
CHAPTER - VII

SERVICING AND REPAYMENT

CHAPTER - VII

SERVICING AND REPAYMENTS

- 7.1 Servicing and Repayments.
- 7.2 Problems of Repayments.
- 7.3 Maharashtra's Position.

7.1 SERVICING AND REPAYMENTS GROWTH:

The Central Loan Service Costs of the states naturally increased, slowly during the period 1951-1961 and rapidly from 1961 onwards. The interest charges on Union loans have increased consistently in absolute terms between 1951-1952 and 1985-1986 as shown in Table 7.1. Interest charges on Union loans were amounted to Rs. 3.40 crores in period 1951-1952. It increased to Rs. 68.80 crores in 1961-1962 and further it increased to Rs. 331.1 crores; Rs. 1195.9 crores and Rs. 1931.8 crores in periods 1972-1973, 1983-1984 and 1985-1986 respectively. Interest charges on Union loans constituted a major proportion of total interest charges on states' total debt. Interest charges as proportion of total interest charges on states' debt fluctuated between 42.66% and 75.18%. That means interest charges on Union loans constituted near about two-third proportion of total interest charges on states' debt.

Interest charges as a proportion of states' total tax revenue fluctuated between 1.21% and 3.79% during 1951-1952 to 1955-1956 and between 6.84% and 14.22% during the period 1960-61 to 1985-86. and as proportion of total revenue of the states fluctuated between 4.50% and 8.69% during the period 1960-1961 to 1985-1986.

Interest charges as a proportion of States' total revenue expenditure fluctuated between 4.86% and 8.54% during the period 1960-1961 to 1985-1986. The financial burden of interest charged on Union loans on the States increased slowly from 5.80% in 1960-1961 to about 8.54% in 1969-1970 and has since been declining continuously.

Repayments of Union loans have increased in absolute terms from 1951-1952 till the 1985-1986 as shown in Table 7.2. It will be clear from this table that the amount of repayment of Union loans increased from Rs. 11.37 crores in 1951-1952 to Rs. 933.90 crores in 1973-1974 and to Rs. 1871.3 crores and to Rs. 2000.8 crores (budget) in the period of 1983-1984 and 1985-1986 respectively.

Repayments as proportion of gross loans, total capital receipts and total capital disbursements have increased till the end of the Fourth Plan period. This increase is more pronounced during the Fourth Five Year Plan period. Repayments of the Union loans as proportion of gross loans fluctuated between 26.89% and 67.21% over the period of 1960-1961 to 1985-86, as proportion of total capital receipts they fluctuated between 16.81% and 37.61%, and as proportion of total capital disbursements they fluctuated between 16.14% and 38.73% during the period

1960-1961 to 1985-1986. Thus between interest and repayment burden of Union loans, the latter has been higher and more severe. This means that State Governments would be facing considerable strain on their capital budgets in future.

It will be clear from Table 7.3 that interest and repayment of Union loans increased continuously. Interest and repayment constituted Rs. 14.77 crores in 1951-1952 and Rs. 171.53 crores in 1960-1961. It increased to Rs. 3067.2 crores and to Rs. 3932.6 crores (budget) in 1983-1984 and 1985-1986 respectively. Total amount of interest and repayment of Union loans to states' total tax revenue fluctuated between 15.31% and 46.42% over the period 1960-1961 to 1985-1986, as proportion to total revenue they fluctuated between 10.02% and 28.10%, and as proportion to total revenue expenditure they fluctuated between 10.85% and 27.87% over the period 1960-1961 to 1985-1986.. However, in this regard, thanks to the timely recognition of this position by the Union Government, and consequent recommendations of the Sixth and the Seventh Finance Commission which has eased this position to some extent.

7.2 PROBLEMS OF REPAYMENTS :

Generally maturing loans were redeemed by raising fresh loans by the Central Government. States also adopted this mode

of repayment to a considerable extent in case of their own maturing loans. But the Central loans and other loans received by the States were redeemable only in cash. In some recent years, however, the States were given loans by the Central Government for repaying old Central loans. Naturally, states were required to use their other capital receipts for amortising old Central loans or to withhold repayments, if possible.

From the data one can sense the gravity of the problem of repayment of Union Loans. The repayments to the Centre increased cumulatively as proportion of the States' total capital receipts from 19.70% in 1960-1961 to 43.83% in 1971-1972, in the following Years this proportion declined to the level of 20.58% in 1983-1984. Owing to the implementation of the Sixth Finance Commission's recommendations relating to debt relief and rescheduling of the Union loans, repayments liabilities of the State Governments were reduced. The almost got stabilised around Rs. 700 crores to Rs. 800 crores during the period 1974 to 1980. Furthermore, the repayment of Union loans in the proportion of States' total capital receipts fluctuated between 16.15% and 26.14% over the period 1980 to 1986. Thus the proportion of capital receipts available for capital formation in the state sector was drastically reduced over the period of the Fourth Plan and tended to be quite high since the Fifth Plan period.

Both the Fourth and the Fifth Finance Commissions did not make provisions for repayment of the Central loans. The States, which qualified for getting Central grants under Article 275 of the Indian Constitution, had no money either on revenue account or capital account to honour the commitment, and, therefore, had to resort to ad hoc loans, Special assistance, or unauthorised overdrafts even to meet their net stagnant capital outlays. All these further aggravated the problem as there was no regular source of repayments. The position of some of the States became precarious over the period 1961 to 1974. The Sixth and the Seventh Finance Commissions did make the provisions for repayments of Union loans.

7.3 MAHARASHTRA'S POSITION :

The financial burden of repayments on individual states has also been increasing except in the case of West Bengal, Punjab and Haryana. In the case of Maharashtra, the interest charges on central loans have increased consistently in absolute terms from 1960-1961 to 1985-1986 as shown in Table 7.4. Interest charges on Union loans were amounted to Rs. 6.09 crores in 1960-1961. It increased to Rs. 30.95 crores in 1973-1974. Furthermore, interest charges increased to Rs. 53.68 crores, to Rs. 124.88 crores and to Rs. 211.12 crores (budget) in the period 1979-1980, 1983-1984 and 1985-1986 respectively.

Interest charges as a proportion of Maharashtra's total tax revenue varied between 4.19% and 7.96% over the period 1960-1961 to 1984-1985, and as proportion of total revenue of the state fluctuated between 2.90% and 5.88% during the same period. While the interest charges as a proportion of states' total revenue expenditure fluctuated between 3.17% and 9.23% over the period 1960-1961 to 1985-1986.

The Maharashtra's repayments of Union loans have increased from 1951-1952 till 1985-1986. It will clear from Table 7.5 that the amount of repayment of Union loans increased from Rs. 1.58 crores in 1951-1952 to Rs. 34.42 crores in 1979-1980, and it increased to Rs. 146.89 crores in 1983-1984, while budget estimated of Rs. 142.49 crores for the year 1985-1986. In the period of the First Plan, repayment of Union loans amounted to Rs. 6.77 crores. It increased to Rs. 287.11 crores, Rs. 338.03 crores, and to Rs. 575.92 crores over the period of the Fourth Plan, the Fifth Plan and the Sixth Plan respectively. Maharashtra's repayments of Union loans as proportion of total capital disbursement fluctuated between 5.0% and 35.2% during the period 1951 to 1986, except the year 1952-1953, and as proportion of gross loans from the Union Government they fluctuated between 6.3% and 80.1% over the period 1951 to 1986. Repayment of Union loans as proportion of gross loans increased till the end

of the Fourth Plan period. Owing to recommendations of the Sixth and the Seventh Finance Commission, the percentage of repayments as proportion of gross loans from the Union Government has declined to some extent since the Fifth Plan period.

It will be clear from Table 7.6 that interest and repayment of Union loans increased continuously. Maharashtra's interest and repayment of Union loans amounted to Rs. 13.70 crores in 1960-1961. It increased to Rs. 129.10 crores, and to Rs. 271.77 crores in the periods 1973-1974 and 1983-1984 respectively. Interest and repayment as proportion of states' tax revenue varied between 6.9% and 25.5% over the period 1966-1967 to 1985-1986, as proportion of state's total revenue they fluctuated between 4.9% and 16.7% during the period 1961 to 1986, and as the proportion of state's revenue expenditure they fluctuated between 5.5% and 19.2% during the same period.

TABLE-7.4

- 122 -

INTEREST CHARGES ON UNION LOANS TO THE MAHARASHTRA.

Year	Interest charges on Union Loans.	Interest charges as percent of		
		State's Tax Revenue	States' Total Revenue	State's Revenue Expenditure.
1960-1961	6.09	7.62	5.27	5.19
1966-1967	15.64	7.96	5.88	5.63
1967-1968	16.81	7.68	5.73	7.55
1968-1969	17.83	7.26	5.16	6.40
1969-1970	19.80	7.02	5.25	5.27
1970-1971	20.01	5.95	4.64	4.62
1971-1972	21.71	5.78	4.38	9.23
1972-1973	25.23	6.18	4.34	4.00
1973-1974	30.95	6.11	4.01	3.65
1974-1975	29.50	4.89	3.61	3.74
R.E.				
1975-1976	35.31	4.72	3.36	3.84
1976-1977	37.46	4.42	3.11	3.64
1977-1978	40.07	4.48	3.11	3.56
1978-1979	44.54	4.26	2.90	3.17
1979-1980	53.68	4.19	2.99	3.36
1980-1981	61.85	4.22	3.03	3.23
1981-1982	81.02	4.62	3.96	3.62
1982-1983	98.66	4.77	3.48	3.75
1983-1984	124.88	5.50	3.16	3.93
1984-1985	166.77	6.78	4.70	4.42
R.E.				
1985-1986	211.12	8.16	8.16	5.20
B.E.				

R.E. Revised Estimate, B.E. Budget Estimate.

Source :1) Thimmaiah G., Burdens of Union Loans on the States, PP.122-130.

2) R.B.I. Bulletins.



TABLE 7.5

MAHARASHTRA (REPAYMENT OF UNION GOVERNMENT LOANS)

Year	Repayment of Union Govt. Loans	Repayment as Percentage to Total Capital disbursement of States.	Gross loan from Union Government.
1	2	3	4
1951-1952	1.58	6.00	26.7
1952-1953	1.06	286.5	19.1
1953-1954	1.26	5.9	12.2
1954-1955	1.18	8.0	6.3
1955-1956	1.69	5.0	10.5
I Plan Total	6.77		
I Plan Average	1.35	52.3	14.9
1956-1957	2.40	5.6	12.3
1957-1958	6.20	10.7	22.9
1958-1959	7.22	10.9	17.5
1959-1960	9.19	12.2	27.0
1960-1961	7.61	11.6	14.0
II Plan Total	33.22		
II Plan Average	6.64	20.2	20.7

TABLE 7.5 (Contd....)

1	2	3	4
1961-1962	7.80	15.2	20.0
1962-1963	7.71	11.6	22.1
1963-1964	14.73	15.2	26.0
1964-1965	9.24	12.3	18.9
1965-1966	17.56	12.9	33.0
III Plan Total	57.04		
III Plan Average	11.41	13.4	23.09
1966-1967	22.55	21.1	47.4
1967-1968	25.97	17.0	59.4
1968-1969	31.18	16.6	47.5
Annual Plan Total	19.70		
Annual Plan Average	26.59	18.2	51.4
1969-1970	39.05	20.8	80.1
1970-1971	36.64	19.0	55.3
1971-1972	46.64	23.3	44.0
1972-1973	66.81	29.2	35.5
1973-1974	98.15	35.2	63.2
IV Plan Total	287.11		
IV Plan Average	57.42	25.5	55.60

TABLE 7.5 (Contd...)

1	2	3	4
1974-1975	47.80	14.8	60.8
1975-1976	69.94	15.9	73.7
1976-1977	75.79	16.1	63.4
1977-1978	54.89	10.3	44.2
1978-1979	89.61	13.3	37.3

V Plan Total	338.03		
V Plan Average	67.61	14.1	55.9

1979-1980	34.42	5.0	13.4

1980-1981	46.27	6.7	14.8
1981-1982	93.59	11.0	26.1
1982-1983	112.89	11.8	24.9
1983-1984	146.89	13.8	25.8
1984-1985 (R.E.)	176.28	15.2	25.5

VI Plan Total	575.92		
VI Plan Average	115.18	11.7	23.4

1985-1986 (B.E.)	142.89	12.4	22.1

R.E. Revised Estimate, B.E.: Budget Estimate.

Source : 1) Thimmaiah G., Burden of Union Loans on the States' PP.148-150.

2) Reserve Bank of India Bulletins.

TABLE 7.6

MAHARASHTRA: INTEREST AND REPAYMENT OF UNION LOANS

Year	Interest and Repayment of Union Loans	Interest & Repayment as % of		
		States' Tax Revenue	States' Total Revenue	States' Revenue Expenditure.
1960-1961	13.70	47.8	11.9	11.7
1966-1967	38.19	19.5	14.4	13.8
1967-1968	42.78	19.6	14.6	19.2
1968-1969	49.01	19.5	13.9	17.2
1969-1970	58.85	20.8	15.6	15.7
1970-1971	56.65	16.9	13.1	11.1
1971-1972	68.17	18.2	13.8	13.3
1972-1973	92.04	14.9	15.5	14.1
1973-1974	129.10	25.5	16.7	15.2
1974-1975	77.30	12.8	9.5	9.8
1975-1976	105.25	14.1	10.0	11.4
1976-1977	113.25	13.3	9.4	11.0
1977-1978	94.96	10.6	7.4	8.4
1978-1979	134.15	12.8	8.7	9.5
1979-1980	88.10	6.9	4.9	5.5
1980-1981	108.12	7.4	5.3	5.6
1981-1982	174.61	10.0	7.3	7.8
1982-1983	211.55	10.2	7.5	8.0
1983-1984	271.77	17.2	6.9	8.5
1984-1985 (R.E.)	343.05	19.1	9.7	9.2
1985-1986 (B.E.)	353.61	16.8	9.3	8.7

R.E. : Revised Estimate, B.E.: Budget Estimate.

- Source : 1) Thimmaiah G., Burden of Union Loans of the States, PP.166-177.
2) Reserve Bank of India Bulletins.