

FINANCING GOVERNMENTS

The next two chapters of this volume deal with the evolution and discharge by the Reserve Bank of its responsibilities for the management of the public debt of the central and state governments and its role as their banker. The Bank's responsibilities in these spheres expanded greatly from the 1950s as the state carved out a growing entrepreneurial and developmental role for itself, and spanned a variety of functions. It managed the issue of dated securities by the central government and state governments. As part of this, the Bank determined, often in consultation with governments, the size, timing, and the coupon rate of their loans, coordinated institutional support for them and subscribed to the issue on its own account. The Bank also undertook open-market operations and other initiatives principally to steady the market for central government paper, and occasionally intervened on behalf of state governments in the market for their loans. It managed, besides, the issue and cancellation of treasury bills on behalf of the central government. In addition to conducting their borrowing operations the Bank acted as a banker to the central and state governments, carrying out exchange, remittance, and banking transactions on their behalf, and providing resources to the former against ad hoc treasury bills, and ways and means advances and overdrafts to the latter.

This part is presented in the form of two chapters. Chapter 5 is concerned largely with the Bank's role in managing the public debt of the central government and its conduct of the latter's market loans and treasury bill programmes. It also contains a brief account of the Bank's financing of the ways and means requirements of the central government against the creation of ad hoc treasury bills. The discharge by the Bank of its functions in relation

to state governments forms the subject of chapter 6. However, for reasons of expository convenience, the preparatory aspects of loan issues by both central and state governments are discussed in the earlier chapter. In 1954 and 1963, the central government floated combined loans to raise its own requirements as well as those of state governments. These loans are also discussed in chapter 5.