XI - Public Debt Management

Introduction

11.1 The Reserve Bank manages the public debt of the Central and the State Governments and also acts as a banker to them under the provisions of the Reserve Bank of India Act, 1934. While these functions become obligatory in the case of the Central Government (under the Sections 20 and 21), the Reserve Bank undertakes similar functions for the State Governments by agreement with the Government of the respective State (under Section 21 A).

11.2 All State Governments, with the exception of Jammu and Kashmir and Sikkim, had entered into agreements with the Reserve Bank for the purpose of both the aforesaid functions. These two States have agreements only for the limited purpose of the management of their public debt. Consequent upon the reorganisation of three States, *viz*., Bihar, Madhya Pradesh and Uttar Pradesh, the new States, *viz*., Jharkhand, Chattisgarh and Uttaranchal have also entered into agreements with the Reserve Bank, entrusting it the twin functions of public debt management and banking. Simultaneously, the ways and means advances (WMA) limits, the minimum balances which the States are required to keep with the Reserve Bank and the outstanding debt have been apportioned amongst the reorganised States as per the provisions of the respective State Reorganisation Acts.

11.3 The Central Government entered into an agreement with the Reserve Bank in 1994 to phase out the system of automatic monetisation of budget deficit through creation of *ad hoc* Treasury Bills within a period of three years. Accordingly, the system of deficit financing through the creation of *ad hocs* was abolished with effect from April 1, 1997. Under a new arrangement, a WMA scheme was introduced to facilitate bridging of temporary mismatches in the Central Government's cash flows. The growing market orientation of debt management policy has, in turn, placed increased emphasis on the timing, speed of response to market developments and in general, greater skills in active debt management. The objective of debt management policy is clearly emerging in terms of raising resources from the market at the minimum cost while containing the refinance risk and its consistency with the monetary policy objectives. The introduction of Primary Dealers (PDs) in 1996, with a view to developing the Government securities market is another important institutional development in the area of public debt management. Recognising the fact that liquidity in the Government securities market would narrow the bid-ask spreads and reduce the cost of borrowing, initiatives have been undertaken in recent years to consolidate loans and develop benchmark securities. Reissuance of existing loans has, over the past few years, facilitated the emergence of benchmark securities as also improved market liquidity for government paper. In order to reduce the refinancing risk, greater emphasis has been placed on managing the maturity structure of Government loans.

11.4 The WMA limits for the State governments, made effective from March 1, 1999 based on the recommendations of the Informal Advisory Committee on Ways and Means Advances constituted by the Reserve Bank (Chairman: Shri B.P.R. Vithal), were revised under the WMA Scheme 2001, effective February 1, 2001. The State Governments have adopted the auction system for raising a part of their market borrowings since January 1999.

11.5 Public debt management continues to be constrained by the large and growing borrowing programme of the Government, which exerts pressure on the absorptive capacity of the market. During 2000-01, the Reserve Bank continued its policy of combining auctions, private placements and open market operations with a view to minimising the cost of public debt, as also to contain volatility in interest rates, reducing the monetary impact of the Government borrowing programme and supporting the monetary policy stance for a softer interest rate environment. The Reserve Bank had to moderate the pressure of the Government borrowing programme as well as the impact of the brief reversal of the monetary stance warranted by foreign exchange market volatility on interest rates. This was achieved by combining devolvements/private placements when money market conditions were tight followed by net open market sales when liquidity conditions improved.

11.6 Developments in public debt management during 2000-01, which are covered in the following sub-section, encompass movements in the WMA to the Central and State governments, issuance of treasury bills and movements in their yields along with improvements in operating procedures, issuance of dated securities and the strategy of passive consolidation through reissuances, the consequent impact on yields and maturity structure of debt. The sub-section on institutional measures, which follows, deals with the separation of function of debt management and monetary policy, the implications of the Fiscal Responsibility Bill for public debt management, changes in ways and means advances for States, prudential norms in respect of investments in State Government guaranteed securities, changes envisaged in the legal framework, the work of various groups in the area of public debt management and a medium-term perspective.

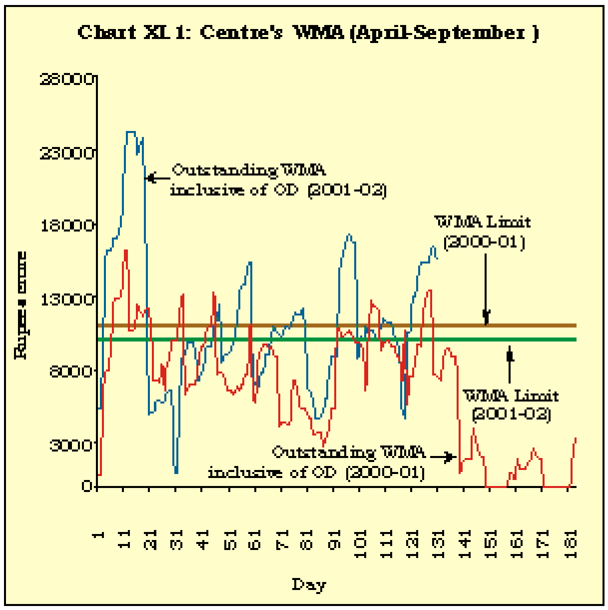
DEVELOPMENTS DURING 2000-01

Central Government

Ways and Means Advances

11.7 The arrangements in respect of the WMA to the Central Government and its rate of interest and the minimum balance required to be maintained with the Reserve Bank for the fiscal year 2000-01 remained the same as in the previous year. These were: (i) limits of Rs.11,000 crore for the first half of the year (April to September) and Rs.7,000 crore for the second half of the year (October to March), with the Reserve Bank authorised to trigger fresh floatation of market loans when 75 per cent of the WMA limit is utilised by the Government; (ii) the interest rate on the WMA at the Bank Rate and on overdraft at the Bank Rate *plus* two percentage points; (iii) the minimum balance maintained by the Government with the Reserve Bank at Rs.100 crore on Fridays and Rs.10 crore on other days; and (iv) limiting of overdrafts to ten consecutive working days. For 2001-02, the WMA limits have been scaled down to Rs.10,000 crore during the first half of the year and Rs.6,000 crore during the second half of the year.

11.8 The outstanding WMA availed by the Centre from the Reserve Bank, at Rs.5,395 crore, as at end-March 2001 was higher than Rs.982 crore, as at end-March 2000. The Central Government took recourse to WMA for the major part of the year except for a few days between August-September 2000 and December 2000 - March 2001. The surplus recorded was automatically invested by the Reserve Bank in dated securities from its own portfolio. The Government resorted to overdrafts (ODs) on seven occasions in the first half and on four occasions in the second half for periods ranging from 1 to 6 days (Charts XI.1, XI.2 and Table 11.1). During 2001-02 (up to August 8, 2001), the Central Government resorted to overdrafts on 8 occasions for periods ranging from 1 to 10 days.



Treasury Bills

11.9 During 2000-01, the day of payment in respect of 14-day and 91-day Treasury Bills was changed from Saturday to the next working day. The notified amount for the fortnightly auctions for the sale of 364-day Treasury Bills was hiked from Rs.500 crore per auction to Rs.750 crore per auction from the auction on December 13, 2000 to gain the advantage similar to a floating rate loan, improve the volumes in the treasury bill market and facilitate the emergence of a benchmark rate.

Table 11.1 : Overdraft (OD) Position of the Central Government

(Amount in Rupees crore)

Month	No. of Occasions	No. of days in OD	Amount (range)
1	2	3	4
2000			

April	2	6,5	712-5,107
May	3	2,3,1	38-2,312
June	Nil	Nil	Nil
July	1	4	1,126-1,718
August	1	3	1,103-2,479
September	Nil	Nil	Nil
October	1	1	115
November	2	5,1	863-2,432
December	1	5	67-242
2001			
January	Nil	Nil	Nil
February	Nil	Nil	Nil
March	Nil	Nil	Nil
April	1	10	556-14,193
May	2	3,5	199-5,346
June	1	10	303-2,173
July	4	5,1,8,2	30-7,165

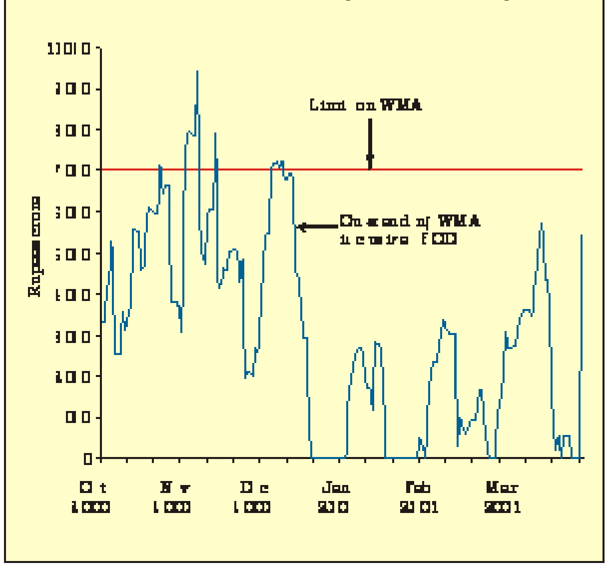


Chart XI.2: Centre's WMA (October-March)

11.10 As a sequel to the Monetary and Credit Policy announcement for 2001-02, effective May 14, 2001, the auctions of 14-day and 182-day Treasury Bills were discontinued and the notified amount for the 91-day Treasury Bill auctions was raised to Rs.250 crore from Rs.100 crore. Furthermore, the issue days of the 91-day Treasury Bill auctions have been synchronised in such a way that they become fungible with 364-day Treasury Bills.

11.11 The gross amount mobilised during 2000-01 through 14-day auction Treasury Bills (at Rs.10,480 crore inclusive of non-competitive bids, with a notified amount of Rs.100 crore per auction) and aggregate non-competitive bids (Rs.5,280 crore) were lower than in 1999-2000. The net amount was also lower, especially due to large redemptions. The Reserve Bank's subscription, at 7 per cent of the total issues, was about the same (percentage-wise) as in the preceding year. In the case of 91-day Treasury Bills, with a notified amount of Rs.100 crore per auction and aggregate non-competitive bids amounting to Rs.2,055 crore during 2000-01, the net issues were higher although the gross mobilisation at Rs.7,255 crore was lower as compared with 1999-2000. The Reserve Bank's subscription, at 12 per cent of the total issues, was lower than 19 per cent during 1999-2000. The gross mobilisation through issuance of 182-day Treasury Bills (at Rs.2,600 crore, with a notified amount retained at Rs.100 crore per auction) as well as net issuance were lower during 2000-01 as compared with 1999-2000. The subscription by the Reserve Bank at about 10 per cent (Rs.251 crore) of the total issues was lower than 22 per cent in 1999-2000. The gross mobilisation through issuance of 364-day Treasury Bills at Rs.15,000 crore was higher as compared with 1999-2000, reflecting the increase in the notified amount. The net issues were, however, lower than that in 1999-2000. The subscription by the Reserve Bank was lower at 12.0 per cent (Rs.1,827 crore) of the total issues in 2000-01, as compared to 17 per cent in the previous year. The aggregate net amount raised through all the treasury bills at Rs.2,085 crore during 2000-01 was lower as compared with Rs.4,245 crore during 1999-2000. The average cut-off yields of all treasury bills, except those of 14-day maturity, softened during 2000-01 relative to 1999-2000 (Table 11.2). The trend towards softening in cut-off yields of treasury bills continued during 2001-02 (up to August 10, 2001).

11.12 The system of minimum bidding commitment by the PDs, which covers more than 100 per cent of the notified amounts at treasury bill auctions, reduces the possibility of devolvement on the Reserve Bank. The Reserve Bank, however, continues to take devolvement, if necessary, to provide appropriate signals in terms of the cut-off yield and deflect short-term pressures to enable orderly market conditions.

Dated Securities

11.13 Under the market borrowing programme, comprising dated securities and 364-day Treasury Bills, the Central Government mobilised Rs.73,787 crore (net) and Rs.1,15,183 crore (gross), respectively, during 2000-01. The actual borrowing remained within the budgeted limit in contrast to the increase in gross and net terms of about 19.0 per cent and 27.0 per cent, respectively, in 1999-2000 and of about 18.0 per cent, and 30.0 per cent, respectively, in 1998-99 over the budgeted level (Chart XI.3).

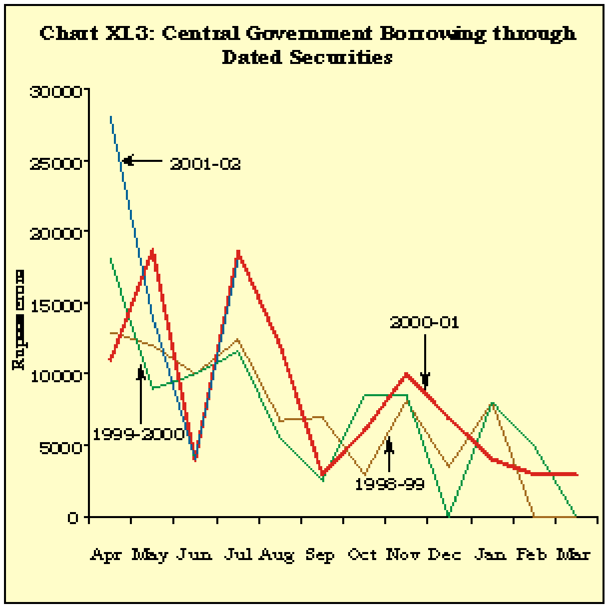


Table 11.2 : Issuance of Treasury Bills – Summary Statistics

(Amount in Rupees crore)

Auction Treasury Bill	Average cut-off yield (per cent)			Gross amount			Net amount			Outstanding amount		
	2001 02*	2000 -01	1999 2000	2001 -02*	2000 -01	1999 -2000	2001 -02*	2000 -01	1999 2000	2001 -02*	2000 -01	1999 -2000
1	2	3	4	5	6	7	8	9	10	11	12	13
14-day $	7.41	8.23	8.23	1,100	10,480	16,453	-100	-225	125	Nil	100	325
91-day	7.51	8.98	9.03	6,665	7,255	8,155	3,670	310	20	5,500	1,830	1,520
182-day $	8.44	9.43	9.68	300	2,600	2,900	-700	0	1,300	700	1,300	1,300
364-day	8.03	9.76	10.09	7,500	15,000	13,000	2,500	2,000	2,800	17,500	15,000	13,000

* Up to August 10, 2001.

$ Effective May 14, 2001, the auctions of 14-day and 182-day Treasury Bills were discontinued.

11.14 Dated securities aggregating Rs.1,00,183 crore were issued during 2000-01 as against Rs.86,630 crore in 1999-2000. About two-thirds of the issuance took place during the first half of the year when there was seasonal slackening in credit demand from the non-government sector. As the limited absorptive capacity of the market acts as a constraint on the amount that could be issued at any point of time, the Government had to enter the market on a number of occasions keeping in view the liquidity conditions and the Government's cash flows/ WMA position. A total of 31 loans (comprising 18 reissues and 13 fresh loans) were floated on 26 occasions (including private placement of 5 loans with the Reserve Bank) in 2000-01, as against 30 loans on 21 occasions (with private placement of 8 loans) in the previous year. The gross and net amounts raised through issue of Government of India dated securities during 2001-02 (up to August 10 2001) were Rs.70,000 crore and Rs. 56 ,025 crore , respectively. This included private placements of five loans for Rs.21,000 crore with the Reserve Bank.

11.15 In order to deepen liquidity in the Government securities market by building up large volumes in key benchmark securities, the Reserve Bank continued its strategy of passive consolidation through reissuance of the existing securities . Alignment of coupon payment dates enabled by reissuance of existing loans will also facilitate development of Separate Trading of Registered Interest and Principal Securities (STRIPS) in future (Box XI.1).With a view to containing the refinancing risk new issuances also became necessary when the outstanding amount in any loan could not be increased beyond a limit.

Box XI.1
STRIPS in the Government Securities Market

STRIPS is an acronym for Separate Trading of Registered Interest and Principal Securities and stripping is a process of separating a standard coupon-bearing bond into the principal component and individual coupons. To illustrate, a 5-year coupon-bearing bond can be stripped into a principal component and a set of 10 individual coupons (assuming half yearly coupon payments) which can be traded separately. The stripped securities, which act as zero-coupon bonds, represent the direct obligations of the Government in an official STRIPS market. The stripping process impacts neither the direct cost nor the timing/quantum of the underlying cash flow and only facilitates transferring of the ownership right of individual cash flows. By the creation of securities of varied maturities from a single coupon-bearing instrument, STRIPS cater to diverse investor groups with myriad risk profiles and investment horizons and facilitates an efficient debt management strategy (especially evening out the short-term concentration of redemption pattern) of reducing the refinancing risk. It also offers much greater leverage to hedge funds.

The current system of pricing of bonds on a yield-to-maturity (YTM) basis discounts the entire series of cash flows at the same single rate although they accrue at different points of time. The implicit assumption of investors holding the bond till maturity and the reinvestments of the intermediate cash flows at the same YTM may not often hold in reality. The conventional yield curve, thus, plots the YTMs of a series of coupon bearing bonds against their terms to maturity with any point on it indicating the single rate at which all the cash flows pertaining to a security are discounted. In fact, if the forward curve is sharply upward sloping, the YTM of a low coupon security should be more than a high coupon security of identical tenor. This coupon effect, as it is known, is totally missed if the decisions are based on YTM. On the other hand, the pricing of STRIPS is based on a zero-coupon curve where any point indicates the rate at which a single separate cash flow should be discounted. An important factor contributing to the efficiency of STRIPS pricing is the liquidity in the underlying bond issues and the alignment of coupon payment dates across a number of bonds.

In the Indian case, with the domination by captive investors like banks, insurance companies and provident funds in the Government securities market and with a shift in banks' investment behaviour based on considerations other than SLR, such as capital adequacy, income recognition and provisioning norms as well as asset liability management (ALM) requirements, STRIPS are expected to provide the requisite flexibility to the debt managers and address the asset-liability mismatches of the banking sector so far as their government securities investment portfolios are concerned. The extant policy stance of reissuance of existing loans and alignment of coupon payment dates across loans facilitating creation of volumes in certain benchmark securities is creating an environment for STRIPS. Requisite provisions were made in the draft Government Securities Act, which is expected to replace the existing Public Debt Act, 1944 to facilitate the introduction of STRIPS.

Table 11.3 : Weighted Average Yield and Maturity for Market Loans of Central Government.

(Per cent/year)

Year	Ranges of YTMs at Primary Issues	Weighted	Range of Weighted

	Under 5 years	5-10 years	Over 10 years	Average Yield	Maturity of Loans	Average Maturity
1	2	3	4	5	6	7
1995-96	13.25-13.73	13.25-14.00	-	13.75	2-10	5.7
1996-97	13.40-13.72	13.55-13.85	-	13.69	2-10	5.5
1997-98	10.85-12.14	11.15-13.05	-	12.01	3-10	6.6
1998-99	11.40-11.68	11.10-12.25	12.25-12.60	11.86	2-20	7.7
1999-2000	-	10.73-11.99	10.77-12.45	11.77	5.26-19.61	12.6
2000-01	9.47-10.95	9.88-11.69	10.47-11.70	10.95	2.89-20	10.6
2001-02 (up to August 10, 2001)	-	9.22-9.81	9.36-11.00	10.00	7.37-20	13.5

- Not applicable.

11.16 Along with the development of the financial markets, interest rates on Government securities have provided the benchmark for the spectrum of interest rates in the system. Accordingly, during 2000-01, the Reserve Bank continued with the policy of combining the absorption of loans in the primary issuance market, either through private placements or by taking devolvements at the auctions coupled with timely open market operations in order to contain the pressure on interest rates in the economy in general, to reduce the cost of borrowing to the Government and to minimise the monetary impact of debt management. During the year, the initial subscription by the Reserve Bank to the total primary issuance of dated securities, at around 31 per cent of the total issues (Rs.31,151 crore), was similar to that resorted to during 1999-2000. The weighted average cost of primary issuance during the year was lower at 10.95 per cent as against 11.77 per cent during the previous year (Table 11.3).

11.17 The Reserve Bank has pursued a strategy of elongating the maturity pattern of the outstanding Government debt through the issuance of long-term paper to reduce the refinancing risk (Chart XI.4, Tables 11.4 and 11.5). The weighted average maturity of debt issued during the year through dated securities increased from 6.6 years in 1997-98 to 7.7 years in 1998-99 and to 12.6 years in 1999-2000. Uncertainties in the financial markets during the first half of 2000-01 as also the need to meet investor preference for lower market risk necessitated issuance of shorter-term securities. As a consequence, the weighted average maturity of new issuances during 2000-01 dipped to 10.6 years. Further, the range of maturities of loans issued was 2.89 years to 20 years during 2000-01 as against 5.26 years to 19.61 years during 1999-2000. Despite the elongation of maturities, interest rates on government securities have softened in recent years.

Table 11.4 : Maturity Profile of Market Loans of Central Government.

(Per cent)

Year	Outstanding at end of Year			Raised during the Year		
	Under 5 years	5-10 years	Over 10 years	Under 5 years	5-10 years	Over 10 years
1	2	3	4	5	6	7
1995-96	38	30	31	42	58	0
1996-97	45	29	26	50	50	0
1997-98	41	41	18	18	82	0

1998-99	41	42	16	18	68	14
1999-00	37	39	24	0	35	65
2000-01	27	47	26	6	41	53

Table 11.5 : Repayment Schedule for Market Loans of Central Government(as at end-March 2001) P

(Rupees crore)

End-March	Amount of Repayment
1	2
2001-2002	26,499
2002-2003	27,420
2003-2004	32,909
2004-2005	34,316
2005-2006	32,631
2006-2007	34,894
2007-2008	34,151
2008-2009	36,223
2009-2010	34,195
2010-2011	38,609
2011-2012	19,610
2012-2013	11,255
2013-2014	15,691
2014-2015	18,588
2015-2016	18,857
2016-2017	13,130
2017-2018	0
2018-2019	12,632
2019-2020	0
2020-2021	7,000

P Provisional.

State Governments

Ways and Means Advances

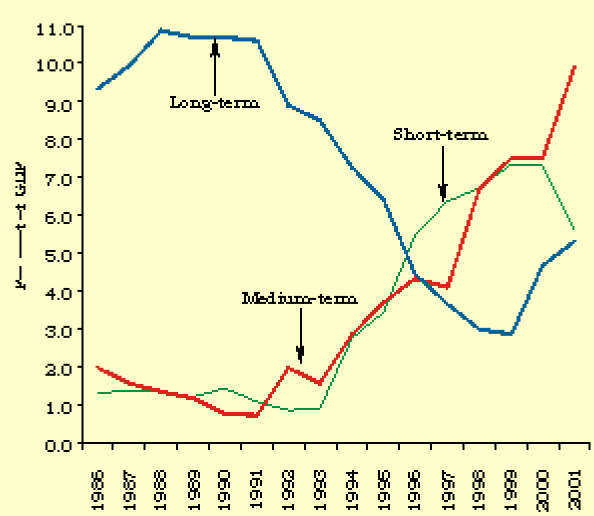
11.18 The aggregate outstanding WMA of all States as on March 31, 2001 amounted to Rs.6,811 crore (including the overdraft of Rs.3,060 crore) as compared with Rs.7,519 crore (including the overdraft of Rs.4,093 crore) as at end-March 2000 (Table 11.6).

Table 11.6 : WMA, Special WMA and Overdraft of States

(Rupees crore)

Month	Weekly Average											
	Normal WMA			Special WMA			Overdraft			Investment in Treasury Bills		
	2001 -02	2000 -01	1999-2000	2001 -02	2000 -01	1999-2000	2001 -02	2000 -01	1999 2000	2001 -02	2000 -01	1999 -2000
1	2	3	4	5	6	7	8	9	10	11	12	13
April	3,925	2,288	1,175	666	767	176	1,863	2,392	1,420	2,832	1,481	6,322
May	2,638	1,610	1,091	345	496	155	681	469	174	3,483	1,610	6,560
June	2,223	1,464	1,198	331	478	333	508	467	183	4,664	2,550	6,761
July	2,875	2,376	1,663	491	879	429	863	546	397	4,219	1,486	5,619
August		1,775	1,377		344	333		368	316		3,170	6,110
September		1,791	1,215		535	135		460	286		3,190	6,644
October		2,554	1,742		681	516		935	518		1,645	5,485
November		2,770	2,087		602	758		983	784		1,244	3,398
December		2,387	2,055		806	723		921	895		2,066	2,630
January		2,862	2,456		927	945		1,058	1,053		1,808	1,571
February		3,398	2,458		583	810		765	1,003		2,678	1,690
March		3,481	2,366		704	853		2,109	1,863		2,726	1,319

Chart XI.4: Maturity Structure (Residual Maturity) of Outstanding Market Loans of Central Government



11.19 An analysis of the WMA and overdraft position of State Governments reveals considerable pressure on liquidity management of States during 2000-01. Three States could not clear their overdrafts with the Reserve Bank within the stipulated time limit and consequently the Reserve Bank had to stop payments on their behalf.

11.20 The States' holding of 14-day intermediate Treasury Bills at end-March 2001 amounted to Rs.3,852 crore as compared with Rs.2,292 crore as at end-March 2000. The State Governments are also allowed to submit non-competitive bids in the treasury bill auctions conducted by the Reserve Bank.

Table 11.7 : Market Borrowings of State Governments, 2000-01

(Rupees crore)

State	Net	Gross
	2	3
1	1,399.2	1,399.2
1. Andhra Pradesh	16.22	16.22
2. Arunachal Pradesh	362	379.9
3. Assam	603.28	638.62
4. Bihar	188.68	194.92
5. Chhattisgarh	80	80
6. Goa	521.99	559.22
7. Gujarat	468.3	488.38
8. Haryana	233.09	233.09
9. Himachal Pradesh	238.61	238.61
10. Jammu and Kashmir	204.21	216.17
11. Jharkhand	825.58	825.58
12. Karnataka	540	577.42
13. Kerala	514.83	532.04
14. Madhya Pradesh	770.15	809.15
15. Maharashtra	21.3	25.2
16. Manipur	70	70
17. Meghalaya	34.97	34.97
18. Mizoram	100	104.95
19. Nagaland	689.71	689.71
20. Orissa	345	361.7
21. Punjab	1,119.37	1,182.07
22. Rajasthan	25	25
23. Sikkim @	1050	1,092.48
24. Tamil Nadu	75.55	79.95
25. Tripura	1,489.55	1,489.55
26. Uttar Pradesh	78.89	78.89
27. Uttaranchal	814.66	877.36
28. West Bengal	12,880.14	13,300.35
Total		
Memo Item		
Total (2001-02) (up to August13, 2001)6,777		

@ Allocation mentioned at the level actually raised.

Dated Securities

11.21 The gross and net borrowings of State Governments amounted to Rs. 13,300 crore and Rs. 12,880 crore, respectively, during 2000-01. The States were initially allocated a net market borrowing limit of Rs.11,230 crore (Rs.11,650 crore, gross) for 2000-01 (Table 11.7). After this was completed by January 2001, an additional allocation of Rs.1,650 crore was made to 10 State Governments. As a part of the policy to move towards the system of auctioning of State loans, the State Governments were allowed the option of raising 5 to 35 per cent of the allocated borrowings through auctions along with the flexibility to decide the timing since 1999. The States which opted for such auctions during 2000-01 raised an aggregate amount of Rs.1,670 crore at cut-off rates ranging between 11.57 per cent and 11.80 per cent (Table 11.8). During 2001 -02 (up to August 13), the States raised an amount of Rs.6,777 crore , including the amount of Rs.1,470 crore raised through auctions by five States.

Table 11.8: Summary of Auction Results: Market Borrowings of States

State	Date of Auction	Amount of issue (Rupees crore)	Cut-off yield (Per cent)	GoI10-year* (approx.) Secondary Market yield (Per cent)
1	2	3	4	5
1. West Bengal	08.08.2000	250	11.80	11.43
2. Maharashtra	08.08.2000	280	11.70	11.43
3. Andhra Pradesh	08.08.2000	400	11.80	11.43
4. Tamil Nadu	08.08.2000	290	11.70	11.43
5. Kerala	29.08.2000	200	11.75	11.42
6. Karnataka	05.12.2000	250	11.57	11.32
7. Kerala	17.04.2001	200	10.53	10.25
8. Gujarat	20.07.2001	190	9.50	9.35
9. Gujarat	06.08.2001	250	9.40	9.10 $
10. Andhra Pradesh	13.08.2001	475	9.53	9.25
11. Madhya Pradesh	13.08.2001	105	9.55	9.25
12. West Bengal	13.08.2001	250	9.72	9.25

* Traded security having residual maturity nearest to 10-year.

$ For about 8 years maturity.

11.22 The weighted average cost of borrowing of the State government dated securities declined significantly during 2000-01 in line with the trend during the second half of the 1990s (Table 11.9).

Table 11.9 : Weighted Average Yield of State Government Loans

(Per cent per annum)

Year	State Government Securities Range	Weighted Average
1	2	3
1995-96	14.00	14.00
1996-97	13.75 - 13.85	13.83
1997-98	12.30 - 13.05	12.82
1998-99	12.15 - 12.50	12.35

1999-2000	11.00 - 12.25	11.89
2000-01	10.50 - 12.00	10.99
2001-02 (up to August 13)	9.40 - 10.53	10.20

11.23 The State-wise maturity profile of loans as well as the repayment schedule are presented in Table 11.10 and Table 11.11, respectively.

Table 11.10 : Maturity Profile of State Government Loans (end-March 2001)P

(Rupees crore)

State	0-5 years	6-10 years	Over 10 years	Total
1	2	3	4	5
1. Andhra Pradesh	1,739	7,057	339	9,135
2. Arunachal Pradesh	14	55	5	74
3. Assam	493	1,750	38	2,281
4. Bihar	1,666	4,322	389	6,377
5. Chhattisgarh	0	70	0	70
6. Goa	41	317	10	368
7. Gujarat	728	3,007	98	3,833
8. Haryana	397	1,300	67	1,764
9. Himachal Pradesh	130	779	26	935
10. Jammu and Kashmir	208	714	37	959
11. Jharkhand	0	123	0	123
12. Karnataka	795	3,538	158	4,491
13. Kerala	1,053	3,253	193	4,499
14. Madhya Pradesh	1,036	3,698	164	4,898
15. Maharashtra	1,173	3,841	189	5,203
16. Manipur	60	172	12	244
17. Meghalaya	65	301	13	379
18. Mizoram	30	135	0	165
19. Nagaland	105	457	16	578
20. Orissa	1,203	3,487	247	4,937
21. Punjab	545	2,009	41	2,595
22. Rajasthan	1,183	5,079	204	6,466
23. Sikkim	34	170	7	211
24. Tamil Nadu	1,371	4,214	233	5,818
25. Tripura	73	332	17	422
26. Uttar Pradesh	3,277	10,226	576	14,079
27. Uttaranchal	0	16	0	16
28. West Bengal	1,360	4,216	271	5,847

P Provisional.

Table 11.11: Repayment Schedule for Market Loans of State Governments (as at end - March 2001) P

(Rupees crore)

End-March	Amount of Repayment
1	2
2001-2002	1,446
2002-2003	1,789
2003-2004	4,145
2004-2005	5,123
2005-2006	6,274
2006-2007	6,551
2007-2008	11,554
2008-2009	14,400
2009-2010	16,261
2010-2011	15,870
2011-2012	3,349

P Provisional.

Consolidated Sinking Fund (CSF)

11.24 The Consolidated Sinking Fund (CSF) was set up in 1999-2000 to meet redemption of market loans of State Governments. Each State Government has to contribute 1 to 3 per cent of its outstanding market loans each year to the Fund. The accretions to the Fund are invested in Government of India securities. The Fund is administered by Central Accounts Section (CAS), Nagpur of the Reserve Bank. As on June 30, 2001, 10 States had subscribed to the CSF and the face value of securities purchased by them amounted to about Rs.671 crore.

INSTITUTIONAL MEASURES

11.25 The separation of the functions of debt management and monetary management is regarded as a desirable medium-term objective, conditional upon development of the government securities market, durable fiscal correction and an enabling legislative framework. The separation of the two functions is expected to have significant effects on the functioning of the government securities market. The Working Group on Separation of Debt Management from Monetary Management, which submitted its report to the Reserve Bank in December 1997, recommended, *inter alia,* the separation of the two functions and establishment of a company under the Indian Companies Act to take over the debt management function. The Union Budget, 2000-01 expressed the need to accord greater operational flexibility to the Reserve Bank for the conduct of monetary policy and regulation of the financial system. The existing Public Debt Act is sought to be repealed and replaced by a new Government Securities Act. The new Act will simplify the procedures for transactions in Government securities, allow lien marking/pledging of securities as also electronic transfer in a dematerialised form. The new Act has been passed by the Legislatures of most of the States. Attendant legislative changes are envisaged under the Fiscal Responsibility Bill and the Reserve Bank of India Act to enable greater flexibility and operational effectiveness in the conduct of monetary policy in the new environment. The Reserve Bank has proposed amendments to the Reserve Bank of India Act, 1934 which would take away the mandatory nature of management of public debt by the Reserve Bank and vest the discretion with the Central Government to undertake the management of the public debt either by itself or to assign it to some other independent body, if it so desires. The amendments to various legal acts are also expected to bring about greater compatibility with innovations taking place in banking operations.

11.26 During 2000-01, significant progress has been made in the development and integration of financial markets, introduction of new instruments and participants, strengthening of the institutional infrastructure and greater clarity in the regulatory structure. During 2000-01, amendments to the Securities Contracts (Regulation) Act, 1956 demarcated the regulatory roles of the Reserve Bank and the SEBI in the financial markets and established the regulatory jurisdiction of the Reserve Bank over money and government securities markets.

11.27 The recent monetary and credit policy statements of the Reserve Bank stressed that the major constraint in the evolution of an independent debt management function is the continuing fiscal dominance over financial markets. The durable solution for more efficient conduct of these policies is a substantial and enduring fiscal correction. The proposed Fiscal Responsibility Bill is expected to bring in reasonable control over the fiscal deficit. Apart from the elimination of the revenue deficit and the reduction of the fiscal deficit to 2.0 per cent of GDP by March 31, 2006, the proposed Bill envisages prohibition of direct borrowing by the Central Government from the Reserve Bank after three years except by way of advances to meet temporary cash needs.

11.28 In line with the recommendations of the Group of State Finance Secretaries, the Reserve Bank announced the following measures under the State Governments' 'WMA Scheme 2001', effective from February 1, 2001 : (i) the total normal WMA limits fixed at Rs.5,283 crore as per the Vithal Committee formula based on revenue receipts and capital expenditure for the three years ended 1999-2000; (ii) the special WMA continued to be linked to the State Governments' investments in Government of India securities; (iii) States allowed to run overdrafts for 12 consecutive working days instead of 10 days under the earlier scheme; (iv) five working days' notice period instead of the existing notice period of three working days to the States to bring down the overdraft amount within the level of 100 per cent of the normal WMA limit; (v) the other provisions of the scheme remain the same as per the earlier scheme; and (vi) the above scheme subject to review at the end of two years.

11.29 Consequent upon the creation of three new States, *i.e.*, Chhattisgarh, Jharkhand and Uttaranchal, the minimum balance and WMA limits were apportioned between the old and new States on the basis of the revenue sharing formula adopted by the Central Government. There was a uniform 30 per cent hike in WMA limits for all the six states involved, to take care of mismatches that may arise consequent to the division. Besides, overdraft regulations were partially relaxed in respect of these States. This was the position before the introduction of the WMA Scheme 2001.

11.30 During February 2001, it was decided that: (i) the existing normal WMA limit would continue for the reorganised States and the Reserve Bank would review the position in September 2001 when provisional accounts data become available; (ii) the relaxation of the five days' limit for the reorganised States would be extended up to March 31, 2002; (iii) loan-wise bifurcation, repayment schedule and coupon payments together with the months of such payments would be forwarded to the respective States by the Reserve Bank; (iv) for the determination of the limits on special WMA, the holdings or balances as on December 30, 2000 would be bifurcated between the respective States (investment made by States after the appointed date would be included in the holdings of the respective States); and (v) the outstanding State Development loans would continue in the name of the successor States (old states) and the servicing costs (interest payments and repayment of maturing loans) in respect of these outstanding loans would be met from the successor States' reconstituted cash accounts with the Reserve Bank, with the Reserve Bank arranging to transfer specified portions (as per the ratio of population) of these servicing charges from the new States. This is in consonance with the provisions of the respective Reorganisation Acts, 2000 of the States.

11.31 In pursuance of the recommendations of the Committee on State Government Guarantees in February 1999, the Reserve Bank advised banks that with effect from 2000-01, investments in State Government guaranteed securities outside the market borrowing programme would attract risk weight of 20 per cent. In case of default, such investments are to be treated as NPAs and 100 per cent risk weight is to be attached with adequate provisioning. The States which have not been honouring guarantees and have arrears in payment of interest/principal in guaranteed bonds have been sensitised to the need to make prompt payment in order that response to the market borrowing of the State is not jeopardised. Some of the States have requested the Reserve Bank to earmark a portion of fresh issuance towards arrears in servicing guaranteed bonds. Whereas Gujarat (1963), Karnataka (1999), Sikkim (2000) and West Bengal (2001) have introduced statutory ceilings on guarantees, Rajasthan (1999) and Assam (2000) have imposed administrative ceilings. Tamil Nadu has taken the decision to charge the guarantee commission on outstanding guaranteed amount.

11.32 With the issue of fiscal transparency coming to the fore, the Core Group for implementing the recommendations of the Committee on Voluntary Disclosure Norms for State Governments (January 2001) suggested that the States which have already started publishing "Budget at a Glance", should be encouraged to disseminate more information on a time series basis, especially data on major fiscal indicators, *viz.*, revenue deficit, primary deficit, tax revenue, interest payments, subsidies, contingent liabilities including guarantees *etc.* The Group also recommended that the other States should be persuaded to initiate necessary steps towards publishing "Budget at a Glance" and also time series data on some fiscal indicators. In the medium term, the States are encouraged to move towards publishing a detailed 'Budget Summary' under the supervision and periodic review by the State Finance Secretaries Forum.

11.33 The sixth conference of the State Finance Secretaries was held in April 2000. Issues deliberated upon were the need for a system of on-line reporting of transations to facilitate better funds management, auction systems for market borrowings of States, measures to deal with managing the interest burden, State guarantees and envisaged legislative changes. In the seventh conference in November 2000, issues discussed included the system of WMA and market borrowings for States, debt servicing, ceiling on guarantees, the Calamity Relief Fund and the macroeconomic implications of public accounts. In the eighth conference in May 2001, the issues discussed included market borrowing of states, state guarantees and guarantee redemption fund, interest burden on States and finances of local bodies.

11.34 The active stance of the debt management policy pursued in the recent years would be continued in 2001-02. The market borrowing programme of the Centre for the year has been placed at Rs.1,18,852 crore (net Rs.77,353 crore) and that of the States provisionally at Rs.12,648 crore (net, Rs.11,201 crore). Easy liquidity conditions have enabled the smooth issuance of the borrowing programmes of the Centre and States. While the ideal situation for the debt manager is one in which the market absorbs the entire debt issuances, the Reserve Bank subscribes to primary market loans in view of the large market borrowing requirements of the Government and the need to ensure orderly market conditions. The operational framework of debt management policy would, therefore, continue to combine private placement/ devolvements with open market operations so as to ensure absorption of the public debt without undue pressure on the conduct of monetary policy or on the cost of the debt. Lengthening of the maturity structure would also be continued along with reissuances and price-based auctions to smoothen the yield curve. As in the recent past, the debt management operations will have to be carefully timed with market liquidity conditions and expectations so that there are no undue pressures on the monetary policy preference for a softer interest rate environment.