Fiscal and Budgetary Development in 2001-02

2.8 The fiscal deficit as a proportion of GDP was budgeted at 4.7 per cent in 2001-2002 (BE) compared with 5.5 per cent in 2000-01 on the basis of provisional unaudited figures. The revenue deficit, a measure which reflects the excess of current expenditure over the current receipts, was 3.2 percent of GDP in 2001-02(BE) compared with 3.9 per cent in 2000-01. The primary deficit, i.e., the fiscal deficit net of interest payments, which is an indicator of the current fiscal stance of the Government, was budgeted at 0.2 percent of GDP in 2001-02 compared with 0.8 per cent in the previous year. The profile of Union Government finances during the years 1998-99 to 2000-01 reveals revenue deficit as a proportion of GDP in excess of 3.5 per cent, after remaining subdued at around 2.5 per cent during 1995-96 and 1996-97 (Table 2.1). The revenue deficit has remained at fairly high level in the recent past owing to divergent trends in revenue expenditure and taxes (net to Centre) in relation to the GDP. Revenue expenditure as a proportion of GDP surged from a low of 11.6 per cent in 1996-97 to 13.1 per cent in 2000-01. In contrast, tax revenue (net to Centre) as a proportion of GDP which fell from 6.8 per cent in 1996-97 to a mere 6 per cent in 1998-99, recovered to 6.5 per cent in 2000-01 and is 7.1 per cent in 2001-02(BE) (Table 2.2). Improvement in the tax to GDP ratio has been constrained by a shift in the composition of GDP in favour of services sector which has yielded very little by way of service tax collections in relation to their size. The other has been a declining role of customs as a source of revenue as a result of conscious policy to foster efficiency and integration into the world economy by lowering customs tariffs. On the other hand, compression in the revenue expenditure has been made difficult by the contractual nature of sizeable chunk of revenue expenditure and rigidities in the expenditure pattern.

2.9 Revenue receipts (tax and non-tax), net to Centre, are budgeted to grow by 21.3 per cent from Rs.1,90,988 crore in 2000-01 to Rs.2,31,745 crore in 2001-2002 (BE). The tax receipts (net

TABLE 2.1 Trends in Parameters of Deficit of Central Government			
Year	Revenue Deficit	Primary Deficit	Fiscal Deficit
	(As per cent of GDP)		
1990-91	3.3	2.8	6.6
1991-92	2.5	0.7	4.7
1992-93	2.5	0.6	4.8
1993-94	3.8	2.2	6.4
1994-95	3.1	0.4	4.7
1995-96	2.5	0.0	4.2
1996-97	2.4	-0.2	4.1
1997-98	3.1	0.5	4.8
1998-99	3.8	0.7	5.1
1999-2000	3.5	0.7	5.4
2000-2001*	3.9	0.8	5.5
2001-2002(BE)#	**3.4**	**0.2**	**5.1**

* Provisional and unaudited as reported by Controller General of Accounts, Department of Expenditure, Ministry of Finance

The ratios to GDP at current market prices for 2001-2002 (BE) are based on CSO's Advance Estimates released in January, 2002

Note: 1. Ratios to GDP at current market prices (Base: 1993-94)

2. The fiscal deficit excludes the transfer of States' share in the small savings collections.

to Centre) component is budgeted to grow by 20.6 per cent during 2001-2002. The fiscal deficit is the outcome of growth in aggregate expenditure and revenue trends. Aggregate expenditure which grew by 7.2 percent in 2000-01 is budgeted to increase by 17.4 percent in 2001-2002. This sharp increase in the growth of aggregate expenditure in 2001-02 is due to growth in both revenue expenditure and capital expenditure. The capital component of total expenditure is budgeted to show a substantial increase of about 38 per cent in 2001-02 (which includes Rs. 5,000 crore additional Plan expenditure linked to disinvestment receipts) after a dip of 4.2 per cent in 2000-01. Revenue expenditure is estimated to grow by about 14 per cent in 2001-02 on top of 9.5 per cent increase in 2000-01. (Table 2.2).

2.10 Total capital receipts are budgeted to grow by 11.6 per cent to Rs.1,43,478 crore in 2001-2002 from Rs.1,28,622 crore in 2000-01. Gross borrowings and other liabilities at Rs.1,16,314 crore in 2001-2002(BE) account for an overwhelming 81 per cent of total capital receipts compared with 89 per cent (Rs.1,14,369 crore) in 2000-01. The non-debt capital receipts (recovery of loans plus PSUs disinvestment receipts) are placed higher at Rs.27,164 crore in 2001-2002(BE) as against Rs.14,253 crore in 2000-01. The major source of financing of fiscal deficit of the Central Government continues to be debt creating capital receipts. (Table 2.2).

2.11 The agreed limit on Reserve Bank of India's Ways and Means Advances (WMA) for the Centre is placed at Rs.10,000 crore and Rs.6,000 crore for the period April-September, 2001 and October-March, 2001-02 respectively. WMA is meant to meet temporary mismatch between revenue receipts and expenditure of the Central Government.

2.12 The financing of the fiscal deficit is still largely through borrowings and other liabilities. Net market borrowings at Rs.77,353 crore in 2001-02 (BE) are estimated to finance about 66 per cent of the fiscal deficit compared with about 69 per cent in 2000-01.

2.13 The Central Government pension liability (civil and defence) alone has reached unsustainable proportions. As a percentage of GDP, it has risen from about 0.4 per cent in 1993-94 to 0.7 per cent in 2001-02(BE). One of the significant measures introduced was regarding pension reforms. A new pension programme based on defined contributions has been envisaged for those entering Central Government services after October 1, 2001. In order to review the existing pension system and to provide a road map for the Government a high level Expert Group has been constituted. The salient features of the Central Government Pension System are enumerated in Box 2.1.

Government Debt

2.14 The macro-economic implications of Central Government debt can be gauged in terms of the relative size of the debt and its movement over time. The total outstanding liabilities, comprising internal liabilities and external debt (adjusted for end-March exchange rate) were 61.4 per cent of GDP in 1990-91. As a proportion of

TABLE 2.2

Receipts and Expenditure of the Central Government

	1990-91	1996-97	1997-98	1998-99	1999-2000	2000-01* (Provsional)	2001-02# (BE)
1	2	3	4	5	6	7	8
				(Rs crore)			
1. Revenue receipts (2+3)	54954	126279	133886	149485	181513	190988	231745
2. Tax revenue	**42978**	**93701**	**95672**	**104652**	**128271**	**135193**	**163031**
(Net of States share)							
3. Non-tax revenue	**11976**	**32578**	**38214**	**44833**	**53242**	**55795**	**68714**
4. Revenue expenditure	**73516**	**158933**	**180336**	**216460**	**249109**	**272696**	**310566**
of which							
(a) Interest payments	21498	59478	65637	77882	90249	97342	112300
(b) Major subsidies	9581	13644	17819	20695	22898	26480	27845
(c) Defence expenditure	10874	20997	26174	29861	35216	37144	42041
5. Revenue deficit	**18562**	**32654**	**46450**	**66975**	**67596**	**81708**	**78821**
6. Capital receipts	**31971**	**50872**	**83345**	**106276**	**116571**	**128622**	**143478**
of which							
(a) Recovery of loans	**5712**	**7540**	**8318**	**10633**	**10131**	**12076**	**15164**
(b) Other receipts (mainly PSU disinvestment)	0	455	912	5874	1724	2177	12000
(c) Borrowings and other liabilities	26259	42877	74115	89769	104716	114369	116314
7. Capital expenditure	**24756**	**31403**	**35985**	**39092**	**48975**	**46914**	**64657**
8. Total expenditure	**98272**	**190336**	**216321**	**255552**	**298084**	**319610**	**375223**
of which							
(a) Plan expenditure	28365	53534	59077	66818	76182	83468	100100
(b) Non-plan expenditure	69907	136802	157244	188734	221902	236142	275123
9. Fiscal deficit	**37606**	**56062**	**73205**	**89560**	**104716**	**114369**	**116314**
10. Primary deficit	**16108**	**-3416**	**7568**	**11678**	**14467**	**17027**	**4014**
10.1 Primary deficit consumption	6358	-2364	8817	22602	16299	21336	13519
10.2 Primary deficit investment	9750	-1052	-1249	-10924	-1832	-4309	-9505
				(As per cent of GDP)			
1. Revenue receipts (2+3)	**9.7**	**9.2**	**8.8**	**8.6**	**9.4**	**9.1**	**10.1**
2. Tax revenue	**7.6**	**6.8**	**6.3**	**6.0**	**6.6**	**6.5**	**7.1**
(Net of States share)							
3. Non-tax revenue	**2.1**	**2.4**	**2.5**	**2.6**	**2.8**	**2.7**	**3.0**
4. Revenue expenditure	**12.9**	**11.6**	**11.8**	**12.4**	**12.9**	**13.1**	**13.6**
of which							
(a) Interest payments	3.8	4.3	4.3	4.5	4.7	4.7	4.9
(b) Major subsidies	1.7	1.0	1.2	1.2	1.2	1.3	1.2
(c) Defence expenditure	1.9	1.5	1.7	1.7	1.8	1.8	1.8
5. Revenue deficit	**3.3**	**2.4**	**3.1**	**3.8**	**3.5**	**3.9**	**3.4**
6. Capital receipts	**5.6**	**3.7**	**5.5**	**6.1**	**6.0**	**6.2**	**6.3**
of which							
(a) Recovery of loans	1.0	0.6	0.5	0.6	0.5	0.6	0.7
(b) Other receipts (mainly PSU disinvestment)	0.0	0.0	0.1	0.3	0.1	0.1	0.5
(c) Borrowings and other liabilities	4.6	3.1	4.9	5.2	5.4	5.5	5.1
7. Capital expenditure	**4.4**	**2.3**	**2.4**	**2.2**	**2.5**	**2.2**	**2.8**
8. Total expenditure	**17.3**	**13.9**	**14.2**	**14.7**	**15.4**	**15.3**	**16.4**
of which							
(a) Plan expenditure	5.0	3.9	3.9	3.8	3.9	4.0	4.4
(b) Non-plan expenditure	12.3	10.0	10.3	10.8	11.5	11.3	12.0
9. Fiscal deficit	**6.6**	**4.1**	**4.8**	**5.1**	**5.4**	**5.5**	**5.1**
10. Primary deficit	**2.8**	**-0.2**	**0.5**	**0.7**	**0.7**	**0.8**	**0.2**
10.1 Primary deficit consumption	1.1	-0.2	0.6	1.3	0.8	1.0	0.6
10.2 Primary deficit investment	1.7	-0.1	-0.1	-0.6	-0.1	-0.2	-0.4
Memorandum items				(Rs. crore)			
(a) Interest receipts	8730	22106	25323	30076	33878	32774	41578
(b) Dividend and profit	564	2354	2681	3433	5074	4196	5420
(c) Non-plan revenue expenditure	60896	127298	145162	175941	202309	219501	250341

* Provisional and unaudited as reported by Controller General of Accounts, Department of Expenditure, Ministry of Finance.

\# The ratios to GDP at current market prices for 2001-2002 (BE) are based on CSO's Advance Estimates released in January, 2002

Note:
1. Ratios to GDP at current market prices (Base : 1993-94)
2. Primary deficit consumption =Revenue deficit-interest payments+interest receipts+dividend & profits
3. Primary deficit investment =Capital expenditure-interest receipts -Dividend & profits-recovery of loans-other receipts.
4. Figures are exclusive of the transfer of States' share in the small savings collections.
5. The figures of plan expenditure for 2001-02(BE) includes Rs. 5000 crore, lump sum provision for additional plan expenditure linked to disinvestment receipts.

BOX 2.1

Central Government Pension System

There are three main components of retirement benefits currently provided to Central Government employees: (i) lump-sum Gratuity, based upon number of years of service. This is governed by the Payment of Gratuity Act 1972. The gratuity is based upon the length of service rendered by an employee and the last pay drawn; and is paid as a lump-sum amount on retirement/ death, subject to a ceiling (the present ceiling being Rs.3.5 lakh); (ii) a General Provident Fund (GPF), to which employees contribute, also provides for a lump-sum payment on retirement. This is a Defined Contribution (DC) scheme. Each government employee is required to contribute a minimum of 6 per cent of basic pay to the GPF, with no matching contributions from the Government. The amounts contributed by the employees are retained in Government's cash balance and carry a rate of interest, which is fixed by the Government from time to time and; (iii) an unfunded Defined Benefit pension, which is paid from current revenues. This is the most significant retirement benefit. The maximum "Replacement Rate" (the ratio of income from retirement benefits to pre-retirement income, after mandatory deductions) is 50 per cent of the average salary during last ten months of service. There is also a maximum limit on the absolute amount of pension, which is 50 per cent of highest pay in Government. The pension benefits are paid out of current revenues, in the case of the non-commercial departments. As per present Government policy, pensions are indexed not only to inflation but also to changes in the salary structure of serving employees.

An important point to note is that the Government pension system in India is not a true Pay-As-You-Go (PAYG) system, as conventionally defined. In a true PAYG system, benefits to retirees are (at least partially) funded through contributions by existing employees and/or payroll taxes on those working. Government employees in India do not contribute to the fund of their basic pension benefits, which are met solely from Government's current revenues.

The implementation of the Fifth Central Pay Commission (FPC) recommendations brought about a sharp spurt in the pension payments in the latter half of the 1990s due to the following major changes in the pension structure (a) pension levels were linked to salaries of serving employees thus, in effect, ushering in a "one-rank, one-pension" regime; (b) these linkages were

Trends in Pension Expenditure

(Rs. crore)

	1990-91 (Actuals)	1995-96 (Actuals)	1996-97 (Actuals)	1997-98 (Actuals)	1998-99 (Actuals)	1999-00 (Actuals)	2000-01 (RE)	2001-02 (BE)
Posts	150	312	384	558	677	681	815	835
Civil	480	1103	1425	1948	2803	3286	4021	4320
Defence	1670	3197	3683	4947	7270	11024	10539	10770
Railways	886	2117	2509	3509	4144	4018	5167	5800
Telecom	85	199	252	413	452	437	575	685
Total	**3271**	**6928**	**8253**	**11375**	**15346**	**19446**	**21117**	**22410**
				As percentage of GDP				
Total	0.6	0.6	0.6	0.7	0.9	1.0	1.0	1.0

BOX 2.1 (Continued)

extended to all existing pensioners, irrespective of date of retirement; (c) basic pension amounts were given full indexation to inflation; and (d) commutable amounts were increased from the existing 33 per cent to 40 per cent. As a result pension payments for all departments surged from Rs.11,375 crore in 1997-98 to Rs.21,117 crore in 2000-01, i.e., an increase of almost 86 per cent over three years. It is instructive to note that FPC had assessed the financial implications of its recommendation for pension of the order of Rs.1,170 crore per annum, which corresponds to an increase of Rs.3,510 crore over the three years 1997-98 to 2000-01.

There are 5 major sub-categories of Central Government pensions which relate to (i) Civil (ii) Defence (iii) Postal (iv) Railways and (v) Telecom. Over 50 percent of pension payments of Central Government are accounted by Defence. The pensionary expenditure of the Railways and Telecom is not met from the Consolidated Fund of India. Although the Department of Telecom has been corporatised, pay and pension of its employees has been fully protected by the Government and their pension liability is ultimately a sovereign obligation. It would be seen from the Table below that pension expenditure of the Government of India (including Telecom and Railways) has gone up by approximately six times over a ten year period i.e., from Rs.3,271 crore in 1990-91 to Rs.19,446 crore in 1999-2000. Revised estimates for the year 2000-01 place pension outgo at Rs.21,117 crore (i.e. an increase of approximately Rs.1,700 crore in a single year). Pension expenditure (Posts, Civil, Defence, Railways and Telecom) as a percentage of GDP at current market prices rose from 0.6 per cent of GDP in 1995-96 to one per cent in 2000-01. Further, pension expenditure (defence plus civil) as a proportion of net revenue receipts of the Centre rose from around 4 per cent in 1995-96 to about 7 per cent in 2000-01(RE).

The Working Group on Pension Liabilities (henceforth referred to as WG) has expressed the view that pension liability of the Central Government would go up further over time primarily on account of several factors which include: increased life expectancy; indexation of pension to the wage of serving employees; full neutralisation of inflation linked to cost of living index; higher rate of retirement in the next 10 years because of a fifty-seven per cent increase in employment over the period 1957-71; decrease in spread of salaries by successive Pay Commissions resulting in increase in average pension; increase in promotional avenues leading to increase in final salaries and hence in pensions and; revision of pension of past pensioners in line with successive Pay Commission recommendations.

The WG has recommended a transition to a funded system of pension payments for new Government employees and a system of incentives to encourage migration of existing employees to funded systems. The most important effect of such a fund is to make explicit and transparent the pensionary liability of the Government of India. It should be stressed, however, that pre-funding pension liabilities from the general budget does not reduce the quantum of the liability. If anything, there will be an adverse impact on the Government's fiscal position in the short term in the process of establishing the pension fund. This fiscal impact can only be mitigated for the incremental liability of new employees with the introduction of a DC component from these employees, whether partial or total. The greater the magnitude of the DC component in the pension package of the new employees, the lower will be the incremental impact. There should also be no corresponding (one-for-one) increase in employees' salary levels to compensate them for this contribution.

GDP, these liabilities followed a declining trend till 1996-97 when this ratio reached 56.4 per cent. This ratio then has increased to 58.1 per cent in 1997-98, 59.6 per cent in 1999-2000, and 62.0 per cent in 2000-01(RE). Internal liabilities as a percent of GDP which were 49.8 percent in 1990-91 declined to 47.9 percent in 1998-99, but increased to 49.9 per cent in 1999-2000 and further to 52.9 percent in 2000-01(RE). Due to conversion of other liabilities (small savings, deposits and public provident funds) into Central Government securities from 1999-2000, there is sharp increase in internal debt and corresponding decline in 'other internal liabilities'.

2.15 External liabilities, reported in the budget are based on historical exchange rates and are budgeted higher at Rs.59,593 crore at end-March, 2002 compared with Rs.58,428 crore at end-March, 2001. As per cent of GDP, these liabilities are budgeted to decline by 0.2 percentage point to 2.6 per cent of GDP at end-March, 2002. However, to get a realistic idea of the outstanding external liabilities, it is appropriate to convert these liabilities by using the exchange rate prevailing at the end of the reference period. Accordingly, the outstanding external liabilities at end-March, 2001 were Rs.1,89,990 crore (9.1 per cent of GDP) compared with

TABLE 2.3
Outstanding Liabilities of the Central Government

			(end-March)				
	1990-91	1996-97	1997-98	1998-99	1999-2000	2000-01 (RE)	2001-02 (BE)
			(Rs. Crore)				
1. Internal liabilities	**283033**	**621438**	**722962**	**834551**	**962592**	**1105207**	**1256356**
a) Internal debt	154004	344476	388998	459696	714254	804528	892935
i) Market borrowings	70565	184101	216598	285584	355862	431809	504662
ii) Others	83439	160375	172400	174112	358392	372719	388273
b) Other Internal liabilities	129029	276962	333964	374855	248338	300679	363421
2. External debt(outstanding)*	**31525**	**54238**	**55332**	**57255**	**58437**	**58428**	**59593**
3. Total outstanding liabilities(1+2)	**314558**	**675676**	**778294**	**891806**	**1021029**	**1163635**	**1315949**
4. Amount due from Pakistan on account of share of pre-partition debt	300	300	300	300	300	300	300
5. Net liabilities (3-4)	**314258**	**675376**	**777994**	**891506**	**1020729**	**1163335**	**1315649**
			(As per cent of GDP)				
1. Internal liabilities	**49.8**	**45.4**	**47.5**	**47.9**	**49.9**	**52.9**	**54.8**
a) Internal debt	27.1	25.2	25.5	26.4	37.0	38.5	39.0
i) Market borrowings	12.4	13.5	14.2	16.4	18.4	20.7	22.0
ii) Others	14.7	11.7	11.3	10.0	18.6	17.9	16.9
b) Other Internal liabilities	22.7	20.2	21.9	21.5	12.9	14.4	15.9
2. External debt(outstanding)*	**5.5**	**4.0**	**3.6**	**3.3**	**3.0**	**2.8**	**2.6**
3. Total outstanding liabilities	**55.3**	**49.4**	**51.1**	**51.2**	**52.9**	**55.7**	**57.4**
Memorandum items							
(a) External debt (Rs.crore)@	66314	149564	161418	177934	186791	189990	N.A.
(as per cent of GDP)	11.7	10.9	10.6	10.2	9.7	9.1	N.A.
(b) Total outstanding liabilities(adjusted)	349347	771002	884380	1012485	1149383	1295197	N.A.
(as per cent of GDP)	61.4	56.4	58.1	58.2	59.6	62.0	N.A.
(c) Internal liabilities (Non-RBI)#	208978	484632	574256	692842	820967	960783	1107432
(as per cent of GDP)	36.7	35.4	37.7	39.8	42.5	46.0	48.3
(d) Outstanding liabilities (Non-RBI)# (Rs.crore)	275292	634196	735674	870776	1007758	1150773	N.A.
Outstanding liabilities (Non-RBI) (as per cent of GDP)	48.4	46.4	48.3	50.0	52.2	55.1	N.A.
(e) Contingent liabilities of Central Government (Rs.crore)	N.A.	69748	73877	74606	83954	N.A.	N.A.
Contingent liabilities of Central Government (as per cent of GDP)	N.A.	5.1	4.9	4.3	4.4	N.A.	N.A.
(f) Total assets (Rs crore)	236740	433129	478774	537058	607525	675582	749075
Total assets (as per cent of GDP)	41.6	31.7	31.4	30.8	31.5	32.4	32.7

N.A. : Not Available

* External debt figures represent borrowings by Central Government from external sources and are based upon historical rates of exchange.

@ Converted at year end exchange rates. For 1990-91,the rates prevailing at the end of March,1991; For 1996-97,the rates prevailing at the end of March, 1997 and so on.

\# This includes marketable dated securties held by the RBI.

Rs.58,428 crore in terms of the historical exchange rate (Table 2.3).

2.16 The effect of past Central Bank purchase of debt is monetisation of the deficit at that time, with no continuing effect on the economy (interest is a transfer payment). Hence, Government debt held by the Central Bank would be netted to reflect better a consolidated view of the Central Government debt. It is therefore, useful to look at the outstanding non-RBI internal liabilities and total liabilities. Both increased between end-March, 2000 to end-March 2001. Non-RBI internal liabilities were 42.5 per cent in end-March, 2000 and 46.0 per cent of GDP in end-March, 2001. Total non-RBI outstanding liabilities also increased from 52.2 per cent in end-March, 2000 to 55.1 per cent of GDP in end-March, 2001, as per revised estimates for 2000-01.

2.17 Contingent liabilities of the Central Government do not constitute part of the liabilities according to the existing accounting practices. Nevertheless, these liabilities pose fiscal risk as they could be activated depending on occurrence of certain future events. The outstanding guarantees extended by the Central Government are mainly in the form of loan/credit guarantee. Contingent liabilities in the form of guarantees provided by the Central Government are in the nature of implicit liabilities apart from the explicit outstanding liabilities. These contingent liabilities which were Rs.73,877 crore at end-March, 1998 increased to Rs.83,954 crore at end-March, 2000. However, as a proportion of GDP, these outstanding liabilities have fallen from 4.9 per cent in 1998 to 4.4 percent in end-March 2000. Total assets of the Central Government (at book value) are estimated at Rs.6,07,525 crore at end-March, 2000. These include purchase of physical and financial assets as well as loans to States and UTs. These assets amount to about 74 per cent of the total internal liabilities (non-RBI).

Subsidies

2.18 Expenditure on major subsidies as a proportion of GDP declined from an average of 1.6 per cent during 1985-90 to an average of 1.3 per cent during 1990-95 and further to 1.2 per cent during 1999-2000. Similarly, expenditure on subsidies as a proportion of net revenue receipts of the Centre declined from an average of about 15 per cent during 1985-90 to an average of around 14 per cent during 1990-95 and further to about 13 per cent in 1999-2000. Major subsidies are budgeted to increase to Rs.27,845 crore in 2001-2002 compared with Rs.26,480 crore in 2000-01. These explicit subsidies absorbed about 12 per cent of the revenue receipts (net to Centre) in 2001-02(BE) as against 13.9 per cent in 2000-01. As proportion of GDP, these subsidies are placed at 1.2 per cent in 2001-02(BE) compared with 1.3 per cent in 2000-01 (Table 2.2).

Interest Payments

2.19 This has been the single largest-component of the non-plan revenue expenditure over the years and is the outcome of past borrowings. The rising level of fiscal deficit coupled with the changing pattern of its financing in favour of market borrowings has led to higher interest burden. In the past, a large proportion of outstanding internal liabilities were contracted at very low interest rates. However, average interest rates on total Central Government borrowings may remain under pressure in coming years, as debt contracted in the past mature and have to be rolled over at current market rates. This may also ultimately lead to convergence of the average rate to marginal rate. With the interest rates on Government securities becoming market related, the weighted average cost of Government securities rose to a peak of 13.8 per cent in 1995-96 before moderating to 11 per cent in 2000-01. Further, interest rates on public account liabilities (small savings and provident funds) grew significantly. Besides, interest rates provided on contractual saving schemes which seldom exceeded consumer price inflation by more than 3 per cent between 1980 and 1998 rose to a range of 6 to 8 per cent. The incidence of high real interest rates have not only entailed unsustainable debt servicing burden on both Central and State Governments but have inhibited economic growth. Interest payments as a proportion of GDP rose from an average of 3.2 per cent during 1985-90 to an average of 4.1 per cent during 1990-95 and climbed to 4.7 per cent in 1999-2000. Similarly, interest payments as a proportion of net revenue receipts of the Centre rose from an average of little over 30 per cent during 1985-90 to an average of around 44 per cent during 1990-95 and rose close to an average of about 50 per cent during 1995-2000. The budget for 2001-02 has estimated interest outgo at Rs.1,12,300 crore as against Rs.97,342 crore in 2000-01 showing a rise of 15.4 percent. The share of interest payments in the non-plan revenue expenditure is budgeted at 44.9 per cent in 2001-02 as against 44.3 per cent in 2000-01. Interest payments are estimated to absorb about 69 percent of total tax receipts (net to Centre) during 2001-02 somewhat lower than 72 percent in 2000-01. As a proportion of GDP, interest payments are budgeted at 4.9 per cent in 2001-02 compared with 4.7 percent in 2000-01. Interest payments entail a large claim on public resources and severely impair the Government's capacity to spend on social sectors and infrastructure. (Table 2.2).