

VII

PUBLIC DEBT MANAGEMENT

A major challenge for the Reserve Bank of India during 2010-11 was the management of market borrowing programme of both the Government of India and the State Governments in a situation of increasing inflationary pressure and tight liquidity conditions. The inflationary pressures and successive hikes in policy rates alongwith large issuances exerted pressure on the yield, particularly at the shorter end. The cost of borrowing, however, was largely contained by a judicious mix of maturities and yield, among others.

VII.1 The financial year 2010-11 was characterised by rising inflationary pressure and tight liquidity conditions coupled with successive hikes in policy rates. The Reserve Bank, as the Government's debt manager conducted the market borrowing programme smoothly, guided by the twin objectives of minimisation of cost over time and pursuit of maturity profiles that are consistent with low rollover risk. The market borrowing programme of the Central Government was completed successfully during 2010-11, with the net amount raised through dated securities being lower by around 18 per cent than that in the previous year.

VII.2 During 2010-11, the one-off revenue items like 3G and broadband wireless access (BWA) auctions led to the accumulation of large Government balances, and the market borrowing programme was modulated accordingly. During 2010-11, the increase in key policy rates and a rise in inflationary expectations impacted the cost of market borrowings. Further, the unanticipated build-up of surplus cash balances with the Government following the front

loading of receipts and the back loading of expenditure resulted in frictional liquidity mismatches in the financial system that had implications for the Government's borrowing costs.

DEBT MANAGEMENT OF CENTRAL GOVERNMENT

Market Borrowings

VII.3 The gross and net amounts raised through dated securities in 2010-11 were lower by around 3 per cent and 18 per cent, respectively, than those raised in the previous year (Table VII.1). A major challenge for the Reserve Bank, during 2010-11 was the management of the government market borrowing programme in a situation of tight liquidity conditions and rise in inflationary expectations. Nonetheless, one-off revenue items like 3G and BWA auctions led to an accumulation of large Government balances, which in turn, contributed to lower market borrowings during the year. The Reserve Bank's purchases of Government securities amounting to around ₹ 67,200 crore through open market operations (OMOs), aimed

Table VII.1: Gross and Net Market Borrowings of the Central Government#

(₹ crore)

Item	2009-10			2010-11			2011-12	
	Budget Estimate	Revised Estimate	Actual	Budget Estimate	Revised Estimate	Actual	Budget Estimate	Actual@
1	2	3	4	5	6	7	8	9
Gross borrowing	4,91,044 *	4,92,368 *	4,92,497	4,98,635	4,88,595	4,79,482	4,69,738	1,97,203
Net Borrowing	3,97,957 *	3,94,229 *	3,94,358	3,45,010	3,35,512	3,26,398	3,53,128	1,33,354
(i) Dated Securities	3,97,957 *	3,98,411 *	3,98,411 *	3,45,010	3,35,414	3,25,414	3,43,000	1,20,527
(ii) 364-day TBs	–	-4,182	-4,053	–	98	984	10,128	12,827
#: Dated securities and 364-day Treasury Bills.			*: Includes MSS de-sequestering.		@: Up to July 31, 2011.			

Table VII.2: Central Government's Market Loans - A Profile#

(Yield in per cent / Maturity in years)

Year	Range of YTM's at Primary Issues			Issues during the year			Outstanding Stock	
	under 5 years	5-10 years	Over 10 years	Weighted Average Yield	Range of Maturities	Weighted Average Maturity	Weighted Average Maturity	Weighted Average Coupon
1	2	3	4	5	6	7	8	9
2008-09	7.71-8.42	7.69-8.77	7.77-8.81	7.69	6-30	13.8	10.45	8.23
2009-10	6.09-7.25	6.07-7.77	6.85-8.43	7.23	5-30	11.16	9.82	7.89
2010-11	5.98-8.67	7.17-8.19	7.64-8.63	7.92	5-30	11.62	9.78	7.81

#: Excludes issuances under MSS; YTM: Yield to Maturity.

at addressing the structural liquidity mismatch, *inter alia*, facilitated the completion of large Government market borrowing during 2010-11.

VII.4 During 2010-11, in order to contain inflationary pressures, the Reserve Bank increased the key policy rates, which had an impact on the cost of Government's market borrowings. The weighted average yield of dated securities rose to 7.92 per cent in 2010-11 from 7.23 per cent in 2009-10. The weighted average coupon on the outstanding stock of Government dated securities, however, declined moderately to 7.81 per cent as on March 31, 2011 from 7.89 per cent as on March 31, 2010 (Table VII.2).

VII.5 The yield curve turned increasingly flat during the course of 2010-11 as reflected in the significant decline in the yield spreads. A large volume of long dated securities was issued during the second half in consonance with the yield curve movements. During 2010-11, 37.53 percent of the market borrowings were raised through issuance of dated securities with residual maturity of 10-14.99 years as compared to

21.77 per cent in 2009-10 (Table VII.3). As a result, the weighted average maturity of debt issuances during 2010-11 increased to 11.62 years from 11.16 years during the previous year.

VII.6 The weighted average maturity of the outstanding stock (based on residual maturity) decreased fractionally to 9.78 years as on March 31, 2011 from 9.82 years as on March 31, 2010.

VII.7 The Reserve Bank continued with the Uniform Price based auctions of Central Government dated securities during 2010-11 with a view to facilitating aggressive bidding by the market participants in an environment of uncertain market conditions. Floating rate bonds (FRBs) amounting to ₹3,000 crore were issued during 2010-11 as against ₹5,000 crore in 2009-10.

VII.8 The Central Government issued 8.01 per cent 'Postal Life Insurance Government of India Special Security 2021' for ₹4,000 crore (nominal) and 8.08 per cent 'Postal Life Insurance Government of India

Table VII.3: Issuance of GoI Dated Securities - Maturity Pattern

(₹ crore)

Residual Maturity	2008-09		2009-10		2010-11	
	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	–	–	52,000	12.44	11,000	2.52
5 - 9.99 years	77,000	29.5	1,80,000	43.06	1,52,000	34.78
10 -14.99	99,000	37.93	91,000	21.77	1,64,000	37.53
15 -19.99 years	14,000	5.36	39,000	9.33	54,000	12.36
20 years & above	71,000	27.2	56,000	13.4	56,000	12.81
Total	2,61,000	100	4,18,000	100	4,37,000	100

Special Security 2023' for ₹3,000 crore on March 31, 2011. The Reserve Bank permitted with effect from April 1, 2011 transfer of/trading in the Power Bonds maturing on October 1, 2015 and April 1, 2016, issued by various States to the Central Public Sector Undertakings (CPSUs) in terms of the Tripartite Agreement among 27 State Governments, Ministry of Power, Central Government and the Reserve Bank under One Time Settlement Scheme for dues of State Electricity Boards. The Central Government repurchased the Fertilizer Bonds issued to various Fertilizer Companies amounting ₹5,763 crore (face value), in the first tranche of such repurchase, held on March 31, 2011 and ₹6,032 crore in the second tranche, held on July 26, 2011.

VII.9 As per the Union Budget 2011-12, the gross market borrowings of the Centre through dated securities for 2011-12 are estimated at ₹4,17,128 crore (net ₹3,43,000 crore). The issuance calendar for dated securities for the first half of 2011-12 was issued in consultation with the Central Government on March 25, 2011. An amount of ₹2,50,000 crore is scheduled to be raised during the first half of 2011-12 as against ₹2,84,000 crore raised during the corresponding period of the previous year.

VII.10 Although the gross market borrowings of the Central Government through dated securities for 2011-12 are budgeted 4.6 per cent lower than the previous year, the net market borrowings would be higher than the previous year by 5.4 per cent. The Central Government has raised a large part of the scheduled borrowing programme during 2011-12 (up to July 31, 2011) (Table VII.1). The weighted average yield of dated securities issued during 2011-12 (up to July 31, 2011) was higher at 8.38 per cent as compared with 7.67 per cent during the corresponding period of the previous year.

Cash Management

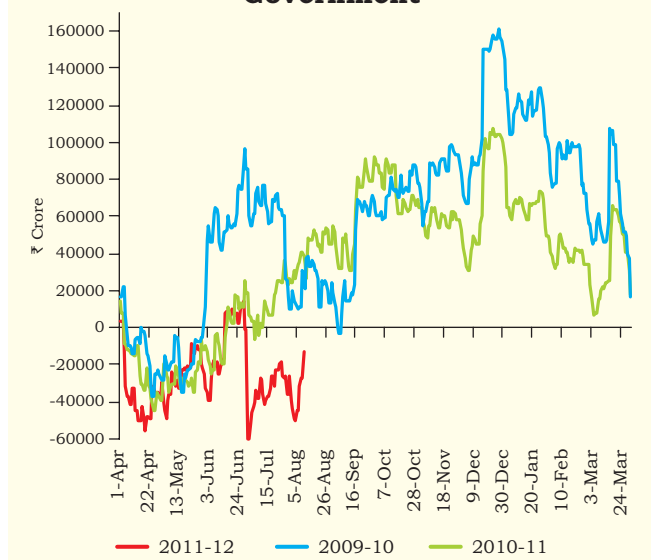
VII.11 The Government started the year 2010-11 with a modest cash balance of ₹16,514 crore, but soon took recourse to WMA on April 6, 2010 due to its expenditure commitments. Having breached the

WMA ceiling of ₹30,000 crore for the first half, the Government resorted to OD during April 23-25, 2010. The Government again entered into OD on May 14, 2010 for a day and continued with WMA up to May 30, 2010. To tide over temporary cash mismatches, Cash Management Bills (CMBs) to the tune of ₹12,000 crore were issued in two tranches of ₹6,000 crore each for 35 days and 28 days, respectively, during May 2010. After recording a positive cash balance on May 31, 2010, the Government reverted to WMA on September 4 and 5, 2010. Overall, the Government availed of OD for three days and WMA for 57 days during 2010-11.

VII.12 The Government's cash balances remained positive for most part of the year on account of the 3-G spectrum auction receipts and buoyant tax collections. As part of cash management, the Government bought back dated securities to the tune of ₹11,767 crore in 2010. The surplus transfer from the Reserve Bank to the Government amounting to ₹18,759 crore on August 12, 2010 boosted the Government's cash balance to ₹37,916 crore on that day. The Government's cash balance gradually reached the peak at ₹1,61,101 crore as on December 27, 2010. The WMA ceilings for the Central Government for 2010-11 were fixed at ₹30,000 crore for the first half and ₹10,000 crore for the second half. During 2011-12, due to the elevated temporary mismatches in the Central Government cash balance, *inter alia*, reflecting tax refunds, the WMA limits were revised to ₹30,000 crore for April 1, 2011 to April 20, 2011, ₹45,000 crore for April 21, 2011 to June 30, 2011, ₹30,000 crore for July 1, 2011 to September 30, 2011 and ₹10,000 crore for the second half of the year (October to March).

VII.13 In order to meet the emergent temporary cash flow mismatches, the Reserve Bank in consultation with the Government issued CMBs amounting to ₹58,000 crore during April-July 2011-12 (₹12,000 crore in April-July 2010-11). Moreover, the notified amount for issuance of Treasury bills was increased by ₹61,000 crore over and above the rollover amount during April-July 2011-12 (Chart VII.1).

Chart VII.1: Cash Balance of the Central Government



VII.14 In order to discharge its functions as a banker to the Central and State Governments more effectively and efficiently, the Reserve Bank has initiated a series of measures at the operational and technological levels in the recent years (Box VII.1)

DEBT MANAGEMENT OF STATE GOVERNMENTS

Market Borrowings

VII.15 The market borrowing programme of the State Governments was conducted smoothly during 2010-11. The gross market borrowings were lower than those of the previous year. The net allocation under the market borrowing programme for State Governments for 2010-11 was placed at ₹1,42,157

Table VII.4: States' Market Borrowings

Item	₹ crore)	
	2009-10	2010-11
1	2	3
Net Allocation	1,02,458	1,42,157
Additional Allocation	2,679	5,971
Maturities during the year	16,238	15,641
Gross Allocation	1,21,375	1,63,769
Gross Sanctions under Article 293 (3)	1,36,948	1,09,063
Gross Amount Raised during the Year@	1,31,122	1,04,039
Net Amount Raised during the Year	1,14,883	88,398
Amount Raised during the year as a % of Total Sanctions	95.8	95.4

@ An amount of ₹500 crore was auctioned on March 31, 2010.

crore. Taking into account the repayments of ₹15,641 crore and additional allocation of ₹5,971 crore, the gross allocation amounted to ₹1,63,769 crore (while gross sanctions under Article 293(3) amounted to ₹1,09,063 crore). The State Governments raised a gross amount of ₹1,04,039 crore in 2010-11 as against ₹1,31,122 crore in the previous year (Table VII.4). Since 2005-06, the entire market borrowings of State Governments have been by way of issuances of 10-year securities. Hence, securities issued in 2010-11 would mature in 2020-21 (Table VII.5). Arunachal Pradesh, Chhattisgarh, Orissa and Sikkim did not participate in the market borrowing programme in 2010-11 as against one State (*viz.*, Orissa) in 2009-10. Four States did not raise their full sanctions in 2010-11 as against five States in 2009-10.

VII.16 The weighted average yield of State Government securities issued during 2010-11 stood higher at 8.39 per cent as compared to 8.11 per cent during the previous year (Table VII.6). The weighted average spread (*i.e.*, the difference between the weighted average primary market yield of SDL on the day of auction and the secondary market yield of corresponding maturity of Central Government dated security on the same day) declined to 45 bps during the year from 86 bps during the previous year. The lower spread during 2010-11 reflected several factors including lower market borrowings on account of comfortable cash position of the States, the lower

Table VII.5: Residual Maturity Profile of Outstanding State Development Loans and Power Bonds (as at end-March 2011)

(₹crore)

Year of Maturity	State Development Loans	Power Bonds	Total
1	2	3	4
2011-12	21,989	1,453	23,442
2012-13	30,628	2,870	33,498
2013-14	32,079	2,870	34,949
2014-15	33,384	2,870	36,254
2015-16	35,191	2,785	37,976
2016-17	31,522	1,575	33,097
2017-18	67,779	–	67,779
2018-19	1,18,138	–	1,18,138
2019-20	1,30,622	–	1,30,622
2020-21	1,04,539	–	1,04,539
Total	6,05,871	14,423	6,20,294

Box VII.1**Developments in RBI's role as Banker to Government**

The Reserve Bank acts as a banker to the Central and the State Governments in terms of provisions of sections 20, 21 & 21 (A) of the Reserve Bank of India Act, 1934. The Reserve Bank carries out the general banking business of the Governments through its own offices and branches of public sector banks and a few private sector banks (*viz.* HDFC Bank Ltd., ICICI Bank Ltd. and the Axis Bank Ltd.) which act as the Agency Banks. The various measures initiated by the Reserve Bank for further improvement in its functional responsibilities in this regard are summarised below.

- The Public Accounts Departments (PADs) at all the Regional Offices of the Reserve Bank which maintain and operate the accounts of Government departments have now switched over from the erstwhile stand-alone system to a more robust and secured Centralised Web-based application *viz.*, the Centralised Public Accounts Department System (CPADS) for its operations. The CPADS is a user friendly application with multiple facilities.
- For more safe, secure and efficient banking transactions, as a proactive stance, the Reserve Bank has been impressing upon the Government departments to switch over to electronic modes for effecting their payments and receipts through various e-products such as NEFT, NECS/RECS, RTGS, *etc.* which are provided by the Agency Banks. The Regional Offices of the Reserve Bank play a pivotal and pro-active role in offering NEFT facility for remittance of funds to the account holders. As a result, a number of Central and State Government departments have switched over to internet mode of collection of taxes. In the State Finance Secretaries' Conference held at Mumbai in May 2011, the State Governments were also urged upon to draw a roadmap for switching over to e-mode of receipts and payments in a phased and time bound manner.
- As a facilitator to e-payment initiatives of Government of India, the Reserve Bank has also reviewed the performance of the Agency Banks under OLTAS (On Line Tax Accounting System) of the Central Board of Direct Taxes (CBDT) and EASIEST (Electronic Accounting System in Excise and Service Tax) of the Central Board of Excise and Customs (CBEC) on various parameters. Accordingly, the Agency Banks, whose performances were not satisfactory in this regard, were advised to improve their position.
- The Reserve Bank launched an e-payment system in May 2011 for collection of commercial taxes of Government of Karnataka on the lines of Electronic Accounting Solutions for e-Receipts (EASeR) Model of CBEC.
- To provide a platform to the top functionaries of the Central Government, the Reserve Bank, Agency Banks, IBA, NSDL, *etc.* for discussions on various issues, the Reserve Bank has conceptualized and formalized the "High Level Meeting" as a forum, which takes stock of various issues concerning conduct of Government Business through RBI/ Agency Banks and provides inputs for policy making.
- The Reserve Bank has been instrumental in playing a pivotal role to ensure timely remittance of funds to the Government accounts. Accordingly, in consultation with the Government, the Reserve Bank prescribes as well as reviews the time limit for remittance of funds collected for credit to the Government accounts by Agency Banks and also the rate of penal interest in case of non-compliance with the prescribed norms. The period of remittance for electronic receipts has been brought down to T+1 days for all Agency Banks with effect from November 2010.
- In terms of the recommendations of a Committee constituted by the Reserve Bank (Chairman: Shri Prabhakar Rao) to look into the customer service aspects of the services rendered by Agency Banks, which included establishment of Centralised Pension Processing Centres (CPPCs) by the Agency Banks for pension disbursement, customer friendly measures in the collection of taxes *etc.*, Agency Banks have been advised to implement the same. Consequently, most of the Agency Banks have established CPPC while others are in the process of establishing them. As a customer friendly measure, the Reserve Bank has also hosted an FAQ on its website for the benefit of pensioners.
- In order to compensate the pensioners for delayed payment of pensions beyond due date, instructions were issued to the Agency Banks to pay penal interest for the delayed period at Bank Rate plus 2 per cent. The compensation shall be credited to the account of the pensioners automatically without waiting for any claim from them.
- As the adviser to the Government of India in the formulation of accounting policies and other related matters of Government Business, the Reserve Bank associates with various Committees constituted by the Government for effective administration of Government revenue collection and accounting system.
- The Reserve Bank also looks after the appointment of Agency Banks, under section 45 of the RBI Act, 1934, to carry out Government Business as agents of the Bank. Recently, the Reserve Bank appointed Jammu & Kashmir Bank Ltd. to conduct the business of the State Government of Jammu & Kashmir as an agent, from April 01, 2011.

average issuance size and lower volatility in the yield of the 10-year benchmark government securities in the secondary market.

VII.17 During 2011-12 (up to July 31, 2011), ten tranches of auctions were conducted under the market borrowing programme of the State

Table VII.6: Yield on State Government Securities

(Per cent)

Year	Range	Weighted Average
1	2	3
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	6.60-8.00	7.49
2003-04	5.78-6.40	6.13
2004-05	5.60-7.36	6.45
2005-06	7.32-7.85	7.63
2006-07	7.65-8.66	8.10
2007-08	7.84-8.90	8.25
2008-09	5.80-9.90	7.87
2009-10	7.04-8.58	8.11
2010-11	8.05-8.58	8.39
2011-12@	8.36-8.68	8.55

@ Up to July 31, 2011.

Governments and 14 States raised an aggregate amount of ₹37,023 crore on a gross basis (net ₹30,147 crore) as compared to ₹31,640 crore (net ₹23,519 crore) raised by 17 States during the corresponding period of the previous year.

Cash Management

VII.18 The aggregate Normal WMA limit for States, including Government of Union Territory of Puducherry, was placed at ₹9,925 crore for 2010-11, which was the same as in the previous year. Consequent upon the supplementary agreement

entered with the Government of Jammu and Kashmir, the aggregate WMA limit for 2011-12 was increased to ₹10,240 crore in April 2011. The rates of interest on Normal and Special WMA and OD continued to be linked to the repo rate. The monthly average utilisation of WMA and OD by the States in 2010-11 was higher than that of 2009-10 (Table VII.7 and 8).

VII.19 Most State Governments have accumulated sizable cash balances in the recent years reflecting the fiscal consolidation measures undertaken since 2005-06. The liquidity pressures during 2010-11 were confined to a few State Governments (Table VII.9). The surplus cash balances of State Governments are automatically invested in 14-day Intermediate Treasury Bills (ITBs), the discount rate of which is presently fixed at 5 per cent. The average investment in 14-day ITBs declined to ₹78,875 crore from ₹84,462 crore during the previous year. The outstanding investments of States in ITBs stood at ₹1,01,301 crore as at end-March 2011 as against ₹ 93,776 crore as at end-March 2010. The average investment of the State Governments in Auction Treasury Bills (ATBs) more than tripled to ₹9,620 crore from ₹2,680 crore in the previous year. The outstanding investment of State Governments in ATBs as at end-March 2011 was higher at ₹10,187 crore than that of ₹250 crore at end-March 2010 (Table VII.9).

Table VII.7: WMA/ OD of State Governments

(Average monthly outstanding)

(₹ crore)

Month	Special WMA			Normal WMA			Overdraft			Total		
	2009-10	2010-11	2011-12	2009-10	2010-11	2011-12	2009-10	2010-11	2011-12	2009-10	2010-11	2011-12
1	2	3	4	5	6	7	8	9	10	11	12	13
Apr	619	589	970	294	290	698	111	191	868	1024	1070	2536
May	126	298	619	50	14	114	2	–	39	178	312	772
June	5	36	227	67	–	175	–	–	16	72	36	418
July	76	2	144	7	–	97	–	–	–	83	2	241
Aug	72	6	–	52	122	–	–	–	–	124	128	–
Sept	216	120	–	246	88	–	77	3	–	539	211	–
Oct	54	821	–	161	537	–	2	117	–	217	1475	–
Nov	389	898	–	74	480	–	–	242	–	463	1620	–
Dec	22	19	–	31	60	–	–	–	–	53	79	–
Jan	120	454	–	47	112	–	25	–	–	192	566	–
Feb	523	952	–	35	522	–	–	194	–	558	1668	–
Mar	252	893	–	252	383	–	90	295	–	594	1571	–
Avg.	206	424	–	110	217	–	26	87	–	341	730	–

Table VII.8: No. of Days States Availed of Special / Normal WMA and OD

	Special WMA			Normal WMA			Overdraft		
	2009-10	2010-11	2011-12	2009-10	2010-11	2011-12	2009-10	2010-11	2011-12
1	2	3	4	5	6	7	8	9	10
Andhra Pradesh	1	3	—	—	—	—	—	—	—
Haryana	7	10	13	5	10	13	—	8	6
Kerala	18	—	—	2	—	—	—	—	—
Madhya Pradesh	11	—	—	11	—	—	—	—	—
Maharashtra	—	—	—	—	—	—	—	—	—
Karnataka	—	—	—	—	—	—	—	—	—
Nagaland	69	—	11	45	—	6	13	—	—
Punjab	130	133	40	128	132	40	29	13	14
Rajasthan	—	—	—	—	—	—	—	—	—
Uttar Pradesh	8	4	—	8	4	—	—	—	—
West Bengal	95	195	79	15	113	40	8	62	24
Himachal Pradesh	—	—	—	—	—	—	—	—	—
Manipur	—	—	—	—	—	—	—	—	—
Mizoram	29	25	6	15	15	—	—	—	—
Goa	—	—	—	1	—	—	—	—	—
Uttarakhand	69	35	25	26	12	8	9	10	—
Meghalaya	—	1	—	—	—	—	—	—	—
Jharkhand	—	—	4	—	—	4	—	—	—

VII.20 The Reserve Bank, on behalf of the State Governments, maintains the consolidated sinking fund (CSF) that provides a cushion for amortisation of market borrowing/liabilities and the guarantee redemption fund (GRF), which provides for the servicing of contingent liability arising from invocation of guarantees issued in respect of borrowings by State level undertakings or other bodies. As on March 31, 2011, 20 State Governments including Puducherry had notified CSF and 10 State

Governments had set up GRF. The outstanding investments under CSF and GRF amounted to ₹36,504 crore and ₹3,704 crore, respectively, as at end-March 2011.

VII.21 The 24th Conference of the State Finance Secretaries was held in the Reserve Bank of India at Mumbai on May 24, 2011. The issues discussed in the Conference included: States' role in addressing supply side constraints and strengthening Public

Table VII.9 : Investments of the State Governments / UT*

(₹ crore)

Month	Intermediate Treasury Bills			Auction Treasury Bills			Total		
	2009-10	2010-11	2011-12	2009-10	2010-11	2011-12	2009-10	2010-11	2011-12
1	2	3	4	5	6	7	8	9	10
April	72,837	77,068	86,409	9,329	250	10,862	82,166	77,318	97,271
May	66,143	76,631	72,810	8,811	250	14,530	74,954	76,881	87,340
June	69,983	78,015	67,789	6,312	635	24,979	76,295	78,650	92,768
July	75,122	84,787	61,389	1,931	3,001	32,644	77,053	87,788	94,033
August	77,321	78,121	—	1,125	7,995	—	78,446	86,116	—
September	73,617	71,814	—	1,125	11,263	—	74,742	83,077	—
October	84,369	66,444	—	798	12,503	—	85,167	78,947	—
November	88,089	68,203	—	750	13,468	—	88,839	81,671	—
December	98,003	82,494	—	637	15,462	—	98,640	97,956	—
January	99,668	76,754	—	500	18,323	—	100,168	95,077	—
February	103,214	80,347	—	500	17,830	—	103,714	98,177	—
March	105,182	105,818	—	339	14,461	—	105,521	120,279	—
Average	84,462	78,875	72,099	2,680	9,620	20,754	87,142	88,495	92,853

* Average of daily data.

Distribution System for better inflation management; challenges in the management of Central Government borrowing programme during 2011-12; management of cash balances and market borrowings of the State Governments for 2011-12; repayment / exchange rate risk in States' borrowing and building of sinking funds to meet these obligations; risks to State finances on account of power sector utilities; switch over to electronic mode of payment and receipt for Governments' banking business and proposed classification structure of Union and State Governments' accounts.

VII.22 Notwithstanding the relatively lower budgeted market borrowings of the Central Government in 2011-12, managing the borrowing programme would be a challenge in view of tight liquidity conditions and high level of excess SLR holdings of the banks and non-availability of MSS securities for unwinding. Accordingly, the conduct of the market borrowing programme will be influenced by the ability of the Government to rein in the fiscal deficit and its financing by way of market borrowings at the budgeted level coupled with the monetary policy actions that anchor inflationary expectations.