

VII

PUBLIC DEBT MANAGEMENT

As in the previous year, management of the large market borrowing programme of both the central as well as the state governments in an inflationary situation posed a major challenge for the Reserve Bank. This was compounded by tightness in liquidity and slowing growth, particularly in the second half of 2011-12. As inflationary expectations remained high, the Reserve Bank successively hiked policy rates. There was pressure on the yield curve, particularly at the shorter end. During the year, the Reserve Bank deftly pursued debt management objectives along with liquidity and monetary management through OMOs and issuance of long-dated securities, effectively containing the rise in the cost of borrowing of the government to a modest level.

VII.1 With continuing inflationary pressure in 2011-12, the Reserve Bank hiked policy rates by 175 basis points in five stages. Liquidity conditions remained tight with a worsening in the last four months of the financial year, while there was an increase in government borrowing. The Reserve Bank conducted the market borrowing programme with the objective of minimising the cost of borrowing for the government while pursuing debt maturity profiles that posed a low rollover risk. In 2011-12, the net amount raised by the central government through dated securities and 364-day treasury bills was higher by around 48 per cent over the previous year. The increase in net market borrowing during the year was necessitated by the shortfall in financing from other sources (such as small savings, disinvestment proceeds, etc.) and accelerated expenditure on account of two supplementary demands for grants.

VII.2 Even though inflationary pressures and the hikes in policy rates resulted in hardening of yields in 2011-12, the increase in the cost of market borrowings was contained by following appropriate strategy. The OMO purchases through auction route helped in injection of liquidity in the system.

DEBT MANAGEMENT OF THE CENTRAL GOVERNMENT

Market Borrowings

VII.3 The gross amount raised through dated securities and 364-day treasury bills in 2011-12

was higher by around 25 per cent than in the previous year (Table VII.1). The increase in actual market borrowing compared to the budget estimate was higher for the central government compared to the previous year. The central government's gross market borrowing through dated securities was budgeted at ₹4,171 billion, which was increased in two stages (September and December 2011) to ₹5,100 billion (net ₹4,364 billion) during 2011-12 as against ₹4,370 billion (net ₹3,254 billion) in 2010-11. This enhanced market borrowing coupled with the additional net borrowing through treasury bills of ₹1,322 billion posed challenge for the debt management operations of the Reserve Bank. The revised market borrowing was, however, successfully completed. An amount of ₹121.1 billion worth of securities devolved on primary dealers during 2011-12 compared with ₹57.7 billion in the previous year.

VII.4 Reflecting the impact of the Reserve Bank rate actions, the weighted average yield of dated securities issued during the year rose by 60 basis points in 2011-12, though the weighted average coupon on the outstanding stock of dated securities rose only marginally by 7 basis points to 7.88 per cent as on March 31, 2012 (Table VII.2). The yield curve turned increasingly flat during 2011-12 as reflected in the significant decline in yield spreads. A large volume of long dated securities was issued during the year in view of this flatness. As a result, the average maturity of debt issuances increased to 12.66 years from 11.62 years in 2010-11. The

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

(₹ billion)

Item	2010-11			2011-12			2012-13	
	Budget Estimate	Revised Estimate	Actual	Budget Estimate	Revised Estimate	Actual	Budget Estimate	Actual@
1	2	3	4	5	6	7	8	9
Gross Borrowing	4,986.3	4,885.9	4,794.8	4,697.4	6,003.7	6,003.8	6,739.9	3,093.8
Net Borrowing	3,450.1	3,355.1	3,263.9	3,531.3	4,843.1	4,843.2	4,930.0	2,055.6
(i) Dated securities	3,450.1	3,354.1	3,254.1	3,430.0	4,364.1	4,364.2	4,790.0	1,893.8
(ii) 364-day treasury bills	0	1.0	9.8	101.3	479.0	479.0	140.0	161.8

#: Dated securities and 364-day treasury bills. @: Up to August 9, 2012.

weighted average maturity of the outstanding stock (based on residual maturity), however, decreased marginally to 9.74 years as on March 31, 2012. In 2011-12, about 26.4 per cent of the market borrowing was through issuance of dated securities of more than 15 years maturity compared with about 25.2 per cent in 2010-11 (Table VII.3).

VII.5 As per the union budget for 2012-13, the gross market borrowing of the centre through dated securities is estimated at ₹5,696 billion (net ₹4,790 billion). The issuance calendar for dated securities for the first half of 2012-13 was issued in consultation with the central government on March 27, 2012. An amount of ₹3,700 billion is scheduled to be raised during the first half of 2012-13, ₹1,200 billion more than the amount raised during the corresponding period of the previous year. The gross and the net market borrowings through dated securities for 2012-13 are budgeted to be higher than the

previous year (RE) by 11.7 per cent and 9.8 per cent, respectively. The central government raised about 46.3 per cent of the total borrowing for 2012-13 by August 9, 2012, with the weighted average yield of dated securities issued being higher at 8.50 per cent compared with 8.39 per cent during the corresponding period of the previous year.

Cash Management

VII.6 The government started the year 2011-12 with a modest surplus cash balance of ₹165 billion, but soon took recourse to WMA on April 5, 2011 due to its expenditure commitments (Chart VII.1). During the year, the government was in WMA for 263 days and availed OD on 15 occasions (74 days), compared with WMA for 57 days and OD for two days in the previous year. During 2011-12, cash management bills (CMBs) worth ₹930 billion (face value) were issued in 14 tranches with maturities of 35-77 days to meet temporary mismatches in

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 (As at end-March)	
	Under 5 years	5-10 years	Over 10 years	Weighted Average Yield	Tenor of securities	Weighted Average Maturity	Weighted Average Coupon	Weighted Average Maturity
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	8.23	10.45
2009-10	6.09-7.25	6.07-7.77	6.85-8.43	7.23	5-15	11.16	7.89	9.82
2010-11	5.98-8.67	7.17-8.19	7.64-8.63	7.92	5-30	11.62	7.81	9.78
2011-12	8.21-8.49	7.80-10.01	8.25-9.28	8.52	7-30	12.66	7.88	9.74

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

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

(₹ billion)

Residual Maturity	2009-10		2010-11		2011-12	
	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	520	12.4	110	2.5	180	3.5
5 -9.99 years	1,800	43.1	1,520	34.8	2,340	45.9
10-14.99	910	21.8	1,640	37.5	1,230	24.1
15 -19.99 years	390	9.3	540	12.4	650	12.7
20 years and above	560	13.4	560	12.8	700	13.7
Total	4,180	100.0	4,370	100.0	5,100	100.0

the cash position of the central government posing a challenge to the market borrowing programme. During 2011-12, the net issuances (inclusive of non-competitive bids) of 91-day, 182-day and 364-day treasury bills were ₹543 billion, ₹300 billion and ₹479 billion, respectively. The total net issuance of treasury bills amounted to ₹1,322 billion compared with ₹3 billion in 2010-11.

VII.7 The initial WMA limit fixed at ₹300 billion for the first half of 2011-12, was revised to ₹450 billion for the first quarter of the year (from April 21, 2011). Similarly, the WMA limit fixed at ₹100 billion for the second half was revised to ₹200 billion for the third quarter of the year. In consultation with the central

government, the WMA limit was fixed at ₹500 billion for the first quarter of 2012-13 and ₹450 billion for the second quarter.

DEBT MANAGEMENT OF STATE GOVERNMENTS

Market Borrowings

VII.8 Despite a significant increase in the amount, the gross market borrowing of the state governments was conducted smoothly during 2011-12. The net allocation under the market borrowing programme for state governments for 2011-12 was ₹1,459 billion. Taking into account the repayments of ₹220 billion and additional allocation of ₹157 billion, the gross allocation amounted to ₹1,835 billion [gross sanctions under Article 293(3) amounted to ₹1,634 billion]. The state governments raised a gross amount of ₹1,586 billion in 2011-12 as against ₹1,040 billion in the previous year (Table VII.4). Assam, Chhattisgarh and Odisha did not participate in the market borrowing programme in 2011-12 as against four states (*viz.*, Arunachal Pradesh, Chhattisgarh, Odisha and Sikkim) in 2010-11. There were some instances of under-subscription in State Development Loan (SDL) auctions during the year due to the bunching of issuances towards the close of the financial year. The Reserve Bank issued the quarterly indicative quantum for the July-September quarter in July 2012, which would enable orderly conduct of market borrowing programmes of the state governments. Fourteen states did not raise their full sanctions in 2011-12 as against four states in the previous year.

Chart VII.1: Cash Balance of the Central Government

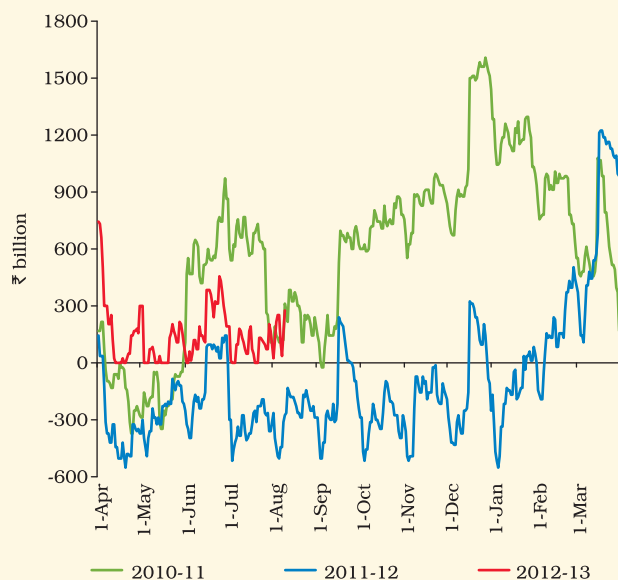


Table VII. 4 : States Market Borrowing

Item	(₹ billion)	
	2010-11	2011-12
1	2	3
Net allocation	1,421.6	1,458.6
Additional allocation	59.7	156.7
Maturities during the year	156.4	219.9
Gross allocation	1,637.7	1,835.2
Gross sanctions under Article 293 (3)	1,090.6	1,633.9
Gross amount raised during the year	1,040.4	1,586.3
Net amount raised during the year	884.0	1,366.4
Amount raised during the year as a per cent of total sanctions	95.4	97.1

VII.9 The weighted average yield of state government securities issued during 2011-12 was higher at 8.79 per cent, compared with 8.39 per cent during the previous year. 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 central government dated security on the same day) marginally declined to 44 basis points during the year (45 basis points in 2010-11). Since 2005-06, states issue 10-year securities only (Table VII.5).

Table VII.5: Residual Maturity Profile of Outstanding State Development Loans and Power Bonds (as at end-March 2012)

Year of Maturity	(₹ billion)		
	State Development Loans	Power Bonds	Total
1	2	3	4
2012-13	306.3	28.7	335.0
2013-14	320.8	28.7	349.5
2014-15	333.8	28.7	362.5
2015-16	351.9	27.9	379.8
2016-17	315.2	15.8	331.0
2017-18	677.8	0.0	677.8
2018-19	1,181.4	0.0	1,181.4
2019-20	1,306.2	0.0	1,306.2
2020-21	1,045.4	0.0	1,045.4
2021-22	1,586.3	0.0	1,586.3
Total	7,425.1	129.7	7,554.8

Cash Management

VII.10 The aggregate 'normal WMA' limit for states, including the union territory of Puducherry, was ₹102.4 billion for 2011-12, same as in the previous year. The monthly average utilisation of WMA and OD by all states in 2011-12 was lower than in the previous year (Table VII.6).

Table VII.6: Utilisation of WMA/OD and Investment of State Governments (Average Monthly Outstanding)

Months	(₹ billion)											
	Special WMA			Normal WMA			Overdraft			Total		
	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13
1	2	3	4	5	6	7	8	9	10	11	12	13
Apr	5.9	9.7	4.6	2.9	7.0	3.9	1.9	8.7	2.8	10.7	25.4	11.3
May	3.0	6.2	1.1	0.1	2.4	0.4	0.0	0.4	Neg	3.1	9.0	1.5
Jun	0.4	2.3	0.7	0.0	2.6	3.4	0.0	0.1	0.2	0.4	5.0	4.2
Jul	Neg	1.4		0.0	1.6		0.0	0.0		Neg	3.0	
Aug	0.1	1.6		1.2	2.7		0.0	0.0		1.3	4.2	
Sep	1.2	1.0		0.9	2.2		Neg	0.1		2.1	3.3	
Oct	8.2	1.3		5.4	3.2		1.2	0.1		14.8	4.6	
Nov	9.0	5.4		4.8	1.6		2.4	0.0		16.2	6.9	
Dec	0.2	3.1		0.6	2.2		0.0	0.1		0.8	5.4	
Jan	4.5	2.7		1.1	1.3		0.0	0.0		5.7	4.1	
Feb	9.5	0.5		5.3	1.1		2.0	0.0		16.8	1.5	
Mar	8.9	0.2		3.6	1.3		2.6	0.3		15.1	1.8	
Average	4.2	2.9		2.2	2.1		0.8	0.8		7.2	5.8	

Neg: Negligible.

Table VII.7: No. of Days States Availed of Special/ Normal WMA and OD

State	Special WMA			Normal WMA			Overdraft		
	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13
1	2	3	4	5	6	7	8	9	10
Andhra Pradesh	3	0	0	0	0	0	0	0	0
Haryana	10	23	12	10	22	11	8	6	5
Nagaland	0	41	120	0	20	75	0	0	15
Punjab	133	177	33	132	177	30	13	26	25
Uttar Pradesh	4	0	0	4	0	0	0	0	0
West Bengal	195	185	37	113	59	10	62	28	2
Manipur	0	0	87	0	0	54	0	0	25
Mizoram	25	15	5	15	1	1	0	0	0
Uttarakhand	35	57	0	12	4	0	10	0	0
Meghalaya	1	0	0	0	0	0	0	0	0
Jharkhand	0	5	8	0	2	8	0	0	0
Jammu and Kashmir	-	0	0	-	136	47	-	4	0

VII.11 Many state governments have accumulated sizeable cash surpluses in the recent years. The liquidity pressures during 2011-12 were thus confined to a few states (Table VII.7). The surplus cash balances of state governments are automatically invested in 14-day Intermediate Treasury Bills (ITBs), the discount rate of which is currently fixed at 5 per cent. The average investment in 14-day ITBs decreased during 2011-12, while the average investment in Auction Treasury Bills (ATBs) more than tripled (Table VII.8). The average

overall investment in ITBs and ATBs by states increased from ₹885.1 billion in 2010-11 to ₹998.0 billion in 2011-12.

VII.12 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 of the states and the guarantee redemption fund (GRF), which provides for the servicing of contingent liability arising from the invocation of guarantees issued in respect of

Table VII.8: Investments in ATBs and ITBs by State Governments/UTs

(₹billion)

Month	Investment in ATBs			Investment in ITBs			Total		
	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13
1	2	3	4	5	6	7	8	9	10
April	2.5	108.6	231.6	770.7	864.1	843.1	773.2	972.7	1,074.7
May	2.5	145.3	318.8	766.3	728.1	768.2	768.8	873.4	1,087.0
June	7.0	249.8	413.3	780.2	677.9	682.3	786.5	927.8	1,095.6
July	30.0	326.4		847.9	613.9		877.9	940.3	
August	80.0	329.6		781.2	645.2		861.2	974.8	
September	112.7	327.6		718.1	615.4		830.8	943.0	
October	125.0	297.2		664.4	613.7		789.4	910.9	
November	134.7	267.9		682.0	667.1		816.7	935.0	
December	154.6	240.2		824.9	762.0		979.5	1,002.2	
January	183.2	326.3		767.5	717.1		950.7	1,043.4	
February	178.2	381.7		803.5	774.5		981.7	1,156.2	
March	144.6	329.5		1,058.2	986.5		1,202.8	1,316.0	
Average	95.9	276.8	321.2	789.2	721.2	764.5	885.1	998.0	1,085.8

borrowings by state level undertakings or other bodies. As on March 31, 2012, 20 state governments had notified CSF and 10 states had set up GRF. The outstanding investments under CSF and GRF amounted to ₹431.4 billion and ₹41.2 billion, respectively at end-June 2012.

VII.13 The challenge in 2012-13 would be to manage the relatively higher budgeted market

borrowings of the central government as also the expected elevated level of borrowings of the state governments, with inflation persisting at a high level and tight liquidity conditions. In an environment of slowing growth and given the limited options regarding debt management, it is crucial that the fiscal deficit and its financing by way of market borrowings does not escalate beyond the budgeted level.