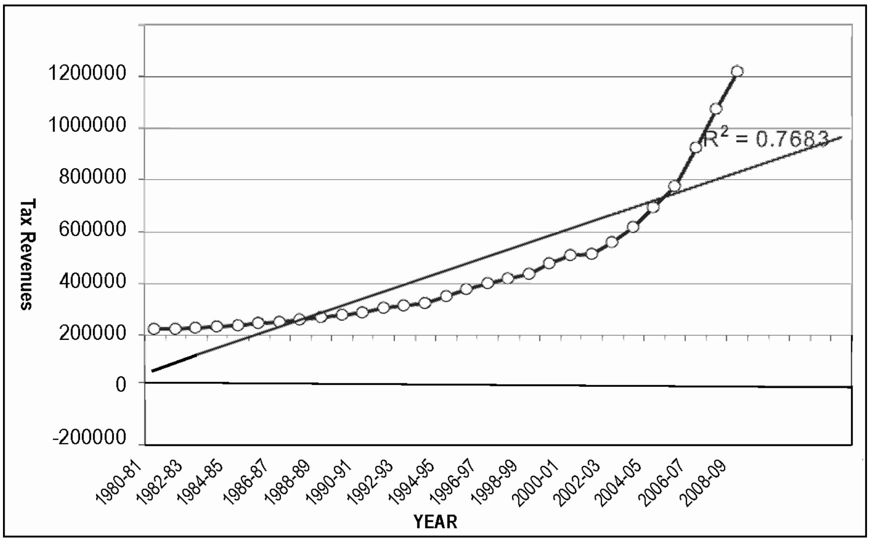
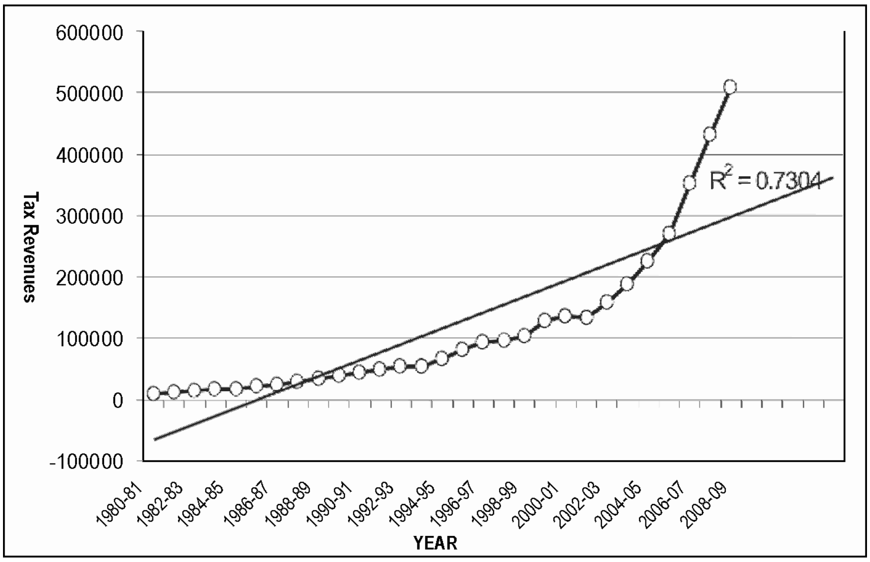
Trend and Growth of Combined Tax revenue



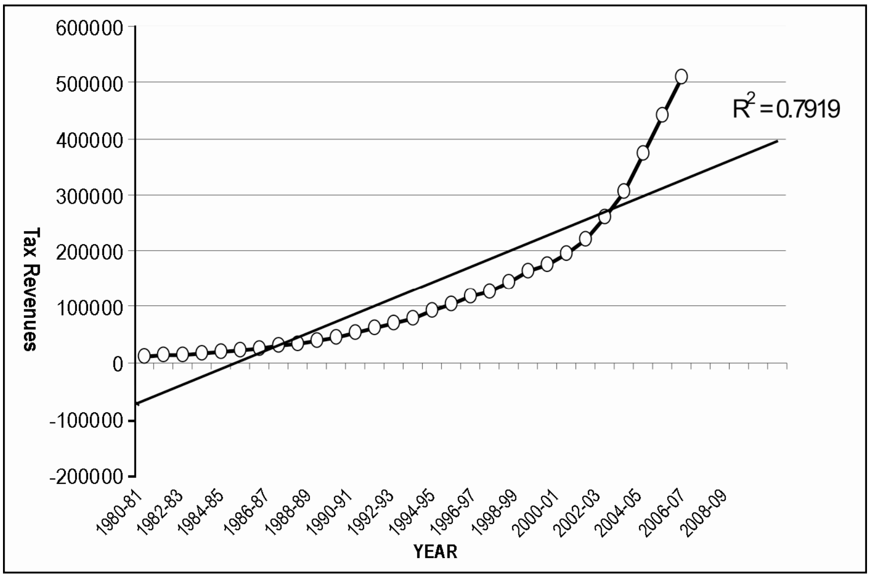
Source: compiled from various sources

Growth of Central Tax revenue



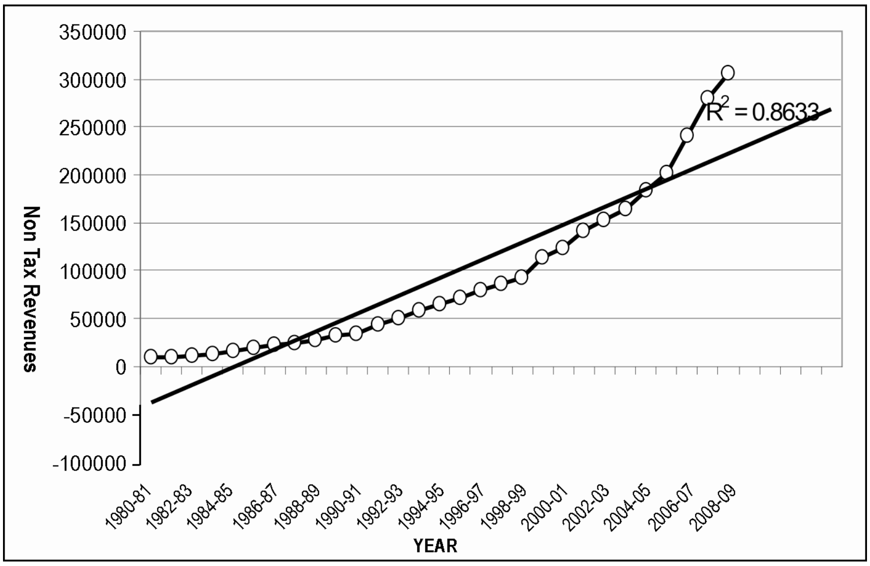
Source: compiled from various sources

Trend and growth of States Tax revenue



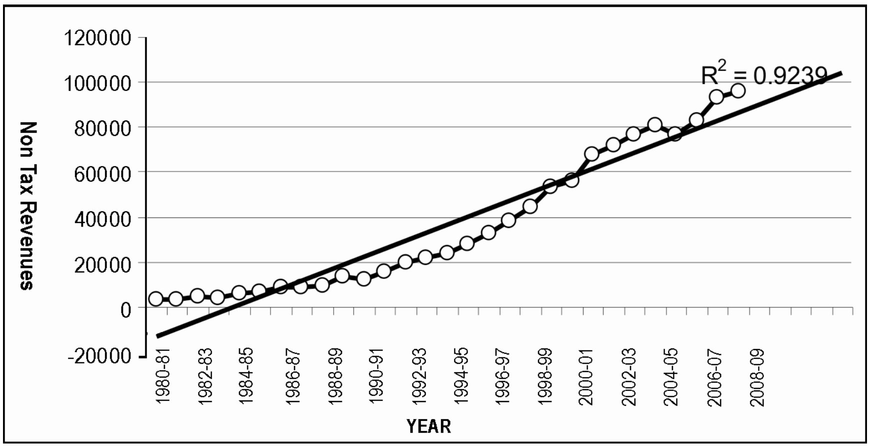
Source: compiled from various sources

Growth of Combined Non Tax revenue



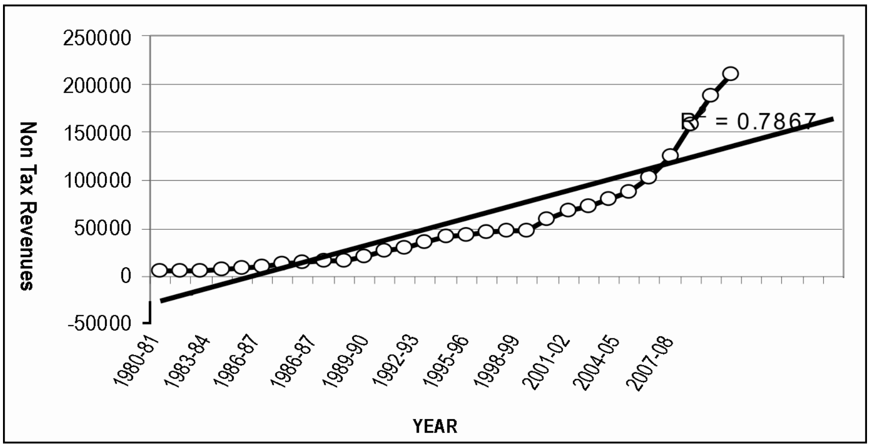
Source: compiled from various sources

Growth of Central Non Tax revenue



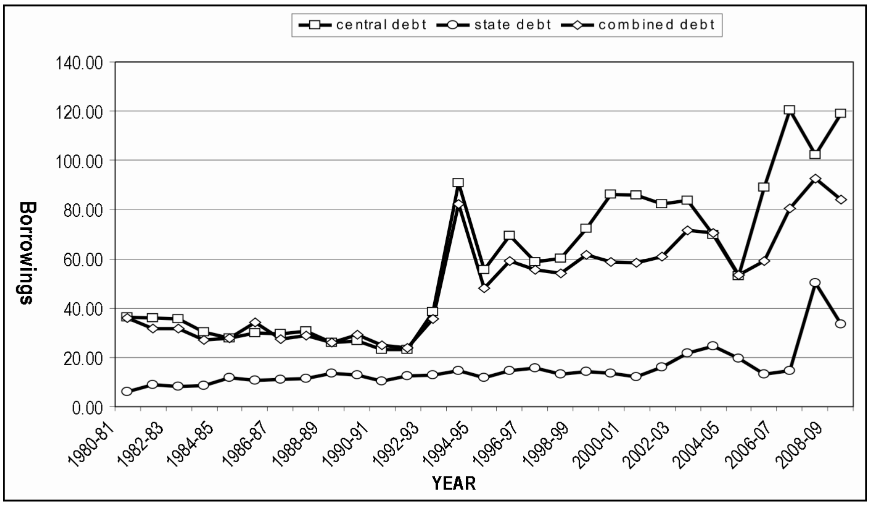
Source: compiled from various sources

Growth of States Non Tax revenue



Source: compiled from various sources

Debt position of the Centre and States



Source: compiled from various sources

Trends Observed:

On the Deficit side

- After implementation of the Act the total amount of deficit has been reduced and such reduction continues.
- Revenue expenditure of the Centre and States increases continuously without corresponding increase in revenue receipts.
- Fiscal deficit of the Centre and States are increasing continuously.

Deficit Indicators

	Centre and States		Centre		States	
	1980-2003	2004-08	1980-2003	2004-2008	1980-2003	2004-2008
RD/GFD Ratio	41.81	28.37	39.08	-11.95	23.05	-6.81
GFD/GDP ratio	5.41	8.77	3.97	4.97	2.17	3.80
PD/GDP ratio	2.20	0.66	2.96	4.91	0.93	0.45
RD/GDP ratio	2.84	3.30	1.33	-0.40	0.86	0.39

On the revenue side

- Decline in the growth of tax revenue and stagnation in non-tax revenue
- Lack of buoyancy of direct as well as indirect taxes.
- Political and economic constraints setting limits to tax reforms aimed at larger revenue mobilization

Revenue indicators

	Centre and States		Centre		States	
	1980-2003	**2004-2008**	**1980-2003**	**2004-2008**	**1980-2003**	**2004-2008**
Tax revenue/ GDP ratio	9.88	25.07	4.57	12.10	5.22	12.91
Non tax revenue/ GDP ratio	4.13	8.33	1.74	3.00	2.39	5.33
Transfers from Centre to States/ GDP ratio	-	-	-	-	4.07	8.00

On the expenditure side

- Continuously increasing share of revenue expenditure in total expenditure
- Rising share of interest expenditure, in the 1990s as a result of a conscious policy decision to finance fiscal deficit by market borrowings
- Fall in the share of developmental expenditure in the total expenditure
- Changing composition in expenditure trends (of the Centre and States) can become unhelpful in influencing the economic growth in the future.

Expenditure indicators

	Centre and States		Centre		States	
	1980-2003	**2004-2008**	**1980-2003**	**2004-2008**	**1980-2003**	**2004-2008**
Developmental expenditure/GDP ratio	10.37	21.28	5.47	9.46	6.88	14.10
Non developmental expenditure/GDP ratio	8.05	17.91	5.84	11.76	3.26	7.65
Capital outlay/GDP ratio	3.38	6.68	1.17	1.09	2.21	5.59

Debt indicators

	Centre and States		Centre		States	
	1980-2003	**2004-2008**	**1980-2003**	**2004-2008**	**1980-2003**	**2004-2008**
Debt/ GDP ratio	44.71	87.99	36.57	43.24	16.71	111.51

Major Recommendations:

Since the main objective of public expenditure is to remove inequalities and achieve stability, necessary action should be undertaken for enhancing revenue collections rather than curtailing expenditure. Following steps are advanced:

Revenue side:

- Widening the tax base.
- Fewer rates; Low rates.
- Enhancing equity of the tax system.

- Shift to non-distortionary consumption taxes to increase efficiency in production and enhance international competitiveness of Indian goods and services.
- Enhancing the neutrality between present consumption and future consumption.
- Enhancing neutrality of the tax system to the form of organisation.
- Enhancing the neutrality of the tax system to sources of finance.
- Establishing an effective and efficient compliance system.
- Focus on buoyancy rather than immediate sources of tax revenue.

Expenditure side

- Decrease interest payment.
- Increase capital expenditure.
- Greater share should be allocated for developmental heads rather than towards salaries and subsidies.
- Increase expenditure in social sectors.
- Expenditure decision should be undertaken by the local level governments.
- The return from the expenditure should be based on outcomes rather than outlays.
- More attention to the productivity aspect of the public expenditure.

Defect of FRBM Strategy

- The FRBM tolerated off balance sheet items such as borrowings by PSUs. The combination of rules governing fiscal deficits and the lack of rules governing off balance sheet items may have even encouraged placing deficits off balance sheet. This is a loophole that needs to be plugged.
- FRBM is silent on the subject of financial repression
- India has succeeded in placing credible checks on State Governments and ensuring that they do not violate FRAs. But there is no penalty for the Central Government if it fails to live within fiscal rules.

- Turning to the State level, there is a large heterogeneity in growth rates. Some States are growing at near about 10%; others are growing at about 5%. To apply the same fiscal rules to all of them is inappropriate.
- The distinction between revenue and fiscal deficits needs to be questioned. The fiscal rules are an `over determined system' in specifying too much about the process of fiscal consolidation with rules for both the revenue and the fiscal deficit. Core public services such as law and order or judiciary do not require capital expenditures.

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Annexure 1

Receipts and Disbursement of the Centre and State Governments

(Rupees crore)

Year	Revenue account				Capital account		Aggregate		Overall
	Receipts	*of which:* Tax Revenue	Expenditure	*of which:* Interest Payments	Receipts#	Disbursements#	Receipts#	Disbursements#	Surplus (+)/ Deficit (-)(8-9)
1	2	3	4	5	6	7	8	9	10
1980-81	25560	19763	26126	2964	8945	11753	34505	37879	-3374
1981-82	30432	24036	29346	3759	11635	15133	42067	44479	-2412
1982-83	34752	27138	35119	4634	14829	16938	49581	52057	-2476
1983-84	39099	31202	41286	5530	18922	18703	58021	59989	-1968
1984-85	45296	35765	49716	6862	21175	21938	66471	71654	-5183
1985-86	54069	42951	59302	8623	20931	19325	75000	78627	-3627
1986-87	63112	49414	70719	10641	28431	29751	91543	100470	-8927
1987-88	70958	56997	81183	13008	33432	29089	104390	110272	-5882
1988-89	82658	66888	94980	16456	38568	31508	121226	126488	-5262
1989-90	98094	77442	113688	20532	36292	31451	134386	145139	-10753
1990-91	105757	87564	129628	24995	46488	33892	152245	163520	-11275
1991-92	127389	102674	149300	30992	51505	36605	178894	185905	-7011
1992-93	143017	114492	166706	36468	49543	36337	192560	203043	-10483
1993-94	154856	122268	191384	43014	66372	41266	221228	232650	-11422
1994-95	186639	148073	223824	52326	89742	49050	276381	272874	3507
1995-96	217527	174852	255457	59073	79102	48125	296629	303582	-6953
1996-97	246399	199840	295167	70088	76923	48381	323322	343548	-20226
1997-98	263723	217313	326504	78277	124593	58797	388316	385302	3014
1998-99	288366	233069	398984	93096	172268	64959	460634	463945	-3311
1999-00	343709	274974	465102	110451	192737	75321	536446	540423	-3977
2000-01	378817	305374 *	517618	124817	220324	77977	599141	595595	3546
2001-02	400162	313844 *	559511	142387	250877	93457	651039	652967	-1928
2002-03	453850	358224 *	616840	159060	253784	88064	707634	704904	2730
2003-04	518611	413981 *	678019	177573	280551	118364	799162	796383	2779
2004-05	615644	492481 *	730405	192312	272701	139352	888345	869757	18588
2005-06	707054	576596 *	806366	203977	307635	153489	1014689	959855	54834
2006-07	877075	724023 *	932441	230831	248177	176733	1125252	1109174	16078
2007-08 RE	1055165	873299 *	1096124	263736	276546	259706	1331711	1355830	-24119
2008-09 BE	1208804	1017107 *	1235562	287477	279526	249973	1488330	1485535	2795

RE: Revised Estimates. BE: Budget Estimates.

#: Includes discharge of internal debt (repayments) of the State Governments under disbursements and related borrowings under the receipts.

*: Excluding the amount transferred to National Calamity Contingency Fund.

Also see Notes on Tables.

Source: Reserve Bank of India

Annexure 2

Total Receipts of the Central Government

(Rupees crore)

Year	Tax	Direct	of which		Indirect	of which		Non-tax	of which	Revenue	Capital	Total
	Revenue(Net)#	Tax(Net)#	Personal Income Tax	Corporation - Tax	Tax(Net)#	Excise Duties(Net)	Customs Duties	Revenue	Interest Receipts	Receipts (2+9)	Receipts	Receipts 11+12)
1	2	3	4	5	6	7	8	9	10	11	12	13
1970-71	2451	511	114	371	1940	1369	524	842	589	3293	2046	5339
1971-72	2928	586	75	472	2342	1586	695	940	599	3868	2504	6372
1972-73	3443	752	137	558	2691	1757	857	1080	713	4523	2464	6987
1973-74	3900	848	213	583	3052	1971	996	1114	736	5014	2876	7890
1974-75	5097	1142	362	709	3956	2528	1333	1345	776	6442	2774	9216
1975-76	6010	1480	480	862	4530	2988	1419	1854	934	7864	4149	12013
1976-77	6581	1686	542	984	4895	3193	1554	1987	1105	8568	4958	13526
1977-78	7060	1742	327	1221	5319	3335	1824	2478	1441	9538	5035	14573
1978-79	8568	1842	471	1256	6726	4128	2424	2406	1427	10974	6285	17259
1979-80	8567	1950	475	1392	6617	3481	2924	2542	1360	11109	5420	16529
1980-81	9358	1893	438	1311	7465	3723	3409	3015	1795	12373	7918	20291
1981-82	11542	2518	459	1970	9024	4181	4300	3482	2215	15024	8849	23873
1982-83	13017	2723	438	2185	10294	4567	5119	4417	2852	17434	11701	29135
1983-84	15441	3131	527	2493	12310	6165	5583	4270	2668	19711	14406	34117
1984-85	17651	3375	697	2556	14276	6625	7041	5815	3963	23466	16421	39887
1985-86	21140	3698	665	2865	17442	7331	9526	6895	4595	28035	19315	47350
1986-87	24319	4023	719	3160	20296	8164	11475	8764	5353	33083	21572	54655
1987-88	28015	4100	603	3433	23915	9423	13702	9022	5755	37037	25408	62445
1988-89	33751	6021	1492	4407	27730	10922	15805	9840	6981	43591	29878	73469
1989-90	38349	6028	1088	4729	32321	13096	18036	13947	8474	52296	30020	82316
1990-91	42978	6903	1250	5335	36075	14100	20644	11976	8730	54954	38997	93951
1991-92	50069	10103	1627	7853	39966	16017	22257	15961	10933	66030	38528	104558
1992-93	54044	12075	1831	8899	41969	16367	23776	20084	12487	74128	36178	110306
1993-94	53449	12522	1355	10060	40927	17224	22193	22004	15078	75453	55440	130893
1994-95	67454	18409	3468	13822	49045	21064	26789	23629	15797	91083	68695	159778
1995-96	81939	22287	4318	16487	59652	22176	35757	28191	18419	110130	58338	168468
1996-97	93701	25374	4715	18567	68326	23463	42851	32578	22106	126279	61544	187823
1997-98	95672	27172	3589	20016	68500	25516	40193	38214	25323	133886	99077	232963
1998-99	104652	32120	5760	24529	72532	28581	40668	44833	30076	149485	130064	279549
1999-00	128271	41436	9131	30692	86836	34944	48419	53211	33895	181482	115707	297189
2000-01	136658	49651	23766	25177	87007	49758	34163	55947	32811	192605	134184	326789
2001-02	133532	47703	22106	25133	85828	54469	28340	67774	35538	201306	162500	363806
2002-03	158544	61612	27779	33893	96932	62388	31898	72290	37622	230834	180531	411365
2003-04	186982	76590	30765	45706	110392	70245	34586	76831	38538	263813	211333	475146
2004-05	224798	95944	35443	60289	128854	77241	41811	81193	32387	305991	200391	506382
2005-06	270264	120692	45238	75187	149572	86642	46645	76813	22032	347077	179549	526626
2006-07	351182	169738	62707	106701	181444	92651	62819	83205	22524	434387	149000	583387
2007-08 RE	431773	224071	85934	137874	207702	100514	72029	93325	17464	525098	184275 *	709373 *
2008-09 BE	507150	269382	101452	167659	237768	108029	84710	95785	19135	602935	147949	750884

RE: Revised Estimates.

BE: Budget Estimates.

#: Net of State Governments' share and amount assigned to National Calamity Contingency Fund (NCCF).

*.: Includes an amount of Rs. 34,309 crore which represents the Reserve Bank's surplus trasferred to the Central Goverment on account of transfer of its stake in S.B.I. to the Central Government.

Note: The taxes and duties referred to in the Union list are now distributed in the same manner as laid down by the Constitution (Eighteenth Amendment) Act, 2000 read along with the recommendations of the Twelfth Finance Commission.

Source: Reserve Bank of India

Annexure 3

Total Receipts of the State Governments

(Rupees crore)

Year	Toal Revenue Receipts	Tax Receipts*	*of which* Sales Tax	State Excise Duties	Share in Central Taxes	*of which* Income Tax	Union Excise Duties	Non-tax Receipts**	*of which* Interest Receipts	Grants from the Centre	Total Capital Receipts	Total Receipts(2+12)
1	2	3	4	5	6	7	8	9	10	11	12	13
1970-71	3371	2284	755	194	756	359	390	1087	183	566	1662	5033
1971-72	4045	2638	826	234	942	460	475	1407	214	852	1836	5881
1972-73	4912	2990	977	279	1061	488	566	1923	240	926	2781	7693
1973-74	5552	3468	1143	354	1162	523	628	2084	328	937	2450	8002
1974-75	6432	4109	1550	387	1229	516	703	2322	329	1022	2151	8583
1975-76	7938	5145	1944	436	1599	734	857	2793	377	1219	2417	10355
1976-77	9037	5713	2270	505	1680	651	1020	3324	495	1505	2852	11889
1977-78	9931	6155	2414	570	1806	676	1120	3776	490	1838	3100	13031
1978-79	11647	6923	2773	583	1953	700	1242	4724	621	2473	5052	16699
1979-80	13629	9077	3211	698	3408	863	2534	4552	697	2083	4105	17734
1980-81	16294	10405	3888	824	3789	1003	2774	5888	824	2623	5473	21767
1981-82	18455	12494	4893	1115	4260	1022	3220	5961	817	2726	5695	24150
1982-83	21125	14119	5496	1343	4633	1132	3485	7007	992	3382	6796	27921
1983-84	24014	15761	6261	1569	5008	1170	3823	8253	1171	4093	8966	32980
1984-85	27425	18114	7060	1839	5855	1267	4570	9311	1266	4762	10993	38418
1985-86	33424	21811	8429	2052	7260	1764	5478	11613	1365	6323	13131	46555
1986-87	38226	25096	9640	2421	8384	2169	6205	13131	1688	6985	12892	51118
1987-88	44000	28982	11185	2867	9660	2520	7133	15019	1947	8275	15806	59806
1988-89	50421	33137	13122	3081	10736	2776	7960	17284	2387	9660	17037	67458
1989-90	56535	39093	15060	3864	13097	3938	9159	17442	2634	8505	20086	76621
1990-91	66467	44586	17667	4795	14242	3989	10253	21881	2403	12643	24693	91160
1991-92	80536	52604	21064	5439	16848	4985	11863	27932	5320	15226	27238	107773
1992-93	91090	60448	23349	6265	20580	6182	14398	30643	3938	17759	30073	121163
1993-94	104997	68269	27227	7009	22395	7828	14567	36728	4721	21176	28489	133486
1994-95	120303	78832	31883	7439	24885	8565	16320	41472	5345	19911	43190	163493
1995-96	134507	90802	36704	8180	29048	11204	17843	43705	5786	20874	42805	177312
1996-97	150041	103604	42112	8358	35038	13489	21549	46436	8166	22949	42011	192051
1997-98	166820	118699	46813	10756	40411	18171	22240	48121	7777	23853	58907	225727
1998-99	172787	125328	51003	12861	39421	15333	24086	47460	7339	23480	85363	258151
1999-00	202927	143272	59955	14466	44121	18219	25902	59655	8993	30177	101925	304852
2000-01	232509	164314	69976	15479	50734	.	.	68195	10961	37289	109705	342214
2001-02	249422	175415	73181	16504	52215	.	.	74007	8415	42602	115714	365136
2002-03	273674	193474	82155	18268	56655	.	.	80200	8761	45170	140866	414539
2003-04	309187	221117	93172	18928	67080	.	.	88074	7748	50836	205641	514828
2004-05	363512	260577	111554	21096	78550	.	.	102935	8648	56322	200148	563660
2005-06	431021	306332	128769	25036	94024	.	.	124690	9380	76750	164607	595628
2006-07	530556	372841	153573	29316	120293	22477	26182	157714	11825	94451	142802	673358
2007-08 RE	628742	441526	178198	34200	148134	28154	31426	187216	13041	124638	134625	763367
2008-09 BE	719835	509957	203623	39463	173147	33569	35095	209879	12686	143030	175472	895307

RE: Revised Estimates. BE: Budget Estimates.

*: Include States' own tax revenue and share in Central taxes.

**: Include States' own non-tax revenue and grants from the Centre.

Note:

1. Data relate to 28 State Governments. Data for 2006-07, 2007-08 (RE) and 2008-09 (BE) are provisional.
2. Data for capital receipts prior to 1991-92 are adjusted for remittances (net).
3. Regarding share in Central tax revenue, see Notes on Tables.
4. Capital receipts include Public Accounts on a net basis.

   Also see Notes on Tables.

Source: Reserve Bank of India

Annexure 4

Capital Receipts of the Central Government

(Rupees crore)

Year	Market Borrowings (Net)#	Small Savings	Provident Funds+	Special Deposits	Recovery of Loans	Disinvest-ment Receipts	External Loans (Net)	Total Capital Receipts
1	2	3	4	5	6	7	8	9
1970-71	238	184	91	-	923	-	332	2046
1971-72	297	224	106	-	1297	-	347	2504
1972-73	487	373	97	-	1155	-	293	2464
1973-74	472	474	101	-	1471	-	-1300	2876
1974-75	481	277	191	-	1192	-	551	2774
1975-76	496	393	234	104	1485	-	1072	4149
1976-77	845	413	196	215	1287	-	1007	4958
1977-78	1185	545	193	309	2288	-	374	5035
1978-79	1653	847	287	402	2082	-	384	6285
1979-80	1951	1105	258	460	1461	-	584	5420
1980-81	2679	1121	273	603	2096	-	1281	7918
1981-82	2913	1399	297	770	1583	-	964	8849
1982-83	3771	1723	526	838	2730	-	1258	11701
1983-84	4038	2408	355	1021	2793	-	1338	14406
1984-85	4095	3651	429	1315	2750	-	1452	16421
1985-86	4884	4292	495	1001	2773	-	1449	19315
1986-87	5532	3276	902	3913	3491	-	2024	21572
1987-88	5862	3633	1171	4381	4180	-	2893	25408
1988-89	8418	5475	1321	6151	4597	-	2460	29878
1989-90	7404	7958	1733	7970	4980	-	2595	30020
1990-91	8001	8309	2002	7716	5712	-	3181	38997
1991-92	7510	5654	2258	6670	6021	3038	5421	38528
1992-93	3676	4373	2952	7144	6356	1961	5319	36178
1993-94	28928	7157	3716	7568	6191	-48	5074	55440
1994-95	20326	14447	4134	8262	6345	5078	3582	68695
1995-96	34001	10104	4918	5295	6505	362	318	58338
1996-97	19093	12174	5417	6162	7540	380	2987	61544
1997-98	32499	20463	8417	7905	8318	912	1091	99077
1998-99	68988	33035	5737	8130	10633	5874	1920	130064
1999-00	62076	8979	6579	6526	10131	1724	1180	115707
2000-01	73431	8316	4922	8452	12046	2125	7505	134184
2001-02	90812	8755	4173	8070	16403	3646	5601	162500
2002-03	104126	-	4621	9326	34191	3151	-11934	180531
2003-04	88870	-	4892	110	67165	16953	-13488	211333
2004-05	50939	-	5310	-5750	62043	4424	14753	200391
2005-06	106241	-	5545	487	10645	1581	7472	179549
2006-07	114801	-	5178	-	5893	534	8472	149000
2007-08 RE	110727	-1802	4800	-	4497	36125 *	9970	184275 *
2008-09 BE	99000	9873	4800	-	4497	10165	10989	147949

RE: Revised Estimates. BE: Budget Estimates.

#: Comprising dated Securities and 364-day Treasury Bills.

+: Since 1998-99, data represent only state provident fund as public provident fund is included under small savings.

*: Including an amount of Rs. 34,309 crore which represents the Reserve Bank's surplus transferred to the Central Government on account of transfer of its stake in S.B.I. to the Central Government.

Note: Data are net of repayments. Also excluding amount raised under Market Stabilization Scheme (MSS) and variation in cash balances. Also see Notes on Tables.

Source: Reserve Bank of India

Annexure 5

Capital Receipts of the State Governments

(Rupees crore)

Year	Loans from Centre (Gross)	Recovery of Loans & Advances	Market Loans (Gross)	State Provident Fund, Small Savings, *etc.* (Net) @	Special Securities Issued to NSSF	Total Capital Receipts	
1	2	3	4	5	6	7	
1970-71	1005	165	165	-	-	1662	
1971-72	1193	167	177	-	-	1836	
1972-73	1950	182	262	-79	-	2781	
1973-74	1553	235	166	131	-	2450	
1974-75	1075	288	306	144	-	2151	
1975-76	1294	420	275	149	-	2417	
1976-77	1446	360	287	201	-	2852	
1977-78	1911	279	281	226	-	3100	
1978-79	3229	366	274	295	-	5052	
1979-80	2669	395	297	321	-	4105	
1980-81	3022	449	317	343	-	5473	
1981-82	3372	651	508	462	-	5695	
1982-83	4165	667	540	730	-	6796	
1983-84	4903	785	740	797	-	8966	
1984-85	5910	1030	1164	933	-	10993	
1985-86	8368	809	1428	971	-	13131	
1986-87	7703	997	1431	1042	-	12892	
1987-88	9034	1044	1801	1628	-	15806	
1988-89	9937	1331	2246	2001	-	17037	
1989-90	11258	1038	2594	2307	-	20086	
1990-91	13975	1501	2560	3069	-	24693	
1991-92	13070	3310	3310	2909	-	27238	
1992-93	13100	1923	3850	3622	-	30073	
1993-94	14277	2418	4228	4330	-	28489	
1994-95	18742	5188	4105	4779	-	43190	
1995-96	18804	3472	6404	4902	-	42805	
1996-97	22931	5725	6519	5375	-	42010	*
1997-98	29745	5488	7862	6226	-	58907	
1998-99	39366	3247	12184	11969	-	85364	*
1999-00	21354	3110	14184	17877	25251	101924	
2000-01	18707	6777	12954	13107	31101	109706	
2001-02	24395	7308	18863	10186	33874	115715	
2002-03	26831	3698	30615	9863	48966	140866	
2003-04	25870	16158	52257	9325	62813	205642	
2004-05	25878	8040	38637	8883	83699	200148	
2005-06	8907	8904	22795	10463	78576	164607	
2006-07	5529	7578	20340	10370	58830	142802	*
2007-08 RE	11291	6212	73539	12147	15781	134625	*
2008-09 BE	15349	5172	76027	13001	29484	175472	*

RE: Revised Estimates. BE: Budget Estimates.

* : Includes proceeds from disinvestments / sale of land of Rs. 193 crore in 1996-97, Rs. 505 crore in 1998-99, Rs. 1,906 crore in 2006-07, Rs. 8,400 core in 2007-08 (RE) and Rs. 15,000 crore in 2008-09 (BE).

@: Include insurance and pension funds and special deposit accounts.

Note:

1. Data relate to 28 State Governments. Data for 2006-07, 2007-08 (RE) and 2008-09 (BE) are provisional.
2. Data for capital receipts prior to 1991-92 are adjusted for remittances (net).
3. Capital receipts include Public Accounts on a net basis.
4. With the change in the system of accounting with effect from 1999-00, States' share in small savings, which was included earlier under loans from the Centre, is shown separately as special securities issued to National Small Savings Fund (NSSF) under internal debt.

   Also see Notes on Tables.

Source: Reserve Bank of India

Annexure 6

Combined Total Liabilities

COMBINED LIABILITIES OF THE CENTRAL AND STATE GOVERNMENTS

(Rupees crore)

Year (End-March)	Domestic Liabilities of the Centre	External Liabilities of the Centre*	Total Liabilities of the Centre (2+3)	Total Liabilities of the States@	Combined Domestic Liabilities of the Centre & States @	Combined Total Liabilities of the Centre & States @ (3+6)
1	2	3	4	5	6	7
1980-81	48451	11298	59749	26783	58254	69552
1981-82	55858	12328	68186	31655	68425	80753
1982-83	71190	13682	84872	36975	84579	98261
1983-84	80141	15120	95261	43199	96336	111456
1984-85	96804	16637	113441	50735	116933	133570
1985-86	119331	18153	137484	61355	142874	161027
1986-87	146247	20299	166546	69875	173488	193787
1987-88	172338	23223	195561	81180	204111	227334
1988-89	204025	25746	229771	93772	241683	267429
1989-90	239849	28343	268192	109849	285649	313992
1990-91	283033	31525	314558	128155	337299	368824
1991-92	317714	36948	354662	147030	381479	418428
1992-93	359655	42269	401924	168365	436766	479035
1993-94	430623	47345	477968	187992	517461	564806
1994-95	487682	50929	538611	217100	589867	640796
1995-96	554983	51249	606232	250889	676959	728208
1996-97	621437	54239	675676	288103	763967	818206
1997-98	722962	55332	778294	333897	888896	944228
1998-99	834552	57254	891806	403364	1039405	1096659
1999-00	962592	58437	1021029	515877	1241651	1300088
2000-01	1102596	65945	1168541	594148	1418161	1484106
2001-02	1294862	71546	1366408	690747	1661487	1733033
2002-03	1499589	59612	1559201	786430	1911195	1970807
2003-04	1690554	46124	1736678	913376	2195826	2241950
2004-05	1933544	60878	1994422	1029174	2501138	2562016
2005-06	2165902	94243	2260145	1167866	2785462	2879705
2006-07	2435880	102716	2538596	1250819	3087982	3190698
2007-08 RE	2784352	112686	2897038	1337044	3514574	3627260
2008-09 BE	2939238	123675	3062913	1451169	3768065	3891740

RE: Revised Estimates. BE: Budget Estimates.

*: At historical exchange rate.

@ : The series have been revised to include 'reserve funds', 'deposits and advances' and 'contingency fund' of State Governments.

Also see Notes on Tables.

Source: Reserve Bank of India

Annexure 7

Total Liabilities of the Central Government

(Rupees crore)

Year (End-March)	Internal Debt	*of which* Market Loans	91-day Treasury Bills	182/364-day Treasury Bills	Small Savings, Deposits & Provident Funds	Other Accounts	Reserve Fund and Deposits	Total Internal Liabilities (2+6+7+8)	External Liabilities*	Total Liabilities (9+10)
1	2	3	4	5	6	7	8	9	10	11
1980-81	30864	15549	12851	0	10621	3332	3634	48451	11298	59749
1981-82	35653	18534	10273	0	12301	4279	3627	55858	12328	68186
1982-83	46939	22232	17431	0	14518	5369	4364	71190	13682	84872
1983-84	50263	26270	15756	0	17253	6621	6004	80141	15120	95261
1984-85	58537	30360	19452	0	21315	8389	8563	96804	16637	113441
1985-86	71039	35241	26014	0	26078	10781	11433	119331	18153	137484
1986-87	86312	40832	19876	0	30230	14698	15006	146247	20299	166546
1987-88	98646	46695	8028	0	35002	19526	19164	172338	23223	195561
1988-89	114498	55115	14273	567	41783	26752	20992	204025	25746	229771
1989-90	133193	62520	25184	774	51467	35597	19592	239849	28343	268192
1990-91	154004	70520	6953	1078	61771	45336	21922	283033	31525	314558
1991-92	172750	78023	8840	3986	69682	51818	23464	317714	36948	354662
1992-93	199100	81693	20614	8777	77005	59797	23753	359655	42269	401924
1993-94	245712	110611	32595	8386	87877	72478	24556	430623	47345	477968
1994-95	266467	130908	32327	8165	106435	85787	28993	487682	50929	538611
1995-96	307869	163986	43790	1875	121425	92010	33680	554983	51249	606232
1996-97	344476	184101	56519	8241	138955	100088	37919	621437	54239	675676
1997-98	388998	216598	1601 #	16243	167780	124087	42097	722962	55332	778294
1998-99	459696	285585	1501	10196	206458	126802	41595	834552	57254	891806
1999-00	714254	355862	1521	14296	66406	134425	47508	962592	58437	1021029
2000-01	803698	428793	1876	16296	96343	144020	58535	1102596	65945	1168541
2001-02	913061	516517	5047	19584	144511	164157	73133	1294862	71546	1366408
2002-03	1020689	619105	9673	26122	226400	172374	80126	1499589	59612	1559201
2003-04	1141706	707965	7184	26132	288378	168094	92376	1690554	46124	1736678
2004-05	1275971 @	758995	8338	26148	390477	174107	92989	1933544	60877	1994421
2005-06	1389758 @	862370	16364	35785	479761	186921	109462	2165902	94243	2260145
2006-07	1544975 @	972801	30802	42625	539450	220160	131295	2435880	102716	2538596
2007-08 RE	1844110 @	1092472	57430	41550	564052	241380	134810	2784352	112686	2897038
2008-09 BE	1972532 @	1197543	72430	38979	588980	243877	133849	2939238	123675	3062913

RE: Revised Estimates. BE: Budget Estimates.

*: At historical exchange rate.

#: Sharp decline in 91-day Treasury Bills is on account of conversion of ad hoc treasury bills into special securities.

@: Include liabilities on account of Market Stabilization Scheme (MSS).

Source: Reserve Bank of India

Annexure 8

Total Liabilities of the State Governments

OUTSTANDING LIABILITIES OF THE STATE GOVERNMENTS

(Rupees crore)

Year (End-March)	Market Loans	Compensation and Other Bonds	WMA from RBI	Loans from Banks and Other Institutions	Special Securities Issued to NSSF	Total Internal Debt (2 to 6)	Loans and Advances from Central Government	State Provident Funds	Insurance and Pension Fund Trust and Endowments, *etc.*	Total Provident Funds, *etc.* (9+10)	Reserve Funds	Deposits & Advances	Contingency Funds	Total Liabilities (7+8+11+12+13+14)
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1980-81	2988	59	482	914	-	4443	16980	2185	351	2536	449	2338	37	26783
1981-82	3328	54	1750	1051	-	6182	19080	2571	439	3010	661	2721	1	31655
1982-83	3735	50	617	1205	-	5607	23557	3163	576	3739	954	3163	-45	36975
1983-84	4323	48	812	1357	-	6540	26979	3830	720	4550	1186	3927	17	43199
1984-85	5101	43	1640	1539	-	8323	30555	4846	671	5517	1534	4543	263	50735
1985-86	6104	41	286	1618	-	8049	38786	5743	1082	6825	2036	5244	415	61355
1986-87	7271	36	214	1544	-	9065	43702	6699	1256	7955	2457	6248	448	69875
1987-88	8793	10	129	1922	-	10854	49534	7994	1589	9583	3000	7688	521	81180
1988-89	10765	2	325	2121	-	13213	56222	9625	1960	11585	3654	8705	393	93772
1989-90	13063	-2	589	2544	-	16194	64139	11514	2377	13891	4729	9940	956	109849
1990-91	15652	60	1050	2513	-	19274	73521	14002	2859	16861	4734	12769	995	128155
1991-92	19008	64	1288	2910	-	23270	82979	16357	3433	19790	5519	14502	969	147030
1992-93	22480	72	1073	3228	-	26853	91626	19347	4168	23515	6698	18911	762	168365
1993-94	26119	79	1306	3429	-	30933	101122	22996	4976	27972	8180	19009	658	187875
1994-95	31200	77	608	3989	-	35875	115238	26783	6111	32894	9013	22963	489	216473
1995-96	37088	76	1894	4838	-	43895	129264	30984	7232	38216	10577	26654	929	249535
1996-97	43602	74	2557	5106	-	51338	146168	35556	8539	44095	12350	31436	511	285898
1997-98	50847	77	630	7734	-	59289	168656	40823	10020	50843	14498	36609	921	330816
1998-99	61477	66	4858	10789	-	77190	199007	50827	12429	63256	17320	42357	445	399576
1999-00	75427	65	7328	17110	25251	126346	230331	65600	14923	80523	19769	52193	1533	509529
2000-01	86767	62	6559	29213	56352	181623	238655	76446	17183	93629	22868	59328	714	594147
2001-02	104027	59	9419	40894	90226	249069	249551	84423	19392	103815	27389	64325	1042	690747
2002-03	133066	63	2512	51198	139193	333753	249179	91618	22060	113678	32188	65036	314	786430
2003-04	208901	82	3375	65960	198454	476772	192981	98550	33493	132043	42217	69116	246	913376
2004-05	243362	83	1498	67921	282200	595064	160045	106584	39352	145936	52311	75290	527	1029174
2005-	26050	82	407	7184	36593	698773	157004	11620	44755	16095	6312	8669	132	1167866

2006-07	268033	-3398	505	72650	422433	760224	147526	126211	45113	171325	70754	99487	1503	1250819
2007-08 RE	328679	-5126	606	79326	432306	835792	150615	136546	46926	183471	61130	104513	1523	1337044
2008-09 BE	389614	-6918	696	86049	454609	924052	157299	147997	48476	196473	62333	109325	1688	1451169

RE : Revised Estimates. BE : Budget Estimates. WMA : Ways and Means Advances.

Note : 1. Data relate to 28 State Governments. Data for 2006-07, 2007-08 (RE) and 2008-09 (BE) are provisional.

2. Total liabilites have been revised to include reserve funds, deposits and advances and contingency funds.

3. Outstanding liabilities from 1980-81 to 1989-90 have been derived by adding budgetary flows to CAG's data series on outstanding liabilities of State Governments with a base year (1986-87). However, outstanding debt for contingency funds has been derived by backward method of deducting budgetary flow from its outstanding liabilities in 1990-91.

4. Debt series from 1990-91 onwards have been compiled by taking the data provided by the CAG in 'Combined Finance and Revenue Accounts of the Union and State Governments in India'. In the absence of data for any particular head in the said publication, corresponding data from the State Budgets, data from Reserve Bank records have been used for compiling the data series on debt.

Also see Notes on Tables.

Source: Reserve Bank of India

Annexure 9

Combined Deficits of the Central and State Governments

(Rupees crore)

Year	Gross Fiscal Deficit	Gross Primary Deficit	Revenue Deficit
1	2	3	4
1980-81	10780	7818	551
1981-82	10608	6849	-987
1982-83	11116	6482	420
1983-84	15971	10441	2330
1984-85	22013	15150	5148
1985-86	22174	13551	5235
1986-87	30789	20148	7607
1987-88	32432	19427	10225
1988-89	35887	19431	12322
1989-90	43135	22603	15596
1990-91	53580	28585	23871
1991-92	45850	14858	21912
1992-93	52404	15936	23688
1993-94	70952	27938	36529
1994-95	71639	19313	37185
1995-96	77671	18598	37932
1996-97	87244	17156	48768
1997-98	110743	32466	62782
1998-99	157053	63956	110618
1999-00	184826	74375	121393
2000-01	199852	75035	138803
2001-02	226425	84039	159350
2002-03	234987	75927	162990
2003-04	234501	56928	159408
2004-05	234721	42409	114761
2005-06	239560	35583	99312
2006-07	230432	-399	55366
2007-08 RE	247831	-15905	40959
2008-09 BE	244460	-43017	26758

RE: Revised Estimates. BE: Budget Estimates.
Note: Negative (-) sign indicates surplus.
Also see Notes on Tables.
Source: Reserve Bank of India

Annexure 10

Key Deficit Indicators of the Central Government

(Rupees crore)

Year	Gross Fiscal Deficit	Net Fiscal Deficit	Gross Primary Deficit	Net Primary Deficit	Revenue Deficit	Primary Revenue Deficit*	Drawdown of Cash Balances#	Net RBI Credit@
1	2	3	4	5	6	7	8	9
1970-71	1408	780	803	749	-163	-769	285	223
1971-72	1727	1217	1057	1146	100	-570	519	583
1972-73	2179	990	1403	927	15	-761	870	1211
1973-74	1733	772	851	626	-237	-1119	328	630
1974-75	2302	865	1301	640	-765	-1766	720	528
1975-76	3029	1364	1802	1070	-886	-2114	367	-288
1976-77	3802	1572	2314	1189	-298	-1786	131	816
1977-78	3680	1813	2034	1608	-430	-2076	932	-260
1978-79	5710	2126	3726	1569	-292	-2276	1506	2191
1979-80	6392	3133	4100	2201	694	-1598	2433	2650
1980-81	8299	5110	5695	4301	2037	-567	2477	3551
1981-82	8666	4591	5471	3611	392	-2803	1400	3207
1982-83	10627	5973	6689	4887	1308	-2630	1656	3368
1983-84	13030	7770	8235	5643	2540	-2255	1417	3949
1984-85	17416	10972	11442	8961	4225	-1749	3745	6055
1985-86	21858	13544	14346	10627	5889	-1623	5316	6190
1986-87	26342	17036	17096	13143	7777	-1469	8261	7091
1987-88	27044	18431	15793	12935	9137	-2114	5816	6559
1988-89	30923	20770	16645	13473	10515	-3763	5642	6503
1989-90	35632	23722	17875	14439	11914	-5843	10592	13813
1990-91	44632	30692	23134	17924	18562	-2936	11347	14746
1991-92	36325	24622	9729	8961	16261	-10335	6855	5508
1992-93	40173	30232	9098	11644	18574	-12501	12312	4257
1993-94	60257	45994	23516	24331	32716	-4025	10960	260
1994-95	57703	40313	13644	12050	31029	-13031	961	2130
1995-96	60243	42432	10198	10806	29731	-20314	9807	19855
1996-97	66733	46394	7255	9022	32654	-26824	13184	1934
1997-98	88937	63062	23300	22748	46449	-19188	-910	12914
1998-99	113349	79944	35466	32138	66976	-10906	-209	11800
1999-00	104716	89910	14467	33556	67596	-22653	864	-5588
2000-01	118816	107854	19502	41351	85234	-14080	-1197	6705
2001-02	140955	123074	33495	51152	100162	-7298	-1496	-5150
2002-03	145072	133829	27268	53647	107879	-9925	1883	-28399
2003-04	123273	115558	-815	30008	98261	-25827	-3942	-76065
2004-05	125794	126252	-1140	31705	78338	-48596	-8130	-60177
2005-06	146435	145743	13805	35145	92299	-40331	-20888	28417
2006-07	142573	151245	-7699	23497	80222	-70050	4518	-3024
2007-08 RE	143653	137158	-28318	-17349	63488	-108483	-18184	-116772
2008-09 BE	133287	129542	-57520	-42130	55184	-135623	7225	-

RE : Revised Estimates. BE : Budget Estimates.

* : Revenue deficit net of interest payments.

: Represents conventional budget deficit prior to 1997-98. With discontinuation of the *ad hoc* treasury bills and 91-day tap Treasury bills, the concept of conventional budget deficit has lost its relevance since April 1,1997.

@ : Variation over end-March, as per RBI records, after closure of Government accounts.

Note : 1. Negative (-) sign indicates surplus.

2. Since 1999-00, gross fiscal deficit excludes States' share in small savings as per the new system of accounting. Also see Notes on Tables.

Source: Reserve Bank of India

Annexure 11

Key Deficit Indicators of the State Governments

(Rupees crore)

Year	Gross Fiscal Deficit	Gross Primary Deficit	Revenue Deficit	Primary Revenue Deficit	Overall Deficit	Net RBI Credit*
1	2	3	4	5	6	7
1970-71	901	503	19	-379	141	-
1971-72	1050	594	-6	-462	289	288
1972-73	1349	931	70	-400	-414	-386
1973-74	1470	918	117	-435	226	133
1974-75	1243	704	-395	-934	31	133
1975-76	1102	414	-972	-1660	-75	92
1976-77	1515	758	-1097	-1854	-48	22
1977-78	2038	1216	-1019	-1841	229	142
1978-79	2643	1690	-1135	-2088	-1010	-418
1979-80	2873	1931	-1548	-2490	188	339
1980-81	3713	2488	-1486	-2711	897	487
1981-82	4063	2623	-1379	-2819	1020	789
1982-83	4986	3281	-888	-2593	820 (a)	-984
1983-84	6359	4396	-210	-2173	561 (b)	38
1984-85	8199	5733	923	-1543	1438	1486
1985-86	7521	4581	-654	-3594	-1688 (c)	-1862
1986-87	9269	5168	-170	-4271	667	516
1987-88	11219	6321	1088	-3810	66	-157
1988-89	11672	5737	1807	-4128	-380	425
1989-90	15433	8247	3682	-3504	161	255
1990-91	18787	10132	5309	-3346	-72	420
1991-92	18900	7956	5651	-5293	156	-340
1992-93	20891	7681	5114	-8096	-1829	176
1993-94	20364	4564	3872	-11929	363	591
1994-95	27308	7895	6706	-12708	-4346	48
1995-96	30870	9031	8620	-13219	-2680	16
1996-97	36561	11175	16878	-8509	7202	898
1997-98	43474	13675	17492	-12307	-1803	1543
1998-99	73295	37854	44462	9021	3268	5579
1999-00	90099	45458	54549	9907	3125	1312
2000-01	87923	36937	55316	4331	-2378	-1092
2001-02	94260	32665	60398	-1198	3545	3451
2002-03	99726	30699	57179	-11848	-4291	-3100
2003-04	120631	40235	63407	-16989	-526	293
2004-05	107774	21353	39158	-47263	-10232	-2705
2005-06	90084	6060	7013	-77011	-33947	2425
2006-07	77509	-15654	-24857	-118021	-16078	640
2007-08 RE	107958	5080	-22526	-125404	24122	-3486
2008-09 BE	112653	4270	-28426	-136809	-2524	-

RE : Revised Estimates. BE : Budget Estimates.

* : Data pertain to State Governments having accounts with the Reserve Bank of India.

(a) : Excluding medium-term loans of Rs. 1,743 crore given by the Centre to the States to clear overdrafts as on March 31, 1982. (b) : Excluding medium-term loans of Rs.400 crore given by the Centre to the States to clear overdrafts as on March 31, 1983. (c) : Excluding medium-term loans of Rs. 1,628 crore given by the Centre to 17 States to clear overdrafts as on January 28, 1985. Note : 1. Data relate to 28 State Governments. Data for 2006-07, 2007-08 (RE) and 2008-09 (BE) are provisional.

2. Negative (-) sign indicates surplus in deficit indicators.

Also see Notes on Tables.

Source: Reserve Bank of India

Annexure 12

Expenditure Pattern of the Central and State Governments

(Rupees crore)

Year	Centre #			States				Centre and States Combined			
	Developmental Expenditure	Non developmental Expenditure	Total(2+3)	Developmental Expenditure	Non developmental Expenditure	Others*	Total(5+6+7)	Developmental Expenditure	Non developmental Expenditure	Others@	Total(9+10+11)
1	2	3	4	5	6	7	8	9	10	11	12
1980-81	13327	9867	23194	15961	4289	2414	22664	24480	12738	661	37879
1981-82	13791	12644	26435	17960	4997	2214	25170	28796	13609	2074	44479
1982-83	16333	15897	32230	20649	5883	2211	28742	33643	16473	1941	52057
1983-84	19407	18364	37771	23972	6882	2686	33540	38352	19936	1701	59989
1984-85	27375	18525	45900	27958	8340	3559	39857	46265	23390	1999	71654
1985-86	32909	20899	53808	31733	9617	3517	44867	50509	27301	817	78627
1986-87	35498	26060	64778	36827	11220	3740	51786	61721	33609	1920	100470
1987-88	36573	30261	70461	42451	13322	4098	59871	66295	39027	1323	110272
1988-89	41536	35519	81529	46984	15886	4208	67078	74428	46292	1294	126488
1989-90	54204	41020	95224	53150	19253	4379	76782	89420	54267	1452	145139
1990-91	58645	49349	107994	63370	22600	5118	91088	97724	64360	1436	163520
1991-92	59313	55170	114483	74588	27143	6198	107929	109372	72319	4214	185905
1992-93	65479	60584	126063	80567	32104	6664	119335	118202	82795	2046	203043
1993-94	72464	73586	146050	89388	38020	7241	134649	129042	100261	3347	232650
1994-95	82803	82402	165205	104348	49556	7650	161554	150367	119322	3185	272874
1995-96	84427	98632	183059	114820	55379	7385	177584	165361	135274	2947	303582
1996-97	94197	112217	206414	132008	62095	8666	202769	185368	154900	3280	343548
1997-98	110994	127820	238814	145269	71767	11099	228135	201399	178817	5086	385302
1998-99	137257	150298	287555	164504	86474	15383	266361	239720	215662	8563	463945
1999-00	129151	177928	307079	187297	110206	16386	313889	274483	257142	8798	540423
2000-01	139386	197470	336856	210543	118887	17768	347198	308546	277760	9289	595595
2001-02	159364	215456	374820	216696	138080	22536	377312	332224	307864	12879	652967
2002-03	184197	242749	426946	228416	151898	40147	420462	359329	339523	6052	704904
2003-04	195428	243298	438726	274080	166074	76196	516350	417834	371651	6899	796384
2004-05	214955	262904	477859	293537	188299	90518	572354	445354	416340	8063	869757
2005-06	229060	290677	519737	330044	190021	41617	561682	509525	440377	9953	959855
2006-07	255718	341278	596996	392165	211872	53243	657280	588028	507635	13511	1109174
2007-08 RE	318834 $	405325 $	724159 $	493563	241019	52907	787489	736974	602125	16731	1355830
2008-09 BE	360027	407504	767531	557116	275609	60058	892783	834345	631255	19935	1485535

RE: Revised Estimates. BE: Budget Estimates.

#: Includes gross expenditure of commercial and postal departments in respect of Central Government's Revenue Account.

*: Comprise discharge of internal debt, repayment of loans to the Centre and compensation and assignments to local bodies and Panchayati Raj institutions.

@: Adjusted for repayment of loans by the State Governments to the Centre as given in Central Government Budget documents. Includes repayments to National Small Saving Fund (NSSF) by the Centre for the years 2002-03 to 2004-05.

$: Inclusive of an amount of Rs.35,531 crore on account of transaction relating to transfer of the Reserve Bank's stake in SBI to the Government.

Also see Notes on Tables.

Source: Reserve Bank of India

CHAPTER - IV

PUBLIC EXPENDITURE CONTROL MEASURES IN INDIA- POLICY IMPLICATIONS AND EMERGING ISSUES

Introduction

Traditionally public expenditure represented a form of government intervention designed to promote allocative efficiency through correction of market failures, redistribute resources equitably and promote economic growth and stability (Musgrave, 1959). The redistributive powers of the State, through public expenditure, emanates from the normative arguments in favour of greater equality (Marshall, 1950; Rawls, 1971).

Role of Public Expenditure

Public expenditure diverts economic resources into channels determined by the Government in accordance with national objectives and public policy. As a consequence, the scale and direction of public expenditure may affect economic growth of the economy by-:

1. Enhancing the quality of life of people by providing recreational, cultural, and educational and public health facilities, such as public parks, playgrounds, libraries, educational institutions, hospitals and dispensaries and scientific, cultural and commercial exhibitions.
2. Allocating resources in accordance with national priorities. The priorities may be defence, agricultural production and self-sufficiency in food, industrial development, generation of employment opportunities, equitable distribution of income, balanced regional development, population control, better ecological balance etc.
3. Affecting
    - (i) the ability to work, save and invest,
    - (ii) the desire to work, save and invest,
    - (iii) allocation of resources as between different uses (Dalton).

4. Provision of free services like health, education etc to all members of the society, "narrows the area of inequality". Social security measures and social insurance schemes, which are financed partly or wholly from public funds, e.g. old age pensions, sickness and maternity benefits, unemployment relief, industrial injury compensation, widow's pension etc., improve distribution by reducing inequality of incomes.

5. Maintaining economic stability.

Public Expenditure in India

The role of public expenditure in the fiscal policy goals of growth, equity and stability, has varied across different phases of economic development in India. The historical importance of public expenditure lies in the mixed economy model adopted in India after Independence whereby the Government assumed the primary responsibility of building the capital and infrastructure base to promote economic growth. The concerns regarding equity and poverty alleviation after two decades of Independence added another important dimension to public expenditure in terms of redistribution of resources. The inadequate returns on capital outlays and the macro-economic crisis of early Nineties arising out of high fiscal deficit shifted the focus of public expenditure to efficiency in its management for facilitating adequate returns and restoring macroeconomic stability. While the fiscal policy goal of stability could be achieved, the modus operandi of public expenditure management through curtailing capital expenditure raises concerns about infrastructure investment and its impact on the long-term growth potential of the economy. Furthermore, stagnating revenue mobilization in particular and some upward movements in expenditures led to a reversal of the fiscal stabilization process since the second half of the Nineties.

Management of public expenditure has always been an issue. It may be more dominant at critical times than at times of relative stability and prosperity but it has always been, and will remain, a matter of concern. Although taxpayers may be more worried about the amounts they pay today to the Government, their concern about the benefits it is even if less vocal and articulate than their opposition to taxes. More recently, with persistent growth in fiscal problems in developing countries, former centrally planned economies, and established western, industrialized democracies, net efficacy of public expenditure management has been increasingly discussed.

Review of Literature

According to **Raghabendra Jha,** another prime candidate as an explanation for inadequate growth performance of the Indian economy is the (legendary) poor productivity of public expenditure in India. The seeds of such poor productivity are embedded in the very philosophy behind such expenditures. Public expenditure management systems in India have emphasized control and ignored achievement and have often served as avenues of easy and steady employment for many. As a consequence, Government Departments and programs have tended to expand uncontrollably irrespective of any rationale for their existence. Highly centralized decision-making and control systems have left bureaucrats unable to take initiatives to secure improved results even when they wished to do so. Hence, public service has settled into a low-level equilibrium, in which low expectations, the dead weight of bureaucracy, lack of incentives, accountability and political interference combine to generate low performance, high wastage and rampant corruption. In the Indian case, this is typified by a high incidence of failure of public expenditure across the board: from large-scale public sector white-elephant type investments to anti-poverty programs that do not at all reach the real poor.

Ranjit Kumar Pattnaik et.al. in the research paper attempted to analyze the role of public expenditure in India as a key operating fiscal policy instrument in order to achieve the goals of growth, equity and stability and yet maintaining the intermediate targets of deficit indicators to ensure the sustainability of public finances. The Indian economy running “nearly at full steam”, there is a case of reaping the benefits by higher mobilization of revenue receipts. This can emanate in three ways. First, when the economy is on an upswing, there is more probability of mobilizing more taxes. Second, the increased capital expenditures would promote growth and enable higher tax collections. Third, the user charges levied on the use of capital goods would boost non-tax revenue collections. Furthermore, given the fiscal policy transmission lag, there is a need to front load decisions on public investments, especially at a time when the Indian economy is on a high growth phase and industries have improved their efficiencies and increased their capacity utilization. Higher tax mobilization as well as recently increased share of their devolution to the States would be able to garner resources for implementation of schemes for provision of local public goods.

According to **Stephen Howes and Rinku Murgai (2004),** there is a necessity of expenditure to be saved by expenditure restructuring to reduce the gap between expenditure and revenue. There are significant savings that can feasibly be extracted from the salary bill, via both wage and hiring restraint, without sacrifice of expenditure quality. If real wage increases are avoided, the combined State-Central Government salary bill could fall by two percentage points of GDP over the next decade. While the pension bill cannot be expected to decline as a percentage of GDP, it can be contained by both structural reforms and, with more immediate effect, parametric reforms. India's subsidy bill is large, and large cuts would certainly be desirable, but the scope for savings is limited by reason of political economy. While there are ways to reduce India's subsidies through a combination of efficiency improvements and tough decisions, progress in this direction to date has been disappointingly slow. There is no assured path forward, and sustained reduction in the subsidy bill will require institutional experimentation.

Main expenditure control measures in India

- Reduction of Non plan expenditure
- Reduction of Defence Expenditure
- Increase in capital expenditure.
- Increment of administered prices like power, fertilizers;
- Restriction of provision of major subsidies.
- Reduction of jobs in Government Departments/ Public Sector undertakings (PSUS).
- Greater portion of expenditure were devoted to legitimate public goods.
- Some public services were transferred to the local government.
- Neutrality between present and future expenditure.
- A greater focus on public services outcomes.
- Improvements in institutional mechanisms.

- From 2008-09 onwards, Government was permitted to can only issue bonds only for financing the capital expenditure revenue expenditures have been restricted simultaneously.

Public Expenditures as a Percentage of GDP

	Revenue Exp.	Interest Payment	Major subsidies	Defence Exp.	Capital Exp.	Total Exp.
1990-91	13.7	4.0	2.3	2.0	5.9	19.7
1991-92	13.4	4.3	2.0	1.9	4.7	18.1
1992-93	13.2	4.4	1.7	1.7	4.3	17.4
1993-94	14.0	4.8	1.6	1.9	4.3	18.3
1994-95	11.8	4.2	1.2	1.6	3.7	15.5
1995-96	11.5	4.1	1.1	1.5	3.2	14.6
1996-97	11.3	4.2	1.1	1.5	3.0	14.3
1997-98	11.7	4.2	1.3	1.7	3.4	15.0
1998-99	12.4	4.4	1.2	1.7	2.2	14.6
1999-2000	12.8	4.8	1.8	1.8	2.5	15.3
2000-01	13.3	4.8	1.2	1.7	2.3	15.6
2001-02	13.2	4.7	1.3	1.6	2.7	15.9
2002-03	13.8	4.8	1.6	1.6	2.5	16.2
2003-04	13.1	4.3	1.6	1.5	4.0	17.2
2004-05	12.3	4.1	1.4	1.4	3.6	16.0
2005-06	12.3	3.7	1.2	1.3	1.9	14.1
2006-07	12.4	3.6	1.3	1.2	1.7	14.1
2007-08 (BE)	11.9	3.4	1.1	1.2	2.6	14.5

Source: Economic Survey of India (various issues)

(I) Relationship between Public Expenditure and GDP Growth

Log (GDP)1981-2007 = 3.2995 + 6.4002 log (Capital Expenditure) 1980-2006

Se = (0.1644) (0.0360) R Square = 0.9192

t ratio = (20.0726)** (17.1947)**

Probabilities = (2.3808) (1.0133)

Log (GDP)1981-1991 = 4.3723 + 3.7011 log (Capital Expenditure) 1980-1990

Se= (0.1144) (0.0271) R Square = 0.9573

t ratio = (38.2085)** (13.3937)**

Probabilities= (2.41763) (9.2417)

Log (GDP)1991-2003 = 2.9622 **+** 7.1610 **log (Capital Expenditure) 1990-2002**

Se= (0.3766) (0.0811) R Square = 0.8684

t ratio = (7.8657)** (8.5220)**

Probabilities= (7.6702) (3.5636)

Log (GDP)2003-2008 = 6.7860 - 0.7367 **log (Capital Expenditure) 2002-2007**

Se= (1.3248) (0.2666) R Square = 0.0249

t ratio = (5.122078) (-0.2773)#

Probabilities= (0.0144) (0.7995)

Note: ** significant at 99 %
not significant

From the above it is clear that, when capital expenditure was increased by one crore during the period 1991-2003, GDP increased by 7.16 percentage point. But since during 2003-2008, t ratio is insignificant, one can't say with certainty that with increase in capital expenditure, there is decline in GDP. However it can be said that during this period the impact of capital expenditure on GDP was not in favour of growth.

(II) Public Expenditure and Maintenance of Equity

Log (GDP)1981-2007 = 3.7301 + 5.0368 log (Developmental Expenditure) 1980-2006

se = (0.0886) (0.0182) R Square = 0.9665

t ratio = (42.0853)** (26.8839)**

Probability = (9.9159) (5.7248)

Log (GDP)1981-1991 = 4.5596 + 3.0885 log (Developmental Expenditure) 1980-1990
se = (0.1089) (0.0246) R Square = 0.9501
t ratio= (41.8496)** (12.3491)**
Probability= (1.1710) (1.7224)
Log (GDP)1991-2003 = 3.3058 + 5.9020 log (Developmental Expenditure) 1990-2002
se **= (**0.1227) (0.02455) R Square = 0.9802
t ratio = (26.9331)** (23.3510)**
Probability = (2.1513) (1.0084)
Log (GDP)2003-2008 = 2.6223 + 7.3130 log (Developmental Expenditure) 2002-2007
se = (0.5259) (0.0977) R Square = 0.9455
t ratio = (4.9861)** (7.2193)**
probability = (0.0155) (0.0054)

Note: ** significant at 99 % level

From the above it is clear that increase in developmental expenditure has a favorable impact on growth in the country. The impact is more after implementation of the FRBM Act. Social expenditure as a percentage of total expenditure is increasing at a increasing rate. As a result poverty rate has declined continuously.

Social expenditure as a Percentage of Total Expenditure

Year	Social Service	Education	Health	Urban Development	Information and Broad casting	Social Welfare
1990-91	12.68	1.29	3.66	2.53	0.54	1.27
1991-92	12.75	3.21	3.56	2.73	0.36	1.33
1992-93	11.72	3.01	3.87	1.87	0.07	1.48

1993-94	12.93	3.30	4.10	2.62	0.10	1.43
1994-95	13.95	3.84	4.26	2.55	0.11	1.55
1995-96	17.91	5.19	4.50	3.43	0.19	2.74
1996-97	19.10	5.05	4.22	5.18	0.20	2.74
1997-98	19.79	5.88	4.47	5.26	0.19	2.62
1998-99	21.66	6.36	4.73	5.94	0.18	2.87
1999-00	21.59	6.16	5.39	5.51	0.24	2.95
2000-01	21.61	6.26	5.23	5.63	0.30	2.91
2001-02	20.54	5.90	5.01	5.62	0.25	2.59
2002-03	20.36	6.16	4.85	5.81	0.29	2.13
2003-04	22.92	6.41	4.55	5.56	0.16	1.78
2004-05	19.20	7.64	5.25	5.99	0.15	1.83
2005-06	28.53	10.85	5.87	7.26	0.26	3.00
2006-07	28.33	12.43	5.76	5.69	0.21	2.92
2007-08	34.16	11.62	5.81	6.46	0.16	2.68
2008-09	36.99	13.47	6.11	6.40	0.26	2.83

Source: Budget at a Glance, Government of India

The social expenditure of the Centre, particularly on health, education and poverty alleviation, has direct bearing upon the Human Development Index (HDI) of the country. India ranked 132 in terms of HDI in the year 2008. A cause of concern has been the high regional disparity in HDI across the States in India, although an analysis of the State level HDIs by the Planning Commission indicates a decline in such regional disparity during the last two decades. There is a need to enhance the spending on social sector in India to improve its HDI status in general and to achieve the stated objectives of Tenth Five Year Plan like education for all, improvement in health status of the population and "shelter for all" by 2012.

Public expenditure and stability

One of the challenges for the Government during the reform period has been to strive for the process of fiscal consolidation with public expenditure management as one of the main operating fiscal policy instruments. The challenge has emerged as the public expenditure management had to contend with compression of capital expenditure in the face of committed nature of interest payments, subsidies and Defence expenses. As a proportion of GDP, aggregate expenditure of the Central Government declined almost continuously. It should be noted that the expenditure compression, as part of fiscal consolidation process in the first half of the Nineties, was mainly effected in the capital outlays which enabled reduction in the fiscal deficit and also revenue deficit.

Key Deficit indicators of the Centre

(Rupees crore)

Year	Gross fiscal deficit	Net fiscal deficit	Gross primary deficit	Net primary deficit	Revenue deficit	Primary revenue deficit	Financing of GFD - Draw down of cash balances	Net RBI credit
1990-91	44632	30692	23134	17924	18562	-2936	11347	14746
1991-92	36325	24622	9729	8961	16261	-10335	6855	5508
1992-93	40173	30232	9098	11644	18574	-12501	12312	4257
1993-94	60257	45994	23516	24331	32716	-4025	10960	260
1994-95	57703	40313	13644	12050	31029	-13031	961	2130
1995-96	60243	42432	10198	10806	29731	-20314	9807	19855
1996-97	66733	46394	7255	9022	32654	-26824	13184	1934
1997-98	88937	63062	23300	22748	46449	-19188	-910	12914
1998-99	113349	79944	35466	32138	66976	-10906	-209	11800
1999-00	104716	89910	14467	33556	67596	-22653	864	-5588
2000-01	118816	107854	19502	41351	85234	-14080	-1197	6705
2001-02	140955	123074	33495	51152	100162	-7298	-1496	-5150
2002-03	145072	133829	27268	53647	107879	-9925	1883	-28399
2003-04	123273	115558	-815	30008	98261	-25827	-3942	-76065
2004-05	125794	126252	-1140	31705	78338	-48596	-8130	-60177

2005-06	146435	145743	13805	35145	92299	-40331	-20888	28417
2006-07	142573	151245	-7699	23497	80222	-70050	4518	-3024
2007-08	126912	120714	-44118	-29256	52569	-118461	26594	116772
2008-09	326515	322011	133821	148353	241273	48579	-60367	176397
2009-10	400996	392882	175485	186545	282735	57224	-	-

Source: Reserve Bank of India

Notes:

1. Negative (-) sign indicates surplus.
2. Since 1999-00, gross fiscal deficit excludes States' share in small savings as per the new system of accounting. Also see Notes on Tables.

Recommendations:

- Decrease interest payment.
- Increase capital expenditure.
- Greater share should be transferred for developmental heads rather than to salaries and subsidies.
- Increase expenditure in social sectors.
- Expenditure decision should be undertaken by the local level governments.
- The return from the expenditure should be based on outcomes rather than outlays.
- To Give attention to the productivity aspect of the public expenditure.

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Annexure 1

Macro Economic Aggregates of India

Base Year:1999-2000 (Rupees crore)

Year	GDP at Factor Cost	Consumption of Fixed Capital	NDP at Factor Cost	Indirect Taxes less Subsidies	GDP at Market Prices	NDP at Market Prices	net factor income from abroad
1980-81	641921	58371	583550	53440	695361	636990	-2
1981-82	678033	61478	616554	59045	737078	675599	-1039
1982-83	697861	64899	632962	64761	762622	697723	-3584
1983-84	752669	68432	684238	65618	818288	749856	-3975
1984-85	782484	72365	710119	67089	849573	777208	-5533
1985-86	815049	76491	738558	78992	894041	817550	-5529
1986-87	850217	80811	769406	86454	936671	855860	-6164
1987-88	880267	85730	794537	93472	973739	888009	-8277
1988-89	969702	90990	878712	97880	1067582	976592	-11823
1989-90	1029178	96868	932311	101933	1131111	1034244	-12685
1990-91	1083572	99921	983651	110078	1193650	1093729	-15878
1991-92	1099072	106140	992932	107274	1206346	1100206	-16613
1992-93	1158025	112597	1045428	114432	1272457	1159860	-16785
1993-94	1223816	119648	1104168	109307	1333123	1213475	-15270
1994-95	1302076	127366	1174710	119755	1421831	1294464	-15483
1995-96	1396974	136598	1260376	132478	1529453	1392855	-16653
1996-97	1508378	146130	1362248	136660	1645037	1498907	-15972
1997-98	1573263	156218	1417045	138472	1711735	1555517	-13027
1998-99	1678410	167375	1511035	139342	1817752	1650377	-13840

1999-00	1786525	181421	1605103	165510	1952035	1770613	-15431
2000-01	1864301	193852	1670446	166410	2030711	1836856	-22428
2001-02	1972606	208469	1764137	164045	2136651	1928182	-20139
2002-03	2048286	223652	1824601	168847	2217133	1993448	-17876
2003-04	2222758	241441	1981317	179969	2402727	2161286	-19500
2004-05	2388768	262499	2126269	213297	2602065	2339566	-21085
2005-06	2616101	287426	2328675	228841	2844942	2557516	-20660
2006-07	2871120	316406	2554714	248911	3120031	2803623	-21264
2007-08	3129717	350068	2779648	272999	3402716	3052647	-14853
2008-09	3339375		2957698		3609425		

Source: Reserve Bank of India

Annexure 2

Components of Expenditure in India

(Rs in crore)

Year	Revenue expenditure	Capital expenditure	Loans and advances	Capital outlay	Total expenditure
1981-82	15408	9857	5658	4199	25265
1982-83	18742	12049	7384	4665	30791
1983-84	22251	13283	8053	5230	35534
1984-85	27691	15941	9194	6747	43632
1985-86	33924	18742	11087	7655	52666
1986-87	40860	22056	12797	9259	62916
1987-88	46174	22087	12793	9294	68261
1988-89	54106	25005	14750	10255	79111
1989-90	64210	28698	16890	11808	92908
1990-91	73516	31782	19652	12130	105298
1991-92	82292	29122	17723	11043	111414
1992-93	92702	29916	16297	13385	122618
1993-94	108169	33684	20454	13089	141853
1994-95	122112	38627	23736	14891	160739
1995-96	139861	38414	24316	14099	178275
1996-97	158933	42074	27878	14196	201007
1997-98	180335	51718	34193	17526	232053
1998-99	216461	62878	44037	18841	279340
1999-00	249078	48975	24938	24037	298053
2000-01	277839	47753	23008	24745	325592
2001-02	301468	60842	34284	26558	362310
2002-03	338713	74535	31668	29101	413248
2003-04	362074	109129	28768	34150	471203

2004-05	384329	113923	28910	52338	498252
2005-06	439376	66362	11337	55025	505738
2006-07	514609	68778	8524	60254	583387
2007-08	594433	118238	11298	106940	712671
2008-09	803446	97507	14202	83305	900953
2009-10	897232	123606	12339	111267	1020838

RE: Revised Estimates. BE: Budget Estimates.

*: Includes repayments to National Small Saving Fund (NSSF) apart from loans and advances and capital outlay.

@: Includes an amount of Rs.35, 531 crore, on account of transactions relating to transfer of RBI's stake in SBI to the Central Government.

Source: Reserve Bank of India

Annexure 3

Major Heads of Developmental and Non Developmental Expenditure in India

Year	Developmental expenditure	Economic services	Social services	Non-developmental expenditure	Total Development and Non-development Expenditure
1980-81	13327	5644	1008	9867	23194
1981-82	13791	6737	1244	12644	26435
1982-83	16333	7653	1509	15897	32230
1983-84	19407	9043	1689	18364	37771
1984-85	27375	12021	2146	18525	45900
1985-86	32909	14014	1496	20899	53808
1986-87	35498	16275	2161	26060	64778
1987-88	36573	15722	2369	30261	70461
1988-89	41536	18022	2769	35519	81529
1989-90	54204	25602	3061	41020	95224
1990-91	58645	24588	3274	49349	107994
1991-92	59313	23681	3569	55170	114483
1992-93	65479	26248	4009	60584	126063
1993-94	72464	27571	4830	73586	146050
1994-95	82803	33897	5873	82402	165205
1995-96	84427	35029	7655	98632	183059
1996-97	94197	37253	9672	112217	206414
1997-98	110994	44246	11845	127820	238814
1998-99	137257	54375	14656	150298	287555
1999-00	129151	60956	17221	177928	307079
2000-01	139386	71731	17679	197470	336856

2001-02	159364	80868	15130	215456	374820
2002-03	184197	103820	22007	242749	426946
2003-04	195428	108071	23859	243298	438726
2004-05	214955	115030	29906	262904	477860
2005-06	229060	133053	38264	290677	519737
2006-07	255718	142772	43762	341278	596996
2007-08	325670	172955	61648	400728	726398
2008-09	482508	286243	86368	434517	917025
2009-10	519695	294158	102179	518945	1038640

RE: Revised Estimates. BE : Budget Estimates.

*****: Includes an amount of Rs.35, 531 crore on account of transactions relating to transfer of RBI's stake in SBI to the Central Government.

Note: Data on development and non-development gross expenditures are inclusive of Commercial and Postal departments.

Source: Reserve Bank of India.

CHAPTER - V
EXTERNAL DEBT IN INDIA

Introduction

The assessment of international liability is an important segment of macro-economic management. International liabilities comprise of external debt and equity-related liabilities. In the Indian context external debt is the main component of external liabilities. Therefore, a comprehensive, comparable, reliable and regularly disseminated statistics on external debt becomes crucial for policymakers, financial markets and others. Towards this end, the Government of India has been collecting, compiling and publishing data regularly on India's external debt since 1993 providing extensive statistics, composition, key indicators of India's external debt together with the comparative position of other indebted countries of the developing world.

Definition

Gross external debt, at any given time, is defined as "the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to non-residents by residents of an economy".

Stock of External Debt

India's total external debt stock was US $ 251.4 billion as at end December 2009 recording on increase of US $ 26.8 billion and an increase of US $ 21.6 billion. Compared to the end-Dec. 2008 estimate of US $ 229.8 billion. The valuation effect arises because external debt is denominated in different currencies and US dollar value which is the international numeraire for indicating debt-numbers, fluctuates over time vis-à-vis other currencies.

India's Stock of External Debt

At the end of March

External Debt	2001	2005	2006	2007 (R)	2008 (PR)	2009 (QE)
US$ Million	101,326	132,973	138,133	171,331	224,573	229,887
Rs. Crore	472,625	581,802	616,144	746,918	897,955	1,169,575

QE= Quick Estimate, Source: - www.finmin.nic.in

Components of External Debt

At the end-March 2008, the long-term debt accounted for 80 per cent of the total external debt and short-term debt formed the remaining 20 per cent. While the long-term debt raised by 24 per cent during the year 2007-08 (adding US$ 33.6 billion to the total debt outstanding), the short-term debt increased by 68 per cent (raising the debt stock by US$ 17.9 billion). The increase in long-term debt during the year 2007-08 was primarily because of an increase in External Commercial Borrowings, by 49 per cent over the year (US$ 20.36 billion).

Components of External Debt

(At the End of March, US$ Million)

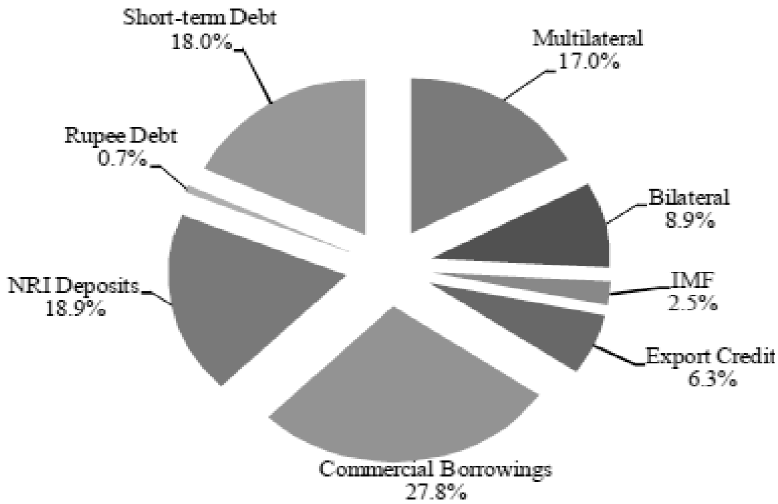
S. No.	Components	2008 (QE)	2007 (PR)	2006	Variation (3-4)	Absolute (4-5)
1	2	3	4	5	6	7
1	Multilateral	39,312	35,337	32,620	3,975	2,717
2	Bilateral	19,613	16,061	15,761	3,552	300
3	Trade Credits	10,267	7,051	5,420	3,216	1,631
4	(ECB)External Commercial Borrowings	62,019	41,657	26,452	20,362	15,205
5	NRI Deposits	43,672	41,240	36,282	2,432	4,958
6	Rupee Debt	2,016	1,947	2,059	69	-112
A	Long-term	1,76,899	1,43,293	1,18,594	33,606	24,699

	Debt (1 to 6)					
B	Short-term Debt	44,313	26,376	19,539	17,937	6,837
A+B	Total Ext. Debt	2,21,212	1, 69,669	1, 38,133	51,543	31,536

Source: - www.finmin.nic.in

At the end-March 2008, outstanding ECBs at US$ 62 billion accounted for the highest share in total external debt, followed by short-term debt at US$ 44.3 billion and Non-Resident Indian (NRI) deposits at US $ 43.7 billion. Multilateral and bilateral debt accounted for US$ 39.3 billion and US$ 19.6 billion, respectively. Trade credits stood at US$ 10.3 billion and Rupee debt at US$ 2 billion.

Composition of External Debt (At the end of December, 2009)



Source: - www.finmin.nic.in

Key External Debt indicators

The sustainability of external debt can be measured by solvency and liquidity parameters such as debt service ratio, foreign exchange cover of external debt, ratio of external debt to gross domestic product (GDP) and the component of concessional debt in total external debt. The ratio of short-term debt to foreign currency assets measures the immediate impact on foreign exchange outgo, while the ratio of short-term to total debt assesses the market and roll-over risks associated with the external debt. Though the major external debt indicators are in the comfortable zone, they presented a mixed picture during 2007-08.nmnm

(Per cent)

Year	External Debt (US$ Billion)	Debt service Ratio	Ratio of Foreign Exchange Reserve to Total Debt	Ratio of Total External Debt to GDP	Ratio of Concessional Debt to Total Debt	Ratio of Short-term Debt to Foreign Exchange Reserve	Ratio Of Short-term Debt to Total Debt
2003-04	111.6	16.1	101.2	17.8	36.1	3.9	4.0
2004-05	133.0	6.1	106.4	18.5	30.9	12.5	13.3
2005-06	138.1	9.9	109.8	17.2	28.6	12.9	14.1
2006-07 PR	169.7	4.8	117.4	17.8	23.3	13.2	15.5
2007-08 QE	221.2	5.4	140.0	18.8	19.9	14.3	20.0

Source: - www.finmin.nic.in

Classification of External Debt

The standard format in which India's external debt statistics are regularly published provides a mix of source-wise and maturity-wise classification of external debt. In addition, external debt could also be analyzed by disaggregating it under:-

- Creditor wise classification
- Borrower wise classification
- Instrument wise classification
- Currency composition

Creditor wise classification

(At the end March, US$ million)

Components	1991	2003	2004	2005	2006	2007 PR	2008 QE
Long Term Debt (A)	75,257	1,00,245	1,07,214	1,15,250	1,18,594	1,43,293	1,76,899
Multilateral	20,900	29,994	29,297	31,744	32,620	35,337	39,312
Bilateral	14,168	16,802	17,277	17,034	15,761	16,061	19,613
IMF	2,623	0	0	0	0	0	0
Trade Credit	4,301	4,995	4,697	5,022	5,420	7,051	10267
Commercial Borrowings	10,209	22,472	22,007	26,405	26,452	41,657	62,019
NRI Deposits	10,209	23,160	31,216	32,743	36,282	41,240	43,672
Rupee Debt	12,847	2,822	2,720	2,302	2,059	1,947	2,016
Short Term Debt (B)	**8,544**	**4,669**	**4,431**	**17,723**	**19,539**	**26,376**	**44,313**
Total External Debt (A+B)	**83,801**	**1,04,914**	**1,11,645**	**1,32,973**	**1,38,133**	**1,69,669**	**2,21,212**
Share of Official Creditors in Total External Debt (%)	**63.5**	**48.3**	**45.5**	**39.3**	**37.3**	**32.1**	**28.1**
Share of Private Creditors in Total External Debt (%)	**36.5**	**51.7**	**54.5**	**60.7**	**62.7**	**67.9**	**71.9**

Source: - www.finmin.nic.in

Borrower Wise Classification

(At the end March, US$ million)

Components	2001	2005	2006	2007 R	2008 PR	2009QE
Government Debt	43,956	46,668	45,278	48,167	56,947	54,856
(Debt)	43.4	35.1	32.8	28.4	25.4	23.9
Non-Government	57,370	86,305	92,855	123,000	167,626	175,031
Long Term	53,742	69,741	73,456	95,288	121,242	126,597
Financial Sector	32,661	43,455	42,334	48,414	50,971	48,682
Public Sector	9,024	6,496	6,671	7,978	11,040	12,375
Private Sector	12,057	19,790	24,451	38,896	59,232	65,540
Short Term	3,628	16,564	19,399	26,214	46,384	48,434
Total Ext. Debt	1,01,326	1,32,973	1,38,133	1,69,669	224,573	229,887

Source: - www.finmin.nic.in

Instrument Wise Classification

(At the end March, US$ million)

Components	2009
Government	53,917
Financial Sector	49,757
Non-Financial Public Sector	12,375
Non-Financial Private Sector	64,465
Short-Term Debt	49,373
Total External Debt	229,887

Source: - www.finmin.nic.in

Currency Composition

(At the end March, in %)

Components	2001	2005	2006	2007 R	2008 PR	2009 QE
US Dollar	55.0	48.0	49.2	52.0	57.1	56.5
SDRs	12.8	14.2	13.7	12.0	10.2	9.2
Indian Rupees	12.4	19.6	18.9	17.7	14.5	15.1
Japanese Yen	10.1	10.5	10.9	11.6	12.1	13.5
Euro	5.8	4.6	4.4	4.0	3.6	3.6
Pound Sterling	2.9	2.6	2.6	2.4	2.2	1.9
Others	1.0	0.5	0.3	0.3	0.3	0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

R: Revised; PR: Partially Revised; QE: Quick Estimates Source: - www.finmin.nic.in

India's International Investment Position

India's international assets at US$ 331.73 billion at the end-December 2007 comprise of foreign exchange reserves held by RBI as the major component (83 per cent). The composition of India's international liabilities shifted in favour of non-debt liabilities during the recent past. The net international investment position of India has reflected an increase in both debt and non-debt variety of international liabilities in the last two years.

(US $ billion)

Assets/ Liabilities	At end March						end Dec.
	2003	2004	2005	2006	2007R	2008PR	2009QE
1- Assets	95.6	136.0	165.7	184.8	245.3	331.7	350.0
Direct Investment Abroad	5.8	7.8	1.0	15.9	29.4	39.0	67.3
Portfolio Investment	0.8	0.4	0.5	1.0	0.8	0.6	0.8
Financial	0.0	0.0	0.0	0.0	0.0	0.0	0.8

Derivatives							
Other Investment	12.9	14.9	13.7	15.5	15.9	16.9	29.9
Reserve Assets	76.1	113.0	141.5	151.6	199.2	275.3	252.0
2- Liabilities	156.1	183.2	219.6	243.7	307.7	405.6	415.3
Direct Investment	31.2	38.2	44.5	52.4	76.2	102.4	124.8
Portfolio Investment	32.4	43.7	56.0	64.3	79.5	124.6	84.9
Other Investment	92.4	101.3	119.2	127.1	152.0	178.7	205.6
1 - 2	-60.5	-47.2	-53.9	-59.8	-62.4	-73.9	-65.3

Source: - www.rbi.org.in

International Comparison of External Debt

A cross-country comparison of external debt serves as a useful tool to assess a country's external indebtedness in the international perspective. An international comparison of the magnitude of India's external debt and its key indicators has been made on the basis of information released by World Bank in Global Development Finance (GDF), 2008. A consolidated picture of India's indebtedness as compared with the rest of the world is given in the table appearing hereunder. A quick survey of the developments in the external indebtedness of developing countries indicates that external debt burden of developing countries as a group declined in 2007.

External Debt Stock

The ratio of India's external debt stock to Gross National Income as of 2006, was 17.8 per cent and it was the second lowest after that of China. India ranked fifth amongst the top ten debtor countries of the developing world in 2006. Amongst the top ten indebted countries, India was the only 'low' income country, all the other nine countries being 'middle' income countries as per World Bank's classification.

International Comparison: Top 10 Debtor Countries amongst Developing Economies, 2006-07

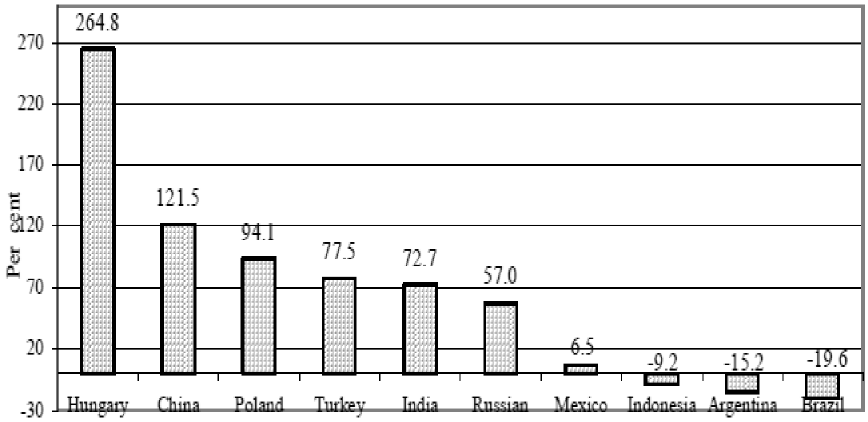
S. No.	Countries	Total Debt Stock (US$ million)	Ratio of Total Debt to Gross National Income (%)	Income Classification
1	China	3,22,845	12.2	Middle
2	Russian Federation	2,51,119	26.2	Middle
3	Turkey	2,07,854	51.7	Middle
4	Brazil	1,94,053	18.7	Middle
5	**India**	**1,69,669**	**17.8**	**Low**
6	Mexico	1,60,700	19.5	Middle
7	Indonesia	1,30,956	37.5	Middle
8	Poland	1,25,831	38.7	Middle
9	Argentina	1,22,190	58.6	Middle
10	Hungary	1,07,667	102.7	Middle

Source: - www.finmin.nic.in

Change in External Debt Stock

Among the top ten developing indebted countries, three countries, viz. Indonesia, Argentina and Brazil have moderated their external debt outstanding, recording a net decline in the total external debt outstanding between 2000 and 2006. All other countries recorded an increase in their external debt outstanding during the same period. The addition to India's external debt outstanding between 2000 and 2006 was of the order of US$ 73 billion (around 68 per cent increase).

International Comparison of Change in External Debt Stock between 2000-01 to 2006-07 (in %)

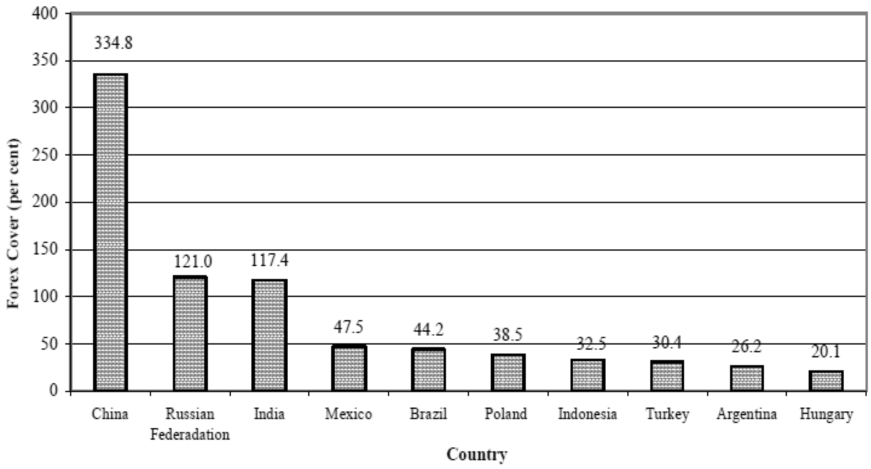


Source: - www.finmin.nic.in

Foreign Exchange Reserve Cover of External Debt:-

In terms of the cover of external debt provided by foreign exchange reserves, India was the third highest at 117.4 per cent, coming after China and the Russian Federation. Besides China, Russian Federation and India, all other countries had less than 50 per cent reserve cover of their external debt.

International Comparison of Forex Reserve Cover of External Debt, 2006-07

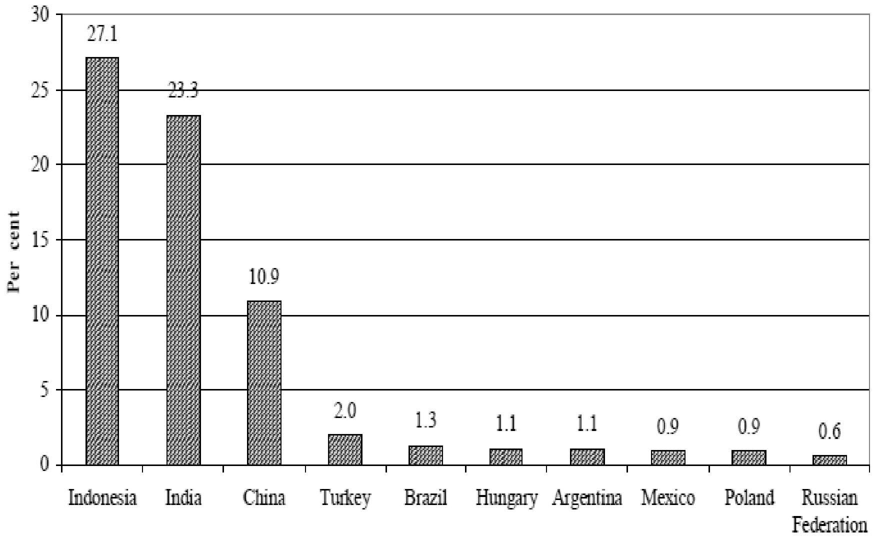


Source: - www.finmin.nic.in

Concessional Debt and Present Value of External Debt:-

On a cross-country comparison, it was observed that the proportion of concessional debt in the total external debt was the second highest for India (23.3 per cent) after Indonesia (27.1 per cent). To identify concessional loans, GDF follows the same concessionality criteria as is being used by Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). DAC identifies all those loans as concessional which have an original grant element of 25 per cent or more which is derived from comparing the rate of interest charged by the donor with the market rate of 10 per cent.

International comparison of Share of Concessional Debt in Total External Debt

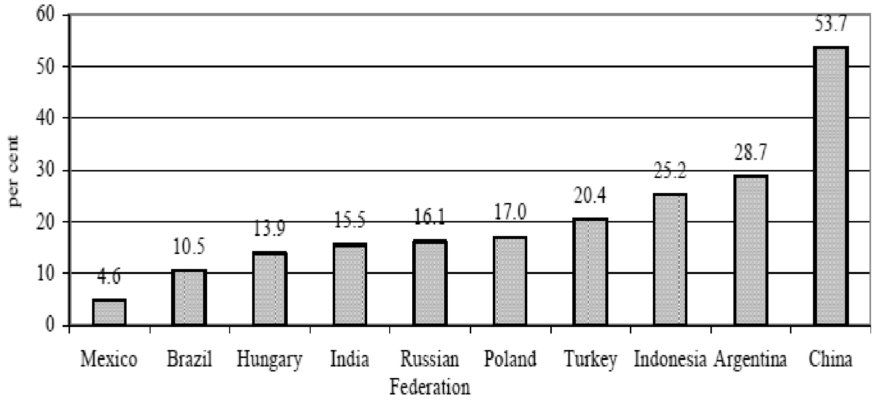


Source: - www.finmin.nic.in

Short-term Debt

With the ratio of short-term debt to total debt at 15.5 per cent (as of 2006) as per GDF 2008, India was placed at the lower order in the hierarchy of top ten indebted countries. While Mexico figured lowest (4.6 per cent), China topped the list (54 per cent).

International comparison of the Ratio of Short-term Debt to Total External Debt



Source: - www.finmin.nic.in

Debt Service Payments

A cross-country comparison of the figures of debt service payments indicates that India's debt service ratio in 2006-07 was 4.8 per cent. This was the second lowest amongst the top ten debtor countries of the developing world after China which had the lowest ratio of 2.5 per cent.

International Comparison: External Debt Service Payments of Top 10 Debtor Countries amongst Developing Economies, 2006-07

S. No.	Countries	Total External Debt Service Payments (US$ million)	External Debt Service Ratio (%)
1	China	27,877	2.5
2	Russian Federation	50,223	13.8
3	Turkey	40,511	33.2
4	Brazil	62,145	37.3
5	**India**	**11,854**	**4.8**
6	Mexico	56,068	18.9
7	Indonesia	20,434	16.6
8	Poland	36,044	24.7
9	Argentina	18,994	31.6
10	Hungary	30,828	33.1

Source: - www.finmin.nic.in

Debt Servicing

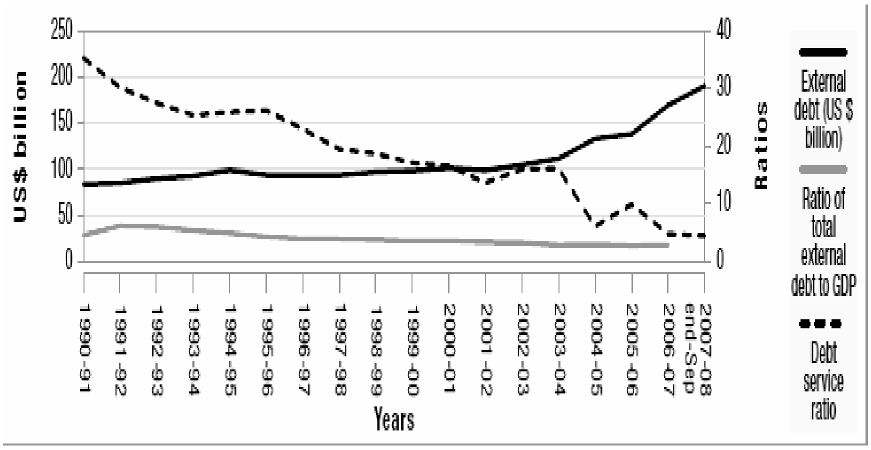
Debt service payments and debt service ratio occupy a pivotal place in the analysis of the country's external debt volume. The scale of debt service payments has a bearing on the cash flow and foreign exchange reserve management. Debt service ratio, as measured by the proportion of gross debt service payments to external current receipts, would reflect the extent of pressure on external payments. A relatively larger outgo on account of debt service payments in the form of principal and interest payments could pre-empt a significant part of foreign exchange earnings, thereby reducing the availability of foreign exchange for other essential payments.

Debt Service Payments and Debt Service Ratio

The debt service payments increased by around US$ 5 billion during 2007-08.While the combined debt servicing of external assistance and ECBs increased 1.5 times during 2007-08 as compared to 2006-07, the debt servicing under all other categories of borrowing remained more or less the same. During the year 2007-08, around 68.6 per cent of debt service payments, inclusive of principal and interest, was on account of ECBs. Another 20 per cent of total debt service payment was accounted for by external assistance.

India's external debt, ration of external debt to

GDP and debt service ratio



Source: - www.indiabudget.nic.in

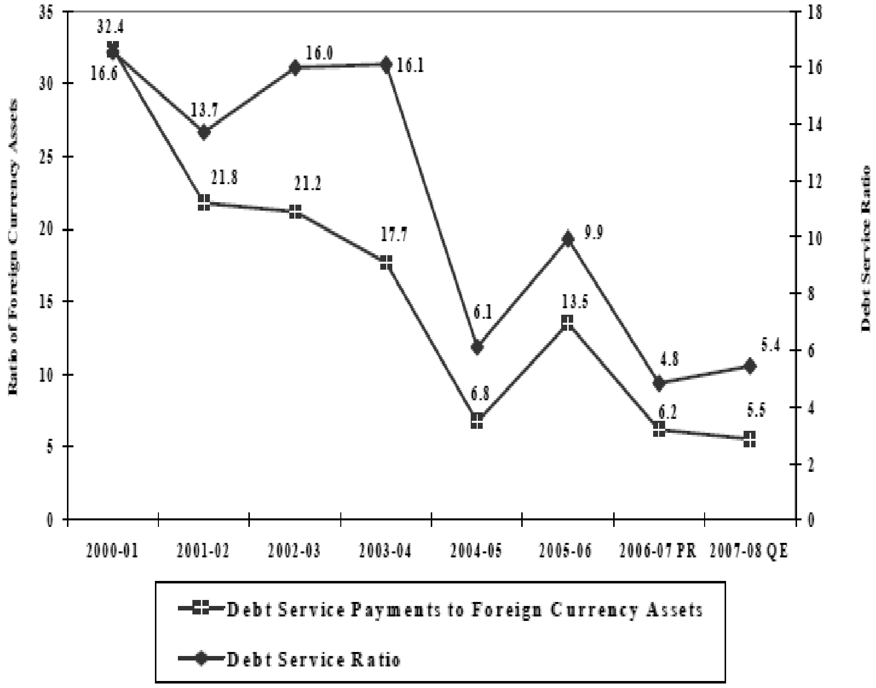
India's External Debt Service Payments

(At end March, US$ million)

Components	1991	2004	2005	2006	2007 PR	2008 QE
External Assistance	**2,315**	**6,983**	**2,855**	**2,652**	**2,904**	**3,241**
Repayments	1,187	6,193	2,129	1,945	1,922	2,099
Interests	1,128	790	726	707	982	1,142
External Commercial Borrowings	**3,414**	**10,164**	**4,530**	**14,839**	**6,819**	**11,317**
Repayments	2,004	8,045	3,571	11,824	4,236	6,119
Interests	1,410	2,119	959	3,015	2,583	5,198
IMF	**778**	**0**	**0**	**0**	**0**	**0**
Repayments	644	0	0	0	0	0
Interests	134	0	0	0	0	0
NRI Deposits	1,282	1,642	1,353	1,497	1,969	1,813
Interests	1,282	1,642	1,353	1,497	1,969	1,813
Rupee Debt	**1,193**	**376**	**417**	**572**	**162**	**121**
Repayments	1,193	376	417	572	162	121
Total Debt Service	**8,982**	**19,165**	**9,155**	**19,560**	**11,854**	**16,492**
Repayments	5,028	14,614	6,117	14,341	6,320	8,339
Interests	3,954	4,551	3,038	5,219	5,534	8,153
Debt Service Ratio (%)	**35.3**	**16.1**	**6.1**	**9.9**	**4.8**	**5.4**
Interest Payment to Current Receipts Ratio	15.5	3.8	2.0	2.7	2.3	2.7

Source: - www.finmin.nic.in

Debt Service Ratio and Ratio of Debt Service Payments to Foreign Currency Assets



Source: - www.finmin.nic.in

Principal Repayments under Short Term Debt

(At the end March, US$ million)

Component	1991	2001	2002	2003	2004	2005	2006	2007 PR	2008 QE
Principal Repayment	677	10,692	6,355	4,206	9,670	13,602	17,647	23,380	31,729

Source: - www.finmin.nic.in

Projections of Debt Service Payments

Projections of future debt service payments are important for the effective cash flow management. Based on long-term debt outstanding at the end of March 2008, such projections till 2017-18 have been made. These projections do not include future debt service obligations that may arise out of fresh borrowings. Also, NRI deposits and FII investment in debt securities are excluded. It is estimated that the principal repayments for the period 2011-12 to 2012-13 would be larger as compared to other years because of higher gross disbursements of ECBs during 2006-07 and 2007-08.

Projected Debt Service Payments

(At end March, US$ million)

Years	Principal	Interest	Total
2008-09	9,303	4,309	13,612
2009-10	9,686	3,353	13,039
2010-11	12,213	2,691	14,904
2011-12	15,312	2,907	18,219
2012-13	18,041	3,250	21,291
2013-14	9,629	1,977	11,606
2014-15	6,844	1,654	8,498
2015-16	6,422	1,553	7,975
2016-17	6,199	1,333	7,532
2017-18	5,445	1,129	6,574

Source: - www.finmin.nic.in

Implicit Interest Rate

Since different loans in the external debt portfolio are contracted at different rates of interest, working out of the implicit or effective rate of interest would help in assessing the average cost of external borrowing. Implicit interest rates relate to total interest payments made during the year as a percentage of the outstanding debt at the end of the previous year. The implicit interest rate on total external debt increased to 4.8 per cent during 2007-08 from 4 per cent during 2006-07 due to hardening of international interest rates. While the implicit interest rate on NRI deposits declined from 5.4 per cent during 2006-07 to 4.4 per cent during 2007-08, the implicit interest rate for ECBs and external assistance rose marginally from 4.5 per cent to 4.7 per cent and from 2.1 per cent to 2.3 per cent, respectively, over the same period.

Implicit Interest Rate on India's External Debt

(At end March, in %)

Components	2001	2002	2003	2004	2005	2006	2007	2008
Implicit Interest Rate on Total Ext. Debt	4.5	4.3	3.8	4.3	2.7	3.9	4.0	4.8
External Assistance	2.3	2.4	2.5	1.7	1.6	1.5	2.1	2.3
ECB	6.2	4.7	4.0	7.6	3.7	4.5	4.5	4.7
NRI Deposits	12.3	10.9	8.2	7.1	4.3	4.6	5.4	4.4

Source: - www.finmin.nic.in

External Debt Management:-

External debt management received explicit attention in the policy framework designed as a part of economic reforms initiated in 1991. As a consequence, India's debt accumulation was moderated in the post reform period and debt sustainability indicators improved markedly over the years. For example, the burden of external debt measured in terms of the ratio of external debt to GDP has declined from 28.7 per cent at the end-March 1991 to 18.8 per cent at the end-March 2008. Over the same period, the ratio of short-term debt to foreign exchange reserves declined from 146.5 per cent to 14.3 per cent and the cover provided by foreign exchange reserves to total external debt increased from 7.0 per cent to 140.0 per cent. Some of the specific measures undertaken to moderate the debt level included pre-payment of high interest bearing multilateral and bilateral loans; monitoring of short-term debt; revising regularly the interest rates on NRI deposits in the light of developments in international interest rates and policy stance on such deposits; along with rationalizing the guidelines relating to ECBs, along with regulating their end-use.

Premature Repayment of High-Cost External Debt

As international interest rates softened during the beginning of the current decade, India prepaid certain high cost sovereign loans raised earlier. The consideration for pre-payment of an external loan was that the replacement cost of the loan should be lower than the rupee cost of the existing loan. The replacement cost was defined to include the interest cost for raising fresh funds from alternate resources for pre-payment plus breakage cost charged by the donor; and the rupee cost of the existing loan was estimated as the sum of the contracted rate of interest on the loan and presumed rate of depreciation of the foreign currency.

Pre-payment of Loans raised under External Assistance Programme

(US$ Million)

Year	Government Account			Non- Govt. Account			Total		
	Multilateral	Bilateral	Total	Multilateral	Bilateral	Total	Multilateral	Bilateral	Total
2002-03	2,788.70	111.5	2,900.20	530	-	530	3,318.70	111.5	3,430.20
2003-04	2,534.20	1,219.30	3,753.50	43.9	-	43.9	2,578.10	1,219.30	3,797.40
2004-05	-	35.2	5.2	9.9	336.4	346.3	9.9	371.6	381.5
2005-06	-	-	-	23.5	-	23.5	23.5	-	23.5
2006-07 PR	-	61.1	61.1	-	-	-	-	61.1	61.1
2007-08 QE	-	-	-	-	-	-	-	-	-

Source: - www.finmin.nic.in

Short-term Debt

As high levels of short-term debt could expose the country to the risk of external shocks, the Report of the High Level Committee on Balance of Payments (1993) recommended that short-term debt should be permitted only for trade-related purposes under normal terms and conditions. Since then the short-term trade credits are strictly restricted to trade purposes and not allowed for any other purpose. These trade credits are regularly monitored by RBI on the basis of periodic reports submitted by the Authorized Dealers (ADs). Besides, short-term debt on a residual maturity basis is also computed. This gives an assessment of the total repayment liability falling due during the year and its likely impact on the foreign exchange outgo.

Non-Resident Indian (NRI) Deposits

NRI deposits have increased in recent years both in absolute numbers and as a proportion of total external debt. The rationalization of the structure of interest rates on NRI deposits form a part of external debt management policy. Some of the important policy initiatives taken in the past for managing these deposits included withdrawal of schemes with exchange guarantees, elimination of short-term components and encouraging long-term deposits. During 2007-08, the interest rates on NRI deposits were reset to reflect the changes in international interest rates and policy stance on such deposits.

External Commercial Borrowings (ECBs)

The loans which are raised by the private sector from international capital markets with maturity of more than three years are classified as ECBs, while those with maturity of one to three years are categorized as trade credits and those with maturity of one year or less fall under the category of short term credits.

The following table shows details of approvals, gross disbursements, debt-servicing and debt outstanding under ECBs. Compared to 2006-07, the level of approvals during 2007-08 was higher by about US$ 6.1 billion. Gross disbursements for 2007-08 were also higher by US$ 8 billion compared to the previous year.

External Commercial Borrowings

(US$ Million)

Year	Approval	Gross Disbursement	Amortization	Interest	Total Servicing	Debt Outstanding
1985-86	1,390	1,470	462	499	961	6,227
1990-91	1,903	1,700	1,191	1,042	2,233	13,909
1991-92	2,127	2,798	1,146	994	2,140	15,557
1992-93	2,200	1,001	1,357	917	2,274	15,818

1993-94	2,585	1,859	1,703	896	2,599	16,650
1994-95	4,469	2,670	2,513	1,091	3,604	18,037
1995-96	6,286	4,538	3,311	1,162	4,473	19,024
1996-97	8,581	7,018	4,032	1,177	5,209	20,261
1997-98	8,712	7,400	3,411	1,406	4,817	23,946
1998-99	5,200	6,927	3,153	1,575	4,728	28,182
1999-00	2,837	9,295	5,043	1,683	6,726	30,922
2001-02	2,653	2,933	4,013	1,534	5,547	29,579
2002-03	4,235	30,033	5,001	1,180	6,181	28,074
2003-04	6,671	5,149	8,015	2,031	10,046	25,809
2004-05	11,490	9,094	3,571	959	4,530	31,595
2005-06	17,175	14,606	11,518	2,996	14,514	32,371
2006-07 PR	24,492	20,713	3,757	1,751	5,508	48,529
2007-08 QE	30,569	28,609	6,098	4,199	10,297	70,665

Source: - www.finmin.nic.in

Comparison of Interest Rates:-

The continuing difference in domestic and international interest rates has been one of the main reasons for the rise in commercial borrowings during the last few years.

Comparison of Interest Rates, 2006-07 and 2007-08

(In %)

Components	2006	2007
Yield Rate on Corporate Debt Papers (with AAA Rating) for 5 year maturity (Domestic Market)	8.16 to 9.17	9.60 to 10.63

	US $	Euro	GB Pound	Japanese Yen	US $	Euro	GB Pound	Japanese Yen
Range of LIBOR Rates (one year)	5.11 to 5.77	3.16 to 4.18	4.74 to 5.93	0.34 to 0.81	2.18 to 5.51	4.19 to 4.89	5.23 to 6.65	0.78 to 1.20
Range of LIBOR Rates (one year)	5.77	4.18	5.93	0.81	5.51	4.89	6.65	1.20
Effective Interest Rate on ECBs	5.31	3.76	4.19	0.98	4.86	3.89	6.33	1.13
Effective Interest Rate on ECBs including All-in-Cost	6.21	4.81	6.14	1.71	5.87	4.81	6.33	2.27

Source: - www.finmin.nic.in

Conclusions

- The effort was towards improvements in the coverage of External Debt during the year with the objective of enhancing the quality of India's External Debt statistics. The study reveals the fact that despite increase in the quantity of external debt of the country, India's external debt situation is in the safe zone.
- At the end-March 2008 India's external debt stock stood at US$ 221.2 billion (Rs. 884,516 crore), reflecting an increase of US$ 51.5 billion (30.4 per cent) over the year.
- At the end-March 2008, the long-term debt accounted for 80 per cent of the total external debt and short-term debt formed the remaining 20 per cent. While long-term debt rose by 24 per cent during the year 2007-08 (adding US$ 33.6 billion to the total debt outstanding), short-term debt increased by 68 per cent (raising the debt stock by US$ 17.9 billion).
- Foreign exchange reserves cover of external debt increased from 117.4% during 2006-07 to 140.0% during 2007-08. Debt service ratio remained low at 5.4% in 2007-08, though this was marginally higher

by 0.6% over the previous year. The ratio of external debt to GDP increased from 17.8% in 2006-07 to 18.8% in 2007-08; the ratio of short-term debt to foreign exchange reserves rose from 13.2% at the end-March 2007 to 14.3% at the end-March 2008 and the ratio of short-term debt to total external debt too increased from 15.5% to 20% over the same period.

- India’s international assets at US$ 331.73 billion and liabilities at US$ 405.6 at the end-December 2007, shows the negative balance of US$ -73.9 at the end-December 2007.The net international investment position of India reflects an increase in international liabilities during the last two years.
- India's external debt position compares well with that of other developing countries. India ranked fifth amongst the developing economies in terms of stock of external debt. India had the second lowest debt service ratio and external debt to GDP ratio. The Forex cover of external debt is the third highest.
- Debt service payments increased from US$ million 11,854 during the year 2006-07 to US$ million 16,492 during the year 2007-08 and debt service ratio from 4.8% to 5.4% during the same period. Principal repayments under short-term debt increased from US$ million 23,380 to US$ million 31,729 during the same period.
- The projection is reflecting the mixed picture of India’s debt service payment. In the year 2012-13 the debt service payment will be at the peak point at US$ million 21,291 and lowest point in the year 2017-18 at US$ million 6,574.
- The implicit interest rate on total external debt increased to 4.8 per cent during 2007-08 from 4 per cent during 2006-07. While the implicit interest rate on NRI deposits declined from 5.4 per cent during 2006-07 to 4.4 per cent during 2007-08, the implicit interest rate for ECBs and external assistance rose marginally from 4.5 per cent to 4.7 per cent and from 2.1 per cent to 2.3 per cent, respectively, over the same period.
- The burden of external debt measured in terms of the ratio of external debt to GDP has declined from 28.7 per cent at the end-March 1991 to 18.8 per cent at the end-March 2008.

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Annexure:-

India's External Debt

(At end March, US$ Million)

S. No.	Item	2006	2007	2008
1	**Multilateral**	**32,620**	**35,337**	**39,312**
A	**Govt. Borrowings**	**29,996**	**32,514**	**36,005**
I	Concessional	23,731	24,876	26,736
a	IDA	23,418	24,548	26,375
b	Others	313	328	361
II	Non-Concessional	6,265	7,638	9,269
a	IBRD	4,400	5,015	5,634
b	Others	1,865	2,623	3,635
B	**Non Govt. Borrowings**	**2,624**	**2,823**	**3,307**
I	Concessional	0	0	0
II	Non-Concessional	2,624	2,823	3,307
a	Public Sector	1,908	2,136	2,578
	IBRD	1,030	1,043	1,168
	Others	878	1,093	1,410
b	Financial Institutions	589	554	586
	IBRD	141	150	148
	Others	448	404	438
c	Private Sector	127	133	143
	IBRD	0	0	0
	Others	127	133	143
2	**Bilateral**	**15,761**	**16,601**	**19,613**
A	**Govt. Borrowings**	**12,239**	**12,343**	**14,785**
I	Concessional	12,211	12,343	14,785
II	Non-Concessional	28	0	0

B	**Non Govt. Borrowings**	**3,522**	**3,718**	**4,828**
I	Concessional	1,558	396	432
a	Public Sector	1,185	285	305
b	Financial Institutions	373	111	127
c	Private Sector	0	0	0
II	Non-Concessional	1,964	3,322	4,396
a	Public Sector	813	1,702	2,508
b	Financial Institutions	535	878	931
c	Private Sector	616	742	957
3	**IMF**	**0**	**0**	**0**
4	**Trade Credits**	**5,420**	**7,051**	**10,267**
a	Buyer's Credits	3,607	5,305	8,218
b	Supplier's Credits	751	673	763
c	Export Credit of Bilateral Credit	1,062	1,073	1,286
d	Export Credit for Defence Purpose	0	0	0
5	**Commercial Borrowings**	**26,452**	**41,657**	**62,019**
a	Commercial Bank Loans	16,479	24,784	40,142
b	Securitized Borrowings	9,217	15,606	20,364
c	Loan/securitized Borrowings, etc. with multilateral/Bilateral Guarantee	756	1,267	1513
d	Self Liquidating Loans	0	0	0
6	**NRI Deposits**	**36,282**	**41,240**	**43,672**
7	**Rupee Debt**	**2,059**	**1,947**	**2,016**
a	Defence	1,819	1,723	1,794
b	Civilian	240	224	222
8	**Total Long Term Debt (1-7)**	**1,18,594**	**1,43,293**	**1,76,899**
9	**Short Term Debt**	**19,539**	**26,376**	**44,313**

a	Trade Related Credit upto 180 Days	10,703	14,008	20,778
b	Trade Related Credit Above 180 Days	8,696	11,971	2,284
c	FII Investment in Govt.	140	397	651
10	**Gross Total**	**1,38,133**	**1,69,669**	**2,21,212**
	Concessional Debt	39,559	39,562	43,969
	(%)	28.6	23.3	19.9
	Short Term Debt (%)	14.1	15.5	20.0
	Debt Indicators:-			
1	Debt Stock – GDP Ratio (%)	17.2	17.8	18.8
2	Debt Service Ratio (%)	9.9	4.8	5.4

Source: - www.rbi.org.in