

XI**PUBLIC DEBT MANAGEMENT**

11.1 Debt management in 2002-03 continued to be directed at minimising cost, keeping in view the rollover risk, within the overall objectives of monetary policy. The borrowing programmes of the Central and State Governments were completed successfully with gross market borrowings of Rs.1,81,979 crore. The Central Government mobilised market borrowings to the tune of Rs.1,51,126 crore (net Rs.1,04,118 crore) during 2002-03 as against Rs. 1,33,801 crore (net Rs.92,302 crore) in the preceding year. The gross and net borrowings through dated securities amounted to Rs.1,25,000 crore and Rs.97,580 crore, respectively while Rs.26,126 crore (gross) and Rs.6,538 crore (net) were raised through 364-day Treasury Bills. The gross and net market borrowings of the State Governments amounted to Rs.30,853 crore and Rs.29,064 crore in 2002-03 as compared with Rs.18,707 crore and Rs.17,261 crore in the preceding year, respectively. Comfortable liquidity conditions due to increased capital flows, absence of pressures on account of credit off-take, and reductions in CRR combined with appropriate private placements, facilitated the smooth completion of a large market borrowing programme. The weighted average cost of borrowings declined significantly during the year, benefiting from falling yields due to easy liquidity conditions and low inflation.

11.2 The Reserve Bank continued to combine private placements with open market operations to meet the twin objectives of managing liquidity in the system and containing volatility in the secondary market. New initiatives in debt management included pre-payment of external debt against issue of domestic debt, a debt-swap scheme for the State Governments and a debt buy-back scheme which involved buying back of high cost and illiquid securities issued in the past in exchange of new securities at the prevailing market yield. Comprehensive restructuring of the scheme of Ways and Means Advances (WMA) and overdraft (OD) for States was also undertaken during 2002-03.

CENTRAL GOVERNMENT**Ways and Means Advances**

11.3 The Ways and Means Advance (WMA) limits of the Centre were maintained at Rs.10,000 crore for the first half (April-September) and Rs.6,000 crore for the second half (October-March) of 2002-03. The daily average utilisation of WMA and overdraft (OD) was, however, significantly lower (Table 11.1). From the middle of December 2002 to March 31, 2003, the Government of India consistently maintained a surplus balance with the Reserve Bank mainly due

Table 11.1: Overdraft Position of the Central Government

(Rupees crore)

| Month | 2003-04 (so far) | | | 2002-03 | | | 2001-02 | | |
|--------------|--------------------|-------------|------------------|--------------------|-------------|------------------|--------------------|-------------|------------------|
| | Range of Overdraft | No. of Days | No. of Occasions | Range of Overdraft | No. of Days | No. of Occasions | Range of Overdraft | No. of Days | No. of Occasions |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| April | 1,642-9,656 | 6 | 2 | 144-6,300 | 13 | 2 | 556-14,193 | 10 | 1 |
| May | 900-5,867 | 8 | 3 | 734-7,773 | 12 | 2 | 199-5,346 | 8 | 2 |
| June | 875-8,349 | 5 | 2 | 359-5,154 | 9 | 3 | 303-2,173 | 10 | 1 |
| July | 383-5,288 | 11 | 4 | 85-3,893 | 13 | 4 | 30-7,267 | 16 | 4 |
| August | | | | 25-3,863 | 10 | 2 | 4,454-6,399 | 6 | 1 |
| September | | | | — | — | — | 1,856-4,383 | 7 | 1 |
| October | | | | — | — | — | 103-2,635 | 10 | 1 |
| November | | | | — | — | — | 356-7,581 | 13 | 2 |
| December | | | | 39-1,711 | 2 | 2 | 627-5,393 | 6 | 2 |
| January | | | | — | — | — | 120-4,138 | 17 | 4 |
| February | | | | — | — | — | 145-4,383 | 10 | 1 |
| March | | | | — | — | — | — | — | — |
| Total | | | | 25-7,773 | 59 | 15 | 30-14,193 | 113 | 20 |

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Table 11.2 : A Profile of Treasury Bills

| Type of T-Bill | Weighted average cut-off yield (%) | | Gross amount | | Net amount | | Outstanding amount | |
|----------------|------------------------------------|---------|--------------|---------|------------|----------|--------------------|---------|
| | 2002-03 | 2001-02 | 2002-03 | 2001-02 | 2002-03 | 2001-02 | 2002-03 | 2001-02 |
| | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 14-day | – | 7.13 | – | 1,100 | – | (-)300 | – | – |
| 91-day | 5.73 | 6.88 | 26,402 | 20,216 | 4,626 | 3,171 | 9,627 | 5,001 |
| 182-day | – | 8.44 | – | 300 | – | (-)1,300 | – | – |
| 364-day | 5.92 | 7.30 | 26,126 | 19,588 | 6,538 | 4,588 | 26,126 | 19,588 |

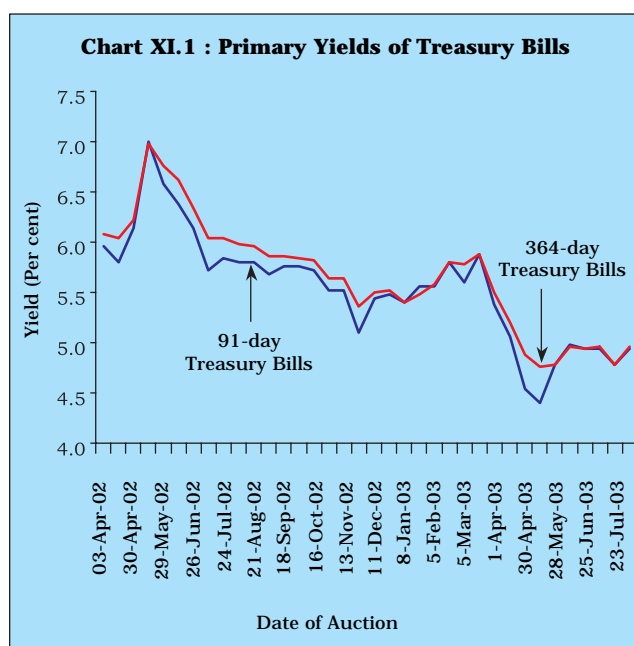
to increased Treasury Bill issuance, repayments by States under the debt swap scheme, and higher inflow through Relief Bonds. The daily average surplus balance during the period mid-December 2002–March 2003 was Rs.11,117 crore and ranged from Rs.982 crore to Rs.24,508 crore. The surpluses were invested in dated securities transferred from the Reserve Bank's investment account.

Treasury Bills

11.4 Currently, the Reserve Bank issues only 91-day (weekly, on Wednesdays) and 364-day Treasury Bills (fortnightly, on the Wednesday preceding the reporting Friday). The day of payment of both the Treasury Bills has been adjusted so as to synchronise them and to provide continuity in the maturity profile with adequate fungible stock. To make the Treasury Bill market vibrant and to provide an additional avenue of investment to the non-bank entities, the notified amount of the 364-day Treasury Bills was increased to Rs.1,000 crore with effect from April 3, 2002. The notified amount for auction of 91-day Treasury Bills was enhanced temporarily from Rs.250 crore to Rs.1,000 crore from December 11, 2002 to January 29, 2003 to absorb excess liquidity. As liquidity tightened in January 2003, the notified amount was reduced to Rs.500 crore for the rest of the financial year. The acceptance in the auction of 91-day Treasury Bills was less than the notified amount on two occasions (February 26, and March 12, 2003) due to substantially higher yield expectations of the market.

11.5 The gross amounts raised through 91-day and 364-day Treasury Bills were higher during 2002-03 (Appendix Table V.8). There was no devolvement on the Reserve Bank in any auction of the Treasury Bills during 2002-03 (Table 11.2).

11.6 With effect from December 11, 2002, the auction format of 91-day Treasury Bills was changed to the multiple price auction method from uniform price auction to encourage more responsible bidding from the market participants. There was a general



decline in yields at auctions of both 91-day and 364-day Treasury Bills during the year (Chart XI.1). During May 2002 and in the last quarter of 2002-03, the rates firmed up because of tight liquidity conditions. During November 2002 to January 2003, on the other hand, a surfeit of liquidity pushed the yields on 91-day and 364-day Treasury Bills below the repo rate. Temporary tightness in the overnight rates had led to an inversion in the short-term yield curve with cut-off yield in 91-day Treasury Bill being higher than the cut-off for 364-day Treasury Bill on February 5, 2003. This was corrected in the subsequent auction on February 19, 2003.

11.7 Comfortable liquidity conditions were reflected in the enthusiastic market response in each of the Treasury Bill auctions (Table 11.3).

11.8 During the current year so far (up to August 6, 2003) the primary yield of 91-day and 364-day Treasury Bills declined by 97 and 94 basis points, respectively, from their March-end levels. Since April

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**Table 11.3 : Treasury Bills -
Response in Primary Market @**

| Months | 91-day | | 364-day | |
|-------------|----------------------|--------|----------------------|--------|
| | No. of bids received | BR/NA* | No. of bids received | BR/NA* |
| 1 | 4 | 5 | 8 | 9 |
| 2002 | | | | |
| January | 130 | 2.57 | 126 | 2.58 |
| February | 112 | 3.24 | 134 | 3.60 |
| March | 101 | 2.74 | 93 | 3.37 |
| April | 140 | 2.91 | 180 | 2.52 |
| May | 113 | 2.69 | 134 | 2.54 |
| June | 95 | 2.28 | 132 | 3.02 |
| July | 135 | 2.65 | 120 | 2.52 |
| August | 99 | 2.12 | 122 | 3.17 |
| September | 98 | 2.30 | 106 | 3.05 |
| October | 120 | 2.33 | 139 | 2.54 |
| November | 98 | 2.46 | 113 | 2.36 |
| December | 174 | 2.88 | 140 | 3.37 |
| 2003 | | | | |
| January | 204 | 2.35 | 108 | 2.48 |
| February | 135 | 2.26 | 97 | 2.46 |
| March | 124 | 2.00 | 77 | 1.54 |
| April | 197 | 4.13 | 125 | 2.65 |
| May | 124 | 1.94 | 118 | 1.88 |
| June | 155 | 1.91 | 123 | 2.51 |
| July | 132 | 3.05 | 105 | 2.15 |

@ As per dates of auction.
* Ratio of competitive bids Received (BR) to Notified Amount (NA).

23, 2003, the primary yields of both 91-day and 364-day Treasury Bills fell below the repo rate, mainly due to abundant liquidity. The notified amount of 91-day Treasury Bills was enhanced from Rs. 500 crore to Rs. 1,500 crore for eight auctions from August 6, 2003 to September 24, 2003 keeping in view the prevailing liquidity conditions in the system.

Dated Securities

11.9 The Central Government raised a gross amount of Rs.1,25,000 crore and a net amount of Rs.97,580 crore during 2002-03 through issuance of dated securities (Appendix Table V.7). The gross and net market borrowings increased by 9 per cent and 11 per cent, respectively, over the preceding year. The ratio of net market borrowing through dated securities to the gross fiscal deficit moved up to 67.1 per cent in 2002-03 from 62.2 per cent in 2001-02.

11.10 Out of 31 issues of dated securities during the year, 12 were new issues while 19 were reissues, in line with the policy of passive consolidation of domestic debt. Out of 117 outstanding marketable dated securities of Rs.6,73,905 crore, 29 securities

with minimum outstanding amount of Rs.10,000 crore or more now account for 54 per cent of the total outstanding amount.

11.11 Of the total market borrowing programme, Rs.94,000 crore was raised through auction of dated securities (25 auctions) and the balance of Rs.31,000 crore (six issues) through private placements with the Reserve Bank - Rs.6,000 crore (one issue) in April 2002 to meet large unanticipated requirements of the Central Government, Rs.12,000 crore (three issues) in May 2002 when the market experienced tight liquidity conditions and uncertainty due to border tensions and Rs.13,000 crore (two issues) for prepayment of external debt in February, 2003. There were devolvments of Rs.5,175 crore during the year. Net open market sales amounting to Rs.53,780 crore during the year more than offset the monetary impact of private placements and devolvments.

11.12 The issuance of half yearly indicative calendars for the core component of the Government of India's market borrowing programme was introduced in 2002-03 to provide transparency and thereby enable the market participants to improve their investment planning. The issuance calendar was mostly adhered to.

11.13 The response at primary auctions was generally positive, with average bid cover ratio of 2.0, except on two occasions - in May and June, 2002 - when the amounts under auction devolved partly on Primary Dealers (PDs) and the Reserve Bank (Box XI.1).

11.14 To reduce the bidding risk of market participants, the Reserve Bank used uniform auction format on an experimental basis, mainly for new types of instruments like Floating Rate Bonds (FRBs), bonds with option features and very long tenor bonds of 30 years maturity. The method was also used for fixed coupon securities in April 2002, but huge liquidity and aggressive bidding resulted in the cut-off yield being well below the prevailing market yields.

11.15 The policy of elongation of maturity of government securities was persevered with. The maximum maturity of securities issued was extended to 30 years in 2002-03 as compared with 25 years in 2001-02. There was a marginal fall in the weighted average maturity of securities issued during the year. This occurred mainly because of the issuance of securities for prepayment of foreign debt on maturity matched basis for an average tenor of 9.3 years. The weighted average maturity of the outstanding loans,

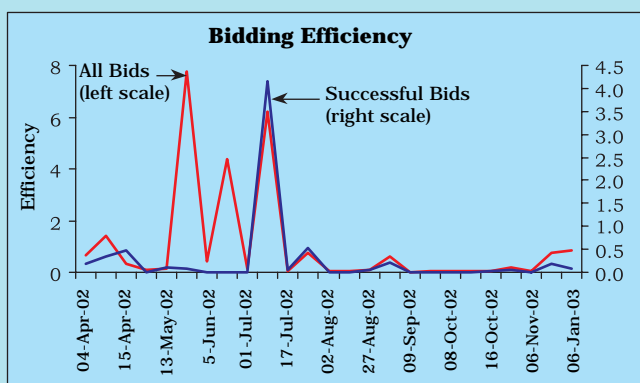
Box XI.1

Bidding Pattern in Auctions of Government of India Securities 2002-03

The bid-to-cover ratio (BCR), the ratio of the total amount of bids received at the auction to the notified amount, depends on the liquidity scenario and the interest rate expectations. The average BCR during 2002-03 was 2.0 as compared with 2.6 during 2001-02. Out of 25 auctions, BCR was above 3.0 in four auctions (seven out of 25 auctions during 2001-02) showing less aggressive bidding as compared with the previous year. BCR was lower during May-July 2002 due to tight liquidity and uncertain interest rate conditions.

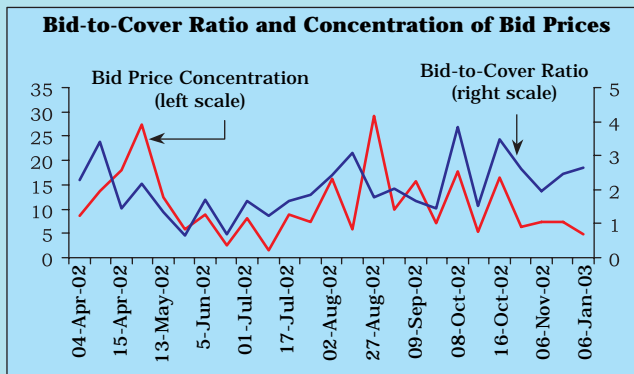
Bidding Efficiency

Bidding efficiency can be measured in terms of dispersion of the bid prices around a cut-off price, weighted by the share of the bid amounts. The lower the dispersion, the more efficient is the bidding by the participants. Bidding efficiency was higher (indicated by relatively low dispersion) during most part of 2002-03 except May-July 2002. The bidding efficiency was low in the auction of Floating Rate Bond 2017 held on July 1, 2002 due to interest rate uncertainties as the coupon is reset half yearly (Chart).



Concentration of Bid Price

Concentration of bid price, measured by the Herfindahl index of bid prices multiplied by the total number of bids, is an indicator of the uniformity of market expectations. Higher the index, more is the concentration of bid price. Higher concentration around the expected cut-off price/yield is desirable. Concentration has generally been high (except in the auctions of 8.35% GS 2022 on May 13, 2002 and FRB 17 on July 1, 2002), implying efficient bidding for most part of the year. Concentration of bid price has been found to follow the trend in BCR, indicating that when demand is high, the market has a reasonably uniform view on bond yields (Chart).



Performance of Uniform Price Auction Method

During 2002-03, out of the 25 auctions in government dated securities, six were held on the basis of uniform price method and remaining 19 were conducted through multiple price or discriminatory method. In a discriminatory auction, successful winning bids are filled at the bid price while in the uniform price auction, the successful bidders pay a flat price, called the cut-off price. As bidders tend to alter the bidding behaviour depending upon whether uniform price mode or multiple price mode is used, opinions are divided as to which of the two methods is superior. The US Treasury uses uniform price auction for issuing two and five-year securities. In a majority of countries, securities are auctioned using discriminatory auction method. Spain, on the other hand, uses a mixed uniform-discriminatory format in which winning bids above the average winning bid are charged uniformly at average bid while other winning bids pay respective prices.

The average BCR for the six uniform price auctions of dated government securities held in India during 2002-03 at 2.05 worked out marginally higher than the average BCR of 2.04 for multiple price auctions. The average bid price concentration for the six uniform price auctions worked out lower at 7.75 as compared to 11.91 for multiple price auctions.

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2. Das, S. R., Sunderam, R.K. (1996): "Auction Theory: A Summary with Applications to Treasury Bills Auctions", *Financial Markets, Institutions and Investments* 5(5), 1996.
3. Leonardo, B and Carlo, C (1997): "Designing Effective Auctions for Treasury Securities", *Federal Reserve Bank of New York, Current Issues in Economics and Finance* July 1997, Vol. 3 No. 9.

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Table 11.4 : Yield and Maturity of Central Government Securities Issued during the Year

| Years | Range of YTMs at Primary Issues (per cent) | | | Weighted Average Yield (Per cent) | Range of Maturity of Loans (Years) | Weighted Average Maturity (years) | Weighted Average Maturity of outstanding stock (years) |
|-----------------------------------|--|-------------|---------------|-----------------------------------|------------------------------------|-----------------------------------|--|
| | Under 5 years | 5-10 years | Over 10 years | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1997-98 | 10.85-12.14 | 11.15-13.05 | – | 12.01 | 3-10 | 6.6 | 6.5 |
| 1998-99 | 11.40-11.68 | 11.10-12.25 | 12.25-12.60 | 11.86 | 2-20 | 7.7 | 6.3 |
| 1999-00 | – | 10.73-11.99 | 10.77-12.45 | 11.77 | 5-19 | 12.6 | 7.1 |
| 2000-01 | 9.47-10.95 | 9.88-11.69 | 10.47-11.70 | 10.95 | 2-20 | 10.6 | 7.5 |
| 2001-02 | – | 6.98-9.81 | 7.18-11.00 | 9.44 | 5-25 | 14.3 | 8.2 |
| 2002-03 | – | 6.65-8.14 | 6.84-8.62 | 7.34 | 7-30 | 13.8 | 8.9 |
| 2003-04 (up to August 7, 2003) | – | 5.03-5.76 | 5.09-6.35 | 5.94 | 8-29 | 15.8 | 9.0 |

however, went up as the share of securities under 5 years declined. On the other hand, the share of securities with maturity over 10 years increased from 18 per cent on March 31, 1998 to 39 per cent at the end of March 2003. The weighted average cost of dated securities issued during 2002-03 declined by 210 basis points to 7.34 per cent, reflecting availability of ample liquidity in the system, low inflationary expectations and the accommodative monetary policy stance (Table 11.4).

11.16 The outstanding securities across the maturity buckets has become more evenly distributed over the years (Table 11.5). This is due to issuances with more than 10-year maturity having substantially increased since 1997-98, while issuances for maturities less than 5 years have been declining.

11.17 During 2002-03, the primary issuance of dated securities was significantly higher in the above 15-year maturity bucket (Table 11.6).

Table 11.5 : Maturity Profile of Central Government Securities

(Per cent)

| 1 | Outstanding Stock | | | Issued During the Year | | |
|---------|-------------------|------------|---------------|------------------------|------------|---------------|
| | Under 5 Years | 5-10 Years | Over 10 Years | Under 5 Years | 5-10 Years | Over 10 Years |
| 2 | 3 | 4 | 5 | 6 | 7 | |
| 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 |
| 2001-02 | 31 | 36 | 33 | 2 | 24 | 74 |
| 2002-03 | 26 | 35 | 39 | 0 | 36 | 64 |

Table 11.6 : Primary Issuance of Central Government Securities for Different Maturities

(Rupees crore)

| Year | 5- year | 10-year | 15-year | 20-year |
|--------------------------------|---------|---------|---------|---------|
| 1 | 2 | 3 | 4 | 5 |
| 1999-00 | 3,000 | 10,500 | 11,500 | - |
| 2000-01 | 6,000 | 22,500 | 19,000 | 7,000 |
| 2001-02 | 2,000 | 21,000 | 9,000 | 13,213 |
| 2002-03 | - | 29,000 | 30,000 | 13,000 |
| 2003-04 (up to August 7, 2003) | - | 6,000 | 8,000 | 4,000 |

11.18 The scheme of non-competitive bidding, which was introduced in January 2002 to facilitate investment by retail and mid-segment investors in Central Government securities, was made an integral part of the borrowing programme since October 2002. During 2002-03, out of a total reserved amount of Rs.4,050 crore, the non-competitive bidders were allotted Rs.1,302 crore, amounting to 32.2 per cent of the reserved amount. In the individual auctions, the response of non-competitive bidders varied from 8 per cent to 88 per cent of the reserved amount.

11.19 In line with the policy of ensuring sufficient securities in the portfolio of the Reserve Bank to conduct open market operations (OMO), the Government of India converted Rs.40,000 crore of 4.6 per cent Special Securities held in the Reserve Bank's portfolio into marketable securities of various maturities (3 to 18 years) at the prevailing yields in 2002-03. The outstanding balance of the Special Securities has accordingly diminished (Table 11.7). Another conversion of the Government of India Special Securities amounting to Rs.20,000 crore into

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Table 11.7 : Reserve Bank's Stock of Central Government Securities

(Rupees crore)

| Year (end-March) | Outstanding Dated Securities | Special Securities Issued to RBI in Conversion of Ad-hoc Treasury Bills | Total Outstanding* |
|------------------------|------------------------------|---|--------------------|
| 1 | 2 | 3 | 4 |
| 1996-97 | 6,666 | 1,21,818 | 1,28,484 |
| 1997-98 | 31,977 | 1,01,818 | 1,33,795 |
| 1998-99 | 42,212 | 1,01,818 | 1,44,030 |
| 1999-00 | 35,190 | 1,01,818 | 1,37,008 |
| 2000-01 | 41,732 | 1,01,818 | 1,43,550 |
| 2001-02 | 40,927 | 1,01,818 | 1,42,745 |
| 2002-03 | 55,438 | 61,818 | 1,17,256 |
| 2003-04 | 83,574 | 41,818 | 1,25,392 |
| (As on August 1, 2003) | | | |

* Inclusive of securities sold under LAF.

three dated securities on June 12, 2003 brought down the outstanding stock of Special Securities held by the Reserve Bank.

11.20 The repayment schedule of outstanding market loans of the Central Government indicates that the repayments are evenly spread without any bunching (Table 11.8).

Table 11.8 : Repayment Schedule of Outstanding Central Government Securities (As on March 31, 2003)

(Rupees crore)

| End-March | Amount outstanding |
|-----------|--------------------|
| 1 | 2 |
| 2003-04 | 32,910 |
| 2004-05 | 34,316 |
| 2005-06 | 35,631 |
| 2006-07 | 36,894 |
| 2007-08 | 41,151 |
| 2008-09 | 40,223 |
| 2009-10 | 45,195 |
| 2010-11 | 53,109 |
| 2011-12 | 45,610 |
| 2012-13 | 46,255 |
| 2013-14 | 40,191 |
| 2014-15 | 27,588 |
| 2015-16 | 36,857 |
| 2016-17 | 36,130 |
| 2017-18 | 37,000 |
| 2018-19 | 16,632 |
| 2019-20 | 11,000 |
| 2020-21 | 11,000 |
| 2021-22 | 13,213 |
| 2022-23 | 13,000 |
| 2026-27 | 15,000 |
| 2032-33 | 5,000 |

Table 11.9 : Interest Rate Profile of the Outstanding Central Government Securities (As on March 31, 2003)

| Range of Interest Rate (Per cent) | Outstanding Amount (Rupees crore) | Share in Total |
|-----------------------------------|-----------------------------------|----------------|
| 1 | 2 | 3 |
| 5.73 - 5.99 | 12,378 | 1.84 |
| 6.00 - 6.99 | 44,684 | 6.63 |
| 7.00 - 7.99 | 79,654 | 11.82 |
| 8.00 - 8.99 | 29,643 | 4.40 |
| 9.00 - 9.99 | 51,992 | 7.72 |
| 10.00 - 10.99 | 84,572 | 12.55 |
| 11.00 - 11.99 | 2,12,243 | 31.49 |
| 12.00 - 12.99 | 1,25,047 | 18.56 |
| 13.00 - 14.00 | 33,692 | 5.00 |
| Total | 6,73,905 | |

11.21 The interest rate profile of the outstanding stock of the Central Government is skewed with over two-third of the contracted debt carrying over 10 per cent interest (Table 11.9).

11.22 The budget estimate of the net market borrowing of the Central Government through dated securities for the year 2003-04 is placed at Rs.1,07,320 crore. Including repayments of Rs.32,910 crore, the gross market borrowing through dated securities amounts to Rs.1,40,230 crore, an increase of 12.2 per cent over the previous year's level. The calendar for the first half covering 50.6 per cent of the market borrowing programme was announced on March 31, 2003 (Table 11.10).

11.23 During the current year so far (up to August 7, 2003), the Central Government raised gross amount of Rs.88,434 crore (net Rs.61,316 crore), including Rs.14,434 crore raised on account of buy-back of Government securities; and Rs.5,000 crore was through private placement. On May 19, 2003, a Floating Rate Bond 2014 was issued for the notified amount of Rs.5,000 crore. The maximum amount for non-competitive bidding was raised from Rs. 1 crore to Rs. 2 crore from this auction onwards. The cut-off yield was at 5.09 per cent, 14 basis points above the variable base rate. Under the modified design of floating rate bonds, the variable base rate is determined on the basis of average cut-off yield emerging in the preceding three auctions of 364-day Treasury Bills instead of preceding six auctions earlier. It also provides for annual reset of variable base rate for fixation of coupon as against half yearly reset earlier. The coupon payment, however, continue to

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Table 11.10 : Indicative Calendar and Actual Borrowings through the Dated Securities for first half of 2003-04

(Amount in Rupees crore)

| Proposed Auction Calendar | | | Actual Borrowings | | |
|---------------------------|---------------|---|-------------------|---------------|---|
| Period of auction | Amount | Maturity Period of the Security (Years) | Date of Auction | Amount | Maturity Period of the Security (Years) |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1. April 3-9, 2003 | 9,000 | (i) 10 to 14-year security for Rs.5,000 crore | April 8, 2003 | 5,000 | 11.02 |
| | | (ii) 20-year and above security for Rs.4,000 crore | April 8, 2003 | 4,000 | 20.00 |
| 2. April 16-22, 2003 | 7,000 | (i) 15 to 19-year security for Rs.5,000 crore | April 22, 2003 | 5,000 | 14.69 |
| | | (ii) 20-year and above security for Rs.2,000 crore | April 22, 2003 | 2,000 | 29.35 |
| 3. May 2-8, 2003 | 9,000 | (i) 10 to 14-year security for Rs.6,000 crore | April 22, 2003 | 3,000 P* | 14.69 |
| | | (ii) 20-year and above security for Rs.3,000 crore | April 22, 2003 | 2,000 P* | 29.35 |
| 4. May 14-20, 2003 | 5,000 | (i) 10 to 14-year security for Rs.5,000 crore | May 3, 2003 | 6,000 | 10.33 |
| | | (ii) 20-year and above security for Rs.3,000 crore | May 3, 2003 | 3,000 | 18.93 |
| 5. June 2-8, 2003 | 9,000 | (i) 10 to 14-year security for Rs.5,000 crore | May 19, 2003 | 5,000 | 11.00 |
| | | (ii) 20-year and above security for Rs.3,000 crore | June 3, 2003 | 6,000 | 8.84 |
| 6. July 1-7, 2003 | 9,000 | (i) 5 to 9-year security for Rs.6,000 crore | June 3, 2003 | 3,000 | 25.00 |
| | | (ii) 20-year and above security for Rs.3,000 crore | July 1, 2003 | 5,000 | 10.79 |
| 7. July 14-21, 2003 | 5,000 | (i) 10 to 14-year security for Rs.5,000 crore | July 1, 2003 | 4,000 | 15.94 |
| | | (ii) 15 to 19-year security for Rs.4,000 crore | July 1, 2003 | 3,000 * | 24.92 |
| 8. August 1-7, 2003 | 9,000 | (i) 15 to 19-year security for Rs.3,000 crore | July 15, 2003 | 6,000 * | 16.46 |
| | | (ii) 20-year and above security for Rs. 2,000 crore | July 15, 2003 | 3,000 * | 29.12 |
| 9. September 1-7, 2003 | 9,000 | (i) 5 to 10-year security for Rs.6,000 crore | August 7, 2003 | 6,000 | 8.00 |
| | | (ii) 20-year and above security for Rs.3,000 crore | August 7, 2003 | 3,000 | 24.63 |
| 9. September 1-7, 2003 | 9,000 | (i) 10 to 14-year security for Rs.5,000 crore | | | |
| | | (ii) 15 to 20-year security for Rs.4,000 crore | | | |
| Total | 71,000 | | | 74,000 | |

* Additional borrowings over and above the indicative calendar.

P Private Placement with RBI.

remain semi-annual. The weighted average yield and maturity of dated securities issued during the current year so far (up to August 7, 2003) works out to 5.94 per cent and 15.84 years, respectively.

STATE GOVERNMENTS**Ways and Means Advances**

11.24 The Reserve Bank provides WMA to States with a view to help them tide over temporary

mismatches in cash flow. The WMA limits are fixed by the Reserve Bank from time to time. Drawing from the recommendations of the Ramachandran Committee (2002) and consultations with the State Governments, the Reserve Bank revised the Scheme of Ways and Means Advances for the States, effective March 3, 2003 to give them the benefit of higher limits in the last month of the fiscal year. The revised normal WMA limits have been computed by taking into account the average of revenue receipts for the three

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Table 11.11 : Normal WMA Limits of States

(Rupees crore)

| State | WMA Limits 1996 (effective from August 1, 1996) | WMA Limits 1999 (effective from March 1, 1999)\$ | WMA Limits 2001 (effective from February 1, 2001) | WMA Limits 2002 (effective from April 1, 2002) | WMA Limits 2003 (effective from March 3, 2003)* |
|------------------------------------|---|--|---|--|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| Non-Special Category States | | | | | |
| 1. Andhra Pradesh | 168 | 288 | 463 | 520 | 620 |
| 2. Bihar | 118 | 195 | 220 | 245 | 305 |
| 3. Chhattisgarh | | 82 | 91 | 100 | 130 |
| 4. Goa | 17 | 24 | 25 | 50 | 50 |
| 5. Gujarat | 118 | 243 | 393 | 445 | 485 |
| 6. Jharkhand | | 51 | 57 | 75 | 105 |
| 7. Haryana | 50 | 99 | 167 | 180 | 205 |
| 8. Karnataka | 134 | 228 | 331 | 375 | 460 |
| 9. Kerala | 101 | 144 | 215 | 225 | 270 |
| 10. Madhya Pradesh | 134 | 221 | 244 | 275 | 345 |
| 11. Maharashtra | 252 | 483 | 685 | 760 | 905 |
| 12. Orissa | 101 | 141 | 159 | 185 | 215 |
| 13. Punjab | 101 | 141 | 200 | 235 | 240 |
| 14. Rajasthan | 101 | 202 | 288 | 310 | 365 |
| 15. Tamil Nadu | 185 | 281 | 402 | 415 | 570 |
| 16. Uttar Pradesh | 286 | 531 | 559 | 630 | 755 |
| 17. West Bengal | 168 | 235 | 295 | 360 | 420 |
| Sub Total | 2,033 | 3,589 | 4,794 | 5,385 | 6,445 |
| Special Category States | | | | | |
| 1. Arunachal Pradesh | 17 | 28 | 35 | 50 | 50 |
| 2. Assam | 67 | 114 | 161 | 180 | 210 |
| 3. Himachal Pradesh | 34 | 59 | 92 | 115 | 135 |
| 4. Manipur | 17 | 25 | 38 | 50 | 50 |
| 5. Meghalaya | 17 | 25 | 30 | 50 | 50 |
| 6. Mizoram | 17 | 25 | 28 | 50 | 50 |
| 7. Nagaland | 17 | 26 | 40 | 50 | 55 |
| 8. Tripura | 17 | 31 | 46 | 55 | 60 |
| 9. Uttaranchal | | 19 | 19 | 50 | 65 |
| Sub Total | 202 | 352 | 489 | 650 | 725 |
| Total | 2,234 | 3,941 | 5,283 | 6,035 | 7,170 |

§ Report of the Informal Advisory Committee on WMA to State Governments (Chairman: Shri B.P.R. Vithal, November 1998).
* Report of the Advisory Committee on WMA to State Governments (Chairman: Shri C. Ramachandran, January 2003).

fiscal years 1999-2000, 2000-01 and 2001-02 and then applying a multiplication factor of 3.19 for the non-special category States and 3.84 for the special category States. The total normal WMA limits effective from March 3, 2003 at Rs.7,170 crore was 18.8 per cent higher than the earlier limit of Rs.6,035 crore (Table 11.11).

11.25 The special WMA continues to be linked to the investments made by State Governments in Government of India securities. A lower and uniform margin of 5 per cent (compared with the 10 to 15 per cent margin earlier) would be applied on the market value of the securities for determining the operating limit of special WMA. The States would have to avail of special WMA limits first at a rate of one per cent

below the Bank Rate before seeking accommodation under the normal WMA limits. The number of days that a State can be in overdraft (OD) has been extended to 14 consecutive working days from the earlier 12 consecutive working days. The OD regulation for State Governments has been made more stringent. With effect from April 1, 2003, the State Governments cannot remain in OD for more than 36 working days in a quarter (Table 11.12).

11.26 The outstanding WMA and OD of the State Governments was lower by 52.9 per cent in 2002-03 as compared with the previous year. For a majority of the States, the utilisation of WMA and OD came down significantly in 2002-03, indicating improved management of cash flows (Table 11.13).

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Table 11.12 : WMA to State Governments - Earlier and the New Arrangements

| Item | Earlier Arrangement | New Arrangement |
|---|---|--|
| 1 | 2 | 3 |
| Normal WMA | | |
| 1. Methodology for Computation of Limit | Average of revenue receipts and capital expenditure of the latest three years multiplied by a ratio of 2.4 for non-special category States and 2.9 for special category States. | Average of only revenue receipts of latest three years multiplied by a ratio of 3.19 for non-special category States and 3.84 for special category States. |
| 2. Aggregate Normal WMA Limits | Rs.6,035 crore | Rs.7,170 crore |
| i) Non-Special Category States | Rs.5,385 crore | Rs.6,445 crore |
| ii) Special Category States | Rs.650 crore | Rs.725 crore |
| 3. Rate of interest | Bank Rate | Bank Rate for the period of 1-90 days and 1 per cent above the Bank Rate for the period beyond 90 days. |
| Special WMA | | |
| 4. Computation of limits (Margin) | 15 per cent* 10 per cent** | 5 per cent uniformly. |
| 5. Rate of interest | Bank Rate | 1 per cent below the Bank Rate. |
| 6. Use of Special WMA | This is availed of after Normal WMA. | To be availed of before utilising Normal WMA limit. |
| Overdraft Regulation Scheme | | |
| 7. No. of consecutive working days a State can be under OD (excluding holidays) | 12 | 14 |
| 8. No. of working days in a quarter a State can be in OD | – | 36 |
| 9. No. of consecutive working days OD can be in excess of the Normal WMA limit | 5 | 5 |
| 10. Rate of interest | Bank Rate <i>plus</i> 2 per cent | OD up to 100 per cent of Normal WMA at 3 per cent above the Bank Rate and for OD exceeding 100 per cent of Normal WMA at 6 per cent above the Bank Rate. |
| * For securities with residual maturity of more than 10 years. | | |
| ** For securities with residual maturity of less than 10 years. | | |

11.27 The weekly average utilisation of WMA and OD during 2003-04 (up to July 2003) was lower, mainly due to higher small savings collections and larger market borrowing (Table 11.14). Stricter OD regime with higher rate of interest has presumably reduced States' resort to OD. There has, however, been a sharp increase in States' resort to special WMA as States are allowed to avail of special WMA before seeking accommodation under the normal WMA.

Market Borrowings of State Governments

11.28 States resorted to large volumes of market borrowings in 2002-03. States raised Rs.30,853

crore (Rs.27,880 crore through tap issuances and Rs.2,973 crore through auctions), an increase of 65 per cent over Rs.18,707 crore (Rs.15,942 crore through tap issuances and Rs.2,765 crore through auctions) during 2001-02 (Table 11.15). The interest rates on tap issues ranged between 6.60-7.80 per cent with a spread fixed in the range between 38-52 basis points over the corresponding secondary market yield of Government of India dated securities (Table 11.16). The cut-off yields on auctions ranged between 6.67-8.00 per cent with a spread ranging between 20-76 basis points over the corresponding secondary market yield of Government of India dated securities. Of the States that used the auction method, some were able to mobilise loans at

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Table 11.13 : Utilisation of WMA and Overdrafts by State Governments

| States | WMA | | Overdraft (OD) | | | |
|------------------------------------|-------------|-------------|------------------|-------------|------------------|-------------|
| | 2001-02 | 2002-03 | 2001-02 | | 2002-03 | |
| | No. of days | No. of days | No. of Occasions | No. of days | No. of Occasions | No. of days |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Non-Special Category States | | | | | | |
| 1. Andhra Pradesh | 336 | 72 | 24 | 173 | 6 | 33 |
| 2. Bihar | 265 | 1 | 16 | 123 | 0 | 0 |
| 3. Goa | 219 | 266 | 11 | 68 | 9 | 66 |
| 4. Gujarat | 307 | 219 | 11 | 72 | 13 | 47 |
| 5. Haryana | 299 | 64 | 16 | 70 | 4 | 21 |
| 6. Karnataka | 40 | 157 | 0 | 0 | 1 | 1 |
| 7. Kerala | 359 | 330 | 27 | 222 | 28 | 196 |
| 8. Madhya Pradesh | 290 | 251 | 15 | 173 | 22 | 176 |
| 9. Maharashtra | 332 | 301 | 15 | 129 | 17 | 154 |
| 10. Orissa | 364 | 329 | 31 | 258 | 21 | 189 |
| 11. Punjab | 259 | 214 | 17 | 120 | 11 | 53 |
| 12. Rajasthan | 309 | 329 | 23 | 169 | 21 | 151 |
| 13. Tamil Nadu | 359 | 326 | 24 | 152 | 13 | 73 |
| 14. Uttar Pradesh | 217 | 229 | 13 | 88 | 14 | 79 |
| 15. West Bengal | 365 | 318 | 28 | 253 | 28 | 260 |
| 16. Chhattisgarh | 0 | 0 | 0 | 0 | 0 | 0 |
| 17. Jharkhand | 1 | 0 | 0 | 0 | 0 | 0 |
| Special Category States | | | | | | |
| 1. Arunachal Pradesh | 13 | 27 | 0 | 0 | 0 | 0 |
| 2. Assam | 365 | 121 | 19 | 312 | 24 | 315 |
| 3. Himachal Pradesh | 342 | 252 | 29 | 233 | 27 | 181 |
| 4. Manipur | 365 | 333 | 19 | 331 | 19 | 350 |
| 5. Meghalaya | 0 | 78 | 0 | 0 | 1 | 1 |
| 6. Mizoram | 270 | 184 | 10 | 81 | 4 | 24 |
| 7. Nagaland | 188 | 297 | 8 | 72 | 19 | 143 |
| 8. Tripura | 86 | 28 | 0 | 0 | 0 | 0 |
| 9. Uttaranchal | 142 | 180 | 10 | 85 | 9 | 41 |

competitive rates (Punjab and Andhra Pradesh) while others had to pay higher rates (Kerala and Jammu and Kashmir) (Table 11.17).

11.29 The provisional net allocation for the State Governments under their market borrowing programme during 2003-04 is kept at Rs. 24,000 crore

Table 11.14 : WMA, Special WMA, Overdraft and Investment in Treasury Bills (Weekly Averages)

(Rupees crore)

| Month | Normal WMA | | | Special WMA | | | Overdraft | | | Investment in Treasury Bills | | |
|-----------|------------|---------|---------|-------------|---------|---------|-----------|---------|---------|------------------------------|---------|---------|
| | 2003-04 | 2002-03 | 2001-02 | 2003-04 | 2002-03 | 2001-02 | 2003-04 | 2002-03 | 2001-02 | 2003-04 | 2002-03 | 2001-02 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| April | 2,145 | 2,924 | 3,925 | 989 | 835 | 666 | 1,088 | 2,987 | 1,863 | 3,894 | 1,652 | 2,832 |
| May | 1,816 | 2,961 | 2,638 | 941 | 480 | 345 | 445 | 1,428 | 681 | 4,987 | 2,404 | 3,483 |
| June | 1,179 | 3,007 | 2,223 | 937 | 559 | 331 | 204 | 1,022 | 508 | 6,232 | 3,670 | 4,664 |
| July | 2,160 | 3,295 | 2,875 | 1,138 | 658 | 491 | 612 | 1,252 | 863 | 4,095 | 2,727 | 4,219 |
| August | | 2,058 | 2,798 | | 507 | 539 | | 817 | 911 | | 4,367 | 2,916 |
| September | | 2,875 | 3,542 | | 610 | 760 | | 924 | 1,851 | | 4,389 | 1,764 |
| October | | 3,238 | 3,586 | | 709 | 652 | | 1,860 | 1,693 | | 3,156 | 1,704 |
| November | | 3,673 | 3,730 | | 704 | 769 | | 1,575 | 1,990 | | 2,396 | 1,595 |
| December | | 4,454 | 4,244 | | 833 | 950 | | 1,407 | 2,292 | | 2,440 | 1,232 |
| January | | 3,982 | 4,217 | | 922 | 951 | | 1,431 | 2,024 | | 3,299 | 1,067 |
| February | | 3,352 | 3,506 | | 493 | 922 | | 1,351 | 1,733 | | 3,371 | 1,437 |
| March | | 2,806 | 3,746 | | 832 | 839 | | 715 | 2,447 | | 3,301 | 955 |

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Table 11.15 : Market Borrowings of State Governments in 2002-03

(Rupees crore)

| States | Gross Borrowings | Repayment | Net Borrowings | Gross Amount raised by Auction | Gross Amount raised through Tap Sale |
|-----------------------|------------------|--------------|----------------|--------------------------------|--------------------------------------|
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1. Andhra Pradesh | 3,401 | 175 | 3,226 | 545 | 2,857 |
| 2. Arunachal Pradesh | 34 | 0 | 34 | – | 34 |
| 3. Assam | 911 | 23 | 888 | – | 911 |
| 4. Bihar | 1,335 | 135 | 1,200 | – | 1,335 |
| 5. Chhattisgarh | 464 | 15 | 449 | – | 464 |
| 6. Goa | 155 | 0 | 155 | – | 155 |
| 7. Gujarat | 2,537 | 68 | 2,469 | 445 | 2,092 |
| 8. Haryana | 756 | 41 | 714 | – | 756 |
| 9. Himachal Pradesh | 698 | 14 | 684 | – | 698 |
| 10. Jammu and Kashmir | 596 | 18 | 576 | 70 | 526 |
| 11. Jharkhand | 455 | 46 | 409 | – | 455 |
| 12. Karnataka | 1,611 | 101 | 1,510 | 200 | 1,411 |
| 13. Kerala | 1,237 | 103 | 1,134 | 445 | 792 |
| 14. Madhya Pradesh | 1,137 | 40 | 1,097 | 247 | 890 |
| 15. Maharashtra | 1,074 | 74 | 1,000 | 509 | 565 |
| 16. Manipur | 77 | 8 | 69 | – | 77 |
| 17. Meghalaya | 87 | 0 | 87 | – | 87 |
| 18. Mizoram | 118 | 0 | 118 | – | 118 |
| 19. Nagaland | 178 | 11 | 167 | – | 178 |
| 20. Orissa | 1,308 | 106 | 1,202 | – | 1,308 |
| 21. Punjab | 1,141 | 79 | 1,062 | 85 | 1,056 |
| 22. Rajasthan | 2,383 | 119 | 2,264 | – | 2,383 |
| 23. Sikkim | 20 | 0 | 20 | – | 20 |
| 24. Tamil Nadu | 2,325 | 186 | 2,139 | 275 | 2,050 |
| 25. Tripura | 121 | 9 | 113 | – | 121 |
| 26. Uttar Pradesh | 3,237 | 299 | 2,938 | – | 3,237 |
| 27. Uttaranchal | 950 | 16 | 934 | – | 950 |
| 28. West Bengal | 2,506 | 101 | 2,405 | 153 | 2,353 |
| Total | 30,853 | 1,789 | 29,064 | 2,973 | 27,880 |

including additional allocation of Rs. 4,000 crore. Taking into account the repayment of Rs. 4,145 crore, the gross (provisional) allocation amounts to Rs. 28,145 crore. During the current year so far (up to August 11, 2003), an aggregate amount of Rs. 22,896 crore has been raised by the State Governments under the market borrowing programme.

11.30 The weighted average yield recorded a decline of 1.71 percentage points in 2002-03 (Table 11.18). The State wise maturity profile of outstanding State Governments' market loans suggests that almost 75 per cent of the loans are in the maturity bucket of 5-10 years (Table 11.19).

11.31 The distribution of annual repayment of the State Governments' market loans is even but weighted at the longer end (Table 11.20).

11.32 As in the case of the Centre, the profile of the outstanding stock of the State Governments in

terms of interest rate ranges indicates that over two-third of loans are contracted at interest rates of 10 per cent and more (Table 11.21).

Debt Restructuring

11.33 The Union Budget for 2003-04 has envisaged measures for debt restructuring as a part of fiscal consolidation. They encompass pre-payment of external debt, buy-back of loans by the Government from the banks on voluntary basis and restructuring of State Governments' debt to the Centre through a debt swap scheme.

11.34 Pre-payment of 'high-cost' currency pool loans from the World Bank and the loans from the Asian Development Bank and switching of this amount with domestic loans would reduce the cost to the Central Government. Accordingly, the Central Government prepaid foreign currency loans to these institutions

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Table 11.16 : Market Borrowings Raised through Tap Issuance

| Name of the State | Tap Issue | | | | | |
|-----------------------|-------------------------------|-----------------------------|-------------------------------|------------------------------|----------------------------------|-------------------------------|
| | April 23-26, 2002 7.80% | August 19, 2002 7.80% | December 23, 2002 6.80% | February 4, 2003 6.60% | February 25-26, 2003 6.95% | March 12-17, 2003 6.75% |
| | 1 | 2 | 3 | 4 | 5 | 6 |
| 1. Andhra Pradesh | 387 | 443 | 0 | 809 | 876 | 342 |
| 2. Arunachal Pradesh | 8 | 5 | 3 | | 14 | 4 |
| 3. Assam | 89 | 177 | 119 | | 303 | 223 |
| 4. Bihar | 184 | 327 | 227 | | 299 | 298 |
| 5. Chhattisgarh | 56 | 155 | 0 | | 137 | 115 |
| 6. Goa | 34 | 27 | 48 | | 34 | 11 |
| 7. Gujarat | 344 | 240 | 361 | | 694 | 453 |
| 8. Haryana | 130 | 78 | 169 | | 289 | 90 |
| 9. Himachal Pradesh | 104 | 150 | 100 | 100 | 175 | 69 |
| 10. Jammu and Kashmir | 61 | 46 | 30 | 212 | 90 | 87 |
| 11. Jharkhand | 88 | 97 | 65 | | 129 | 76 |
| 12. Karnataka | 150 | 300 | 352 | | 457 | 151 |
| 13. Kerala | 0 | 251 | 197 | | 258 | 86 |
| 14. Madhya Pradesh | 109 | 370 | 0 | | 281 | 130 |
| 15. Maharashtra | 328 | 237 | 0 | | 0 | 0 |
| 16. Manipur | 10 | 28 | 21 | | 14 | 5 |
| 17. Meghalaya | 21 | 29 | 20 | | 13 | 4 |
| 18. Mizoram | 10 | 14 | 81 | | 10 | 3 |
| 19. Nagaland | 36 | 53 | 74 | | 7 | 7 |
| 20. Orissa | 154 | 280 | 187 | | 353 | 334 |
| 21. Punjab | 212 | 127 | 0 | | 451 | 266 |
| 22. Rajasthan | 249 | 426 | 284 | | 713 | 712 |
| 23. Sikkim | 0 | 6 | 4 | | 10 | 0 |
| 24. Tamil Nadu | 309 | 406 | 146 | | 729 | 460 |
| 25. Tripura | 25 | 35 | 24 | | 20 | 17 |
| 26. Uttar Pradesh | 433 | 814 | 542 | | 849 | 599 |
| 27. Uttaranchal | 57 | 23 | 286 | | 292 | 292 |
| 28. West Bengal | 384 | 229 | 0 | | 902 | 838 |
| Total | 3,974 | 5,374 | 3,341 | 1,121 | 8,398 | 5,671 |

Table 11.17 : Market Borrowings
Raised through Auctions

(Amount in Rupees crore; cut-off yield in per cent)

| Name of State | 2002-03 | | |
|----------------------|-----------------|--------------|---------|
| | Date of Auction | Amount | Cut-off |
| 1 | 2 | 3 | 4 |
| 1. Andhra Pradesh | 27.06.02 | 250 | 7.90 |
| | 10.12.02 | 295 | 6.67 |
| 2. Gujarat | 27.06.02 | 245 | 7.83 |
| | 30.10.02 | 200 | 7.33 |
| 3. Jammu and Kashmir | 27.06.02 | 70 | 8.00 |
| 4. Karnataka | 27.06.02 | 200 | 7.90 |
| 5. Kerala | 11.04.02 | 225 | 8.00* |
| 6. Madhya Pradesh | 18.11.02 | 247 | 6.94 |
| 7. Maharashtra | 27.06.02 | 279 | 7.83 |
| 8. Punjab | 18.11.02 | 85 | 6.80 |
| 9. Tamil Nadu | 30.10.02 | 275 | 7.30 |
| 10. West Bengal | 30.10.02 | 153 | 7.35 |
| Total | | 2,973 | |

* Reissue

amounting to US \$ 3.0 billion. The possibility of further repayments of external debt is being explored.

11.35 The buy-back of high coupon loans by the Central Government from banks and debt-swap by the State Governments are the two schemes aimed at restructuring the domestic debt. The scheme of

Table 11.18 : Yield of State Government Loans
Issued during the Year

(Per cent per annum)

| Year | 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 |
| 1999-00 | 11.00-12.25 | 11.89 |
| 2000-01 | 10.50-12.00 | 10.99 |
| 2001-02 | 7.80-10.53 | 9.20 |
| 2002-03 | 6.67-8.00 | 7.49 |

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Table 11.19 : Maturity Profile of Outstanding State Government Loans (As on March 31, 2003) P

(Rupees crore)

| State | Under 5 years | 5-10 years | Total |
|-----------------------|---------------|---------------|-----------------|
| 1 | 2 | 3 | 4 |
| 1. Andhra Pradesh | 2,942 | 11,315 | 14,257 |
| 2. Arunachal Pradesh | 30 | 106 | 136 |
| 3. Assam | 960 | 2,717 | 3,678 |
| 4. Bihar | 2,966 | 5,560 | 8,526 |
| 5. Chhattisgarh | 0 | 803 | 803 |
| 6. Goa | 91 | 521 | 612 |
| 7. Gujarat | 1,360 | 6,291 | 7,651 |
| 8. Himachal Pradesh | 225 | 1,759 | 1,983 |
| 9. Haryana | 723 | 2,016 | 2,739 |
| 10. Jammu and Kashmir | 365 | 1,434 | 1,800 |
| 11. Jharkhand | 0 | 948 | 948 |
| 12. Karnataka | 1,302 | 5,746 | 7,047 |
| 13. Kerala | 1,904 | 4,606 | 6,510 |
| 14. Maharashtra | 2,282 | 5,150 | 7,432 |
| 15. Madhya Pradesh | 2,078 | 4,567 | 6,644 |
| 16. Manipur | 100 | 252 | 352 |
| 17. Meghalaya | 138 | 413 | 551 |
| 18. Mizoram | 65 | 262 | 326 |
| 19. Nagaland | 199 | 691 | 890 |
| 20. Orissa | 2,111 | 4,769 | 6,880 |
| 21. Punjab | 1,014 | 3,039 | 4,054 |
| 22. Rajasthan | 2,145 | 7,671 | 9,816 |
| 23. Sikkim | 77 | 164 | 241 |
| 24. Tripura | 121 | 462 | 582 |
| 25. Tamil Nadu | 2,324 | 6,676 | 9,000 |
| 26. Uttaranchal | 0 | 1,178 | 1,178 |
| 27. Uttar Pradesh | 5,601 | 13,547 | 19,148 |
| 28. West Bengal | 2,528 | 6,754 | 9,282 |
| Total | 33,648 | 99,418 | 1,33,066 |

P : Provisional.

debt buyback, as announced in the Union Budget for 2003-04, was implemented on July 19, 2003. Government of India bought back 19 high cost,

Table 11.20 : Repayment Schedule of Outstanding State Government Loans (As on March 31, 2003)

(Rupees crore)

| Year | Amount* |
|---------|---------|
| 1 | 2 |
| 2003-04 | 4,145 |
| 2004-05 | 5,123 |
| 2005-06 | 6,274 |
| 2006-07 | 6,551 |
| 2007-08 | 11,554 |
| 2008-09 | 14,400 |
| 2009-10 | 16,511 |
| 2010-11 | 15,870 |
| 2011-12 | 22,032 |
| 2012-13 | 30,605 |

* Outstandings are likely to increase on account of issue of power bonds by State Governments with retrospective effect from October 1, 2001.

Table 11.21 : Interest Rate Profile of Outstanding State Government Loans (As on March 31, 2003)

| Range of Interest Rate (per cent) | Outstanding Amount (Rupees crore) | Percentage to Total |
|-----------------------------------|-----------------------------------|---------------------|
| 1 | 2 | 3 |
| Less than 7 per cent | 19,585 | 14.72 |
| 7.00-7.99 | 11,030 | 8.29 |
| 8.00-8.99 | 8,004 | 6.02 |
| 9.00-9.99 | 5,411 | 4.07 |
| 10.00-10.99 | 14,563 | 10.94 |
| 11.00-11.99 | 17,062 | 12.82 |
| 12.00-12.99 | 31,269 | 23.50 |
| 13.00 and above | 26,142 | 19.65 |
| Total | 1,33,066 | |

illiquid securities worth Rs. 14,434 crore (face value), by paying a premium of Rs. 3,472 crore. In lieu of these securities, four liquid securities were issued. The buy-back was conducted through a novel auction process whereby participants were able to revise their offers in a live interactive mode. The buy-back was conducted on a voluntary basis and banks were allowed additional income-tax deduction to the extent such business income was used for provisioning of their NPAs.

11.36 Under the debt-swap scheme mutually agreed to between the Central and the State Governments, all State loans from the Centre bearing coupons in excess of 13 per cent would be swapped with market borrowings and small savings proceeds at prevailing interest rates over a period of three years ending in 2004-05. As a consequence, States are expected to save at least Rs.81,000 crore in interest and deferred loan repayments over the residual maturity period of the loans. In 2002-03, 25 State Governments (excluding Maharashtra, Sikkim and West Bengal) were permitted to prepay high cost debt from the Centre, partly out of small savings collections and partly through fresh market borrowings of Rs.10,000 crore conducted in two tranches in February and March 2003. The scheme has been continued in 2003-04. During the current year so far (up to August 12, 2003), the State Governments raised Rs. 15,000 crore from the market for this purpose. Another tranche of debt swap for Rs. 8,000 crore has been announced.

11.37 The major risk associated with the management of public debt is the size of the debt itself and the pressure on account of its servicing. The high debt accumulation since the mid-1990s has created a heavy debt servicing burden. Various policy

Box XI.2**Debt Restructuring**

Fiscal adjustments through debt restructuring aim at mitigating the burden associated with unsustainable debt-GDP ratios and rising debt servicing. It involves a combination of debt conversion and debt reduction strategies by employing instruments like debt-swap, debt buyback, rescheduling, debt relief and concessional refinancing.

The theoretical rationale for explicit debt reduction is based on the premise that if the debt exceeds the country's repayment ability in the future, expected debt service is likely to be an increasing function of the country's output level. When the country is unable to service its debt in full, the incentive to invest in the debtor country declines. This effect is known as debt overhang. Economic performance is affected by the debt overhang through crowding out, lack of access to international financial markets, and the effects of the debt on the general level of uncertainty in the economy. The debt overhang thus acts like an implicit marginal tax on investment. The principal benefit of reduction in debt overhang is the improvement in investment incentives for private investors and liquidity relief, in addition to capital gains to creditors. The success of debt restructuring process depends on whether the country is on the right or wrong side of the "debt laffer curve". If the country is on the wrong side of the debt laffer curve, debt restructuring (*via* buyback) may prove counterproductive and may not decrease the debt service payments.

The three basic approaches of debt restructuring are market buy-backs, debt swaps and debt reduction agreements. The attractiveness of debt buybacks depends on whether they pay larger expected rates of return than other assets, and how the returns are distributed. Debt buybacks yield an expected return equal to the risk-free interest rate, if distortions in sovereign lending are removed. Debt swaps are financial contracts that obligate one party to exchange a set of payments it owns for another set of

payments owned by another party. They enable the country to bring forward in time the discounted benefits of a future debt write down. The kind of domestic liability that the government employs to finance the swap matters considerably. As long as the budget is continuously balanced, debt for bond swaps have no impact beyond that of a private sector debt repurchase. Money financed swaps, on the other hand, can lead to a situation of excess liquidity which can have other macroeconomic consequences. If debt swaps lead to an accumulation of domestic debt which is monetised subsequently, there would be a threat to domestic inflation.

Since the late 1980s, many highly indebted countries have devoted considerable resources to repurchasing some of their outstanding debt at a discount on the secondary market. Countries like the Philippines, Mexico, Venezuela and Brazil had negotiated many market-driven deals for restructuring of debt which involved reduction in banks' claims at a price broadly in line with that prevailing in the secondary market. Subsequently, the holders of the debt being restructured have experienced an appreciation in the value of restructured claims. This appreciation also helped in improving the perception of country risk. Cross-country experiences in debt restructuring suggest that debt restructuring leads to lower debt servicing obligations and reduction in the debt overhang.

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1. Claessens S., E. Detragiache, P. Wickham and R. Kanbur (1996), "Analytical Aspects of the debt Problems of Heavily Indebted Poor Countries", *World Bank Policy Research Working Paper* No. 1618.
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measures evolved over the years which, *inter alia*, included market related primary issuance of government securities, introduction of varied instruments and alignment of the maturity period of new issues of debt while keeping in view redemption pattern of existing debt stock. The objective of the recent initiatives in debt restructuring is to resolve the problem of the debt overhang and strengthen fiscal consolidation (Box XI.2).

Scheme for Settlement of State Electricity Boards (SEB) dues

11.38 Based on the recommendation of Ahluwalia Committee (2001), a scheme for one-time settlement

of outstanding dues of the State Electricity Boards (SEBs) to Central Power Sector Undertakings (CPSUs) was finalised. Under the scheme, the State Governments will issue 15-year bonds worth about Rs.30,000 crore to the CPSUs for the outstanding dues at a nominal tax-free interest rate of 8.5 per cent per annum repayable over 10 years after a moratorium period of five years. Subject to the approval of the Reserve Bank, 10 per cent of the bonds can be off-loaded in the market each year for trading. The Tripartite Agreements (TPA) in this regard have been signed among the Government of India, the Reserve Bank and 25 State Governments (Box XI.3).

Box XI.3**Power Bonds: One Time Settlement of Dues of State Electricity Boards**

The State Electricity Boards (SEBs) have reached the verge of financial collapse owing to mismanagement, high transmission and distribution losses, irrational tariffs, degraded plant and machinery, and bloated workforce, reflected in the rising overdues of Central Public Sector Undertakings (CPSUs). The Expert Committee on the one-time settlement of State Electricity Board Dues (Chairman: Shri. M.S. Ahluwalia, 2001) suggested that a one-time settlement of outstanding dues should be attempted by shifting the burden of clearing these dues to State Governments while providing a package of relief and also a set of penalties and incentives favouring discipline and future reforms. The Committee recommended signing of Tripartite Agreements (TPA) among the Ministry of Finance, the Reserve Bank and the respective State Governments in this regard. The Scheme of One Time Settlement of SEB dues by way of securitisation to the CPSUs, as recommended by the Ahluwalia Committee, is being implemented.

Current Dues

If payments for the current dues of CPSUs are not received from the SEBs by the due date (within 90 days from date of billing), the amounts will be paid by the Government of India (GoI) to the CPSUs. The GoI in turn will get the amounts from the State Government through issue of payment instruction to the Reserve Bank to transfer funds from the respective State's account to GoI account. The Reserve Bank will act as per the specific instructions to be given by the GoI regarding amounts to

be deducted under the TPA on each occasion. The payments of the current dues will be made subject to availability of funds in the account of the State Government.

Securitisation of past dues - Issue of Power Bonds

The Committee recommended that the overdues of the SEBs (till a cut-off date) should be securitised and power bonds should be issued by the State Governments to the CPSUs. The Reserve Bank as debt manager to the States should manage the issue of the bonds. The bonds would be issued with retrospective effect from October 1, 2001 at a nominal tax-free interest rate of 8.5 per cent per annum to the respective CPSU in 20 equal parts to facilitate trading and redemption of the bonds and each part will carry a fixed tenor with bullet redemption, the last being on April 1, 2016. The bonds should be issued in demat form to the original investors and interest will be paid half-yearly on April 1 and October 1 of each year. Furthermore, the bonds can be sold in the market only with specific prior approval of the Reserve Bank on each occasion and will enjoy SLR status when acquired by banks/institutions in the secondary market. The servicing of the bonds will not be done during the period of stoppage of payments on behalf of the State Government concerned. To facilitate early redemption of the bonds by the States, the bonds would have a call option usable at any point of time on or after five years of issue of the Power Bonds for part or full redemption with notice period of two months. TPAs have been signed with 24 States on March 20, 2003.

Conference of State Finance Secretaries

11.39 The Reserve Bank has been organising the Conference of State Finance Secretaries since November 7, 1997. These conferences are held biannually to discuss the issues and problems related to cash and debt management of the State Governments. The Conference has emerged as an important single point forum for interaction among State Governments, Government of India, Planning Commission, Comptroller and Auditor General, Controller General of Accounts and the Reserve Bank. In the 10th Conference held on June 7, 2002, important issues like difficulties in the market borrowings of the State Governments, overdraft regulation scheme for States and finances of local bodies were deliberated upon. The Reserve Bank's customer service to Central and State Governments and the accounting and reconciliation procedure of the State Government transactions were also discussed. The major issues and recommendations

in regard to the Draft Report of the Group on Interest Burden of States and Draft Report of the Group to Assess the Fiscal Risk of State Government Guarantees were also discussed. In the 11th Conference held on January 9, 2003, recommendations of the Advisory Committee on WMA of State Governments (Ramachandran Committee) were discussed and accepted with some modifications. A Group of Finance Secretaries was constituted to study the pension liabilities of the State Governments. Discussions on the Report of the Group to assess the Fiscal Risk of State Government Guarantees (2002) addressed the need to assign fiscal risk to different guarantees and their implications for State finances. The 12th Conference of State Finance Secretaries was held on August 1, 2003. The major issues deliberated upon in the Conference were defaults in the servicing of guaranteed bonds, market borrowings of State Governments, infrastructure financing, restructuring

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of State level PSUs, One-time Settlement of SEB dues and other administrative and technological issues relating to Government transactions. A one day interactive workshop on cash management was also organised by the Reserve Bank on August 2, 2003 for the benefit of the State Government officials.

Technical Advisory Committee

11.40 During 2002-03, two meetings of the Technical Advisory Committee (TAC) were held in July 2002 and June 2003. Apart from the general market developments, some specific issues discussed during the 15th meeting of the Committee related to : extension of facility to gilt account holders, screen based trading in Government securities through exchanges, review of the Liquidity Adjustment Facility (LAF) and re-examination of the scheme of non-competitive bidding facility. In the 16th meeting of this Committee held on June 10, 2003, the issues pertaining to introduction of 'when issued market', interest rate derivatives, report of the Inter-departmental Group on Forward Sale of Securities acquired under OMO, capital indexed bonds, introduction of 28-day Treasury Bills and retailing of government securities were discussed.

Outlook

11.41 The conduct of debt management continues to be driven by the objectives of reducing costs and

elongating maturities while ensuring the smooth completion of the Centre's and States' borrowing programmes. The process of debt consolidation and efforts at enhancing the benchmarking of securities would be persevered with. Undue elongation of the maturity profile could increase interest rate risks. Accordingly, the issue of capital indexed and more floating rate bonds are under active consideration. It is expected that stripping of government securities will be operationalised after the Government Securities Act is passed in the Parliament. In the case of Treasury Bills, as in the past, the amounts offered in the auctions would be modulated keeping in view the liquidity conditions. In the secondary market, measures like rollover of repo and operationalisation of DVP III settlement system, measures to further develop the retail market for government securities using the PD network and banks would be accelerated. The Reserve Bank would develop the debt markets further through over the counter (OTC) as well as exchange traded interest rate derivatives (interest rate futures trading has commenced since June 24, 2003). Efforts are underway to introduce interest rate options on exchanges, broaden the eligible underlying to other items in the balance sheet for hedging through derivatives and permit market making to those banks that have the required risk management capabilities. Initiatives are being taken to harmonise regulations in respect of OTC derivatives with exchange traded interest rate derivatives.