Status Paper on Government Debt

Recently, the Ministry of Finance has released the Status Paper on government debt 2017-18.

Findings of Report

- Central government's total debt as a percentage of GDP fell to 46.5% in 2017-18 from 47.5% as of March 2014. But the debt of state government rose to 24% in 2017-18 and is estimated to be 24.3% in 2018-19.
    - The data show that the central government is moving in the right direction in terms of meeting the **N.K. Singh Committee recommendations** on public debt but the States are not keeping up with committee recommendations.
- External debt constituted 2.9% of GDP at end-March 2018, implying low currency risk to the Government of India's debt portfolio and its impact on the balance of payments remains insignificant.
- The general government liabilities, which include state government liabilities, rose to 68.2% of GDP in 2017-18 from 67.5% of GDP in 2016-17.

Reason for debt

- **Bank Recapitalisation:** Infusing capital in state-run banks using recapitalization bonds in 2017-18 increased the total central government debt in both absolute terms and as a percentage of GDP that fiscal.
    - In 2017-18, Rs 80,000 crore of recapitalization bonds were used to fund state-run banks.
- **UDAY bonds:** The liabilities of states have increased during 2015-16 and 2016-17, following the issuance of **Ujwal Discom Assurance Yojna (UDAY) bonds.**
    - UDAY was launched in November 2015 to help loss-making state power distribution utilities turn around financially, with support from their respective State governments.

N.K. Singh Committee

- A panel under former Revenue Secretary, N.K. Singh was constituted by the government in May 2016 for reviewing the **Fiscal Responsibility and Budget Management (FRBM) Act, 2003.**

Recommendations

- The Committee suggested using debt as the primary target for fiscal policy.
- **Debt to GDP ratio of 60% should be targeted with a 40% limit for the center and 20% limit for the states. The targeted debt to GDP ratio should be achieved by 2023.**
- **It said that the 60% consolidated Central and State debt limit was consistent with international best practices, and was an essential parameter to attract a better rating from the credit rating agencies.**
- To achieve the targeted debt to GDP ratio, it proposed yearly targets to progressively reduce the fiscal and revenue deficits till 2023.
- The Committee suggested that grounds on which the government can deviate from the targets should be clearly specified, and the government should not be allowed to notify other circumstances.
- Further, the government may be allowed to deviate from the specified targets upon the advice of

the Fiscal Council in the following circumstances:
    - considerations of national security, war, national calamities and collapse of agriculture affecting output and incomes,
    - structural reforms in the economy resulting in fiscal implications, or
    - a decline in real output growth of at least 3% below the average of the previous four quarters.

Government Debt

- Government liabilities are classified as debt contracted against the Consolidated Fund of India (defined as Public Debt) and liabilities in the Public Account, called Other Liabilities.
- Public debt is further classified into internal and external debt.
- Internal debt consists of marketable debt and non-marketable debt. Government dated securities and treasury bills, issued through auctions, together comprise marketable debt.
- Treasury Bills issued to state governments and select central banks, special securities issued to National Small Savings Fund (NSSF), securities issued to international financial institutions, etc. are part of the non-marketable internal debt.
- External Debt refers to money borrowed from a source outside the country. External debt has to be paid back in the currency in which it is borrowed.
- Other Liabilities include liabilities on account of Provident Funds, Reserve Funds and Deposits, Other Accounts, etc.