1. Off-Budget borrowing

Why in News?

- Recently, The Indian government had 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

Highlights

- The Comptroller and Auditor General (CAG) of India and the 15th 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.
- 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.
- 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.
- 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.