



# Off-Budget Liabilities

## Why in News?

The Indian government ended its practice of off-budget borrowings in FY2022 to increase fiscal transparency. And it is planning to pre-pay the remaining such Off-Budget liabilities.

- The [Comptroller and Auditor General \(CAG\) of India](#) and the [15<sup>th</sup> Finance Commission](#) had red-flagged the off-Budget funding of welfare schemes through public sector entities and had urged the Centre to come clean on these.

## What are Off-Budget Liabilities?

- Off-Budget liabilities refer to debts taken by state-run agencies to finance government programs and subsidies outside the traditional budget.
- These agencies raise funds through bonds that offer higher interest rates than [government securities \(G-secs\)](#).
- But since the liability of the loan is not formally on the Centre, the **loan is not included in the national fiscal deficit**. This helps keep the country's fiscal deficit within acceptable limits.
- By end-FY21, the Centre had off-budget liabilities close to Rs 6.7 trillion.
- The outstanding off-budget liabilities of the Centre include about **Rs 49,000 crore for the Pradhan Mantri Awas Yojana-Rural**, Rs 20,164 crore for various irrigation projects, Rs 12,300 crore for [Swachh Bharat Mission Grameen](#), etc.

## What are the Government's Efforts to Eliminate Off-Budget Liabilities?

- **Efforts:**
  - The Indian government took a significant step towards fiscal transparency by **ending its practice of off-budget borrowings** through state-run agencies in the FY22 budget.
  - The government also took over Rs 5 trillion or 75% of its off-Budget liabilities from the [National Small Saving Fund \(NSSF\)](#) in FY21-FY22.
  - However, the remaining off-Budget liabilities of Rs 1.7 trillion are proving challenging to eliminate due to **bondholders' reluctance to forego high-yield bonds**.
- **Challenges:**
  - Bondholders are **unwilling to give up their high-yield bonds and lose interest income for the remaining period of the bonds**.
    - The investors are worried that they won't find other secure and highly rated bonds with similar attractive coupon rates to invest in if they accept the prepayment offer.
  - Furthermore, **bondholders usually demand a premium or a higher interest rate than promised to them to recoup their loss of interest income** in the residual period of the bonds, in case an issuer wants to prepay.
- **Implications of Off-Budget Liabilities:**
  - Pushing the government's debt-to-GDP to a 15-year high of about 61.6% in FY21.
  - Hindering the government's efforts to achieve financial transparency and accountability.
  - Diverting funds from priority sectors such as health, education, and infrastructure development to finance other government programs and subsidies.
  - Contributing to the accumulation of non-performing assets in state-run agencies.

**Source: FE**

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