# National Small Savings Fund for Air India

## Why in news?

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Funds with the National Small Savings Fund (NSSF) will now be used to help the struggling state-owned airline, Air India.

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## What is the decision?

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- Reportedly, an estimated Rs 10 billion is to be allocated to the airline.
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- Air India recently failed to pay salaries and also missed payments to various creditors.
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- These include oil companies, aircraft leasing agencies and mechanical contractors.
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- It already has a debt of over Rs 500 billion and the government’s efforts to privatise it have not materialised.
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## What is the government's rationale?

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- The government wants to keep the liabilities like funding an ailing airline off the Budget balance sheet.
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- It is also focussed at meeting the fiscal deficit target.
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- Recently, the government also permitted the NSSF to start lending to central agencies in addition to Air India.
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- E.g. the Food Corporation of India and the National Highways Authority of

India
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- For the current financial year, the NSSF plans to invest Rs 1.3 trillion in these and other agencies.
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- Notably, these are areas that would otherwise have required budgetary support.
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- In other words, instead of the government directly lending to these agencies, it will have the NSSF directly lend to them.
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- The impact on the overall public sector balance sheet will in effect be the same but the fiscal deficit will appear smaller.
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## Is it justifiable?

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- The pool of small savings being used to finance a struggling airline’s working capital raises some concerns.
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- Certainly, this is not tax revenue and the government is just the custodian of this money.
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- The government thus has the duty to ensure that this money is invested safely and wisely.
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- So the decision largely appears to be an irresponsible use of funds.
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- Even the fiscal deficit target would only be met in name.
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- It's because the government would still be spending more in excess of its revenue than it had targeted.
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- The effect on private sector borrowing would largely be the same as additional crowding out would occur.
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## What are the concerns?

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- The government seeks to meet its disinvestment target through buyback of shares by public sector undertakings (PSUs).
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- There is also a suggestion that the RBI reserves be tapped for government expenditure.
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- These make it clear that the government is relying heavily on sources other than taxes to fund its spending.
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- This is problematic for two reasons:
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1. it is often a less productive use of the funds in question and involves a violation of fiduciary duties
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2. using such off-balance sheet methods undermines the effort towards fiscal consolidation
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- The finance ministry must thus reconsider its approach towards managing the financial resources and meeting the targets.
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**Source: Business Standard**

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