

*In pursuance of the objectives of debt management of cost minimisation, risk mitigation and market development, the Reserve Bank successfully conducted the market borrowing programmes of the centre and states during 2018-19 in the face of global spillovers, volatile financial markets and perceptions of oversupply of paper among the market participants.*

VII.1 The Internal Debt Management Department (IDMD) of the Reserve Bank manages the domestic debt of the central government *vide* Sections 20 and 21 of the RBI Act, 1934, and that of 29 state governments and the Union Territory of Puducherry in accordance with bilateral agreements as provided in Section 21A of the Act. The Reserve Bank also provides short-term credit up to three months to both central and state governments in the form of Ways and Means Advances (WMA) to bridge temporary mismatches in cash flows, as laid down in Section 17(5) of the RBI Act, 1934.

VII.2 The rest of the chapter is arranged as follows: section 2 presents implementation status of agenda for 2018-19 both for central and state governments. Section 3 covers major initiatives to be undertaken in 2019-20 to bring improvement in the debt management of central and state governments.

## **2. Agenda for 2018-19: Implementation Status**

VII.3 The market borrowing programme was conducted under a debt management strategy that was geared around cost minimisation, risk mitigation and market development, amidst challenging domestic and global economic and financial conditions. In particular, market demand for securities was impacted by the reduction in securities maintained in the Held to Maturity

(HTM) category and in Statutory Liquidity Ratio (SLR) requirements, volatility in financial markets, elevated crude prices and monetary policy normalisation in major economies. Furthermore, the combined gross market borrowing of central and state governments during 2018-19 increased by 4.2 per cent over the previous year to ₹10,493 billion, imparting an upside push to yields.

VII.4 Continuing with the strategy of consolidation, 206 out of 212 issuances of Government of India (GoI) securities were re-issuances as against 156 re-issuances out of the total 159 issuances a year ago. Seven tranches of switch operations of GoI securities were also conducted during 2018-19 under which securities worth face value ₹280.6 billion were switched to a longer tenor as compared with ₹580.8 billion in the preceding year. The budget for buybacks was reduced to zero in the revised estimates for 2018-19 as against buyback of ₹415.6 billion carried out in the previous year. The centre refrained from its usual strategy of front loading<sup>1</sup> of issuances and instead, shifted borrowing to H2 of 2018-19. Accordingly, the borrowing programme of the centre and state was co-ordinated to even out the pressure on yields.

VII.5 In order to meet the diverse needs of investors and to align Separate Trading of Registered Interest and Principal Securities

<sup>1</sup> Front loading signifies raising majority portion of market borrowing during H1.

(STRIPS) with market requirements, revised guidelines on STRIPS was issued on May 3, 2018. Restrictions on the securities eligible for Stripping/Reconstitution as well as the requirement of authorisation of all requests for Stripping/Reconstitution by Primary Dealers (PDs) were removed. Currently, all fixed coupon securities issued by the GoI, irrespective of the year of maturity, are eligible for Stripping/Reconstitution, subject to the criteria that the securities are reckoned as eligible for the purpose of SLR and they are transferable.

VII.6 Issuances of new government securities (G-sec) of 2 years {(6.65 per cent GS 2020) and (7.00 per cent GS 2021)} and 5 years {(7.37 per cent GS 2023) and (7.32 per cent GS 2024)} in addition to longer tenor Floating Rate Bonds (FRBs) were undertaken during the year in order to broaden the investor base.

VII.7 A new 7-year security was issued in April 2019 for the purpose of creating benchmark in the yield curve. Furthermore, FRB 2031 was issued in the 10-14 years maturity bucket in May 2018 and barring a few months of the year, it was re-issued in alternate weeks, subject to the limits set in the Medium-Term Debt Strategy (MTDS). The share of FRBs in total issuances stood at 9.1 per cent *vis-à-vis* 10.2 per cent a year ago.

VII.8 An Inter-Departmental Group reviewed the activities of the Standalone PDs with a view to expanding the PD activities and strengthening their network. As recommended by the committee, limited foreign exchange licences were allowed for these PDs *vide* circular dated July 27, 2018 in pursuance of the announcement made in the Statement on Developmental and Regulatory Policies of June 6, 2018.

VII.9 Under the Foreign Central Bank (FCB) scheme, FCBs are considered eligible investors in

the G-sec market. In consultation with the central government, multilateral financial institutions, *viz.*, New Development Bank (NDB) and World Bank entities were included in the scheme during the year. Further, Treasury Bills (T-Bills) were also included as eligible instruments under the scheme. An agreement was signed with the NDB in February 2019 and the NDB has started investing in G-sec from March 2019. Agreements with four World Bank entities—the International Bank for Reconstruction and Development (IBRD); the IBRD Trust; the Multilateral Investment Guarantee Agency (MIGA); and the International Development Association (IDA)—for investing in G-sec were also signed in April 2019.

VII.10 The strategies followed in the issuances during the year helped in elongation of the weighted average maturity (WAM) of primary issuance of G-sec to 14.73 years during 2018-19.

VII.11 Given the lack of correlation between the spread on State Development Loans (SDLs) and issuing states' fiscal positions, rating of SDLs are being encouraged to reflect differential risks in the cost of borrowing across state governments (Box VII.1).

VII.12 Consolidation of various links pertaining to internal and external public debt information and hosting of a single web link on the Reserve Bank's website have been undertaken. Capacity building programmes for state government officials were conducted in five states, *viz.*, Haryana, Punjab, Uttarakhand, Madhya Pradesh, Gujarat during 2018-19.

### ***Debt Management of the Central Government***

VII.13 The Union Budget 2018-19 had estimated its gross market borrowing through dated G-sec at ₹6,055.4 billion. Following the revision of the borrowing programme for H2 of 2018-19, the Interim Budget 2019-20, has reduced gross

### Box VII.1 Risk Asymmetry in SDLs

Yields represent the cost of market borrowing for state governments and should ideally reflect the underlying creditworthiness of the issuer. However, there appears to be no observable and considerable relationship between borrowing spreads of SDLs and states' fiscal health, resulting symmetry in bidding patterns and states mobilise funds at similar or near similar yields for the same tenor SDLs (Table 1).

In this context, other emerging market economies are moving towards subnational credit ratings for issuances by state governments, provinces and municipalities for their bond offerings both international and domestic. This may help the market to price risks appropriately and in turn enable efficient price discovery. For instance, subnationals were given ratings based on debt sustainability factors in Colombia. Mexico's new banking regulations require banks to risk weight credit exposures as per subnational credit ratings and set aside capital as determined by the rating gap between the federal government and the subnational. In Indonesia, economic factors, financial management, budgetary flexibility, budgetary performance, liquidity, debt burden and contingent factors are considered for ratings. In South Africa, quantitative methodologies have been used, while in Argentina, ratings for municipalities are regarded necessary in the context of transparency considerations.

In India, as a market development measure, an Automatic Debit Mechanism (ADM) was introduced for state governments to increase the confidence of investors; providing a risk-free status to the SDLs. However,

this impedes the development of the SDL segment of the market through better price discovery process. Consequently, the process of cross subsidisation occurs between fiscally well-managed states and other states.

The Reserve Bank has been making various efforts to address the issue of lack of risk asymmetry in pricing of SDLs. In addition to weekly auctions of SDLs since October 2017, the Reserve Bank is now publishing monthly data on states' market borrowing, data on financial accommodation through SDF/WMA/OD and investments by states in auction treasury bills and also in reserve funds, viz., consolidated sinking fund (CSF) and guarantee redemption fund (GRF). Further, it was announced in the Statement on Developmental and Regulatory Policies of June 2018, that the initial margin requirement for rated SDLs in the LAF window (repo) shall be set at 1.0 per cent lower than that of other SDLs for the same maturity buckets, i.e., in the range of 1.5 per cent to 5.0 per cent with a view to incentivising states to

**Table 1: Inter-State Spread of SDLs**

Year	Gross Borrowing of States (₹ billion)	Gross Borrowing of Gol (₹ billion)	Weighted Average Spread over G-sec (bps)	Average Inter-State Spread (bps)
1	2	3	4	5
2014-15	2,408	5,920	38	4
2015-16	2,946	5,850	50	7
2016-17	3,820	5,820	59	7
2017-18	4,191	5,880	59	6
2018-19	4,783	5,710	65	6

Source: RBI.

**Table 2: Regulatory Treatment of Securities**

Regulatory Treatment	G-Sec	SDLs	Corporate Bonds
SLR	Yes	Yes	No
LAF	Yes	Yes	No
Risk weights in bank's book	Zero	Zero	Based on their ratings
Fair Valuation	Traded price for the securities that are traded, otherwise FBIL Price	25 basis points over G-Sec #	Traded Price
Haircut in LAF	4 per cent	6 per cent	Not eligible
Margins in TREPS	Haircut rate vary between different G-Sec based on the liquidity of the paper as ascertained from the volume traded.	Have been recently approved for inclusion in TREPS	Not allowed in TREPS

TREPS: Triparty Repo.

#: Consequent to the Second Bi-Monthly Monetary Policy of 2018-19, Financial Benchmark India Pvt. Ltd. (FBIL) has come up with its new valuation methodology as on March 26, 2019.

(Contd...)

get SDLs rated. Measures have also been taken to bring differentiation in valuation of SDLs in the books of the bank as per observed prices in the primary and secondary market given by the Financial Benchmark India Private Ltd. (FBIL).

The rating of SDLs could be challenging in the light of the diverse structural and economic characteristics across states and preferential treatments accorded to them as compared with corporate bonds (Table 2). Other challenges include non-availability of high frequency data, poor quality of financial reporting, accounting system, disclosure standards, and the lack of insolvency systems for subnationals. From a market perspective, phasing out of ADM facility could be one of the steps which may result in better price discovery of SDLs.

market borrowing through dated G-sec to ₹5,710 billion and the net borrowing to ₹4,227 billion as against ₹5,880 billion of gross borrowing and ₹4,484 billion of net market borrowing respectively, in the previous year. Gross borrowing through Gol dated securities decreased by 2.9 per cent in 2018-19 while the net market borrowing decreased by 5.7 per cent during the same period. The net market borrowing of the Gol through Auction Treasury Bills (ATBs) decreased to ₹356 billion during 2018-19 as against ₹504.8 billion in the previous year (Table VII.1).

**Table VII.1: Net Market Borrowing of the Central Government**

(Amount in ₹ billion)

Item	2016-17	2017-18	2018-19	2019-20*
1	2	3	4	5
Net Borrowings	3,783	4,989	4,583	2,636
i. Dated Securities®	4,082	4,484	4,227	1,518
ii. 91-day T-Bills	-260	319	-465	973
iii. 182-day T-Bills	76	14	329	174
iv. 364-day T-Bills	-115	172	492	-29

\*: Up to June 30, 2019. @ : not adjusted for buybacks & switches.  
**Note:** After adjusting for buyback & net switches, net borrowings during 2018-19 stood at ₹4,232.7 billion as against ₹4,102.6 billion in 2017-18.

**Source:** RBI.

#### References:

1. Giugale M., F. H. Trillo and J. C. Oliveira (2000), 'Subnational Borrowings and Debt Management: World Bank, Achievements and Challenges of Fiscal Decentralization: Lessons from Mexico'
2. Canuto O. and L. Liu (2010), 'Subnational Debt Finance: Make it Sustainable', *World Bank*
3. Liu L. & K. S. Tan (2009), 'Subnational Credit Ratings, A Comparative Review', *World Bank Policy Research Working Paper* 5013.
4. Kanungo B. P. (2018), 'State Government Market Borrowings- Issues and Prospects' *RBI Bulletin*, September.
5. Report of the Group to Assess the Fiscal Risk of State Government Guarantees, RBI, July 2002.

#### Debt Management Operations

VII.14 The weighted average yield (WAY) on Gol dated securities issued during the year increased by 81 basis points (bps) to 7.78 per cent, and the weighted average coupon on dated securities on the entire debt stock increased by 5 bps to 7.81 per cent over the previous year. The WAM of outstanding dated securities was at 10.40 years in 2018-19 as compared with 10.62 years in the previous year (Table VII.2).

VII.15 During 2018-19, about 53.5 per cent of the market borrowing were raised through issuance of dated securities with a residual maturity of 10 and over 10 years, as compared with 53.6 per cent in the previous year, leading to a marginal increase in the share of securities with maturity less than 10 years. Further, securities of 35-year and 40-year tenor were re-issued during the year with the objective of catering to demand from long-term investors such as insurance companies and pension funds (Table VII.3).

#### Issuance of Special Gol Securities

VII.16 Special Gol Securities (Non-Transferable) were issued to 14 public sector banks (PSBs) and Exim Bank for a total amount of ₹1,105 billion in 10 tranches on a cash neutral basis towards

**Table VII.2: Market Loans of Central Government - A Profile\***

(Yield in per cent / Maturity in years)

Years	Range of YTM in Primary Issues			Issued during the Year			Outstanding Stock	
	Under 5 years	5-10 years	Over 10 years	Weighted Average Cut-off Yield	Range of Maturities @	Weighted Average Maturity	Weighted Average Maturity	Weighted Average Coupon
1	2	3	4	5	6	7	8	9
2013-14	7.22-9.00	7.16-9.40	7.36-9.40	8.41	6-30	14.23	10.00	7.98
2014-15	-	7.66-9.28	7.65-9.42	8.51	6-30	14.66	10.23	8.08
2015-16	-	7.54-8.10	7.59-8.27	7.89	6-40	16.03	10.50	8.08
2016-17	6.85-7.46	6.13-7.61	6.46-7.87	7.16	5-38	14.76	10.65	7.99
2017-18	7.23-7.27	6.42-7.48	6.68-7.67	6.97	5-38	14.13	10.62	7.76
2018-19	6.56-8.12	6.84-8.28	7.26-8.41	7.78	1-37	14.73	10.40	7.81
2019-20**	6.22-7.38	6.87-7.44	6.76-7.77	7.22	1-40	15.86	10.48	7.81

**Note:** YTM: Yield to Maturity. -: Not applicable. @: Residual maturity of issuances and figures are rounded off.

\*: Excluding buyback/switch in Govt securities and special securities.

\*\* : Up to June 30, 2019.

**Source:** RBI.

recapitalisation. The coupon on these securities ranged between 7.30 per cent to 8.11 per cent.

#### Ownership of Securities

VII.17 Commercial banks (including the PD segment) remained the largest holders of G-sec, accounting for 39.1 per cent as on end-March 2019, followed by insurance companies and

provident funds holding 26.2 per cent and 10.3 per cent, respectively. The share of the Reserve Bank's holding stood at 9.9 per cent while Foreign Portfolio Investors (FPIs) held 2.1 per cent of the outstanding stock. Other holders included cooperative banks, mutual funds, financial institutions and corporates.

**Table VII.3: Issuance of Government of India Dated Securities – Maturity Pattern**

(Amount in ₹ billion)

Residual Maturity	2017-18		2018-19		2019-20*	
	Amount raised	Percentage to total	Amount raised	Percentage to total	Amount raised	Percentage to total
1	2	3	4	5	6	7
Less than 5 years	90	1.5	1,089	19.1	510	23.1
5-9.99 years	2,640	44.9	1,570	27.5	560	25.3
10-14.99 years	1,550	26.4	980	17.2	360	16.3
15-19.99 years	740	12.6	711	12.5	20	0.9
20 years & above	860	14.6	1,360	23.8	760	34.4
<b>Total</b>	<b>5,880</b>	<b>100</b>	<b>5,710</b>	<b>100</b>	<b>2,210</b>	<b>100</b>

\*: Up to June 30, 2019.

**Note:** Figures in the columns might not add up to the total due to rounding off of numbers.

**Source:** RBI.

*Primary Dealers and Devolvement*

VII.18 The number of PDs stood at 21 [14 bank-PDs and 7 Standalone PDs (SPDs)] at end-March 2019. All the PDs maintained Capital to Risk-weighted Assets Ratio (CRAR) above the minimum requirement of 15 per cent during the year. PDs have a mandate of underwriting primary auctions of dated central government securities and achieving bidding commitment/success ratio targets in respect of T-Bills/cash management bills (CMBs). The share of PDs in primary auctions of central government securities stood at 50.6 per cent in 2018-19 as compared with 53.7 per cent in the previous year. Underwriting commission paid to PDs during 2018-19 was ₹1.40 billion as compared with ₹0.61 billion in the previous year reflecting the volatile market conditions. There were seven instances of devolvement of central government securities on PDs for an amount of ₹146 billion in 2018-19 as compared with four instances for ₹103 billion a year ago.

*Sovereign Gold Bonds (SGBs) Scheme*

VII.19 The Reserve Bank, in consultation with the Gol, issued six tranches of Sovereign Gold Bonds (SGBs) for an aggregate amount of ₹5.88 billion (1.84 tonnes) during 2018-19. The SGB scheme aims to broaden the investment choice for investors as well as to widen the retail investor base. The incentives granted to investors in 2017-18 by enhancing the maximum holding limit to 4 kg for individuals/Hindu Undivided Family (HUF) and 20 kg for trusts per fiscal year and allowing a discount of ₹50/gm on the nominal value for making online applications and digital payment were continued in 2018-19 as well. A total of ₹74.83 billion (25.3 tonnes) has been raised through the scheme since its inception in November 2015.

*Debt Management Strategy (DMS)<sup>2</sup>*

VII.20 The Debt Management Strategy (DMS) was introduced in 2015, in consultation with Gol, to smoothen the government's borrowing programme and execute it in a planned manner. The DMS is reviewed annually and rolled over for the next three years. According to the current DMS for the period 2018-19 to 2020-21, in addition to internal debt, small savings schemes and certain aspects of external loans tenure, currency of loans and repayments terms, etc. are brought under the scope of DMS. The DMS revolves around three broad pillars, viz., low cost, risk mitigation and market development. The low cost objective is attained by planned issuances, offer of appropriate instruments in the medium to long-run, and by considering market conditions and preferences of various investor segments, and a detailed issuance calendar for G-sec and T-Bills. Debt sustainability indicators such as debt-to-GDP, average time to maturity and interest expense to GDP are projected. Stress tests to measure debt sustainability in the face of economic and financial shocks are also undertaken.

*Treasury Bills*

VII.21 Short-term cash requirements of the government are met through issuance of T-Bills. The net short-term market borrowing of the government through T-Bills decreased to ₹356 billion during 2018-19 as against ₹504.8 billion in the previous year. PDs individually achieved the stipulated minimum success ratio of 40 per cent in bidding for T-Bills. Their share in T-Bills auctions increased to 71.4 per cent during 2018-19 as compared with 66.5 per cent in the preceding year.

<sup>2</sup> Status Paper on Government Debt, Ministry of Finance, Government of India, January 2019.

### Cash Management of the Central Government

VII.22 The government started the year 2018-19 with a cash balance of ₹1,676 billion. The WMA limit for the first quarter and second quarter was fixed at ₹600 billion and ₹700 billion, respectively, while it was ₹350 billion during October 2018 to February 2019, and ₹250 billion in March 2019. The government's cash position remained under stress during the first half of the year, mainly because of high redemption pressures. Hence, GoI resorted to WMA for 173 days in 2018-19 *vis-à-vis* 106 days in the previous year, and overdraft (OD) for 50 days *vis-à-vis* 6 days during the same period. The government also issued CMBs for ₹1,900 billion with tenors ranging between 12 to 70 days to tide over short-term mismatches in cash flows. The GoI's cash position improved during H2 of 2018-19, and ended the year with cash balance of ₹1,227 billion. The WMA limit for the H1 of 2019-20 was fixed at ₹750 billion (Chart VII.1).

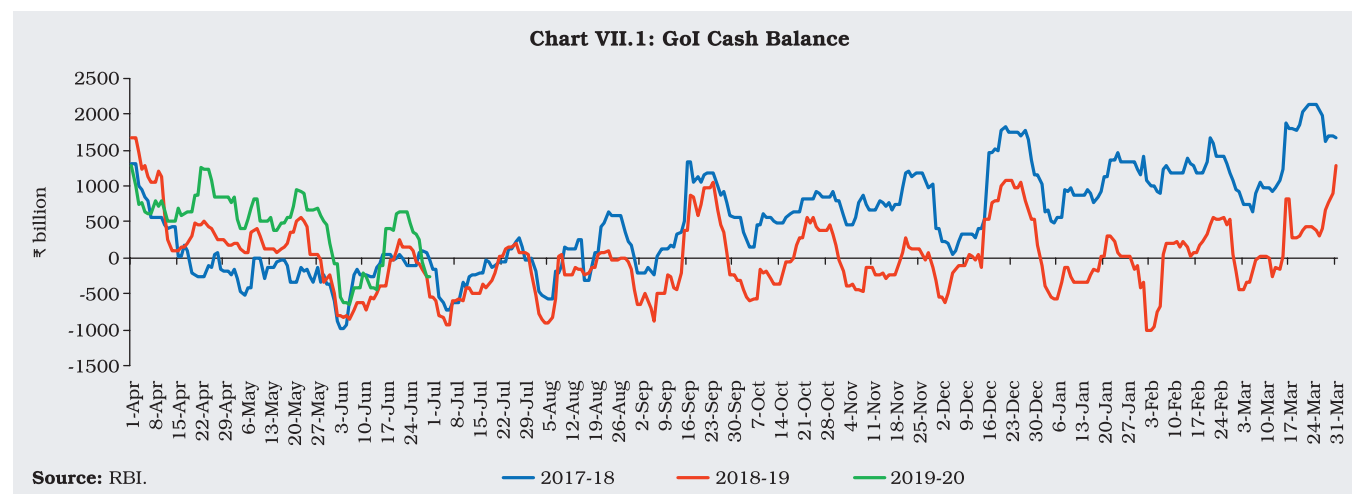
### Debt Management of State Governments

VII.23 States' dependence on market borrowing has increased significantly over the years, especially since 2017-18, following the recommendation of the 14<sup>th</sup> Finance Commission (FC) to exclude states from the National Small

Savings Fund (NSSF) financing facility (barring Delhi, Madhya Pradesh, Kerala and Arunachal Pradesh). The share of market borrowing in financing GFD has increased from 65.8 per cent in 2016-17 to 90.6 per cent in 2018-19 (BE), mainly due to the drying up of other sources of financing.

VII.24 The gross and net market borrowing of the state governments stood at ₹4,783 billion and ₹3,486 billion, respectively. The gross market borrowing of state governments increased by 14.1 per cent, while the net borrowing increased by 2.4 per cent reflecting higher redemptions during the year. There were 467 successful issuances in 2018-19, of which 59 were re-issuances, reflecting efforts by states towards consolidation of debt (Table VII.4).

VII.25 The weighted average cut-off yield (WAY) of SDLs stood at 8.32 per cent, up from 7.67 per cent in the previous year, reflecting the volatile market conditions. The weighted average spread of SDL issuances over comparable central government securities stood at 65 bps as compared with 59 bps in 2017-18. Sixteen states issued non-standard securities of tenors ranging from 2 to 30 years in 2018-19. As a strategic response to higher spreads, 11 states rejected all the bids in some auctions. Following



**Table VII.4: Market Borrowing of States through SDLs**

(Amount in ₹ billion)

Item	2016-17	2017-18	2018-19	2019-20*
1	2	3	4	5
Maturities during the year	393	788	1,297	226
Gross sanction under article 293(3)	4,000	4,825	5,501	5,139
Gross amount raised during the year	3,820	4,191	4,783	8,15
Net Amount raised during the year	3,427	3,403	3,486	589
Amount raised during the year to total sanctions (per cent)	96	87	87	16
Outstanding liabilities (at the end period) #	20,896	24,298	27,785	28,375

\*: As on June 30, 2019. #: Including UDAY and other special securities.  
**Source:** RBI.

the policy of passive consolidation, states like Haryana, Maharashtra, Punjab, Himachal Pradesh, Madhya Pradesh and Tamil Nadu undertook re-issuances amounting to ₹599 billion during 2018-19, which may improve the liquidity of these securities in the secondary market. The average inter-state spread during 2018-19 stood at 6 bps same as a year ago, indicating the disconnect between the spread on SDLs and fiscal health of issuing states. These issues were discussed in the 31<sup>st</sup> State Finance Secretaries (SFS) Conference held in March 2019.

VII.26 As announced in the second bi-monthly Monetary Policy on June 6, 2018, SDLs held by banks in their investment portfolios will henceforth be valued at observed prices, *i.e.*, the actual price at which the securities have been traded in the market in order to align the value of SDLs with prevailing market prices. In case of non-traded state government securities, the Financial Benchmark of India Private Limited (FBIL) has recently come up with new methodology for valuation.

#### *Cash Management of State Governments*

VII.27 Following the recommendations of the Advisory Committee on Ways and Means

Advances (WMA) scheme of the state government (Chairman: Shri Sumit Bose), the limits of WMA for states was reviewed and it was decided to retain the existing limit (₹322.25 billion for all states together) of WMA until reviewed by the next committee (effective from 2020-21). Fourteen states resorted to WMA, 10 states availed OD and 9 states availed the Special Drawing Facility (SDF) in 2018-19.

VII.28 States have been accumulating sizeable cash surpluses in recent years in the form of Intermediate Treasury Bills (ITBs) and ATBs. The outstanding investments of states in ITBs stood at ₹1,221 billion at end-March 2019, while outstanding investments of states in ATBs stood at ₹739 billion (Table VII.5).

**Table VII.5: Investments in ITBs and ATBs by State Governments/UT**

(Amount in ₹ billion)

Item	Outstanding as on March 31				
	2015-16	2016-17	2017-18	2018-19	2019-20*
1	2	3	4	5	6
14-Day (ITBs)	1,206	1,561	1,509	1,221	1,127
ATBs	383	366	621	739	818
<b>Total</b>	<b>1,589</b>	<b>1,927</b>	<b>2,130</b>	<b>1,960</b>	<b>1,945</b>

\*: As on June 30, 2019.  
**Source:** RBI.



*Investments in Consolidated Sinking Fund (CSF)/  
Guarantee Redemption Fund (GRF)*

VII.29 State governments maintain the Consolidated Sinking Fund (CSF) and Guarantee Redemption Funds (GRF) with the Reserve Bank as buffer for repayment of their liabilities. States can also avail SDF at a discounted rate from the Reserve Bank against incremental funds invested in CSF and GRF as collateral. In order to incentivise adequate maintenance of these funds by the state governments and to encourage them to increase the corpus of these funds, it was announced in the Statement on Developmental and Regulatory Policies of June 2018 that the rate of interest on SDF has been lowered from 100 bps below the repo rate to 200 bps below the repo rate.

VII.30 Currently, 24 states are members of the CSF scheme while 18 states are members of GRF scheme. Outstanding investment by states in the CSF and GRF as at end-March 2019 stood at ₹1,147 billion and ₹65 billion, respectively, as against ₹993 billion and ₹54 billion at end-March 2018. Total investment in CSF/GRF was ₹254 billion in 2018-19 as compared with ₹194 billion a year ago. Total disinvestment by states from CSF and GRF during 2018-19 was ₹12 billion (₹4 billion in 2017-18).

### **3. Agenda for 2019-20**

VII.31 The gross market borrowing through dated securities as budgeted in the Union Budget 2019-20 stands at ₹7,100 billion, higher by about 24.3 per cent than ₹5,710 billion in 2018-19 predominately due to higher redemption. The net market borrowing (including the net short-term borrowing of ₹250 billion) at ₹4,481 billion is envisaged to finance 63.7 per cent of the fiscal deficit in 2019-20 (BE) as compared to 70.6 per cent in 2018-19 (RE).

VII.32 The market borrowing programme of the central and state governments would continue to be guided by the following strategic measures within the overall objective of developing a deep and liquid market for G-sec as well as SDLs:

- i. The overall liquidity in G-sec market will be enhanced by consolidation of debt through a calendar of auction based switches and buyback operations.
- ii. Issuance of GoI benchmarks, securities of 2, 5, 7 and 10 year tenor along with the issuance of half-yearly calendar for SGBs will be undertaken.
- iii. For enhancing secondary market liquidity, it is proposed to formulate a market making scheme and operationalise it through the PDs; and to revise retail and mid-segment turnover targets for PDs based on market data in the G-sec market (primary market and secondary market).
- iv. Expansion of investor base by greater participation of multilateral financial institutions and multilateral development banks, apart from FCBs in the G-sec market will be undertaken.
- v. Close co-ordination with state governments will be undertaken to improve their cash and debt management practices. Specified Stock exchanges will also be permitted in the Aggregator Scheme for bidding in the non-competitive segment of the SDLs. Further, the possibility of changing the nomenclature of SDLs to state government securities will be explored.
- vi. Various investment avenues for state governments will be explored, including the review of the CSF/GRF scheme.

- vii. A rule-based method for determining WMA limit of the central government and revision of the WMA limit for state governments will be examined.
- viii. Best practices in reporting data to improve the quality and veracity of data will also be undertaken. The coverage of data will also be broadened for internal dissemination and use.
- ix. Various options will be explored to reflect risk asymmetry among state governments in their cost of borrowing.
- x. Capacity building programmes for sensitising state governments about the prudent measures of cash and debt management will be conducted. Further, meetings between states and investors will be facilitated.