CHAPTER - 4

GROWTH AND STRUCTURE OF INTERNAL LIABILITIES
4.1 Introduction

The growing domestic debt is an important aspect of the fiscal structure of the GOI. The size of the debt has shown considerable increase over time. For an assessment of the role of public borrowing in financing the economic development of India, it is necessary to know how the borrowing programme has been carried out since the beginning of the era of planning in general and since 1980 in particular. A review of the growth of internal public debt and its structural changes will help us to suggest ways and means of improving the debt policy in future. An assessment of internal debt in relation to different measures of deficits will help us to establish the cause-effect relationship between debt and deficits.

Public borrowing in India dates back to 1834 when the commercial activities of the East India Company ceased and the GOI took over its assets and liabilities including its debts which constituted a long-term public debt. Initially, the internal debt of India was small and rupee debt was unimportant. However, in subsequent years there was a steady growth of internal debt in India. With the growth of market borrowing, the need for a developing monetary institution for the management of public debt was felt. Sporadic attempts led to establishment of the RBI in 1935. After RBI was established, it assumed the role of manager of internal debt on behalf of the GOI. With this background the historical trends in the internal debt can be studied.

4.2 Growth of Internal Debt and Its Components

The following Table 4.1 shows the historical trends in the growth of India's internal debt.
<table>
<thead>
<tr>
<th>Year</th>
<th>Total Public Debt</th>
<th>Internal Debt</th>
<th>Internal Debt as Percentage of Total Public Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>2,054</td>
<td>2,022</td>
<td>98.4</td>
</tr>
<tr>
<td>1955-56</td>
<td>2,443</td>
<td>2,329</td>
<td>95.3</td>
</tr>
<tr>
<td>1960-61</td>
<td>4,757</td>
<td>3,975</td>
<td>83.5</td>
</tr>
<tr>
<td>1965-66</td>
<td>8,026</td>
<td>5,415</td>
<td>67.5</td>
</tr>
<tr>
<td>1970-71</td>
<td>14,147</td>
<td>7,662</td>
<td>54.2</td>
</tr>
<tr>
<td>1975-76</td>
<td>21,387</td>
<td>13,898</td>
<td>65.0</td>
</tr>
<tr>
<td>1980-81</td>
<td>42,162</td>
<td>30,864</td>
<td>73.2</td>
</tr>
<tr>
<td>1981-82</td>
<td>47,981</td>
<td>35,653</td>
<td>74.3</td>
</tr>
<tr>
<td>1982-83</td>
<td>60,621</td>
<td>46,939</td>
<td>77.4</td>
</tr>
<tr>
<td>1983-84</td>
<td>65,383</td>
<td>50,263</td>
<td>76.9</td>
</tr>
<tr>
<td>1984-85</td>
<td>75,174</td>
<td>58,535</td>
<td>77.9</td>
</tr>
<tr>
<td>1985-86</td>
<td>89,192</td>
<td>71,036</td>
<td>79.6</td>
</tr>
<tr>
<td>1986-87</td>
<td>1,06,611</td>
<td>86,312</td>
<td>81.0</td>
</tr>
<tr>
<td>1987-88</td>
<td>1,21,869</td>
<td>98,646</td>
<td>80.9</td>
</tr>
<tr>
<td>1988-89</td>
<td>1,40,244</td>
<td>1,14,498</td>
<td>81.6</td>
</tr>
<tr>
<td>1989-90</td>
<td>1,61,536</td>
<td>1,33,193</td>
<td>82.5</td>
</tr>
<tr>
<td>1990-91</td>
<td>1,85,529</td>
<td>1,54,004</td>
<td>83.0</td>
</tr>
<tr>
<td>1991-92</td>
<td>2,09,698</td>
<td>1,72,750</td>
<td>82.4</td>
</tr>
<tr>
<td>1992-93</td>
<td>2,41,639</td>
<td>1,99,100</td>
<td>82.4</td>
</tr>
<tr>
<td>1993-94</td>
<td>2,93,057</td>
<td>2,45,712</td>
<td>83.8</td>
</tr>
<tr>
<td>1994-95</td>
<td>3,17,395</td>
<td>2,68,467</td>
<td>84.0</td>
</tr>
<tr>
<td>1995-96</td>
<td>3,59,117</td>
<td>3,07,866</td>
<td>85.7</td>
</tr>
<tr>
<td>1996-97</td>
<td>3,98,714</td>
<td>3,44,476</td>
<td>86.4</td>
</tr>
<tr>
<td>1997-98 (RE)</td>
<td>4,40,936</td>
<td>3,85,694</td>
<td>87.5</td>
</tr>
</tbody>
</table>

Source: RBI, Report on Currency and Finance volume-II (Various issues), 1996-97, p 175
The Table shows that internal public debt of GOI has increased in absolute terms from Rs 2,022 crores in 1950-51 to Rs 3,85,894 crores in 1997-98 (RE). During the forty-eight-year period the internal debt has increased one hundred ninety-one-fold. In the first decade of the planning it was doubled, between 1961-70 again it got doubled, and in 1970s more than tripled. From 1980-81 to 1990-91 it further rose from Rs 30,864 crores to Rs 1,54,004 crores, registering a five-fold increase. The post-liberalisation period witnessed a rise in internal debt from Rs 1,72,750 crores to Rs 3,85,894 crores in 1997-98 (RE) registering two and half times increase.

However, the internal debt in relative terms exhibited a continuous decline up to 1970-71. The share of internal debt in public debt in 1950-51 was 98.4 per cent, which has come down to 54.2 per cent in 1970-71. The declining trend may be due to insufficient saving rate in the country. During 1970’s as well as in 1980’s and even 1990’s, it has recorded a rising trend with a very slight fall in 1987-88 and 1991-92. From 54.2 per cent in 1970-71 it has risen to 73.2 per cent in 1980-81 and 83.0 per cent in 1990-91 and finally it has gone upto 87.5 per cent in 1997-98. The rising trend in internal debt in 1970’s is due to the advent of the concept of self-reliance. The upward trend in 1980’s and 1990’s might be attributed to the persistent rise in budget deficit, posing a warning to the nation. However, it is not the size of the debt that should be taken seriously but its burdens and benefits. An analysis of components of total internal liabilities throws which light on its costs, is undertaken.

In the Indian budgetary practice there are two sets of liabilities of the union government which comprise domestic debt.
4.2.1 Internal Debt Comprises

(i) Market loans
(ii) Market loans in course of repayment
(iii) Gold Bond 1998
(iv) Special bearer bonds
(v) Compensation and other bonds
(vi) Special floating and other loans
(vii) Special securities issued to RBI
(viii) Treasury bills Which are further divided into four categories
    (a) 91-day treasury bills
    (b) 182-day treasury bills
    (c) 364-day treasury bills
    (d) 14-day treasury bills

4.2.2 Other Liabilities

(i) Small Savings
(ii) Provident funds
    (a) State provident fund
    (b) Public provident fund
    (c) Other accounts
(iii) Reserve funds and other deposits
    (a) Bearing interest
    (b) Not bearing interest\(^1\) (these include special securities issued to International Financial Institution)

The different components of internal liabilities of GOI are shown in Table 4.2
Table 4.2
Composition of the Total Internal Liabilities Since 1980
(Rs in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Market Loans and Others</th>
<th>Treasury Bills</th>
<th>Small Savings</th>
<th>Provident Funds &amp; Other Accounts</th>
<th>Reserve Funds and other Deposits</th>
<th>Total Internal Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>18,012</td>
<td>12,851</td>
<td>7,976</td>
<td>5,977</td>
<td>3,634</td>
<td>48,451</td>
</tr>
<tr>
<td>1981-82</td>
<td>25,360</td>
<td>10,273</td>
<td>9,375</td>
<td>7,203</td>
<td>3,627</td>
<td>55,856</td>
</tr>
<tr>
<td>1982-83</td>
<td>29,506</td>
<td>17,431</td>
<td>11,098</td>
<td>8,789</td>
<td>4,364</td>
<td>71,190</td>
</tr>
<tr>
<td>1983-84</td>
<td>34,507</td>
<td>15,756</td>
<td>13,506</td>
<td>10,386</td>
<td>8,004</td>
<td>80,141</td>
</tr>
<tr>
<td>1984-85</td>
<td>39,085</td>
<td>19,452</td>
<td>17,157</td>
<td>12,547</td>
<td>8,567</td>
<td>96,808</td>
</tr>
<tr>
<td>1985-86</td>
<td>45,025</td>
<td>26,014</td>
<td>21,449</td>
<td>15,410</td>
<td>11,433</td>
<td>1,19,331</td>
</tr>
<tr>
<td>1986-87</td>
<td>66,436</td>
<td>19,876</td>
<td>24,725</td>
<td>20,204</td>
<td>15,006</td>
<td>1,46,247</td>
</tr>
<tr>
<td>1987-88</td>
<td>90,618</td>
<td>3,026</td>
<td>28,358</td>
<td>26,170</td>
<td>19,164</td>
<td>1,72,358</td>
</tr>
<tr>
<td>1988-89</td>
<td>98,535</td>
<td>15,963</td>
<td>33,833</td>
<td>34,702</td>
<td>20,992</td>
<td>2,04,025</td>
</tr>
<tr>
<td>1989-90</td>
<td>1,08,009</td>
<td>25,956</td>
<td>41,791</td>
<td>45,273</td>
<td>19,592</td>
<td>2,40,023</td>
</tr>
<tr>
<td>1990-91</td>
<td>1,45,973</td>
<td>8,031</td>
<td>50,100</td>
<td>57,007</td>
<td>21,912</td>
<td>2,83,023</td>
</tr>
<tr>
<td>1991-92</td>
<td>1,59,824</td>
<td>12,826</td>
<td>55,755</td>
<td>65,745</td>
<td>23,464</td>
<td>3,17,714</td>
</tr>
<tr>
<td>1992-93</td>
<td>1,69,709</td>
<td>29,391</td>
<td>60,128</td>
<td>76,674</td>
<td>23,753</td>
<td>3,59,655</td>
</tr>
<tr>
<td>1993-94</td>
<td>2,04,731</td>
<td>40,981</td>
<td>67,285</td>
<td>93,070</td>
<td>24,556</td>
<td>4,30,623</td>
</tr>
<tr>
<td>1994-95</td>
<td>2,25,975</td>
<td>40,492</td>
<td>81,710</td>
<td>1,10,512</td>
<td>26,993</td>
<td>4,37,682</td>
</tr>
<tr>
<td>1995-96</td>
<td>2,62,202</td>
<td>45,666</td>
<td>91,786</td>
<td>1,21,649</td>
<td>33,680</td>
<td>5,54,983</td>
</tr>
<tr>
<td>1996-97</td>
<td>2,79,716</td>
<td>84,760</td>
<td>1,03,928</td>
<td>1,35,114</td>
<td>37,920</td>
<td>8,21,438</td>
</tr>
<tr>
<td>1997-98</td>
<td>3,62,794</td>
<td>22,900</td>
<td>1,25,361</td>
<td>1,67,078</td>
<td>40,166</td>
<td>7,18,299</td>
</tr>
</tbody>
</table>

Note  RE = Revised Estimates

Sources 1 RBI, Report on Currency and Finance, Vol - II (various issues)
2 RBI, Reserve Bank of India Annual Report 1995-96 and 1996-97
COMPOSITION OF TOTAL INTERNAL LIABILITIES FOR SELECTED YEARS

1980-81
- CMLO: 37%
- SS: 16%
- TB: 27%
- PF: 12%
- RF: 8%

1990-91
- CMLO: 51%
- SS: 18%
- TB: 3%
- PF: 20%
- RF: 8%

1997-98
- CMLO: 51%
- SS: 17%
- TB: 3%
- PF: 23%
- RF: 6%

CMLO - Current Market Loans and Others
RF - Reserve Funds and other accounts
PF - Public Provident Funds and other accounts
SS - Small Savings and other accounts
TB - Treasury Bills

Fig 4.1
During the period under reference the different components of internal liabilities have shown different rates of expansion. For the period as a whole current market loans and others showed twenty-fold increase from Rs.18,013 crores, in 1980-81 to Rs.3,62,794 crores in 1997-98 (R E), whereas treasury bills registered more than one and half times from Rs.12,851 crores to Rs.20,900 crores for the same period. Small savings have increased from Rs.7,976 crores in 1980-81 to Rs.1,25,361 crores, and recorded seventeen nearly sixteen-fold increase by 1997-98 (R E). Provident fund and other accounts and reserve funds and deposits have increased nearly twentyeight and eleven times respectively. Lastly the total internal liabilities witnessed nearly fifteen-fold increase from Rs.48,451 crores to Rs.7,18,299 crores during the period of our study. The composition of total internal liabilities for selected years is illustrated in diagram 4.1. Linear and compound growth computed for the total internal liabilities are presented in Table 4.3.

Table 4.3
Linear and Compound Growth Rates of Total Internal Liabilities Since 1980

<table>
<thead>
<tr>
<th>Period</th>
<th>Linear Growth Rate</th>
<th>t-value*</th>
<th>R²</th>
<th>Compound Growth Rate</th>
<th>t-value*</th>
<th>R²</th>
<th>C.V.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-91</td>
<td>16.760</td>
<td>13.411</td>
<td>0.952</td>
<td>19.688</td>
<td>76.088</td>
<td>0.998</td>
<td>0.162</td>
</tr>
<tr>
<td>1991-98</td>
<td>13.248</td>
<td>23.441</td>
<td>0.991</td>
<td>14.514</td>
<td>40.463</td>
<td>0.997</td>
<td>0.055</td>
</tr>
<tr>
<td>1980-98</td>
<td>13.558</td>
<td>14.584</td>
<td>0.930</td>
<td>17.373</td>
<td>52.485</td>
<td>0.994</td>
<td>0.289</td>
</tr>
</tbody>
</table>

* Significant at 1 per cent level

Source Calculated from the Table 4.2

Linear and compound growth rates of total internal liabilities of India are found to be significant for periods 1980-91, 1991-98 and 1980-98. Both linear and compound growth rates are more significant during 1980-91 than 1991-98. Co-
efficient of variation is found to be higher during 1980-91 compared with 1991-98 implying higher relative variability during 1980-91. The co-efficient of determination \( R^2 \) is the square of the correlation coefficient. The co-efficient of determination \( R^2 \) is a much more useful measure of the linear co-variation of two variables.

To test whether there is a significant difference in the average size of total internal liabilities between the two periods i.e., pre-liberalisation and post-liberalisation, t-test is employed and the results are presented below

\[
H_0 = X_1 \sim X_2 = 0
\]
\[
H_1 = X_1 \sim X_2 \Rightarrow 0
\]

\( X_1 \) = average size of the total internal liabilities for the period 1980-91
(Rs 1,38,003 19)

\( X_2 \) = average size of the total internal liabilities for the period 1991-98
(Rs 4,98,627.71)

Degrees of freedom = \((n_1 + n_2 - 2) = (11 + 7 - 2) = 16\)

computed \('t'\) value = 8.555

Table value of \('t'\) at 1 per cent level = 3.71

As the computed value of \('t'\) is greater than the Table \('t'\) value the null hypothesis namely that there is no significant difference in the size of total internal liabilities between 1980-91 and 1991-98 is rejected and the alternative hypothesis is accepted.

The trends in total internal liabilities are shown in Figure 4.2 with the most suitable mathematical model to represent the trend. The model, the \( R^2 \) value and the trend are shown in the graph.
TRENDS IN TOTAL INTERNAL LIABILITIES SINCE 1980

\[ y = 445196e^{0.1433x} \]

\[ R^2 = 0.9942 \]

Fig. 4.2
4.3 Current Market Loans and Others

Current market loans and others which comprise the balance of expired loans, compensation and other bonds and various types of bonds issued from time to time forms an important item of the union public debt. The union government has been giving more importance to market loans particularly since the beginning of the fourth plan period. The major constituents of the domestic government debt markets are the RBI, the commercial banks, the life insurance corporation of India. Apart from these major institutional investors, a number of other institutions also invest in the union government securities. The institutions are:

1. Industrial Finance Corporation and State Financial Corporations
2. Industrial Development Bank of India
3. Unit trust of India
4. Agriculture Refinance and Development Corporation of India
5. Industrial Credit and Investment Corporation of India
6. Joint Stock Companies
7. Local Authorities
8. Trusts (Private and Public)
9. Port Trusts
10. Other

Besides these institutions, a small number of individuals also invest in union-government securities. However, their number in this regard is not significant.

Current market loans which is a major component of rupee loans, is an important segment of the GOI's debt. Liquidity, accessibility and risklessness are the causes for the growth of current market loans. The new classification of current market loans is identical with permanent debt in the old classification.

Linear and compound growth rates are calculated for the current market loans and the results are presented in Table 4.4.
Table 4.4
Linear and Compound Growth Rates of Current Market Loans and Others: 1980-98

<table>
<thead>
<tr>
<th>Period</th>
<th>Linear Growth Rate</th>
<th>t-value*</th>
<th>R²</th>
<th>Compound Growth Rate</th>
<th>t-value*</th>
<th>R²</th>
<th>C.V.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-91</td>
<td>18.785</td>
<td>9.920</td>
<td>0.916</td>
<td>22.511</td>
<td>23.774</td>
<td>0.884</td>
<td>0.198</td>
</tr>
<tr>
<td>1991-98</td>
<td>13.304</td>
<td>8.664</td>
<td>0.938</td>
<td>14.144</td>
<td>0.662</td>
<td>0.877</td>
<td>0.057</td>
</tr>
<tr>
<td>1980-98</td>
<td>13.385</td>
<td>14.115</td>
<td>0.926</td>
<td>18.713</td>
<td>30.087</td>
<td>0.883</td>
<td>0.333</td>
</tr>
</tbody>
</table>

* Significant at 1 per cent level
Source: Calculated from the Table 4.2

Linear and compound growth rates are found to be significant during the pre-reform as well as post-reform period. However, linear and compound growth rates are more significant in the former period (i.e., 1980-91) than in the latter period (1991-98). Co-efficient of variation is higher during 1989-91 i.e., pre-reform period.

To test whether there is a significant difference in the average size of the current market loans and others between the two periods of our study, a student-t-test is employed and results are presented below:

\[ H_0 = \overline{X}_1 \sim \overline{X}_2 = 0 \]
\[ H_1 = \overline{X}_1 \sim \overline{X}_2 \Rightarrow 0 \]

\( \overline{X}_1 = \) average size of the current market loans and others for the period 1980-91 (Rs.63,735.36)
\( \overline{X}_2 = \) average size of the current market loans and others for the period 1991-96 (Rs.2,37,871.57)

Degrees of freedom = \((n_1 + n_2 - 2) = (11 + 7 - 2) = 16\)
computed ‘t’ value = 6.348
Table value of ‘t’ at 1 per cent level = 3.71

As the computed ‘t’ value is greater than the Table ‘t’ value the null hypothesis namely that there is no significant difference in the average size of current market loans and others between 1980-91 and 1991-98 is rejected and the alternative hypothesis is accepted.

The trends in current market loans and others are shown in Figure 4.3 with the most suitable mathematical model to represent the trend. The model, the \( R^2 \) value and the trend are shown in the graph.
TRENDS IN CURRENT MARKET LOANS AND OTHERS SINCE 1980

\[ y = 18172.6^{0.715}x \]

\[ R^2 = 0.9920 \]

Fig. 4.3
4.4 Treasury Bills

A treasury bill is a particular kind of finance bill or a promissory note put out by the government of the country. Treasury bills are the major source of short-term funds for the government to bridge the gap between revenue and expenditure. For investors particularly for banks, treasury bills provide good investment opportunities. They are the most important short-term investment outlets for the banks. With the increasing demand for funds for investment under plans, the GOI has resorted to heavy borrowing through the issue of treasury bills, the major part of which is held by the RBI. The important qualities of treasury bills are the high liquidity, absence of risk of default, assured yield, low transactions cost, eligibility for inclusion in Statutory Liquidity Ratio (SLR), and negligible capital depreciation. Till recently, treasury bills which were vogue were of two types namely the ordinary treasury bills and adhoc treasury bills.

4.4.1 Ordinary Treasury Bills

Ordinary or normal treasury bills are marketable short-term obligations of the government. Until 1985, the ordinary treasury bills were passed on to the market through weekly auctions. However, intermediate sales of treasury bills were also undertaken by the RBI on application in which case the base itself fixed the discount rate. Since July 1985, the practice of auctioning and 'intermediate' sales has been discontinued. Instead, the Reserve Bank keeps the treasury bills on tap throughout the week so that the buyers are ensured of its adequate supply. The treasury bills are sold on tap at discount rates which are applicable from time to time.
The first major initiative needed to develop treasury bills as a monetary instrument is to move away from an artificially low discount rate to a flexible rate that would make the discount rate on treasury bills a pacesetter for other rates in the money market. A flexible treasury bill rate would enable the monetary authorities to exercise control over money market operations. A flexible rate would also enable the banks to adjust to changes in their short-term liquidity through the purchase and sale of treasury bills.

4.4.2 Adhoc - Treasury Bills

The Adhoc treasury bills are issued by the Union Government to the RBI in order to tide over temporary financial stringencies. The peculiarity of the adhoc treasury bills making it distinct from the normal treasury bills is that these are held only by the RBI in its issue department, which are not passed on to the market.

According to sections 20 and 21 of the RBI Act, 1934, the bank acts as banker to the union government. The RBI in its capacity as the banker to the government discharges the basic responsibility of facilitating the financial transactions of the government. In order to carry out smoothly the financial transactions of the government, the government is required to keep a minimum cash balance with the RBI. When the RBI disburses, more on behalf of the government compared to that credited in the cash balance account, it is likely that the cash balances of the government may fall below the minimum balances. In such cases, the RBI in consultation with the government creates adhoc treasury bills to make good the deficiency. It may be emphasised that the adhoc treasury bills are created only to tide over the temporary financial requirement of the union.

From the finance year 1954-55 onwards, the union government started issuing the
adhoc treasury bills in order to replenish its cash balances with RBI. Thus, since 1954-55 there has been a considerable rise in the outstanding adhoc treasury bills. The mounting stock of adhoc treasury bills obviously presents to the government the problem of discharging them on maturity. However the union government uses to discharge these obligations only notionally by renewing them on maturity. This practice has severe drawback that in reality such renewals do not lead to any reduction in the outstanding adhoc treasury bills. In order to overcome the drawback inherent in the system of periodic renewals, the union government has switched over to a new practice of funding the adhoc treasury bills since July 1958.

In most of the developed countries, treasury bills play a significant role in the working of the bill market and in increasing the supply of short-term assets to the financial institutions. However, in a developing economy where the bill market is not developed the treasury bills are mainly held by the central bank. Even when they are issued to the public, they are mainly held by the commercial banks where they remain till maturity. The RBI sells treasury bills wherever necessary on behalf of the central government. The sale of treasury bills provides short-term finance to the government and also helps to absorb any excess liquidity in the money market. There are, at present, four types of treasury bills, in action, as it was mentioned earlier in this chapter.

a) 91-day Treasury Bills

The RBI as the agent of the government, issues treasury bills at a discount. These are negotiable securities and can be rediscounted with the bank at any time before maturity upon terms and conditions determined by it from time to time. The
amount of the 91-day treasury bills to be auctioned by the RBI will be pre-
aannounced by the RBI. The RBI is at liberty, to in the auctions and buy part or
the whole of the amount notified. The bulk of these bills are purchased by the RBI.

Consequently the market in treasury bills has remained narrow. Apart from the RBI,
the treasury bill are purchased by commercial banks, state governments and other
approved bodies, and "other" which include financial institutions like Life Insurance
Corporation of India (LIC), Unit Trust of India (UTI) and so on. With a view to
further developing the treasury bills market and moving towards market-related
rate of interest on government securities, the government introduced auction of
91-day treasury bills.

b) 182 - Day Treasury Bills

These bills are used for a minimum amount of Rs. one lakh and in multiples
thereof. These Treasury Bills were issued on discounting basis as in case of other
treasury bills. These treasury bills were discontinued from the year 1992 and were
reintroduced from April 1998. Any person resident in India including individuals,
Firms and companies, corporate bodies and institutions, can purchase them.

c) 364-Day Treasury Bills

As a part of overall development of the government securities market, the
GOI introduced, since April 1992, treasury bills of varying maturities up to 364 days
on an auction basis. The 364-day treasury bills are issued by auction for a
minimum amount of Rupees one lakh and in multiples thereof. RBI have the full
discretion to accept or reject any or all the bids, other wholly or partially, if deemed
fit, without assigning any reason.
d) 14-Day Treasury Bills

To improve the cash management requirements of various segments of the economy, GOI introduced the auction of the treasury bill in May 20, 1997. The main intention was to provide investors with short-term instruments. The auction of the instrument takes place every week. The treasury bill will be issued at discounted price. There will be no notified amount for the 14-day treasury bill. In respect of competitive bids, the rate of discount and the corresponding issue price would be determined at each auction. The non-competitive bids will be accepted at the weighted average price arrived at on the basis of the competitive bids accepted at the auction. The bills may be held by any person, firm, company, corporate body or institution, state government, eligible provident funds in India and the Nepal Rastriya Bank. The bill will be issued for a minimum amount of Rs 25,000 and in the multiples of Rs 25,000.

Many changes were made in the operation of treasury bills during the latter half of the eighties and specially in the nineties with a view to providing greater autonomy to RBI as a part and parcel of changes in the monetary and fiscal policies with the advent of New Economic Policy in July 1991.

Introduction of auction system in 91-day treasury bills, 132-day treasury bills and 364-day treasury bills with a view to making the securities market more effective are the important changes. In order to strengthen fiscal discipline and to provide greater autonomy to RBI in the conduct of monetary policies the system of issue of adhoc-treasury bills and 91-day treasury bills was proposed to be discontinued in the union budget 1997-98. Meantime the ways and means advances from RBI to the central government was introduced to accommodate temporary mismatches in the government receipts and payments.

Linear and compound growth rate are computed and set out in Table 4.5.
### Table 4.5
Linear and Compound Growth Rates of Treasury Bills: 1980-98

<table>
<thead>
<tr>
<th>Period</th>
<th>Linear Growth Rate</th>
<th>t-value*</th>
<th>R²</th>
<th>Compound Growth Rate</th>
<th>t-value*</th>
<th>R²</th>
<th>C.V.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-96</td>
<td>1 086</td>
<td>0.278**</td>
<td>0.008</td>
<td>-0.212</td>
<td>0.051**</td>
<td>0.000</td>
<td>0.136</td>
</tr>
<tr>
<td>1980-91</td>
<td>10 276</td>
<td>1.231**</td>
<td>0.233</td>
<td>13.021</td>
<td>1.285**</td>
<td>0.248</td>
<td>0.125</td>
</tr>
<tr>
<td>1991-98</td>
<td>7 740</td>
<td>3.540*</td>
<td>0.439</td>
<td>7.071</td>
<td>3.112*</td>
<td>0.377</td>
<td>0.247</td>
</tr>
</tbody>
</table>

** Notes  
** Not Significant  
* Significant 5 per cent level

Source: Calculated from the Table 4.2.

Growth rates of treasury bills present in the Table are not significant during 1980-91, while they are significant at 5 per cent level during the latter period of the study. The co-efficient of variation is calculated and found to be higher in the former period i.e., 1980-91 Hence, consistency is less during this period.

To test whether there is a significant difference in the average size of treasury bills between the two periods namely pre-reform and post-reform, student t-test is employed and the results are given below

\[
H_0 = \bar{X}_1 \sim \bar{X}_2 = 0  \\
H_1 = \bar{X}_1 \sim \bar{X}_2 = > 0
\]

\[
\bar{X}_1 = \text{average size of the treasury bills for the period 1980-91 (Rs.16,330.27)}  \\
\bar{X}_2 = \text{average size of the treasury bills for the period 1991-98 (Rs 36,788.00)}
\]

Degree of freedom = \((n_1 + n_2 - 2) = (11 + 7 - 2) = 16\)

Computed 't' value = 3.313

Table value = 3 18

As the calculated 't' value (3.313) is higher than the Table 't' value (3.18) at 5 per cent level of significance, the null hypothesis is rejected and the alternative hypothesis that there is a significant difference in the average size of treasury bills of the two decades, is accepted.

The trends in treasury bills are shown in Figure 4.4 with the most suitable mathematical model to represent the trend. The model, the R² value and the trend are shown in the graph.
TRENDS IN TREASURY BILLS SINCE 1980

\[ y = -0.1701x^6 + 7.0751x^5 - 100.3x^4 + 570.22x^3 - 1260.8x^2 + 2560.4x + 5933.4 \]

\[
R^2 = 0.9193
\]

Fig. 4.4
4.5 Small Savings

The savings bank movement was launched by Rev. Dr Henry Duncan in Scotland by opening a saving bank in Ruthwell (Dumfriesshire) in 1810. It could be considered the precursor to the small savings scheme. His motive behind the saving bank was directed at helping the poor to help themselves.\(^6\) Reiterating the importance of encouraging personal savings, the Royal Commission on the Taxation of Profits and Income (UK 1955) observed a complex of reasons, moral, social and economic, supported the view that a man ought to save from consumption some part of his income during most parts of his life.

Likewise, Harry Page Committee on Review of National Savings (UK 1973) gave three main reasons for encouraging national savings from a wider economic point of view: (1) to substitute saving for taxation in the management of demand, (2) to improve rate of growth, and (3) to assist in financing the government's borrowing requirements. However, government could turn savings on and off like a tap. But under certain conditions a rise in overall saving would enable the government to reduce taxation.

Small savings come in the form of voluntary savings from those who are supposed to have very little capacity to save or no saving capacity at all. This class consists of very large population in poor countries like India.\(^7\) The growth and expansion of small savings are concomitant to the growth of national income. These are voluntary and non-negotiable. However, it does not mean illiquidity, because the saving deposits in the post office in general can easily be withdrawn and most of the small savings certificates can be encashed before maturity date at a loss of interest.
Small savings as a source of borrowing for the government is of special significance, particularly in a growth-seeking inflation-sensitive economy. It is the safest form of governmental borrowing as it taps the genuine savings of the people and provides the government with the much needed capital without aggravating the inflationary situation in the economy. The greater the contribution of small savings to the government's borrowing, the better it is for the economy to maintain monetary stability. But the contribution of small savings has always been very small even in developed countries. The greatest hurdle to the expansion of small savings in a developing country like India has been the inability of the people to save. Another difficulty relates to lack of knowledge about the instruments of small savings.

A NCAER study found that nearly 70 per cent of urban householders in 1980 had no knowledge whatsoever of the National Savings Certificates which are being used as one of media through which the Government intends to mobilise household savings. A relatively recent study of the Reserve Bank states that the main obstacle to the realisation of the full potentialities of the movement is premature encashments and the frequent withdrawals which defeat the very purpose and deny the investor or his family tax benefits by breaking the continuity of investment. A vigorous and sustained drive is required to educate the small savers in this respect.

In India the government was conducting savings bank business from the days of "East India Company". The first saving bank was established at the presidency Bank of Bengal in 1833. Later in 1870 saving banks were opened in district treasuries and in the post offices throughout India in 1882. Finally the post office savings bank took over the savings bank business of district treasuries in
1886 and that of presidency banks in 1876. Since 1896, all savings bank business of the government is being conducted by the postal department. However small savings as a movement had gathered momentum only in 1945, as a method of moping up purchasing power to fight the rising spiral of inflation.

The National Savings Organisation (NSO) is the main medium through which the government's direct participation in the small personal savings rests in India. The government encourages personal savings in a variety of forms, but mainly through tax reliefs. Small savings constitute an important source of capital receipts for the government. Savings mobilised under the different schemes of small savings launched, comprise 'deposits' and certificates. The instruments through which small savings are effected are the Post Office Saving Bank Deposits, Cumulative Time Deposits, Post Office Time Deposits (introduced with effect from March 16th, 1970) Post Office Recurring Deposits, National Defence Certificates, Defence Deposit Certificates 15 year Annuity Certificates, 10 year National Savings Certificates, National Savings Annuity Scheme (introduced effect from April 1, 1976) and National Development Bonds, Indira Vikas Patras (IVP) and Kishan Vikas Patras (KVP).

In order to make the small savings scheme popular, the government continued to utilize the mass media like news papers, radio and televisions, folders, leaflets and documentary films. But the factors that come in the way of small savings are

1. Country-wide poverty and the fact that a major part of population lives at or even below the level of subsistence.
2. Sharp division of society into rich and poor classes that tempts the poor to consume even more
3. The fact that vast land ownership and buildings, etc. are considered as means of social prestige in underdeveloped areas
4. Peoples affinity towards precious metals and jewellery, etc.,
5. Widespread illiteracy and consequently the lack of foresight and national outlook among people
6. Existence of limited monetised sector and vast non-monetised sector

To overcome the above mentioned obstacles government may adopt two fundamental approaches in encouraging small saving. Firstly, by checking the savings which go into useless or undesirable forms, and secondly by adopting measures to make positive increases in the volume of savings. During the period under review the GOI launched a new small savings instrument known as IVP on November 19th, 1986 with a view to mobilising rural savings. The IVP were issued in the denomination of Rs 500, Rs 1000 and Rs 5000. Under this scheme the investors are required to pay only half of the denomination values at the time of purchase of the certificate. The maturity period of IVP was increased to five and half years. However, it has been reduced to five years with effect from 1-3-1988. Interest is at the rate of 14.67 per cent compounded and payable on maturity. But again the maturity period has been enhanced to five and half years from September 2, 1993 with interest at the rate of 13.43 per cent compound and payable on maturity. Another scheme namely KVP was introduced with effect from April 1st, 1988 encashable after five and half years. This scheme is without tax concession, but with flexibility of encashment after two and half years of deposit. The present
rate of interest is 13.43 per cent compounded and payable on maturity. Rs.45,718
core raised under the scheme by the end of March 1997 constituted 44 per cent
of total savings. The following Table shows different small saving schemes in force
during 1996-97 and 1997-98

A brief note on different schemes enables to understand limit of investment
and existing rates of interest on such schemes

4.5.1 Post-office Savings Bank

Minimum is of Rs 20 and maximum is of Rs 50,000 for an individual and
Rs 1,00,000 for two or three adults jointly in one or more accounts at 5.5 per cent
(tax-free) compounded and payable annually by credit to the account with effect
from February 1987. Accounts having minimum balance of Rs.200 during April-
September and October-March qualify for six month prize draws in the next January
and July. The minimum balance in post-office savings account with the cheque
facility has been raised from Rs. 100 to 250 with effect from September 1, 1993.

4.5.2 Post-office Time Deposit Accounts

These are in multiples of Rs.50 (without limit), with interest at 10.50 per cent
for 1 year account, for 2 year account, 11.00 per cent for 3 years account 12.00
per cent, for 5 years account 12.50 per cent with effect from September 2, 1993.
Interest is payable annually, compounded quarterly
4.5.3. Post-office Recurring Deposit Accounts (period 5 years)

The rate of interest was reduced from 13.5 per cent to 12.5 per cent per annum with effect from September 2, 1993. With Rs 10 per month one can open this account. The interest which comes under this scheme is tax-free.

4.5.4. 6 Year Post-office Monthly Income Accounts Scheme

With effect from June 1, 1993, minimum is of Rs 6,000 and in multiples thereof subject to a maximum of Rs 2.04 lakhs for a single account and Rs 4.08 lakhs for a joint account. With effect from September 2, 1993, interest will be paid monthly at the rate of 13.00 per cent per annum.

4.5.5. Deposit Scheme for Retiring Government Employees 1989/Retiring Employees of Public Sector Companies, 1991

Minimum is Rs 1,000 and in multiples thereof and maximum not exceeding the total retirement benefits. The rate of interest was increased to 10.00 per cent for deposits made on or after 15th March 1993 and also deposits which have completed 3 years but not withdrawn. Interest earned is completely tax-free. Only one account can be opened by retired central/state government and public sector employee in own name or jointly with the spouse. The amount should be deposited within three months from the date of receiving the retirement benefits. Premature encashment can be made after one year from the date of deposit but before the expiry of the 3 years. Table 4.6 gives some more details regarding the some savings schemes which are in operation during 1996-97 and 1997-98.
<table>
<thead>
<tr>
<th>Name of the Scheme</th>
<th>Limit of investment</th>
<th>Maturity period</th>
<th>Rate of interest per annum (in per cent)</th>
<th>Whether interest is tax free under income-tax act</th>
<th>Whether the amount invested qualifies for deduction under section of income-tax act</th>
<th>Amount outstanding at the end of March 1996</th>
<th>Amount outstanding at the end of March 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Post Office Saving Bank Scheme</td>
<td>Minimum Rs 50 and Maximum Rs 50,000 (Rs 100,000 ceiling)</td>
<td>5</td>
<td>5.50</td>
<td>Yes, Sec 10</td>
<td>No</td>
<td>5.994</td>
<td>5.956</td>
</tr>
<tr>
<td>2. Public Provident Fund Scheme</td>
<td>Maximum Rs 100 and Maximum Rs 50,000 in a fiscal year</td>
<td>15</td>
<td>12.00</td>
<td>Yes, Sec 10</td>
<td>Yes</td>
<td>1.028</td>
<td>1.250</td>
</tr>
<tr>
<td>3. Post Office Time Deposit Account</td>
<td>Maximum Rs 50 and Maximum Rs 50,000</td>
<td>1.25% &amp; 5%</td>
<td>Between 10.50 and 12.50 compound interest quarterly payable annually</td>
<td></td>
<td>No</td>
<td>3.647</td>
<td>3.985</td>
</tr>
<tr>
<td>4. Post Office Time Recurring Deposit Account</td>
<td>Minimum Rs 10 per month</td>
<td>5</td>
<td>5.50</td>
<td></td>
<td>No</td>
<td>6.22</td>
<td>7.43</td>
</tr>
<tr>
<td>5. National Savings Scheme 1992</td>
<td>Maximum Rs 100 and Maximum Rs 40,000</td>
<td>4 Financial years from one to the end of the year of opening the account</td>
<td>11.00</td>
<td></td>
<td>Yes</td>
<td>622</td>
<td>702</td>
</tr>
<tr>
<td>6. Post Office Monthly Income Scheme</td>
<td>Minimum Rs 1,000 and Maximum Rs 4,000</td>
<td>5</td>
<td>13.00</td>
<td></td>
<td>No</td>
<td>8.896</td>
<td>9.543</td>
</tr>
<tr>
<td>7. NSC VIII scheme</td>
<td>No limit</td>
<td>5</td>
<td>13.00 (Compounded)</td>
<td></td>
<td>Yes</td>
<td>14.861</td>
<td>15.967</td>
</tr>
<tr>
<td>8. National Small Savings</td>
<td>5 years</td>
<td>5%</td>
<td>13.45%</td>
<td></td>
<td>No</td>
<td>8.325</td>
<td>7.670</td>
</tr>
<tr>
<td>9. National Public Savings</td>
<td>5 years</td>
<td>5%</td>
<td>13.45% (Compounded)</td>
<td></td>
<td>No</td>
<td>10.895</td>
<td>9.543</td>
</tr>
<tr>
<td>10. Public Scheme for Salvaging Government Employees, Members of the Armed Forces, and Public Sector Companies (1990)</td>
<td>Maximum Rs 1,000 and Maximum not exceeding the total assessment liability</td>
<td>5</td>
<td>10.50 payable half yearly</td>
<td></td>
<td>Yes, Sec 10</td>
<td>No</td>
<td>1.14</td>
</tr>
</tbody>
</table>

Notes:

- The eligible amount to be invested is Rs 50,000 per annum. The maximum limit is Rs 10,000 per annum.
- 1 Year = 10.5% p.a., 2 years = 11.5% p.a., 3 years = 12.5% p.a., 5 years = 12.5% p.a.
- Interest is payable half yearly.
- Dated 30th September
In the year 1951 small savings amounted to Rs 327.64 crores and its share in internal liabilities was 13 per cent. By the end of third five year plan it rose to Rs 1,549 crores and 19 per cent of the total internal liabilities. If further rose to Rs 50,100 and 17.70 per cent in 1980-91 and finally it reached to Rs 1,25,381 in 1997-98 registering 383 fold increase during the entire plan period. Linear and compound growth rates are calculated and presented in the Table 4.7

Table 4.7

Linear and Compound Growth Rates of Small Savings: 1980-98

<table>
<thead>
<tr>
<th>Period</th>
<th>Linear Growth Rate</th>
<th>t-value*</th>
<th>R²</th>
<th>Compound Growth Rate</th>
<th>t-value*</th>
<th>R²</th>
<th>C.V.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-91</td>
<td>17 186</td>
<td>12 374</td>
<td>0.945</td>
<td>20 332</td>
<td>58 281</td>
<td>0.997</td>
<td>0.196</td>
</tr>
<tr>
<td>1991-96</td>
<td>13 692</td>
<td>11 381</td>
<td>0.963</td>
<td>14 681</td>
<td>21 596</td>
<td>0.989</td>
<td>0.065</td>
</tr>
<tr>
<td>1980-98</td>
<td>13 544</td>
<td>14 008</td>
<td>0.925</td>
<td>17 429</td>
<td>42 893</td>
<td>0.991</td>
<td>0.340</td>
</tr>
</tbody>
</table>

* Significant at 1 per cent level

Source: Calculated from the Table 4.2

Linear and compound growth rates are found to be significant during the periods 1980-91 and 1991-98. However, linear and compound growth rates are more significant during 1980-91 than 1991-98. Co-efficient of variation is found to be highest during 1980-91 i.e., pre-reform period compared with that of 1991-98 i.e., post reform period.
To test whether there is a significant difference in the average size of small savings between the two periods, student t-test is employed and results are set out below

\[ H_0 = \bar{X}_1 = \bar{X}_2 = 0 \]
\[ H_1 = \bar{X}_1 > \bar{X}_2 \]

\( \bar{X}_1 \) = average size of the small savings for the period 1980-91 (Rs 23,578.91)
\( \bar{X}_2 \) = average size of the small savings for the period 1991-98 (Rs 83,707.57)

Degrees of freedom = \((n_1 + n_2 - 2) = (11 + 7 - 2) = 16\)
Computed 't' value = 6.209
Table value of 't' at 1 per cent level = 3.71

As the computed value of 't' is greater than Table 't' value the null hypothesis namely that there is no significant difference in the average size of small savings between 1980-91 and 1991-98 is rejected and alternative hypothesis is accepted.

The trends in small savings are shown in Figure in 4.5 with the most suitable mathematical model to represent the trend. The model, the R\(^2\) value and the trend are shown in the graph.
TRENDS IN SMALL SAVINGS SINCE 1980

\[ y = 7473 \times 49^{0.166} \]

\[ R^2 = 0.9914 \]

YEAR

0 20000 40000 60000 80000 100000 120000 140000 160000

Fig 45
4.6 Provident Funds and Other Accounts

Provident fund includes both state provident fund and public provident fund and other accounts include mainly Postal Insurance and Life Annuity Fund, Hindu Family Annuity Fund, borrowings against Compulsory Deposits and Income Tax Annuity Deposits, Special Deposits of Non-Government Provident Fund. Out of the schemes mentioned above the Public Provident Fund is one of the best schemes which is popular among the salaried class particularly in recent year. The details of this scheme are examined in what follows.

4.6.1 Public Provident Fund

The Public Provident Fund (PPF) as it is known commonly is one of the most popular saving cum-tax benefit scheme. Assurance backed by the government, a fairly high yield, flexibility of the term, the amount that needs to be deposited, convenience of opening the account, tax-free status of the proceeds including the interest income when it is withdrawn, are some of the prime reasons for the astounding popularity of this scheme.

PPF Scheme was framed under Public Provident Fund Act, 1968 for the benefit of the general public. The objective of this scheme is to attract voluntary savings mainly from the self-employed people. The scheme is operated by the State Bank of India and its subsidiaries and also by the post office. Provident funds are the fastest growing liabilities of the centre of which special deposits of Non-Government Provident Funds with the centre have been rising at the highest rate in eighties. Provident Fund is the safest way of investing savings in non-physical assets with the highest returns and maximum tax benefits. The salaried class, for this reason, is keeping a growing part of its savings in the form of provident fund with the government.
The scheme offers deduction under section 88 of the Income Tax Act. The amount of deduction is equivalent to 20 per cent of the sum invested in the account in a given year. Thus, the effective rate of 12 per cent translates into a return of 21 per cent on account of saving in tax. Under public provident fund scheme minimum amount that a subscriber should contribute is fixed at Rs.100 and the maximum amount that can be invested in PPF account for the purpose of availing tax benefit is Rs. 60,000 in any given year. However, there is no restriction on investing beyond this limit. In addition to the income tax deduction, the sum held in the PPF account is excluded for wealth tax purposes. Besides, this amount cannot be attached by any decree of court. The amount can be withdrawn only after 15 years, but a loan repayable in 36 months can be obtained in or after the 3rd year up to 25 per cent of the balance at the end of the preceding financial year. Interest is 1 per cent per annum, that is effectively 13 per cent out of non-taxable income (1%, +12%) for the first 36 months, and there after 6 per cent on the outstanding amount. A second loan can be obtained before the end of the 6th financial year if the first one is fully repaid. Those who have exhausted their 80L limit, use this as measure of tax-saving. This can also be used to create capital for children. Some of the people are known to have used ingenuous ways to derive the maximum benefit out of the scheme by opening a new account every year.

As one branch or post office will allow the person to open only one account in his name, these people open up these accounts in different branches or different post offices. This is how the operation works. If one opens one account every year, then after 15 years, his first account matures, and thereafter, every year, one has one account approaching maturity. The scheme work out as follows.
Every time one opens the account he puts in the full amount of Rs 60,000 in it. But then onwards, he only adds Rs 100 each year to keep the account running. This way, after 15 years he does not have to provide for his tax planning. It becomes self-sufficient exercise. The amount that matures goes into feed his tax saving requirement for that year. Thus, while he has to save for the first 15 years in order to avoid paying taxes. From the sixteenth year onwards he does not have to cut on year expenses just because he has to put in Rs. 60,000 into his PPF account.

The nominee can claim the dues on demand. However, the balance, if not withdrawn, continues to earn interest. Where there is no nomination in force, the balance will be paid to the legal heirs on the production of succession certificate/probate. To mitigate hardships, if the balance is less than Rs 1 lakh, it will be paid to legal heirs on production of (i) a letter of indemnity (ii) an affidavit, (iii) a letter of disclaimer and (iv) the death certificate.

Before ending, there is one more thing that the new entrants entering the PPF arena ought to know. Going through agent help one earn extra 0.5 per cent at the time of making the deposit. Indeed PPF is one of the better investment options available to the investors. The rate of interest on the deposited amount is to be determined from time to time. Initially it was fixed at 4.8 per cent but from April 1970, it was raised to 5 per cent and is presently at 12 per cent. Actual collection was around Rs 1 crore in 1968-69 and Rs 6 crores in 1975-76, and further it went up to Rs 552 crores in 1984-85 and finally it reached its highest level of Rs 18,951 crores in 1997-98 (R E). This data explain that the scheme is gaining its momentum in recent years particularly in 1990's.
4.6.2 Compulsory Deposit Scheme

A Compulsory Deposit Scheme, introduced in the 1963-64 budget and applicable to a minimum income of Rs.1500 per annum, came into force from October 1963, and was meant to be applicable to five different categories of persons under five sub-schemes. The sub-schemes which were to be implemented through the state governments and local authorities concerned were dropped owing to two considerable practical difficulties. The scheme relating to ‘employees not liable to income tax’ was withdrawn from September 23rd 1963, on complaint of heavy burden and deposits were refunded together with interest. During 1963-64 Rs.15 crores were collected under this scheme. Collections from the scheme were expected to have amounted to Rs 60 crores envisaging Rs.35 crores for the states. People opposed the scheme for the heavy burden imposed by it. It was, therefore, replaced by the Annuity Scheme in the 1963-64 budget.16

During 1970’s GOI issued two Ordinances The Additional Emoluments (Compulsory Deposit) Ordinance, 1974 and the Compulsory Deposit Scheme (Income-Tax Payers) Ordinances, 1974 to combat inflationary tendencies in the economy. This Act provides for compulsory deposit for a period of two years of 50 per cent of the additional dearness allowance and for one year of additional wages and salaries. It covers all employees of the central and the state governments, local bodies, companies, corporations, societies and all other industrial and commercial establishments in the private and public sectors besides other salaried employees who are liable to pay income tax. The additional wages and salaries include increases in bonus and in other allowances but not increments due to regular time scales of pay, or higher wages payable on promotion.
This scheme of impounding dearness allowance which was to expire on July 6th, 1976 was extended for another year. However, due to some controversy this scheme has been scrapped from May 10, 1977. The government had impounded, under this scheme, about Rs 1,500 crores in three years. The first instalment paid after July 1976 involved a refund of about Rs 220 crores. This leaves Rs 1,280 crores with the government.

This second ordinance came into force with effect from July 17, 1977 and the scheme with effect from November 15, 1974. This scheme is applicable to all income-tax payers who are individuals, Hindu undivided families or trustees of private discretionary trusts whose total income, both agricultural and non-agricultural, exceeds Rs 15,000 in a year. They have to make compulsory deposits for the assessment years 1975-76 and 1976-77.

In order to ensure that a part of the tax benefit resulting to the tax payers from the lowering of tax on personal incomes becomes available for the development efforts, it was proposed to continue the compulsory deposit scheme for another year 1976-77. In order to raise necessary resources and also to curb inflationary pressures it was again proposed to continue the compulsory deposit scheme in the case of income tax payers for another two years, i.e., for the assessment years 1978-79 and 1979-80. However, persons who are over 70 years of age would not be required to make any compulsory deposit hereafter.

The rate of compulsory deposit on the initial slab of Rs 25,000 of current income was 4 per cent, on the slab of Rs 25,001-70,000 was 6 per cent, and on the slab over Rs 75,000 it was 8 per cent. The Finance Act 1976, revised slab rates from 6 to 10 per cent and 8 to 12 per cent respectively.
The amount was repayable in five equal instalments commencing from the expiry of two years from that end of financial year in which the deposit was made together with interest the payable thereon. Interest on such deposits would be paid at the maximum bank deposit rate. The total outstanding amount raised under this scheme was 691.59 lakhs in 1981 and 1,198.67 lakhs in 1986 reaching its highest level of collections and thereafter it had started declining and finally stood at Rs 126.25 lakhs in 1997.

Linear and compound growth rates computed for provident fund and other accounts are presented in Table 4.8

<table>
<thead>
<tr>
<th>Period</th>
<th>Linear Growth Rate</th>
<th>t-value</th>
<th>$R^2$</th>
<th>Compound Growth Rate</th>
<th>t-value</th>
<th>$R^2$</th>
<th>C.V.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-91</td>
<td>21 524</td>
<td>7.831</td>
<td>0.872</td>
<td>25 610</td>
<td>34 570</td>
<td>0.990</td>
<td>2.417</td>
</tr>
<tr>
<td>1991-98</td>
<td>14 596</td>
<td>14 760</td>
<td>0.978</td>
<td>16 179</td>
<td>21 988</td>
<td>0.930</td>
<td>0.069</td>
</tr>
<tr>
<td>1980-98</td>
<td>15 956</td>
<td>12 368</td>
<td>0.905</td>
<td>22 741</td>
<td>40 801</td>
<td>0.990</td>
<td>0.434</td>
</tr>
</tbody>
</table>

* Significant at 1 per cent level

Source: Calculated from the Table 4.2

Linear and compound growth rates for the periods 1980-91 and 1991-98 are computed. These rates are more significant in 1980-91 period than in 1991-98. Coefficient of variation is found to be higher during 1980-91 than 1991-98.
To find out whether there is a significant difference in the average size of provident fund and other accounts between the two periods stated above 't' test is employed and results are set out below

\[
H_0 = \bar{X}_1 = \bar{X}_2 = 0
\]
\[
H_1 = \bar{X}_1 = -\bar{X}_2 = >0
\]

\(\bar{X}_1\) = average size of the provident fund and other accounts for the period 1980-91 (Rs 22,150 00)

\(\bar{X}_2\) = average size of the provident fund and other accounts for the period 1991-98 (Rs.1,09,977 43)

Degrees of freedom = \((n_1 + n_2 - 2) = (11 + 7 - 2) = 16\)

Computed 't' value = 6.652

Table value of 't' at 1 per cent level = 3.71

As the computed value of 't' is greater than the Table 't' value the null hypothesis namely that there is no significant difference in the average size of provident fund and other accounts between 1980-91 and 1991-98 is rejected and the alternative hypothesis is accepted

The trends in provident fund and other accounts are shown in Figure 4.6 with the most suitable mathematical model to represent the trend. The model, the \(R^2\) value and the trend are shown in the graph.
TRENDS IN PROVIDENT FUNDS AND OTHER ACCOUNTS SINCE 1980

\[
y = 818.92x^2 - 2780.3x + 90170
\]

\[R^2 = 0.9972\]

Fig. 4.6
4.7 Reserve Funds and other Deposits

The reserve funds and other deposits include interest bearing and non-interest bearing and also include depreciation and reserve funds of railways and department of posts and department of telecommunications, deposits of local funds, departmental and judicial deposits, civil deposits, etc. The Reserve Funds and other deposits were only Rs 1,757 crores in 1970-71 which increased to Rs 3,634 in 1981 and to Rs 40,166 in 1997-98(RE) registering eleven-fold increase between 1980-81 and 1997-98. Linear and compound growth rates are calculated and presented in the Table 4.9

Table 4.9

Linear and Compound Growth Rates of Reserve Funds and Other Deposits: 1980-98

<table>
<thead>
<tr>
<th>Period</th>
<th>Linear Growth Rate</th>
<th>t-value</th>
<th>$R^2$</th>
<th>Compound Growth Rate</th>
<th>t-value</th>
<th>$R^2$</th>
<th>C.V.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-91</td>
<td>17 714</td>
<td>12 723</td>
<td>0.947</td>
<td>23 620</td>
<td>12 160</td>
<td>0.943</td>
<td>0.249</td>
</tr>
<tr>
<td>1991-98</td>
<td>10 300</td>
<td>5 907</td>
<td>0.941</td>
<td>10 771</td>
<td>9 603</td>
<td>0.949</td>
<td>0.054</td>
</tr>
<tr>
<td>1980-98</td>
<td>10.973</td>
<td>21.059</td>
<td>0.965</td>
<td>15 199</td>
<td>12 242</td>
<td>0.903</td>
<td>0.340</td>
</tr>
</tbody>
</table>

* Significant at 1 per cent level

Source: Calculated from Table 4.2

Linear and compound growth rates are observed to be significant during the periods 1980-91 and 1997-98. However linear and compound rates are highly significant during 1980-91 than in 1991-98 Co-efficient of variation is higher in the pre-reform period than post reform era.
The results of the student 't' test are presented below

\[ H_0 \quad = \quad \bar{X}_1 \sim \bar{X}_2 = 0 \]
\[ H_1 \quad = \quad \bar{X}_1 \sim \bar{X}_2 > 0 \]

\( \bar{X}_1 \) = mean of reserve funds and other deposits for the period 1980-91 (Rs 12,208.64).

\( \bar{X}_2 \) = mean of reserve funds and other deposits for the period 1991-97 (Rs 30,361 72)

Degrees of freedom = \((n_1 + n_2 - 2) = (11 + 7 - 2) = 16\)

Computed 't' value = 5.621

Table 't' value = 4.03

As the computed 't' value is greater than Table 't' value at 1 per cent level of significance for the reserve funds and other deposits, the null hypothesis is rejected and alternative hypothesis is accepted.

The trends in reserve funds and other deposits are shown in Figure in 4.7 with the most suitable mathematical model to represent the trend. The model, the \( R^2 \) value and the trend are shown in the graph.
TRENDS IN RESERVE FUNDS AND OTHER DEPOSITS SINCE 1980

\[ y = -0.9900x^6 + 213.268x^5 - 4166.01x^4 + 3483.2x^3 - 9321.4x^2 + 11131 \]

\[ R^2 = 0.9921 \]

Fig. 4.7
4.8 Interaction Between Government Deficit and Domestic Debt

Since the modern governments take up so many welfare activities, the public expenditure has increased sharply. On the other hand, revenue to the government is constrained due to low paying capacity of the people, thus resulting in a deficit budget. Several significant changes have taken place in the dimension as well as financing pattern of government deficits in India since the early 1980's. Government deficit as a ratio to GDP has increased markedly and the bulk of deficit is being financed by the governments by domestic borrowing. Heavy reliance on domestic debt of the government is placed on the RBI. As a result concerns are being voiced about the prudence of large government deficits and sustainability of the growing domestic debt of the government.18

Till the year 1978-79 it was almost customary that central budgets recorded surplus on revenue account representing a measure of government savings. The surplus on revenue account used to offset though partially the deficit on capital account and therefore overall deficit. The deficit on capital account indicated the excess of capital expenditure over various types of the government borrowings. Since capital expenditure is mainly developmental in nature leading to creation of physical and financial assets, the budgetary trend was generally welcome except for the magnitude of the overall deficit.19 However, beginning with the year 1979-80, the revenue account began to show regular and growing deficits. This has become alarming since 1985-86.

In practice, however, different measures of government deficit are possible depending upon what items are deemed to comprise aggregate disbursements and aggregate receipts. Measurement of government deficit has received considerable
attention in public finance literature with a resurgence of interest in the subject in recent years. A wide spectrum of different concepts of government deficit has been developed. World Development Report (1988) published by the World Bank has emphasised that the "correct" way to measure the government deficit depends on the purpose of analysis. Before going to study the relation between the domestic debt and deficit it is better to understand the different concepts of deficit namely (1) revenue deficit (2) traditional budget deficit (3) monetised deficit (4) fiscal deficit and (5) primary deficit.

4.8.1 Revenue Deficit

Revenue deficit is the difference between revenue receipts and revenue expenditure. It means that tax and non-tax revenues become insufficient to cover the revenue expenditure of a government, leading to use the capital receipts to fill up the revenue gap thus created.

Revenue Deficit = Revenue Expenditure - Revenue Receipts

4.8.2. Budgetary Deficit

Usually government expenditure always exceeds government revenue and this leads to a budget deficit. The difference between receipts (revenue + capital) received by the government and the total expenditure (revenue + capital) incurred by the government is budgetary deficit, which is financed through net increase in 91-day treasury bills and with withdrawal of cash balance with RBI.

Budgetary Deficit = \[ \frac{\text{Total Expenditure}}{\text{(Revenue + Capital)}} - \frac{\text{Total Receipts}}{\text{(Revenue + Capital)}} \]
4.8.3. Monetised Deficit

The third type of deficit which is important from the policy point of view is the monetised deficit, namely, RBI credit to the government. The overall budgetary deficit derived in the budget does not accurately reflect the size of the monetised deficit. There is a justification for attaching special importance to the regulation or if necessary, reduction of the monetised deficit for controlling inflationary pressures. The volume of such deficit, which is sometimes called seigniorage, should not exceed the amount needed to meet the extra demand for cash arising due to growth under reasonably stable conditions.  

4.8.4. Fiscal Deficit

The excess of expenditure over revenue receipts and non-debt creating capital receipts. It represents the total borrowing requirement of the central government.

Chakravarty Committee on the Working of Monetary System as well as IMF gave emphasis to this aspect of deficit and hence in recent years the concept of fiscal deficit has become more popular. Fiscal deficit has a much wider connotation in as much as it measures the total resource gap in terms excess of total expenditure over revenue receipts. Hence fiscal deficit measures the net addition to public debt.  

Fiscal Deficit = Net borrowing by the government  
= Net addition to public debt  
Fiscal Deficit = Revenue Receipts - Total Expenditure  
(Tax + Non-Tax) - (Revenue + Capital)  
Fiscal Deficit = Revenue Deficit + Capital Expenditure
In the context of macroeconomic stabilisation in India and many other countries, "fiscal deficit" has become an important variable and policy target. Reduction of the relative size of the fiscal deficit has been postulated as a basic objective of the policy. Until the mid-eighties in discussions of fiscal policy in India, attention was focused mostly on the so-called overall budgetary deficit or "deficit financing".22

There are two concepts which are associated with the fiscal deficit: gross and net fiscal deficit. Gross deficit refers to the excess of government expenditure (including loans) over revenue receipts (including external grants and non-debt capital receipts). The gross fiscal deficit contains net fiscal deficit and net primary deficit and is very much influenced by revenue deficit and budgetary deficit. The difference between the gross and net is 'net lending'. The percentage of net lending affects the net fiscal deficit in accordance with the volume of gross fiscal deficit. Here, the net lending refers to the loans and advances made to the state government and others minus of the recovery of loans by the GOI.

4.8.5. Primary Deficit

One of the measures of public sector deficit that has gained prominence in recent years is the primary deficit. This concept, also referred to as non-interest deficit, measures the impact of discretionary policy of the government budget and can be utilised for evaluating the sustainability of government deficits. Thus the Primary Deficit = Gross Fiscal Deficit - Interest Payments
The fiscal deficit that includes net lending on the expenditure side is most commonly used and referred to as the Gross Fiscal Deficit (GFD). There is no unanimity of views regarding the primary deficit that is derived from GFD. One view is that the primary deficit should be represented by gross fiscal deficit less interest payments of the government. Another view is that it is equivalent to gross fiscal deficit less net interest payments. The fiscal deficit that does not include the government's net lending (defined as loans and advances by government less recoveries of loans) is referred to as net fiscal deficit. When net interest payments (interest payments less interest receipts) are deducted from fiscal deficit, what is obtained is the net primary deficit - a concept which is relevant for determining the stability of debt to GDP ratio. Primary deficit is a measure of government's current manoeuvrability in immediate reduction of the fiscal deficit. As interest expenses are governed largely by past borrowing, the effect of borrowing needs to be separated. But this needs to be done on both income and expenditure side. Due to federal form of government, the central government borrows and lends a part of what it borrows to the state governments. As a result, interest is insignificant both as a source of income and an item of expenditure. Therefore, while computing the primary deficit the net interest expenditure (interest expenses less interest income) needs to be deducted from the fiscal deficit.

Rangarajan et al. have defined gross primarily deficit as gross fiscal deficit less net interest payments. Primary deficit indicates the precise extent to which current fiscal action affects the indebtedness of the government. Hence, a decline in primary deficit would in fact indicate reduced potential to correct fiscal imbalance through current fiscal action. Primary deficit on revenue account would equal to revenue deficit less interest expenses. Primary deficit on capital account would
equal capital expenditure less loan repayments. Primary deficit on revenue account has declined steadily and turned into surplus. This is due to fast increase in net interest payments which contribute sizeably to the revenue deficit. When these net interest payments are excluded, the deficit on revenue account vanishes. On the other hand, declining primary deficit on capital account shows the decline in the financing of capital expenditure through fresh borrowing. But as total borrowing and government debt are in fact increasing the decline in primary deficit, both on revenue and capital account, only indicates the increasing extent to which fresh borrowing are necessary to finance net interest payments.

The budgetary transactions of the central government from 1980-81 to 1997-98 are shown in Table 4.10 and in the diagram 4.9.
Table 4.10
Budgetary Transactions of the Central Government Since 1980

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue Account</th>
<th>Capital Account</th>
<th>Overall Budget Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Receipts</td>
<td>Expenditure</td>
<td>(4) as Percentage of (2)</td>
</tr>
<tr>
<td>1980-81</td>
<td>12,209</td>
<td>14,335</td>
<td>-2,026</td>
</tr>
<tr>
<td>1981-82</td>
<td>15,574</td>
<td>15,889</td>
<td>-295</td>
</tr>
<tr>
<td>1982-83</td>
<td>18,031</td>
<td>19,945</td>
<td>-1,914</td>
</tr>
<tr>
<td>1983-84</td>
<td>20,493</td>
<td>22,880</td>
<td>-2,387</td>
</tr>
<tr>
<td>1984-85</td>
<td>24,384</td>
<td>27,881</td>
<td>-3,497</td>
</tr>
<tr>
<td>1985-86</td>
<td>29,207</td>
<td>34,772</td>
<td>-5,565</td>
</tr>
<tr>
<td>1986-87</td>
<td>34,766</td>
<td>42,544</td>
<td>-7,778</td>
</tr>
<tr>
<td>1987-88</td>
<td>38,992</td>
<td>48,329</td>
<td>-9,337</td>
</tr>
<tr>
<td>1988-89</td>
<td>45,740</td>
<td>56,255</td>
<td>-10,515</td>
</tr>
<tr>
<td>1990-91</td>
<td>54,954</td>
<td>73,516</td>
<td>-18,562</td>
</tr>
<tr>
<td>1991-92</td>
<td>66,031</td>
<td>82,252</td>
<td>-16,221</td>
</tr>
<tr>
<td>1992-93</td>
<td>74,128</td>
<td>92,702</td>
<td>-18,574</td>
</tr>
<tr>
<td>1993-94</td>
<td>75,453</td>
<td>1,08,169</td>
<td>-32,717</td>
</tr>
<tr>
<td>1994-95</td>
<td>91,033</td>
<td>1,22,112</td>
<td>-31,089</td>
</tr>
<tr>
<td>1995-96</td>
<td>1,10,120</td>
<td>1,30,800</td>
<td>-20,680</td>
</tr>
<tr>
<td>1996-97</td>
<td>1,30,763</td>
<td>1,50,958</td>
<td>-20,195</td>
</tr>
<tr>
<td>1997-98</td>
<td>1,53,143</td>
<td>1,83,408</td>
<td>-30,265</td>
</tr>
</tbody>
</table>

Note: # with the discontinuance of the adhoc treasury bills and tap 91-day treasury bills the concept of conventional deficit has become redundant 1989-90.

Source: Budget document of the Government of India
Budgetary Transactions of the Central Government

Fig. 4.8
Table 4.10 clearly reveals that the budget deficit popularly known as commercial deficit increased from Rs 2,869 crores in 1980-81 to its highest level of Rs 12,312 crores in 1992-93 registering more than four-fold increase. It was noticed that there has been a lot of up and down swings in the budget deficit. The budget deficit touched its lowest level of Rs 961 crores in the 1994-95 and thereafter it reached to 9,307 crores in the next year.

On revenue account the deficit as percentage of revenue receipts was 15.64 per cent in 1980-81, shot up to 43.36 per cent in 1993-94 and from that year there has been a declining trend, it registered 19.76 per cent in 1997-98 (B.E), even though it has shown increasing trend in absolute terms. The capital account also showed a deficit up to 1986-87 except for the years 1983-84 and 1985-86 in which it posted a surplus, but since 1987-88 there has been a continuous surplus in the capital account. In spite of surplus in capital account there has been growing trend in overall deficit. It is all because of growth of revenue expenditure on both development and non-developmental counts.

Throughout the 1980's the important indicators of fiscal imbalance are on the rise: the revenue deficit, the conventional budgetary deficit and monetised deficit. With the growing volume of interest payments, the issue of sustainability of fiscal deficit has of late been receiving increasing attention in India. As a result the concept of primary deficit now forms an important indicator of fiscal imbalance. Revenue account deficits remained largely an unknown feature till the beginning of the 80's. The continuous deterioration in this indicator and the growing interest in the economic use of resources have drawn the attention of many on the revenue account. The Table 4.11 shows the alternative measure of deficits since 1980.
<table>
<thead>
<tr>
<th>Year</th>
<th>Imputed Debt</th>
<th>Fiscal Deficit</th>
<th>Primary Deficit</th>
<th>Monetized Deficit</th>
<th>Convention</th>
<th>Revenue Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980-81</td>
<td>30,864</td>
<td>8,289</td>
<td>8,110</td>
<td>8,361</td>
<td>4,301</td>
<td>3,551</td>
</tr>
<tr>
<td>1981-82</td>
<td>38,653</td>
<td>8,666</td>
<td>4,381</td>
<td>5,406</td>
<td>3,611</td>
<td>3,207</td>
</tr>
<tr>
<td>1982-83</td>
<td>48,509</td>
<td>10,027</td>
<td>5,973</td>
<td>6,020</td>
<td>4,887</td>
<td>3,363</td>
</tr>
<tr>
<td>1983-84</td>
<td>50,623</td>
<td>13,030</td>
<td>8,771</td>
<td>8,161</td>
<td>6,044</td>
<td>3,049</td>
</tr>
<tr>
<td>1984-85</td>
<td>58,537</td>
<td>17,116</td>
<td>10,912</td>
<td>11,366</td>
<td>8,681</td>
<td>6,355</td>
</tr>
<tr>
<td>1985-86</td>
<td>71,908</td>
<td>21,857</td>
<td>13,543</td>
<td>14,345</td>
<td>10,626</td>
<td>6,760</td>
</tr>
<tr>
<td>1986-87</td>
<td>88,312</td>
<td>26,342</td>
<td>17,035</td>
<td>17,105</td>
<td>12,143</td>
<td>7,061</td>
</tr>
<tr>
<td>1987-88</td>
<td>93,843</td>
<td>27,024</td>
<td>16,431</td>
<td>15,808</td>
<td>12,833</td>
<td>5,599</td>
</tr>
<tr>
<td>1988-89</td>
<td>114,998</td>
<td>30,923</td>
<td>26,770</td>
<td>18,802</td>
<td>13,473</td>
<td>6,002</td>
</tr>
<tr>
<td>1989-90</td>
<td>133,183</td>
<td>35,252</td>
<td>23,722</td>
<td>17,097</td>
<td>14,439</td>
<td>13,313</td>
</tr>
<tr>
<td>1990-91</td>
<td>144,004</td>
<td>40,036</td>
<td>30,710</td>
<td>23,179</td>
<td>17,826</td>
<td>14,245</td>
</tr>
<tr>
<td>1991-92</td>
<td>172,750</td>
<td>43,226</td>
<td>24,024</td>
<td>9,729</td>
<td>8,051</td>
<td>5,008</td>
</tr>
<tr>
<td>1992-93</td>
<td>110,100</td>
<td>45,173</td>
<td>30,252</td>
<td>5,086</td>
<td>11,644</td>
<td>4,257</td>
</tr>
<tr>
<td>1993-94</td>
<td>245,712</td>
<td>65,257</td>
<td>45,694</td>
<td>23,516</td>
<td>24,331</td>
<td>260</td>
</tr>
<tr>
<td>1994-95</td>
<td>266,487</td>
<td>67,704</td>
<td>40,313</td>
<td>13,955</td>
<td>12,961</td>
<td>2,130</td>
</tr>
<tr>
<td>1995-96</td>
<td>30,686</td>
<td>62,243</td>
<td>42,472</td>
<td>10,212</td>
<td>10,820</td>
<td>10,455</td>
</tr>
<tr>
<td>1996-97</td>
<td>3,44,476</td>
<td>60,733</td>
<td>N/A</td>
<td>7,265</td>
<td>90,22</td>
<td>15,34</td>
</tr>
<tr>
<td>1997-98</td>
<td>3,65,684</td>
<td>88,937</td>
<td>63,067</td>
<td>23,300</td>
<td>22,748</td>
<td>12,914</td>
</tr>
</tbody>
</table>

P = Provisional

N/A = Not available

Sources:
From Table 4.11 it can be seen that there exist a strong correlations between several components of deficits and internal debt of GOI as listed in Table 4.12

Table 4.12
Relationship between Internal Debt and Different Types of Deficits

<table>
<thead>
<tr>
<th>S.I.NO.</th>
<th>Pair</th>
<th>Co-relation Co-efficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>[FD, ID]</td>
<td>0.9802 *</td>
</tr>
<tr>
<td>2</td>
<td>[FD, RD]</td>
<td>0.8486 *</td>
</tr>
<tr>
<td>3</td>
<td>[RD, ID]</td>
<td>0.7923 *</td>
</tr>
<tr>
<td>4</td>
<td>[CD, ID]</td>
<td>0.6310 *</td>
</tr>
<tr>
<td>5</td>
<td>[PD, RD]</td>
<td>0.6085 *</td>
</tr>
</tbody>
</table>

* Indicates significant at $p = 0.05$

Notes
1. ID = Internal Debt
2. FD = Fiscal Deficit
3. RD = Revenue Deficit
4. CD = Conventional Deficit
5. PD = Primary Deficit

It is clear that as fiscal deficit increases, internal debt also increases because of high positive correlation. Hence by reducing fiscal deficit it is possible to bring down the internal debt. It can be further noticed that there is high correlation between RD and ID, higher is the revenue deficit higher is the internal borrowing, suggesting a reduction of revenue deficit to minimise the internal debt. A similar situation arises even among the other variables mentioned above. In view of the above findings we reject the hypothesis that there is a negative correlation between internal debt and deficits.
Fiscal deficits are unsustainable and would lead the country into a debt trap. The unabated growth of non-plan expenditure and poor returns from investments made in the public sector further contributed to the growing fiscal deficit. A higher revenue deficit would imply that borrowed resources are deployed towards covering revenue deficits. Higher borrowing to cover deficits on revenue account build up pressure on revenue expenditure, which in turn, necessitates higher borrowing, thus creating a vicious circle. Yet another aspect in the large size of the monetized deficit which, apart from generating excess liquidity in the economic system, has rendered the attainment of monetary policy objective of price stability difficult. A situation had come when India was left with no soft options and there was no time to lose.

In India, the persisting economic turbulence till 1990 had resulted in the unflinching promulgation of the New Economic Reforms (NER) in July 1991. The demagogy of NER was initiated with liberalisation and globalisation and also included series of policy changes in finding the solutions to the burgeoning fiscal imbalances, balance of payments, crisis, depletion of foreign exchange reserves, inflationary pressures, etc. Such measures are deliberated in order to stimulate economic development with reduced government expenditure vis-a-vis reduced fiscal deficit.
REFERENCES


10. *Ibid*, p 93


13. *Ibid*, p.36


