

# Management of Public Debt and Inclusive approach of the RBI

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## EDITORIAL BOARD EXCERPT

At the initial Time of submitted paper had a 14% plagiarism which is an accepted level for publication. He editorial viewpoint is of an observation that article had a successive close watch by the blind reviewer's which at later stages had rectified and amended by the author in various phases as and when requisite to do consequently. The reviewers had in a beginning stages mention with minor revision with a following stamen which at a small duration streamlined by author. The comments related to this manuscript are tremendously perceptible related to exponential organization both subject wise and research wise by the reviewers during evaluation and further at blind review process too. The authors be commendable of appreciation for writing this paper on Management of Public Debt and Inclusive approach of the RBI. Management of Public Debt as highlighted by the authors in section 2. The objective of the paper is clear and discussion are well placed and open up avenues for future studies. All the comments had been shared as a mixtures of dates by the authors in due course of time and same had been incorporated by the author in computation. By and large all the editorial and reviewer's comments had been incorporated in a paper at the end and further the manuscript had been earmarked and decided under "Case Based Study" category as its highlights and emphasize the work in relation to Management of public debt.

## ABSTRACT

**Purpose:** Reserve Bank of India (RBI) acts as a manager of debt and deficit programme of the government along with the management of interest rates and money supply. Given the GDP and investment slowdown at the macro level, management of public debt and autonomy has emerged as conflicting goal for the central bank, The present paper questions the argument of maintaining debt and deficit sustainability in India.

**Design/ Methodology/Approach:** the Paper is based on the secondary data analysis. The basic data source is the Report published by the Reserve Bank of India and the Finance Ministry, Government of India. Findings— Given the development and welfare compulsions, rising deficit and consequently accumulating debt liabilities is the accepted fallout. The SWOT analysis of the public debt management in Indian economy reveals the conflicting targets of fiscal discipline. Originality/**Value** Fiscal discipline is often ignored or seen as a constraint by the Government. One of the major disciplining guidelines has been laid out and being followed since 2003 has been the Act on Fiscal Responsibility and Budget Management. Without expenditure and revenue restructuring in the budgets, it will largely compromise the warranted expenditure for infrastructure and social security.

**KEYWORDS** Debt Management | Fiscal Discipline | Inclusion Policy | RBI | Borrowing | Sustainability Indicators

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## Introduction

Rising debt and deficit has been a pertinent policy challenge more for the Central Bank (RBI) and comparatively less for the Central Government. RBI acts as a manager of debt and deficit programme of the government along with the management of interest rates and money supply. Therefore the latter emphasizes more upon efficient borrowing practices and utilization of funds. Deficit and debt management by RBI is implemented through Market stabilization schemes, Ways and Means advances, overdraft facility and some others. Rising debt and deficit is also a caution for macroeconomic stability. Given the development and welfare compulsions, rising deficit and consequently accumulating debt liabilities is the accepted fallout. Thus fiscal discipline is often ignored or seen as a constraint by the government. One of the major disciplining guidelines has been laid out and being followed is the Act for Fiscal discipline, i.e, FRBM since 2005. In the recent times of investment and GDP slowdown, debt sustainability or control on public debt is creating a conflict for the autonomy of the central bank. The present paper questions the argument of debt and deficit sustainability without public expenditure and revenue restructuring in case of India which often compromises the warranted expenditure for infrastructure and social security. The SWOT analysis of the public debt management in Indian economy reveals the conflicting targets of fiscal discipline.

Public debt and fiscal deficit both are two main components of fiscal policy. Fiscal policy is an important instrument used by any government to maintain level of aggregate demand and output. There is a cause and effect relationship also between the above two components of fiscal policy. Sustained rise in fiscal deficit results in accumulation of outstanding public debt liabilities. It has been an empirically proved fact that persisting fiscal deficit, particularly when tax revenues are not rising in equal proportions as public expenditures, is not only a concern for fiscal discipline but also for private

sector investment and price stability. Although fiscal deficit and public debt are fiscal policy instruments, but has important policy implications for monetary policy and thus Reserve Bank of India, which acts as a debt manager for the government. Now given the fact that fiscal deficit cannot be reduced or restricted, debt management becomes essential to control the impact of fiscal deficit in a developing economy. Public debt management deal with diverse set of operations aiming at managing the quantum; sources and types; its ownership by various banks, financial companies and players in the bond market; its maturity profile and methods of repayment and many others. Generally, it refers to a set of operations which are necessary to maintain the existing debt at a minimum cost. One of the comprehensive definition is quoted as "Management of debt means the choice of sources and forms of debt, selection of the pattern of debt maturities, debt placing among the different classes of holders, decision to repay or refund or reschedule the maturing debt obligations, terms of refunding, treatment given to different classes of debt and bondholders, determination of the provisions attached to new bond issues, adjusting new issues to the needs of prospective holders, policies pursued in the retirement or creation of new debt and the relative weights given to all these matters in the Government's general fiscal policy" (by C. C. Abott, source anonymous).

Public debt is an important instrument of fiscal policy in Indian context where government needs large amount of funds for development expenditure, growth and welfare. Public debt is an essential instrument but excessive use of public debt creates burden on the economy and restricts the growth of economy. Public debt in India has increased many folds from the level of Rs.2957.87 billion in 1988-89 to Rs 93073.23 billion in 2016-17. GDP growth has been very volatile during this time period, maximum being 10.2 percent and minimum being 1.2 percent. Bhatt, A. (2010) adopted multiple regression framework to examine the relationship between developmental public expenditures and public debt

in developing countries in a multivariate time series framework. The study explains the existence of a long term negative relationship between capital expenditure ratio and public debt for a panel of selected developing countries including India. Topalova, P and Nyberg, D (2010) have attempted medium term projections for realistic public debt targets in case of India based on the recommendations of the major credit rating agencies. On the basis of cross country study during 2008-09 to 2015-16, the author also discusses the feasibility question of maintaining the Debt GDP ratio around 60 percent levels over the next 5-6 years. Simulations of the study propose that 60-65 percent of debt GDP ratio can be a tolerable limit for India. Dabrowski, M (2014) discusses the quest of governments to arrive at a safe level of public debt after Global Financial Crisis 2008. This paper again attempts to determine a feasible level of public debt for selected countries on the basis of deficit and debt trends during 2007-12. The paper also analyses the acceptable limit of public debt and the acceptable proportions of internal and external borrowings based on international experience. The author classifies measures of public debt as absolute public debt measures and relative public debt measures. Absolute measures include debt liabilities in the form of SDRs, currency holdings and time deposits, debt securities, loans, insurance, pension funds and standard guarantee schemes, and other accounts payable for the Government. Relative public debt measure is the ratio of gross or net debt to GDP.

Amanpreet Kaur and Dr. Baljit Kaur (2015) have analyzed the relationship between public debt and public investment for Indian economy. To investigate this relationship, it has been hypothesized that the determinants of public investment are economic growth, population growth and public debt. The relationship between these variables in the ordinary least square framework during 1981-2012 is estimated as  $i_t = \beta_0 + \beta_1 G + \beta_2 D + \beta_3 V + \mu_i$ . The estimations confirm the robust positive relationship between public debt and public investment. The

results support the theoretical proposition that public debt positively affects the level of public investment when the mobilized resources are utilized for productive purposes. The relationship between public investment and population growth was negative (at 5% level of significance). But, the relationship between economic growth and investment is positive and significant. Folorunso and Falerde (2013) and many other studies have confirmed bi-directional relationship between public debt and fiscal deficit.

### **Public Debt in India: conflicting approach of GOI and RBI**

There has been a long journey of fiscal reforms in India which envisages fiscal discipline and public debt management as an essential component. In the recent years, Government of India has been thinking of separation of public debt management policies from the RBI as it observes a conflict of interest. At present, RBI manages government debt including market borrowing. But due to the conflicts between RBI and GOI, finance ministry has proposed to separate Public Debt Management Cell (PDMC) from RBI with a view to create synchronization between government borrowings and cash management. The broader aim of this Cell is perceived as an effective tool for raising the depth of bond markets. The conflicts between RBI and GOI are due to their different objectives and policy formulation. RBI regulates monetary policy in the economy while fiscal policy propagation is dominated by GOI. So, the RBI has to check government borrowings at a certain limit. This is the point of conflict where the GOI wants more borrowing or debt for development while RBI obstruct that in doing because of the requirement of stability in the economy. With the implementation of fiscal discipline programme through FRBM Act 2003, all major fiscal indicators have exhibited a declining trend. (Refer to Table-1). The question is that is the decline always good or favourable for long term goal of fiscal sustainability and stable growth. Has it helped in raising the level of private investment or always resulted in managed inflation rate?

**Table: 1 Key Deficit Indicators of the Central Government (as percentage of GDP)**

Years	Gross Fiscal Deficit	Gross Primary Deficit	Revenue Deficit	Interest Payments	Outstanding Debt liabilities	GDP Growth	WPI	GDCF
2000-01	5.46	0.90	3.91	4.56	73.67	4.1	7.1	24.2
2001-02	5.98	1.42	4.25	4.56	78.79	5.4	3.6	24.8
2002-03	5.72	1.08	4.25	4.64	82.86	3.9	3.4	26.8
2003-04	4.34	-0.03	3.46	4.37	83.23	8.0	5.5	32.8
2004-05	3.88	-0.04	2.42	3.92	82.13	7.1	6.5	34.7
2005-06	3.96	0.37	2.50	3.59	79.07	9.5	4.5	35.7
2006-07	3.32	-0.18	1.87	3.50	74.66	9.6	6.6	38.1
2007-08	2.54	-0.88	1.05	3.43	71.44	9.3	4.7	34.3
2008-09	5.99	2.57	4.50	3.41	72.21	6.7	8.1	36.5
2009-10	6.46	3.17	5.23	3.29	70.6	8.6	3.8	36.5
2010-11	4.79	1.79	3.24	3.00	65.6	8.9	9.6	35.5
2011-12	5.84	2.75	4.46	3.09	67.36	6.7	8.9	34.8
2012-13	4.91	1.77	3.65	3.14	66.56	5.4	6.9	38.7
2013-14	4.43	1.13	3.15	3.30	66.83	6.3	5.2	33.8
2014-15	4.09	0.87	2.93	3.22	67.43	7.1	1.3	33.5
2015-16	3.94	0.68	2.52	3.26	65.97	7.2	-3.7	32.1

Source- Handbook of Statistics on Indian Economy 2015-16, RBI

Increasing fiscal deficit during 2001-02 and 2002-03 became a matter to great worry as primary deficit was also increasing at an alarming rate. Increasing primary deficit shows that interest payment is increasing. When interest payment increases it creates burden on the government as a large portion of its revenue spend on interest payment. According to Domer condition of debt sustainability when interest rate grows more rapidly than growth rate of GDP, it means debt is not sustainable. To make the economic growth sustainable with macroeconomic stability, reducing debt is a critical component. It is important to note from the Table 1 that interest payments to GDP ratio is declining, but absolute interest payments as percent of total expenditures is not declining at a satisfactory rate. It can create situations where debt is termed unsustainable. Because GDP growth rate fluctuates with the period of time while there is a very slow decline rate of

interest payments. In fact it can be said that decline rate of interest payments is negligible. While GDP Growth rate is fluctuating very rapidly which can create a mismatch between GDP Growth rate and interest payments decline rate. On the basis of this analysis, it can be said that India is not satisfying all the required conditions of debt sustainability. Therefore we can always infer that government policy has been unstable and therefore debt sustainability can be questioned.

For the analytical purpose, the standard classification of public debt is into two categories, viz, internal and external debt. The internal debt contains larger share of total public debt. It constituted 93.8% of public debt at end March 2016 (RBI Status Paper, 2016). There has been rising trends in both internal and external debt. The internal debt has been increased continuously since 1990-91. It was

1540.04 Rs billion in 1990-91 reached at 8036.98 Rs billion, 26671.15 Rs billion, 42407.67 Rs billion and 52982.17 Rs billion in year 2000-01, 2010-11, 2013-14 and 2015-16. Internal debt consists of market loans and dated securities. External debt consists of multilateral, bilateral, institutional debt, trade credit, commercial borrowing, NRI and FC(B and O) deposits, rupee debt, short term and total long-term debt (RBI 2016). There has been increasing trend in external debt also. It was 1899.90 Rs billion in 2000-01 and reached at 2788.77 Rs billion in 2010-11 and 4119.07 Rs billion in 2015-16. There is linear trend in % variation in internal and external liabilities over the time period while GDP growth rate is fluctuating. It depicts almost 1% increase in internal debt and 0.5% increase in external debt. Although growth rate of debt is not very high, the matter of concern is that it is increasing continuously. If this trend will be continue, public debt will be unmanageable and there will be the condition of debt trap. In recent years, GDP growth rate is declining while debt is increasing at the same rate. This kind of mismatch between growth rates create problem in the economy and increases the burden of debt which causes debt unsustainability.

The public debt situation of the General Government has worsened in the post-reform period when the Debt-GDP ratio rose from 72.01% of GDP in 1992-93, to 82.86% in 2002-03 and then slightly declining in consecutive years till 2013-14 to 69-70 percent. However, the combined average public debt ratio of the central and state government during the post-reform period was 65% which is again higher than the pre-reform period, has raised the alarm for RBI as the debt manager. During 1986-87 fiscal deficit was 9.5% while the liabilities were 64.85%. During 2013-14 fiscal deficit was 6.7 while the liabilities were 66.87%. The comparison of both the years indicates another aspect of debt sustainability. It exhibits that in 1986-87 fiscal deficit was 9.5% which is almost 3 % higher than fiscal deficit in 2013-14 while debt- GDP ratio is almost similar. It indicates that Debt- GDP ratio has not declined in the same direction. It indicates the requirement of public debt management in recent years. If the trend of data is analyzed according to the change of government policy, it will be clear. Why is there contradictory change in data?

**Table 2 Combined Debt liabilities and Fiscal Deficit of Centre and State Governments(as% of GDP)**

Year	Debt Liabilities	Gross Fiscal Deficit	Capital Expenditures	Tax Revenues
2000-01	73.67	9.2	2.19	8.65
2001-02	78.79	9.6	2.58	7.91
2002-03	82.86	9.3	2.94	8.46
2003-04	83.23	8.3	3.84	8.89
2004-05	82.13	7.2	3.50	9.36
2005-06	79.07	6.5	1.80	9.95
2006-07	74.66	5.1	1.60	11.03
2007-08	71.44	4.0	2.37	11.89
2008-09	72.21	8.3	1.60	10.75
2009-10	70.60	9.3	1.74	9.64
2010-11	65.60	6.9	2.01	10.19
2011-12	67.36	7.8	1.82	10.18
2012-13	66.56	6.9	1.68	10.42
2013-14	66.83	6.7	1.67	10.14
2014-15	67.43	7.0	1.58	10.00
2015-16	65.97	6.5	1.85	10.64

Source- Handbook of Statistics on Indian Economy 2014-15, RBI



Before 1990, the government use deficit financing policy that is why Debt- GDP ratio was not as higher as fiscal deficit. After 1990, government started to borrow from market and RBI. So, the debt- GDP ratio increased rapidly. In the recent years RBI has declared the limit of government borrowing so debt- GDP is not so much high. Table 2 refers another aspect also when fiscal deficit increases debt- GDP ratio also increases. During 2002-03 fiscal deficit was 9.3%, this year debt-GDP ratio was 82.86. After analyzing the data it can be said that there is a lagged relationship between fiscal deficit and public debt. Fiscal deficit of current year will affect public debt of next year. Until fiscal deficit reach at its appropriate limit, the condition of debt sustainability will not be confirmed.

The combined fiscal deficit of the improved during early 1990s in terms of declining trend from the level of 9.3% of GDP in 1990-91 to 6.76% in 1996-97, the fiscal deficit to GDP ratio started rising

again and was around 10% in 2001-02 and 2002-03. Although, again during 2000-03 it rose to 10 percent, slightly higher than the levels in 1990-91 but now a qualitatively difference was visible in terms of rising debt-GDP ratio, interest payment to revenue receipts ratio and consequently, rising share of revenue deficit in the gross fiscal deficit. The debt-GDP ratio rose from 61.7% in 1990-91 to 76% in 2002-03, excluding the external debt components (Rangarajan and Srivastava, 2005). According to the Domer's condition of debt sustainability, GDP growth should be greater than interest rates on government borrowings. With the help of the table below it is possible to explain that there is debt sustainability in number of years except 2011-12, 2012-13, 2013-14 and 2014-15 if GDP growth is calculated at constant price in the context of Domer condition of debt sustainability. When GDP growth rate is calculated at current prices, there is debt sustainability almost every year. Thus, it can be concluded that India's debt is sustainable according to Domer's condition of debt sustainability.

**Table 3 Interest rates and GDP Growth**

Year	Central Government Securities		Private sector lending	GDP at market prices	
	Range	Weighted Average	PLR of SCBs& DFIs	Constant	Current
2000-01	9.47 - 11.70	10.95	11.00-12.00	4.1	7.7
2001-02	6.98 - 11.00	9.44	11.00-12.00	5.4	8.7
2002-03	6.57 - 8.62	7.34	10.75-11.50	3.9	7.8
2003-04	4.62 - 6.35	5.71	10.25-11.00	8.0	12.0
2004-05	4.49 - 8.24	6.11	10.25-11.00	7.1	13.2
2005-06	6.70 - 7.79	7.34	10.25-12.75	9.5	14.1
2006-07	7.06 - 8.75	7.89	12.25-14.75	9.6	16.6
2007-08	7.55 - 8.64	8.12	12.25-15.75	9.3	15.9
2008-09	7.69 - 8.81	7.69	11.50-16.75	6.7	15.7
2009-10	6.07 - 8.43	7.23	11.00-15.75	8.6	15.2
2010-11	5.98 - 8.67	7.92	8.25-9.50	8.9	18.7
2011-12	7.80 - 10.01	8.52	10.00-10.75	6.7	15.8
2012-13	7.86 - 8.82	8.36	9.70-10.25	5.4	13.6
2013-14	7.16 - 9.40	8.45	10.00-10.25	6.3	12.7
2014-15	7.65 - 9.42	8.51	10.00-10.25	7.1	10.5
2015-16	7.54 - 8.27	7.89	9.30-9.70	7.2	7.0

Source- Handbook of Statistics on Indian Economy 2015-16, (RBI)

## Legal Framework of Public Debt Management

The act of managing Public debt has appeared as an important indicator of macro-economic stabilization policy in recent years. So, there is need of an efficient management of public debt. In India, public debt management is mainly done by the Reserve Bank of India. Under section 20 of the RBI Act, 1934, RBI has been mandated to manage the Government's public debt. The legal framework for the management of public debt in India is mentioned in the Indian Constitution under Article 292. This Article empowers the Union Government to borrow upon the security of the CFI within such limits, if any, as may be fixed through legal sanction by the Parliament, and in different primary and secondary legislations. The public debt Act aims to establish coordination among the laws relating to government securities and its management by the RBI. With the enactment of the Government Securities Act, 2006 which amends the above laws and related matters, the 1944 Acts is no longer in existence for conducting the business of government securities.

## Fiscal Discipline an essential component of Debt Management

The FRBM Act, 2003 stipulated the norms for usual and occasional Central Government's borrowings, debt and deficits levels. It also proposes for incorporating transparency as a guiding principle for budgetary operations of the Central Government and medium term fiscal policy conduct. FRBM Rules, 2004 framed under FRBM Act, 2003 encompasses an annual target based reduction and management for fiscal and revenue deficits; government guarantee provisions in form of contingent liabilities and others as a fixed percentage of GDP upto 2008-09. This Act revolves around the following targets and strategies:

Maintaining Fiscal deficit GDP ratio at 3.0% with 0.3% of annual reduction. of 0.3% of GDP per year.

Elimination of Revenue deficit to GDP ratio with 0.5% of annual reduction.

A limit of 0.5% of GDP on the quantum of guarantees that the Central Government could assume annually.

In February 2009, the Central Government revised the targeted fiscal parameters and further amendments were introduced again in 2012-13. This included extension of the deadlines till March 31, 2015 and adoption of new FRBM rules. The deadline for meeting fiscal and revenue deficit targets was extended to March 31, 2015. Recently in 2014-15, the deadline was extended till March 31, 2018 followed by a further postponement of targets till March 31, 2021. Effective Revenue Deficit replaced the earlier revenue deficit which means revenue deficit net of central transfers. In the year 2018-19 new FRBM framework and amendment to FRBM rules were introduced which proposes that Fiscal deficit will be considered as an operational target; and will be reduced by 0.1% or more of the GDP at the end of each financial year beginning with 2018-19. The Central Government is required to follow a declining debt GDP ratio path to reach a target of 40% of GDP for Central Government and for the General Government 60% of GDP by 2024-25. According to CAG Report 2016, "The existing legal framework in India covered some of the requirements of a good legal framework. However, some aspects of an ideal legal framework for management of public debt were not present in legislations governing public debt in India.

## Objectives of Public Debt Management

According to RBI (2016), the objective of debt management strategy is to secure borrowing from various sources at the possible minimum cost over medium to long-term by maintaining the debt structure to a manageable level of risk to optimize the "cost risk trade-off". In this process, debt



management strategy aims at ensuring debt levels and its structure at a sustainable level to avoid the challenge of not only debt trap but overall financial stability in the country. This will not only impact the functioning of the government and the banking system but the overall all investment and saving patterns at the macro level. As mentioned in the initial discussion on debt management in India, debt management policy is related to the opportunities and challenges confronting the RBI in terms of raising low cost funds along with a well-functioning, vibrant, deep and liquid domestic bond market. This will ensure wider investor participation in the government bond markets and rational pricing benchmarks for financial asset pricing. These objectives are/ might be formulated and executed in order to maintain consistency with other macro-economic policies including monetary policy.

## Reserve Bank of India and Public Debt Management

As per the status paper and annual reports (GOI: 2016; RBI: 2017), the Central Bank performs the role of debt manager for the Central as well as All 29 States and Union Territories excluding Sikkim under section 21 A of the Reserve Bank of India Act 1934. Under this section, the Reserve Bank of India shall undertake all money, remittance, exchange and banking related transactions. These transactions also includes deposits and cash balance (non interest bearing) made by the Government with the RBI. RBI is the sole authority for issuing new loans and managing the outstanding liabilities for them. Towards this endeavor, the Reserve Bank of India makes advances to state governments to tide over mismatches in the cash flow of their receipts and payments. Such advances are known as Ways and Means Advances (WMA) which are repayable in each case not later than three months from the date of the making of advances in terms of section 17 (5) of the RBI Act. According to the constitution of India, Article 293 (1), state government can borrow only from domestic sources. Article 293 (3)

explains that a State may not without the consent of the Government of India raise any loan if there is still outstanding any part of a loan which has been made to the State by the Government of India or by its predecessor Government, or in respect of which a guarantee has been given by the Government of India or by its predecessor Government. State government also accumulates liabilities in the public accounts through provident funds, reserve funds, deposits etc.

Debt management of central and state government has been considered as an important function of RBI in Indian Economy. It manages debt by using a number of Instruments. Central Government debt includes the debt related to consolidated fund of India and liabilities in public account. These liabilities are needed to be adjusted as these affect the outcome of fiscal operations. RBI uses following measures to adjust these liabilities:

## Market Stabilization Scheme

Under the market stabilization scheme, securities are used to sterilize the exchange market intervention of the RBI. Under this scheme, the proceeds of issuance are not used to fund the Central Government Budget, but sequestered in an account maintained with RBI. These sequestered funds are utilized to redeem market stabilization scheme securities on maturity. But the burden of discount or interest on these securities is borne by the central government. Securities under MSS are purely monetary instrument and not the consequences of fiscal operations. The debt raised under this scheme is not included under the central government debt. Suppose during 2007-08, RBI put on sale Rs.2.5 lakh worth of Government securities in the financial system. This implies that Rs 2.5 crore of money supply was sterilized from the market. As per the latest policy, during the demonetisation period, the amount of MSBs which could be issued has been raised to from 0.3 lakh crores to 6 lakh crore.

## National Small Saving Fund (NSSF)

Liabilities under NSSF, is in the form of accumulated households small saving balance, invested in special securities, issued by state and central governments as per prevailing norms. The borrowing made by the Central Government under this scheme is one of the most important tools to finance the deficit and therefore becomes a crucial component of public debt. While the borrowings of state government under this scheme are shown under public account liabilities of the central government, state liabilities are netted out so that total liabilities of the central government reflect the outcomes of its own fiscal operations. Outstanding liabilities of central government on small savings, deposits and provident fund, in 2016-17 were Rs. 8596.55 billion.

## Short Term Debt of Central Government and Cash Management Bills.

Short term debt is the debt which is acquired through 14 day treasury bills, regular treasury bills, dated securities maturing in the 12 months from the date of issue and external sources to be repayable in less than one year time. Short term debt of central government stands at 13.3% of public debt and 5.26% of GDP. Since 2009-10, Cash Management Bills are being used as short term instrument for handling unanticipated cash flow mismatches in the Government's budgetary operations apart from short term TBs. These are less than 91 days, non-standard, discounted bills. The duration, notified amount and date of issue of these instruments depend upon the nature of the cash requirements by the Central or State Governments. These are generally repayable in the same financial year and therefore cannot be used to finance the budget deficit. During 2011-2012, these instruments were actively used to meet cash shortages due to higher direct tax refunds in the beginning of the financial year and short fall in small savings collection during the year.

## Ways and Means Advances

Ways and Means Advances scheme for central government was introduced on April 1, 1997, after putting an end to the four decade old system of adhoc treasury bills to finance the central government deficit. The WMA scheme was designed to meet temporary mismatch in the receipts and payments of the government. This facility can be availed by the government if it needs immediate cash from the RBI. The WMA is to be vacated after 90 days. Interest rates for WMA are currently charged at the repo rate. The limits for WMA are mutually decided by the manager, i.e. Reserve Bank of India and the Central Government.

## Overdraft

When the WMA limits are exhausted, recourse to overdrafts of less than 10 working days can also be availed. The interest rate on overdrafts would be 2% more than the repo rate. It is mandatory for the Government to maintain a minimum balance of Rs. 100 crores with the Central Bank on Fridays, on the date of closure of Government of India's financial year and on June 30, the date of closure annual accounts of the RBI, and not less than Rs. 10 crore on other days. The cash management of Government of India has considerably deteriorated in the recent past, with situations of large surplus and large deficit. This has put tremendous pressure of RBI with respect to liquidity management and conduct of monetary policy.

## Conclusion: SWOT Analysis

Since 2010 Government of India, consistently follows a timeline for publishing the public debt Status Paper as per the commitment under FRBM. There has been a systematic Medium Term Debt Management Strategy (MTDS). Reserve Bank of India through its Macroeconomic and Monetary Development Annual Reports and since October 2018 named as Monetary Policy Report highlights the status and challenges in Public Debt Management. The detailed study of public debt profile of Government of India



reveals that public debt in India, approximately 80 percent, is funded by domestic sources; is based on schemes yielding fixed interest rate and benefits by an extensive investor participation from the domestic financial market. Further, length of maturity profile of India's debt reduces its conversion, i.e. rollover risk. Government of India attempts to take steps to avoid the risks related to annual repayment burden. The major focus of debt management has been on reducing or controlling the fiscal deficit in the budgets.

FRBM Act 2003 was introduced with the aim to achieve fiscal stability path. In 2007-08, we were almost near to achieve the target of fiscal stability as all the fiscal indicators (fiscal deficit at 2.54% and revenue deficit at 1.05%) were in the certain limit as were introduced under FRBM Act. But unfortunately, the global economic crisis of 2008-09 suffered the fiscal indicators and the fiscal deficit was about 5.99% and revenue deficit was 4.50% much higher than the targeted limit. In 2009-10 fiscal deficit reached at 6.46% and revenue deficit at 5.23% of GDP. During 2010-11 these began to decrease and reached at 4.79% and 3.24% fiscal deficit and revenue deficit respectively. In 2011-12, there was the tendency to increase and again the fiscal deficit reached at 5.84% and revenue deficit at 4.46%. Consequently some amendments were forced upon to achieve more stable fiscal conditions. As the result of these amendments from year 2012-13 these fiscal indicators began to decline and in year 2017-18, fiscal deficit is 3.5% and revenue deficit is 2.62% of GDP. According to Status paper on Government Debt 2017-18, fiscal consolidation effort of the Centre under the umbrella of FRBM Act resulted in reduction of total liabilities from 47.5 % of GDP in March, 2014 to 45.9 % of GDP in March, 2017. The increase in March, 2018 is primarily on account of special securities issued for recapitalization of PSBs. However, the increase in General Government Debt (GGD)-GDP ratio from 67.1% (2013-14) to 68.2% (2017-18) is primarily on account of higher borrowing by the States. It is important to note

that although Centre was successful in achieving the targeted deficit ratio in normal times but there is also a clear lack of adjustment or automatic stabilizer mechanism in the years of global financial and economic crisis.

There is a claim that, since 2013-14 market instruments based active debt management policy is actively implemented. This has been through policies such as, buyback and conversion of maturity period of government dated securities. The above policies aim at widening the redemption burden; reduce roll over risk and utilize surplus cash balances available with central as well as state governments. Another important component of debt management strategy adopted by the Government to reduce the roll-over risk has been lengthening of debt maturity profile. In the MTDS Reserve Bank of India and the Finance Ministry have arrived at a consensus in setting the benchmarks in order to minimize the cost for borrowing and at the same time reducing the risk emanating from the debt structure, i.e. over dependence on the public financial institutions. After a brief review of selected schemes related to public debt management, it can be concluded that periodic amendments and changes have been introduced to manage fiscal sustainability.

Although, according to the traditional Debt Sustainability Indicators framework, debt is considered as sustainable in the medium term but a caution is always highlighted in terms of fiscal slippage, economic slowdown and global pressures. Reserve Bank of India, as a manager always stresses upon striking a balance between demand as well as supply side risks of debt management strategy. As a general policy feature identified with government budget, debt programme also exhibits overstatement of borrowing requirement and perhaps indicates a risk aversion strategy adopted by the government. The reason behind this is the fact that over the years government has not been successful or rather has faced structural difficulties in altering the expenditure compositions as reflected from Table 2

above. Capital expenditure to GDP ratio has been declining consistently and Tax revenue to GDP ratio has almost remained stagnant over the time period. This has further created implications in terms of constant rather stagnant private sector investment despite lowering of interest rates.

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### Blind Reviewers Comment

- The topic of the research is very relevant and focused on Management of Public Debt.
- In the review it is find that the objectives of the research are clearly achieved through analysis.
- Also the research design, data collection and sample size were well designed and meeting the ample reliability and validity in all aspect.

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The Editorial Board had used the turnitin plagiarism [http://www.turnitin.com] tool to check the originality and further affixed the similarity index which is 14% in this case (See Annexure-I). Thus the reviewers and editors are of view to find it suitable to publish in this Volume-11, Issue-1, Jan-Mar, 2019

## Annexure 1

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