Report of the
Comptroller and Auditor General of India
on
Public Debt Management

Union Government
Ministry of Finance
Report No. 16 of 2016
(Performance Audit)

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Preface

This Report of the Comptroller and Auditor General of India has been prepared for submission to the President of India under Article 151 of the Constitution of India for being laid before the Parliament.

This report contains the result of the Performance Audit on 'Public Debt Management' and covers the period from 2009-10 to 2014-15.

This report results from the scrutiny of the files and documents pertaining to Public Debt Management in the Department of Economic Affairs and the Reserve Bank of India.

Executive Summary

Executive Summary

1. Introduction

Public debt is the total financial obligations incurred by the entire public sector of a nation, including guarantees and implicit debt. Public debt would include obligations evidenced by a legal instrument issued by the Central, State, Municipal, or Local Government or Enterprises owned or controlled by the Government; and other entities considered public or quasi public. Public debt management is the process of establishing and executing a strategy for managing public debt in order to raise the required amount of funding at the desired risk and cost levels.

India, like most of the developing countries, seeks to grow its economy as also to expand social services to its citizens. This raises large financing needs on the country resulting in excess of expenditure over non–debt receipts, termed as fiscal deficit. The fiscal deficit is sought to be plugged by borrowing, which adds to the country's outstanding debt stock. The shortfall is met either by internal or external borrowing contracted on the security of the Consolidated Fund of India or by the use of surplus fund in the Public Account. In the budget documents, internal debt and external debt together are referred to as 'Public Debt'.

Internal debt refers to rupee–denominated debt, consisting of marketable securities (dated securities, treasury bills) and non-marketable securities (14 days Intermediate Treasury bills, compensation and other bonds, securities issued to international financial institution etc.).

External debt refers to the debt raised by the Union Government from non-domestic sources, namely, multilateral institutions like the International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), Asian Development Bank (ADB) etc. In addition, external debt was also contracted from bilateral sources, i.e., directly from the foreign countries.

In India, the function of public debt management in respect of internal debt was performed by Budget Division of the Department of Economic Affairs (DEA) of the Ministry of Finance (MOF) along with the Internal Debt Management Department (IDMD) of Reserve Bank of India (RBI). In respect of external debt (Multilateral and Bilateral), the various divisions of the DEA like the Multilateral Relations (MR), Bilateral Cooperation (BC) and Multilateral Institutions (MI) performed the function of debt management. They were also supported by the Controller of Aid, Accounts and Audit (CAAA). The Chief Controller of Accounts, Ministry of Finance maintained accounts for both internal and external debt.

The performance audit on Public Debt Management was conducted as public debt constituted a significant portion of the receipts of the Union Government. Further, such an audit would help policymakers to understand the risks of public debt, make their operations more effective, increase the efficiency of internal administrative processes and also enhance public debt transparency and accountability. Moreover, the frequency and severity of debt crises across the world and the consequent adverse impact on managing of public finances reinforces the need for promoting responsible lending and borrowing behaviours.

The total outstanding public debt of India as on 31 March 2015 was ₹ 51,04,675 crore of which ₹ 47,38,291 crore (92.82 *per cent*) was internal debt and ₹ 3,66,384 crore (7.18 *per cent*) was external debt. The repayment of principal and the payment of interest of the contracted debt is together termed as debt servicing. In 2014-15, 77 *per cent* of the long term internal borrowings and 73 *per cent* of the external borrowings were utilized for debt servicing implying that a larger percentage of debt was being used for debt servicing which in turn meant lower percentage of debt taken was available for meeting developmental expenditure to promote growth which is one of the reasons for contracting debt.

(*Chapter 1*)

2. Legal Framework

The legal framework provides strategic direction, defines and clarifies powers and supports professionalism and operational focus in public debt management and promotes good governance by establishing accountability for managing the government's debt liabilities. As per international best practices, the legal framework of public debt management should provide for authorization by Parliament to the Executive and the debt management unit to borrow, include the borrowing purposes and the debt management objectives, provide for the formulation of debt management strategy and indicate the reporting requirements to ensure accountability of the executive to the legislature.

The existing legal framework for the management of public debt in India is contained in the Constitution of India and in various primary and secondary legislations like RBI Act, 1934, Public Debt Act, 1944, FRBM Act, 2003, FRBM Rules, 2004, Government Securities Act, 2006 etc. The existing legal framework does not define the term 'Public Debt', does not indicate the objectives of public debt and the borrowing purposes and also does not require the formulation of a debt management strategy.

(*Para 2.3.1& 2.3.2*)

As per Rule 3 (4) of FRBM Rules, 2004, no additional liabilities could have been assumed in 2013-14 or thereafter. This provision was inconsistent with the target of 3 *per cent* of GDP for fiscal deficit provided in Rule 3 (2) of FRBM Rules, 2004.

(*Para 2.4)*

3. Organizational Framework

A number of expert committees set up in India over the past two decades had recommended the establishment of a separate Public Debt Management Agency (PDMA). Though a PDMA was not set up, a separate Middle Office (MO) was established in September 2008. No further progress has been made on the setting up of a separate PDMA till date.

The responsibilities of the MO, among other things, included formulation of comprehensive risk management framework, formulation of a long term debt management strategy and developing and maintaining a centralized database on Government liabilities. However, these activities were not performed by the MO. Some of these functions were, however, discharged by other agencies.

(*Paras 3.2 & 3.4)*

In respect of external debt (bilateral and multilateral), the MO functions, namely, undertaking risk analysis and monitoring reports on portfolio-related risks, and assessing the performance of debt managers against any strategic targets/benchmarks, were not being performed by any entity.

(*Para 3.3)*

4. Debt Management Strategy

A debt management strategy is a plan that operationalizes the debt management objectives. It lays out the desired composition of the public debt portfolio, which captures the government's preferences with regard to a cost-risk trade-off.

DEA brought out a Medium Term Debt Strategy (MTDS) for the first time in December 2015 which included risk analysis and stress testing but its scope was restricted to the marketable debt of the Union Government only. Previously, some of the elements of debt management strategy were discussed in the meetings of the Monitoring Group on Cash and Debt Management (MGCDM) but MTDS had not been formulated.

(*Para 4.2)*

5. Borrowing Activities

The borrowing activities envisage all the activities from the estimation of the required borrowing to the actual borrowing of fund either from the domestic markets or from the external markets.

The budget division, DEA, MOF is responsible for preparation of budget estimates (BE) and revised estimates (RE) in respect of internal borrowings, external borrowings and other receipts on the basis of inputs received from RBI, CAAA and other departments.

The borrowing calendar for market borrowings is prepared half–yearly on the basis of the estimates of market borrowing, cash inflows, cash outflows and the likely funding-gap of the Union Government. The borrowing calendar indicated the amount of securities to be issued through weekly primary auctions during the ensuing half year and is issued with the approval of the MGCDM.

During the period from 2009–10 to 2014–15, the variation between the actual external borrowing and the revised estimates of external borrowing as per the budget ranged between (-)33 *per cent* and 225 *per cent.*

(Para 5.3)

Primary auctions of government securities were conducted on the E–Kuber platform by RBI. A system of underwriting for market lending operated in the government securities markets in India through the mechanism of Primary Dealers (PDs). The Auction Committee in the RBI decided the cut-off price/yield and the securities, if any, to be devolved upon the underwriters.

There were no criteria for deciding particular issues wherein securities were to be devolved on the underwriters. There were also no criteria for deciding the cut–off rate or the reasons for deciding a particular cut-off rate. Subsequently RBI informed (May 2016) that a policy on devolvement criteria had been prepared which *inter alia* incorporated the factors to be considered for arriving at the devolvement decision.

(Para 5.2)

In respect of external borrowing, DEA is the nodal agency for posing projects to WB, ADB and the IFAD. The proposals for external assistance to be posed to WB, ADB and IFAD were decided by the Screening Committee in the DEA constituted in August 2009.

'Finance Plus' criteria were instituted (September 2011) to maximize access and leverage of Multilateral Financial Institutions' (MFIs')/Multilateral Development Banks' (MDBs') knowledge base, international experience and familiarities with best practices making the best use of limited available external resources. Since September 2011, a total of 82 proposals for obtaining external loan assistance were approved by the Screening Committee. But in 60 of the approved proposals, the minutes of the Screening Committee did not indicate whether knowledge transfer, technology transfer and best practices transfer from international experience were considered.

(Para 5.4)

RBI is entrusted with the cash management of Government of India which they perform in co-ordination with the Ministry of Finance, Government of India. Cash management mainly entails cash flow forecasting, arranging temporary liquidity, maintaining target balance in the Government account, investment of surplus balance over and above the target balance in the market etc.

The mismatches between inflow and outflow in Government account are managed by cash management instruments, viz. treasury bills and further fine tuned through availing Ways and Means Advances/Overdraft and issuing Cash Management Bills (CMBs). Ways and Means Advances (WMA) are the advances made by the RBI to the Government. Limits on the WMA are fixed on a half yearly basis. Overdraft (OD) is similar to WMA and can be resorted to for maximum 10 days at a stretch, when limit of WMA is crossed.

During the period from 2010 to 2015, in at least 40 weeks in each year, the variations between the weekly projected cash balance and the actual cash balance were more than ₹ 10,000 crore. In many instances, the projection of the weekly cash balance was negative.

(Para 5.5.1)

Cash Management Bills were introduced in 2009 to meet temporary cash flow mismatches of the Government. During August and September 2013, Cash Management Bills were issued to the extent of ₹ 96,000 crore for meeting monetary policy objectives.

(Para 5.5.2.1)

6. Debt Information System, Debt Servicing and Debt Reporting

Debt management activities should be supported by an accurate and comprehensive information system with proper safeguards. The information system should comprise of components that capture, monitor, analyse and report debt information of a country. A Public Debt Information System should support recording, reporting and analytical functions.

RBI uses E-Kuber for primary auctions of dated securities and treasury bills, debt service payments and generating various reports for internal debt. In respect of external debt, Integrated Computerised System (ICS) is used for maintaining various ledgers and registers relating to each loan/grant, debt servicing and generating various reports. E-Kuber and ICS did not have the provision for analytical functions.

(Para 6.1.1)

A centralized database on all internal and external liabilities of the government was not available. The information in respect of internal debt and external debt was, however, available in RBI and in the Office of the Controller of Aid, Audit and Accounts respectively.

(Para 6.1.3)

Commitment charges on undrawn balance of external loans are paid on the amount of principal rescheduled for drawal on later dates. During the period from 2009-10 to 2014-15, commitment charges to the extent of ₹ 602.66 crore were paid.

(Para 6.2.1)

The figures of internal debt presented in different documents such as Status Paper and Indian Public Finance Statistics published by Government of India did not agree with those in the Finance Accounts of the Government of India.

(Para 6.3.2)

7. Government Securities Market

One of the objectives of Public Debt Management is to develop a liquid market. Developing a liquid and vibrant secondary market for government securities and broadening the investor base are the key factors to ensure that debt is raised in a cost effective manner. Further, the government securities market (GSM) provides the benchmark yield and imparts liquidity to other financial markets and is considered an essential precursor, in particular, for development of the corporate debt market. Moreover, government securities market acts as a channel for integration of various segments of the domestic financial market and helps in establishing inter linkages between the domestic and external financial markets.

Trade in dated Government securities in the secondary market was predominantly taking place in a few securities with the top ten securities accounting for more than 90 *per cent* of the trading volume of government securities.

(Para 7.3)

A scheme of non-competitive bidding for allocation of upto 5 *per cent* of the notified amount in the specified auctions of dated securities was introduced in January 2002 to encourage small and medium investors to participate in the primary auction. However, the total amount of bids received and accepted during 2009 to 2015 from small and medium investors ranged from 0.30 *per cent* to 0.47 *per cent* of the notified amount.

(Para 7.4)

8. Recommendations

- Legal framework, consisting of both the primary as well as secondary legislation, may include the definition of public debt, debt management objectives, borrowing purposes, and requirement of debt management strategy. DEA may consider doing this in a phased manner.
- Conditions of 'Finance Plus' criteria aimed at maximizing access and leverage of Multilateral Financial Institutions'/Multilateral Development Banks' knowledge base, international experience and familiarity with best practices may be applied in deciding on the projects for external assistance and the same should be properly documented.
- A centralized database of internal debt, external debt and other liabilities may be developed.
- Steps may be taken to ensure that the public debt information systems used (E-Kuber and ICS) support analytical functions.
- Mechanism may be developed to ensure consistency in the reporting of public debt by RBI and DEA and amongst the various divisions of DEA.

Chapter 1

Introduction

1.1 Public Debt

Public debt occupies a centre stage in public financial management. Public debt is the total financial obligations incurred by the entire public sector of a nation, including guarantees and implicit debt. Public debt would include obligations evidenced by a legal instrument issued by the Central, State, Municipal, or Local Government or Enterprises owned or controlled by the Government; and other entities considered public or quasi public. The public debt portfolio is often the largest financial portfolio in the country and can have a far-reaching impact on financial stability.

Most governments have large financial needs as they seek to grow their economies and expand social services in their countries. A country is required to borrow both for consumption as well as investment to promote growth which would help in improving the living standards of its population. In theory, public borrowing is an effective tool for generating economic growth by expanding the production and consumption choices of current and future generations and fairly distributing the debt burden between current and future generations of taxpayers. Without public borrowing, Governments may have to reduce the number and amount of productive investments or impose high taxes on current taxpayers or reduce current spending on services to its citizens or choose a mix of these choices.

Public debt, while giving an opportunity to the country to fuel economic growth and ensure inter–generational equity, also places onus on the country for being responsible in its use of the borrowed funds. Borrowing for this purpose, when not justified by a national need, could be inconsistent with sustainable economic policy.

1.2 Public Debt Management

Public debt management is the process of establishing and executing a strategy for managing public debt in order to raise the required amount of funding at the desired risk and cost levels. It should encompass the main financial obligations over which governments, central, regional and local, exercise control. Public debt management is important for a number of reasons like:

- ensuring that the level and rate of growth of public debt is sustainable in a wide range of circumstances;

- lowering public borrowing costs over the long term, thus reducing the impact of deficit financing and contributing to debt and fiscal sustainability; and
- avoiding economic crisis because of poorly structured debt.

1.3 Public Debt of Union Government

India, like most of the developing countries, seeks to grow its economy and to expand social services to its citizens. This raises large financing needs on the country resulting in excess of expenditure over non-debt receipts, termed as fiscal deficit. The fiscal deficit is sought to be plugged by borrowing, which adds to the country's outstanding debt stock. In other words, fiscal deficit can be seen as being indicative of the net incremental liabilities of the Government or its additional borrowings to bridge the budgetary gap. The shortfall is met either by internal or external borrowing contracted on the security of the Consolidated Fund of India (CFI) or by the use of surplus fund in the Public Account. In the budget documents, internal debt and external debt together are referred to as 'Public Debt'.

Internal debt refers to rupee-denominated debt, consisting of marketable securities (dated securities, treasury bills) and non-marketable securities (14 days Intermediate Treasury Bills, compensation and other bonds, securities issued to international financial institutions etc.).

External debt refers to the debt raised by the Union Government from non-domestic sources, namely, multilateral institutions like the International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), Asian Development Bank (ADB) etc. or bilateral sources, i.e., directly from the foreign countries.

Liabilities in the Public Account (referred to as 'other liabilities') include National Small Savings Fund (NSSF), Provident Funds, Reserve Funds and deposits and special bonds issued to oil marketing companies, fertilizer companies and Food Corporation of India. 'Other liabilities' are not included in the public debt.

Besides above direct liabilities, the Union Government provides guarantees for repayment of borrowings and payment of interest thereon, repayment of share capital and payment of minimum dividend, payment against agreements for supplies of materials and equipment on credit basis, etc. on behalf of Government Companies/Corporations, Railways, Union Territories, State Governments, Local Bodies, joint stock companies, co-operative institutions etc. These guarantees constitute contingent liability of the CFI.

The details of the outstanding total liabilities of the Union Government at the end of each year from 2011-12 to 2014-15 is presented in **Table 1.1.**

Table 1.1: Union Government Liabilities

(₹ in crore)

Period	Gross Domestic Product (GDP) at current prices	Internal debt	External debt (at current rate)	Public debt	Other liabilities	Total liabilities (at current rate)
(1)	(2)	(3)	(4)	(5=3+4)	(6)	(7=5+6)
2011-12	88,32,012@	32,30,622 *(36.58)*	3,22,897 *(3.66)*	35,53,519 *(40.24)*	5,97,765 *(6.77)*	41,51,284 *(47.00)*
2012-13	99,88,540@	37,64,566 *(37.69)*	3,32,004 *(3.32)*	40,96,570 *(41.01)*	6,10,016 *(6.11)*	47,06,586 *(47.12)*
2013-14	1,13,45,056@	42,40,767 *(37.38)*	3,74,483 *(3.30)*	46,15,250 *(40.68)*	6,44,060 *(5.68)*	52,59,310 *(46.36)*
2014-15	1,25,41,208$	47,38,291 *(37.78)*	3,66,384 *(2.92)*	51,04,675 *(40.70)*	6,71,010 *(5.35)*	57,75,685 *(46.05)*

Note: Figures in parenthesis show percentage of Gross Domestic Product (GDP). GDP data is based on new series (Base year 2011-12). Data for the years 2009-10 and 2010-11 is not included due to change in base year of GDP to 2011-12.

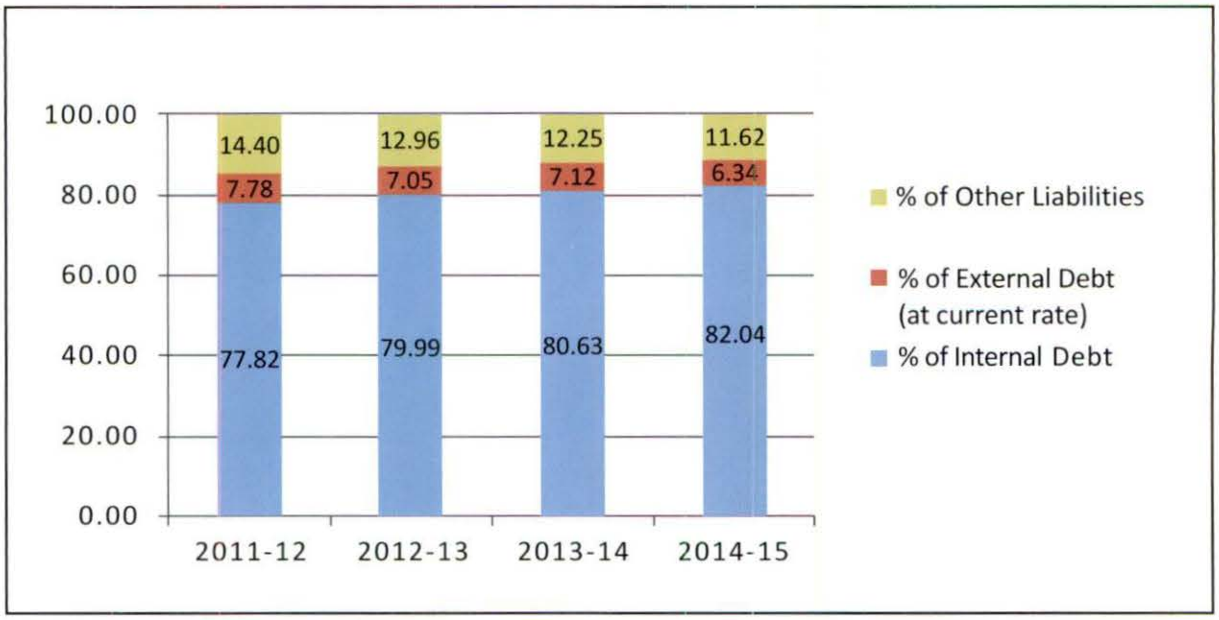
@ Source: Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation, Press Note dated 30 January 2015

$ Source: Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation, Press Note dated 29 May 2015

From **Table 1.1**, it can be seen that the outstanding total liabilities of the Union Government had generally been around 46 *per cent* of the GDP of the country over the period from 2011-12 to 2014-15.

The internal debt forms the major portion of the outstanding Union Government Liabilities as depicted in **Chart 1.1** below.

Chart 1.1: Union Government Liabilities



Further, guarantees were outstanding for an amount of ₹ 2,94,700 crore as on 31 March 2015.

1.4 Servicing of Public Debt of Union Government

The interest payment and repayment of principal for the period from 2009-10 to 2014-15 are presented in **Table 1.2**.

Table 1.2: Servicing of Public Debt

(₹ in crore)

Period	Interest Payment			Repayment of Principal			Public debt receipts			Servicing as a percentage of receipts		
	Internal		External	Internal		External	Internal		External	Internal		External
	Short Term	Long Term		Short Term	Long Term		Short Term	Long Term		Short Term	Long Term	
2009-10	10,026	1,65,224	3,629	29,17,992	1,56,660	11,140	29,08,223	4,74,927	22,177	101	68	67
2010-11	12,047	1,84,958	3,156	26,70,008	1,32,992	11,774	26,77,767	4,64,009	35,330	100	69	42
2011-12	26,288	2,07,431	3,501	33,83,996	98,347	13,586	35,10,862	5,26,280	26,034	97	58	66
2012-13	30,129	2,49,248	4,019	33,11,674	99,111	16,108	33,65,024	5,79,705	23,309	99	60	86
2013-14	34,346	3,08,852	3,880	33,48,315	1,44,852	18,124	33,56,044	6,13,506	25,416	101	74	87
2014-15	35,702	3,33,943	3,766	35,00,183	1,86,916	20,601	35,09,362	6,75,300	33,534	101	77	73

(Source: Finance Accounts, GOI for the year)

It can be seen from the above table that servicing (interest payment + repayment of principal) was more than 97 *per cent* of the total short term debt receipts in each of the six years in respect of short term internal debt, which is understandable as short term debt is normally repaid within a period of one year. In the case of long term internal debt, the corresponding percentage ranged from 58 *per cent* to 77 *per cent* while in case of external debt, it ranged from 42 *per cent* to 87 *per cent* over the period from 2009-10 to 2014-15. In 2014-15, 77 *per cent* of the long term internal borrowings and 73 *per cent* of the external borrowing were utilized for debt servicing implying that a larger percentage of debt was being used for debt servicing which in turn meant lower percentage of debt taken was available for meeting developmental expenditure to promote growth, which is one of the reasons for contracting debt.

1.5 Rationale for Audit

As per Article 149 of the Constitution of India read with the provisions of the Comptroller and Auditor General of India (Duties, Powers and Conditions of Service) Act, 1971, it is the duty of the Comptroller and Auditor General of India to audit all receipts and expenditure of the Union Government and State Governments. Public debt constitutes a significant portion of the receipts of the Union Government. Further, audit of public debt would help in underlining the significance and benefits of public debt management and also help policymakers to understand the risks of public debt. It would make their operations more effective and increase the efficiency of internal administrative processes. Such audit would also enhance public debt transparency and accountability.

In the last few years, several countries across the world have faced public debt crisis. The frequency and severity of debt crisis and the consequent adverse impact on managing of public finances reinforces the need for promoting responsible lending and borrowing practices.

It is in this background that the topic of Public Debt Management was selected for performance audit.

1.6 Audit Methodology

An introductory meeting was held with the Department of Economic Affairs (DEA), Ministry of Finance (MOF) on 12 March 2014 and with the Reserve Bank of India (RBI) on 04 April 2014 to understand and assess the entire gamut of public debt management of the Union Government. Performance audit on this topic commenced with an Entry Conference with RBI on 16 July 2014 and with DEA on 05 August 2014 during which the audit methodology, scope, objectives and criteria were discussed.

Audit was conducted in the offices of DEA and RBI. In order to assess the processes involved in the public debt management, the audit procedure included inspection and examination of records and documents as well as data analysis. Draft Performance Audit Report was issued to DEA/RBI on 19 August 2015. On receipt of reply from RBI and clarifications from DEA, another draft of the report was issued to DEA on 02 December 2015. An exit conference with RBI was held on 06 November 2015 and with DEA on 04 April 2016. Responses of RBI and DEA to the Draft Audit Report and views expressed by them during exit conference have been duly considered and suitably incorporated in the report.

National Institute of Public Finance and Policy (NIPFP), a society engaged in research in public economics and policies, provided consultancy in the conduct of this audit.

1.7 Audit Objectives

The Performance Audit on Public Debt Management was conducted in order to assess whether the Government of India:

- had a clear and explicit legal as well as organizational framework for managing Public Debt;
- had a debt management strategy to enable minimization of the risk and cost involved;
- had established an arrangement for effective execution of debt management activities and adopted sound practices in debt servicing; and
- had set up effective information systems which enabled complete and accurate public debt reporting system/debt database, to provide reliable financial information and to meet legal requirements.

1.8 Audit Criteria

The audit objectives were benchmarked against audit criteria drawn from :

- Laws and regulations governing public debt activities viz.
  - Fiscal Responsibilities and Budget Management (FRBM) Act, 2003
  - Fiscal Responsibilities and Budget Management (FRBM) Rules, 2004
  - Government Securities Act, 2006
  - Government Securities Regulations, 2007
  - Reserve Bank of India Act, 1934
- International practices
  - Guidelines for Public Debt Management prepared by International Monetary Fund(IMF) and World Bank (WB)

  - Manual of Effective Debt Management by Economic and Social Commission for Asia and the Pacific issued by United Nations
- Circulars/guidelines issued by Government of India (GOI)/RBI from time to time
- Quarterly/Annual Reports relating to Public Debt
- Status Paper on Government Debt issued by DEA
- Manuals of Internal Debt Management Department (IDMD) of RBI/Middle Office etc.
- Annual Financial Statements of the Government of India

1.9 Audit Scope

The performance audit covered internal and external debt of Union Government. The period of audit coverage was for the five years from 2009-10 to 2013-14. However, facts and figures were updated upto 31 March 2015.

1.10 Acknowledgement

We acknowledge the cooperation of DEA and RBI in facilitating the audit by providing necessary records and information in connection with the conduct of this performance audit. We also acknowledge the support and guidance provided by NIPFP.

Chapter 2

Legal Framework

2.1 Introduction

The legal framework provides strategic direction, defines and clarifies powers and supports professionalism and operational focus in public debt management and also limits potential abuses of power and promotes good governance by establishing accountability for managing the government's debt liabilities. A clear and explicit legal framework could contribute much to achieve lower borrowing costs and prevent waste and inefficiency in public debt management. The legal framework comprises both primary legislation (laws enacted with approval of the legislature) and secondary or delegated legislation (rules, regulations, executive orders etc.). As per international best practices, the legal framework of public debt management should contain the following elements:

- **Authorization by Parliament to the executive:** The Parliament has ultimate power to borrow on behalf of the government arising from its power to approve government tax and expending measures. The Parliament should, therefore, authorize the executive to borrow.
- **Authorization to the debt management unit:** The legal framework should authorize the debt management unit to borrow through regular issue of government securities.
- **Borrowing purposes:** The legal framework should clearly define the borrowing purposes.
- **Debt management objectives:** Having public debt objectives in legal framework allows a country to formulate a debt management strategy to achieve the debt management objectives.
- **Debt management strategy:** The legal framework should provide for preparation of debt management strategy that is consistent with the debt management objectives.
- **Debt reporting:** There should be clear and explicit legal reporting requirements to hold debt management unit/executive accountable to legislature.

2.2 Legal Framework in India

The legal framework for the management of public debt in India is contained in Article 292 of the Constitution of India which empowers the Union Government to borrow upon the security of the CFI within such limits, if any, as may be fixed by Parliament by law, and in different primary and secondary legislations as given below:

- **The Fiscal Responsibility and Budget Management (FRBM) Act, 2003**: The FRBM Act, 2003 provided limits on the Central Government's borrowings, debt and deficits, greater transparency in fiscal operations of the Central Government and conducting fiscal policy in a medium-term framework and of matters connected therewith or incidental thereto.

- **FRBM Rules, 2004:** FRBM Rules, 2004 framed under FRBM Act, 2003 specified the annual targets for reduction of fiscal and revenue deficits, annual targets for assuming contingent liabilities in the form of guarantees and additional liabilities as a percentage of GDP.

- **RBI Act, 1934:** Under Section 20 of the RBI Act, 1934, RBI was obliged to manage the Central Government public debt.

- **Public Debt Act, 1944 and Government Securities Act, 2006:** The Public Debt Act is an Act to consolidate the law relating to government securities and the management of the public debt by RBI. With the enactment of the Government Securities Act, 2006, which amends the law relating to Government securities and its management by RBI and matters connected therewith, the Public Debt Act, 1944 ceased to apply to the government securities.

2.3 Inadequacies in the Legal Framework

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 as discussed below.

2.3.1 Definition of Public Debt

Under the Indian budgetary classification; three sets of liabilities constituted Central Government liabilities, namely, internal debt, external debt and other liabilities. In the budget documents, internal debt and external debt were together termed as public debt. However, it was observed in audit that the term 'Public Debt' had not been defined in the existing legal framework.

RBI stated (July 2015) that though public debt had not been explicitly defined, all the liabilities of government were listed and reported on a regular basis through Finance Accounts / Status Paper of Government debt. In the Exit Conference, DEA stated that the term public debt had been defined in the Indian Government Accounting Standard (IGAS) which could be adopted after its notification.

DEA may consider adopting the definition as well as the components of public debt given in the proposed IGAS.

2.3.2 Objectives, Purposes of Public Debt and Formulation of Debt Management Strategy

As mentioned in the preceding paragraphs, the legal framework should ideally indicate the public debt objectives, the borrowing purposes and should require the preparation of a debt management strategy.

Audit observed that though the debt management objectives were mentioned in the Status Paper prepared by the DEA, the existing legal framework did not indicate debt management objectives explicitly. Further, while it can be construed from the Annual Financial Statement passed by Parliament that borrowing was for financing the fiscal deficit, Audit observed that borrowing purposes had not been mentioned in the existing legal framework of public debt management in India. Moreover, the legal framework did not necessitate the formulation of a debt management strategy.

RBI stated (July 2015) that the debt management objectives were implicit in FRBM Act and Budgets and added (September 2015) that the overall objective of the Government debt management policy was to meet Union Government's financing need at the lowest possible long term borrowing costs and also to keep the total debt within sustainable levels. Additionally, it aimed at supporting development of a well-functioning and vibrant domestic bond market. RBI stated (July 2015) that the main purpose of borrowing by the GOI was for financing the fiscal deficit. RBI added that the mandate to manage public debt implicitly imposed strategy formulation on the debt management agency. RBI further added that the international sound practice clearly mentioned debt management objectives and the executive in India had adopted those objectives.

DEA replied (September 2015) that borrowing was for the financing of fiscal deficit which has Parliamentary approval. It was added that the purpose was dynamic and varied over time depending on the priority of the nation and general socio-economic environment. It was opined by DEA that such legal provisions might either create rigidities and/or require frequent legal amendments.

In the Exit Conference, DEA stated that the inclusion of objectives of debt management, borrowing purposes and the need for debt management strategy into the existing legal framework such as Public Debt Act/Government Securities Act, etc. might not be desirable as it could infuse elements of rigidity into debt management activities.

The reply of DEA should be viewed in light of the following:

- The FRBM Act, 2003 did not specify the objective of public debt management but placed a ceiling on the Government's borrowings while the budget shows the gap in funding and requirement of debt. In no primary or secondary legislation were the objectives of public debt management specified.
- It is to be noted that the FRBM Act, 2003 mandated submission of three reports to the Parliament on an annual basis which *inter alia* contained information on debt management activities. However, in the absence of stated objectives or requirement of a strategy as indicated above, there was no evaluation of outcomes.
- While it is true that the borrowing purposes may be dynamic, the broad contours may be prescribed in the legal framework.
- Though RBI stated that the mandate to manage public debt implicitly imposed strategy formulation on the debt management agency, a debt management strategy had been brought out only in December 2015 by DEA which covers the period from 2015 to 2018. Inclusion of the requirement to prepare a debt management strategy in the legal framework would assure timely and regular preparation of the said strategy.
- The international best practices recommend that the legal framework should contain the debt management objectives, borrowing purposes and formulation of debt management strategy for effective debt management.

2.4 Inconsistency in the Provisions of FRBM Rules

Rule 3 (4) of FRBM Rules, 2004 framed under FRBM Act, 2003 provided:

"The Central Government shall not assume additional liabilities (including external debt at current exchange rate) in excess of nine *per cent* of GDP for the financial year 2004-05 and in each subsequent financial year, the limit of nine *per cent* of GDP shall be progressively reduced by at least one percentage point of GDP."

Rule 3 (2) of FRBM Rules, 2004 as amended by FRBM (Amendment) Rules, 2015 provided:

"The Central Government shall reduce the fiscal deficit by an amount equivalent to 0.4 *per cent* or more of the GDP at the end of each financial year beginning with the financial year 2015-16, so that fiscal deficit is brought down to not more than 3 *per cent* to GDP at the end of 31st day of March 2018."

As per Rule 3 (4) above, it is clear that no additional liabilities could have been assumed in 2013-14 or thereafter which is inconsistent with the fiscal deficit target of 3 *per cent* of GDP as per Rule 3 (2) above as amended.

In the Exit Conference, DEA noted the inconsistency between Rule 3(2) and Rule 3(4) of the FRBM Rules for corrective action.

2.5 Management of External Debt

As per section 20 of the RBI Act, 1934, it is the obligation of RBI to undertake the management of public debt. As stated above, the budget documents termed internal and external debt together as public debt. However, it was observed that RBI was managing only internal debt and DEA was managing external debt.

RBI, in their reply (July 2015), stated that Government of India (Allocation of Business) Rules framed under the powers conferred by clause (3) of Article 77 of the Constitution of India; allocated 'management of external debt' to DEA, Ministry of Finance (MOF); giving them necessary legal authority to manage the debt. RBI, while stating that the MOF might be managing the external debt due to sovereign – sovereign / multilateral relationship, added that they managed the debt whenever it was issued in international capital markets like GBP[1] denominated Indian Government bond in UK in 1935 and a Sterling loan in 1949.

DEA replied (September 2015) that considering more than 90 *per cent* financing of the fiscal deficit was funded by domestic market borrowings which was being managed by RBI, as also that external borrowing was largely concessional (and not market linked), it might be said that legal provisions were being followed in spirit and to a substantial extent.

It is true that the Government of India (Allocation of Business) Rules provided sufficient legal authority to DEA for management of external debt. However, it is pertinent to mention here

[1] Great Britain Pound

that the requirement of RBI managing public debt is in the RBI Act, 1934. It is felt that these two legislations need to be in consonance with each other.

Recommendation:

1. ***Legal framework, consisting of both the primary as well as secondary legislation, may include the definition of public debt, debt management objectives, borrowing purposes and requirement of debt management strategy. DEA may consider doing this in a phased manner.***

Chapter 3

Organizational Framework

3.1 Introduction

Organisational framework for debt management should establish clear roles and responsibilities to ensure the effective execution of debt management activities, provide well defined coordinating mechanism and establish a transparent and accountable system of checks and balances. It should also enable debt managers to have the operational independence to execute their objectives and strategies.

In order to increase efficiency, create adequate segregation of duties and achieve a basic level of internal control, a Debt Management Office (DMO) is normally organized with front, middle and back offices discharging distinct functions.

- The front office is typically responsible for executing transactions in financial markets, including the management of auctions and other forms of borrowing, and all other funding operations.
- The back office handles the settlement of transactions and the maintenance of the financial records.
- The middle office usually undertakes risk analysis, monitors and reports on portfolio-related risks and assesses the performance of debt managers against any strategic targets/benchmarks.

In India, a number of entities are involved in public debt management operations with their functions ranging from advisory to actual implementation to recording operations. Internal debt is managed by the Budget Division of DEA, MOF along with the Internal Debt Management Department (IDMD) of RBI while external debt is managed by various divisions of DEA like Multilateral Relations (MR), Bilateral Cooperation (BC) and Multilateral Institutions (MI) and Controller of Aid, Accounts and Audit (CAAA). Chief Controller of Accounts (CCA), MOF maintains accounts for both internal and external debt.

Debt Management functions in respect of Public Debt Management of Union Government are presented in **Table 3.1** as below:

Table 3.1: Debt Management Functions of the Union Government

	Front Office	Middle Office	Back Office
Internal Debt	IDMD (RBI)	IDMD (RBI), Middle Office (DEA), Budget Division (DEA)	IDMD (RBI), CCA (MOF)
External Debt	MI, MR and BC Divisions (DEA)	-	CAAA (DEA), CCA (MOF)

3.2 Functioning of Middle Office

In India, though a DMO was not set up, as a first step the Middle Office (MO) was established in September 2008. The responsibilities of MO, *inter alia*, included:

- formulation of comprehensive risk management framework;
- formulation of a long term debt management strategy; and
- developing and maintaining a centralized database on Government liabilities.

However, it was observed that these activities were not performed by the MO. Detailed observations in this regard have been brought out in Chapter 4 and Chapter 6 of this Report.

In the Exit Conference, DEA stated that the MO could not function as a full-fledged MO unless the statutory framework was appropriately amended to assign these functions to the MO. It was added that apart from the creation of a centralized database, the other functions were being performed by other agencies.

From the submission of DEA, it can be seen that the MO was not fully discharging the functions assigned to it.

3.3 Middle Office Functions in respect of External Debt

Audit observed that in respect of external debt, the functions of MO were not being performed by any entity.

DEA replied (September 2015) that performance evaluation and back testing against portfolio-related benchmarks might not be meaningful as India's external debt was largely multilateral and on concessional terms. In the Exit Conference, it was stated that RBI were conducting a cost-benefit analysis to ascertain the benefit or otherwise of contracting external loans as far as market loans were concerned. It was also added that a strategic cap on the quantum of external debt which could be contracted had been fixed.

Reply of DEA may be seen in the light of the fact that:

- Borrowings from IBRD and ADB which accounted for nearly 31 *per cent* of the total external borrowing as on 31 March 2015 were not on concessional terms.
- The cost-benefit analysis conducted by RBI was to decide between market borrowing within India or from abroad and was not in respect of bilateral and multilateral loans which form the entirety of the external debt.
- The functions of the Middle Office also include risk analysis, essential for effective debt management but the same were not being performed in respect of external debt. It is to be noted that external debt is prone to exchange rate variations which pose a serious risk and therefore, effective management of the same is of utmost importance.

3.4 Public Debt Management Agency (PDMA)

The issue of establishment of a separate PDMA in India has been considered by a number of Committees like the Committee on Capital Account Convertibility (1997), the Working Group on Separation of Debt Management from Monetary Management (1997), the Internal Expert Group on the Need for a Middle Office for Public Debt Management (2001), the Committee on Fuller Capital Account Convertibility (2006), High Level Committee on Financial Sector Reforms (2008) and the Internal Working Group on Debt Management (2008) among others. All the above Committees had suggested that there should be an independently functioning office of public debt outside of RBI to enable more efficient debt management as well as monetary management. Further, it was stated that internationally, there had been a strong movement towards establishing separate debt management offices for selling bonds for the government which was considered a best practice. Moreover, a separate debt management agency would consolidate all debt management functions and be the catalyst for wider institutional reform and transparency in public debt management.

The Finance Minister in his Budget Speech (2007-08) had proposed to set up an autonomous DMO and, in the first phase a MO to facilitate the transition to a full-fledged DMO. Accordingly, a MO was established in September 2008 in the MOF. The Financial Sector Legislative Reforms Commission (FSLRC) in its Report (March 2013) recommended fast-tracking of setting up of an independent PDMA.

It is pertinent to mention here that announcements on the establishment of a separate debt management agency were made in the budget speeches of 2011-12, 2012-13 and 2014-15 also. Taking forward the process for establishment of a separate DMO, the MOF set up a task force (September 2014) with the objective of supporting the Ministry in preparatory work for PDMA.

The Finance Minister in his budget speech (2015-16) observed that *"one vital factor in promoting investment in India, including in the infrastructure sector, is the deepening of the Indian bond market, which we will have to bring at the same level as our world class equity market. I intend to begin this process by setting up a Public Debt Management Agency (PDMA) which will bring both India's external borrowings and domestic debt under one roof."*

The proposal for the setting up a separate public debt management agency had, however, been shelved from the finance bill for the year with the following remarks of the Finance Minister made in the Parliament (30 April 2015), *"since, RBI has been handling Public Debt Management, the Government in consultation with the RBI will prepare a detailed roadmap separating the debt management and market infrastructure from RBI and having a unified financial market..........it is being decided to delete the PDMA provisions from the finance bill for the financial year"*. He further added, *"this Government is committed to unifying the financial market both by making Government securities part of this market as well as creating a proper bond currency market."*

From the above, it could be seen that even though a number of expert committees had recommended the establishment of a separate public debt management agency over the past two decades and the first step in the direction was taken seven years ago with the setting up of a Middle Office, no further progress was made on the setting up of a separate public debt management agency, except for setting up of a task force in September 2014.

RBI in their reply (September 2015), stated that DMO was only an agent of the treasury and could not be independent while adding that multiplicity of arrangements existed around the world regarding location of sovereign debt management functions. RBI further added that they had been discharging their functions efficiently and effectively.

Referring to the statements made by the successive Finance Ministers in their budget speeches, DEA replied (September 2015) that it was clear that the Government was ready with the draft bill on PDMA with inputs from all stakeholders. DEA enumerated some measures taken for setting up the PDMA like capacity building at MO, publications by MO for information dissemination, setting up of task force for PDMA with a time schedule for implementation, etc.

In this regard, it is to be noted that while some measures had been taken for the setting up of a PDMA, the task force for the setting up of an independent PDMA was established only in September 2014, six years after the setting up of the MO and there was no clarity on the proposed establishment of the PDMA despite several statements made by the Finance Minister in Parliament.

Chapter 4

Debt Management Strategy

4.1 Introduction

A debt management strategy is a plan that operationalizes the debt management objectives. It lays down the desired composition of the public debt portfolio, which captures the government's preferences with regard to a cost-risk trade-off. A debt management strategy has a longer focus than a borrowing plan, and is essentially an iterative process to define the government's optimal funding sources, based on its risk tolerance, the stage of development of domestic financial markets, the ability of the government and the private sector to obtain external funding, and the country's stage of economic development.

A public debt management strategy document contains description of the market risks being managed, the future environment for debt management, including fiscal and debt projections. It should also describe the analysis undertaken to support the recommended debt management strategy and indicate the adopted strategy and its rationale, with specific targets and ranges for key portfolio risk indicators and the financing programme over the projected horizon.

A risk management framework is developed to enable debt managers to identify and manage the trade-offs between expected cost and risk in the government debt portfolio. To assess risk, debt managers should regularly conduct stress tests of the debt portfolio on the basis of the economic and financial shocks to which the government - and the country more generally - are potentially exposed. The stress testing framework should consider the interrelations among the variables that affect public debt dynamics and cover extreme scenarios to better assess the costs and risks associated with the debt portfolio.

A debt management strategy is generally for a medium term, i.e., three to five years. Further, it is seen that a medium term debt management strategy formulated for achieving the longer term debt management objectives, should be reviewed periodically to assess the validity of the assumptions in the light of changed circumstances. This is all the more important where the debt is predominantly long term. It can be seen that nearly 70 *per cent* of the outstanding public debt of India as on 31 March 2015 had residual maturity period of more than five years extending upto 30 years as shown in **Table 4.1** below pointing towards the criticality of formulation of debt management strategy in India.

Table 4.1: Maturity Profile of Outstanding Dated Securities-Union Government

Residual Maturity	Percentage of dated securities
Less than 1 year	**3.5**
1-5 Years	**21.4**
5-10 Years	**31.4**
10-20 Years	**30.6**
20 years and above	**13.1**

(Source: Quarterly Report on PDM, MO, DEA)

4.2 Formulation of Medium Term Debt Management Strategy and Risk Management Framework

Audit observed that although some of the elements of a debt management strategy such as roll over risk, projected cash flows and government market borrowing for six months, elongation of maturity, issuance of debt instruments with variable coupons, revision in the upper limit of maturity buckets and individual securities and usage of cash balances, were discussed in the six monthly meetings of the Monitoring Group on Cash and Debt Management (MGCDM)[2], medium term debt strategy (MTDS) was not formulated till December 2015. Audit further observed that some of the elements of debt management strategy, namely, description of the future environment for debt management; specific targets and ranges for key risk indicators; assessment and management of risks associated with foreign currency and policies related to management of external debt vulnerabilities, were not discussed/analyzed in the meetings of the MGCDM.

Audit observed that although refinance risk (roll over risk) and interest rate risk were discussed in MGCDM meetings, Risk Management Framework was not formulated. Audit further observed that the expected cost of debt was not being projected forward over the medium to long term, exchange rate risk was not considered and stress tests were not being conducted.

It was stated in the Status Paper[3] (December 2014) that 'there is little consensus with regard to a level of debt that may be considered unsustainable'. While it may be true that there is little consensus even among international organizations on the acceptable levels of debt in the country, it is felt that every country, including India, should work out the level and type of debt

[2] MGCDM consisted of Secretary (DEA), Deputy Governor (RBI) and other Officers from DEA and RBI.

[3] Status Paper presents an analysis of the Government's debt position and is brought out by the DEA annually.

that is acceptable to them on the basis of analysis of the fiscal, economic, financial and other parameters applicable to them and also work out indicative levels of debt and debt indicators, so that the conclusion on the sustainability of the government debt may be verifiable.

In December 2015, DEA brought out a Debt Management Strategy for India for a period of three years (2015-18). In the Debt Management Strategy document, issues related to raising debt at low cost, risk mitigation and market development had been delved upon. The document contained strategic benchmarks for certain items like share of short term debt, average maturity of debt, issuance limits, indexed and floating debt and share of domestic to external debt. The Debt Management Strategy also contained a Risk Management Framework presenting risk analysis and stress testing. While this is a welcome step, the scope of the Debt Management Strategy was restricted only to the marketable debt of Union Government.

In the Exit Conference, DEA stated that most of the external debt were concessional and were backed by other considerations of bi/multi-lateral co-operation, agreements etc; it did not seem appropriate to bracket them under the category of 'borrowing' and include them into debt management strategy.

The reply of DEA needs to be seen in light of the fact that the borrowings from IBRD and ADB which accounted for nearly 31 *per cent* of the total external borrowing as on 31 March 2015 were not on concessional terms. Further, external borrowing, whether concessional or not, is subject to exchange rate risk which needs to be managed through a well-thought out strategy.

Chapter 5

Borrowing Activities

5.1 Introduction

The borrowing activities envisage all the activities from the estimation of the required borrowing to the actual borrowing of the funds either from the domestic markets or from the external markets.

The Budget division, DEA, MOF was responsible for preparation of budget estimates (BE) and revised estimates (RE) in respect of internal borrowings, external borrowings and other receipts on the basis of inputs received from RBI, CAAA and other departments.

The borrowing calendar for market borrowings was prepared half-yearly on the basis of the estimates of market borrowing, cash inflows, cash outflows and the likely funding gap of the Union Government. The borrowing calendar indicated the amount of securities to be issued through weekly primary auctions during the ensuing half year and was issued with the approval of the MGCDM.

The information on each primary auction was posted on RBI website as a press release indicating the details of auctions such as notified amount, date and timings for electronic bidding, type of auction (multiple/uniform; yield based/price based), norms for non-competitive bids, settlement date, when issued trading, etc.

Treasury bills, which were generally issued for 91 days, 182 days and 364 days, offered short term investment opportunity to financial institutions, banks etc. The amount of weekly auction of treasury bills was notified in indicative quarterly calendars.

Government borrowings from external sources were primarily from multilateral and bilateral sources and were long-term in nature. The principal sources of multilateral external assistance to India were the WB, the ADB, the International Fund for Agricultural Development (IFAD) etc. Bilateral sources of external assistance included direct borrowing from foreign countries. The external loans were contracted through negotiations with the concerned multilateral agencies and/or the countries.

5.2 Devolvement of Union Government Dated Securities on Primary Dealers

Primary auctions of government securities were conducted on the E–Kuber platform by RBI. Within ten minutes of the closure of the auction window, the result was processed and the various reports giving details such as amount received under competitive /non-competitive route, cut off yield/price, weighted average yield/price were generated and put up to the Auction Committee for approval. The Auction Committee[4] decided the cut-off price/yield. Once the cut off was decided by the Auction Committee, the same was marked off in the E-Kuber system and allotment was done by the system without any manual intervention. A system of underwriting[5] for market lending was also operating in the government securities markets in India through the mechanism of Primary Dealers (PDs).

The underwriting commitment on dated securities of Union Government was divided into two parts- (i) Minimum Underwriting Commitment (MUC) and (ii) Additional Competitive Underwriting (ACU). The MUC amounted to 50 *per cent* of the notified amount of each issue. This was distributed equally amongst all the PDs. The remaining portion of the notified amount was underwritten through ACU auction. In the ACU auction, each PD was required to bid for an amount at least equal to its share of MUC, but not exceeding 30 *per cent* of the notified amount. Thus, there was 100 *per cent* underwriting of the government auction. The PDs were also required to bid in the primary auctions of government securities for an amount not less than its total underwriting obligation. Thus, in the existing arrangement, bid cover ratio of primary auctions would not be less than one implying that there was no possibility of bonds remaining unsubscribed. Hence, it appeared that the devolvement[6] depended on the decision of the Auction Committee and not on the amount remaining unsubscribed. A perusal of auction of Union Government dated securities during 2009-10 to 2014-15 revealed that in 71 auctions, an amount of ₹ 49,654.48 crore was devolved on underwriting PDs.

Audit observed that there were no criteria for devolvement of securities in a particular case. In the absence of such criteria, Audit could not verify the necessity or otherwise of the devolvement. There were also no criteria for deciding the cut–off rate or the reasons for deciding a particular cut-off rate though various factors like market clearing rate, Fixed Income Money Market and Derivatives Association of India (FIMMDA)[7] previous day closing yield, secondary market yield just before the auction and poll rate etc., were considered.

RBI in their reply stated (July 2015) that devolvement decision was taken after careful consideration of market conditions, bidding pattern and cash/budget management needs when the bidding in the auctions did not reflect the price of the security. RBI reiterated (September

[4] Auction Committee consisted of Executive Director (ED) in charge of IDMD and Chief General Managers (CGMs) of IDMD, Department of External Investments and Operations (DEIO), Financial Markets Operation Department (FMOD) and Monetary Policy Department (MPD)

[5] Engaging to buy all the unsubscribed securities/ bonds in case of issue of securities/bonds

[6] Devolvement is a process whereby if an investment issue is undersubscribed, an underwriter is required to subscribe to the remaining securities / bonds. The outstanding unsubscribed amount devolves onto the underwriter.

[7] For illiquid securities where there is no trading or volumes are very low, FIMMDA comes out with model price.

2015) their earlier reply and stated that they would further strengthen the documentation in devolvement cases to ensure that appropriate detailed recording was done. It added that general principles could be laid down for deciding on the devolvement of issues.

In the Exit Conference, RBI stated that a policy framework to indicate broad criteria for devolvement was under finalization. Subsequently RBI informed (May 2016) that a policy on devolvement criteria had been prepared which *inter alia* incorporated the factors to be considered for arriving at the devolvement decision.

5.3 Variation between the Revised Estimate (RE) and Actuals with respect to External Assistance

Audit observed that there were variations between RE and Actuals in respect of External Assistance as mentioned in **Table 5.1** below:

Table 5.1: Variation between RE & Actuals in respect of External Assistance

(₹ in crore)

Year	BE	RE	Actuals	Variation between RE and actuals (in Percent)
2009-10	16,047	16,535	11,038	(-) 33
2010-11	22,464	22,264	23,556	6
2011-12	14,500	10,311	12,449	21
2012-13	10,148	2,214	7,201	225
2013-14	10,560	5,440	7,292	34
2014-15	5,734	9,705	12,933	33

(Source: Receipt Budgets and Finance Accounts of GOI)

From the above, it can be seen that the RE of external assistance varied from the actual external assistance in the range of (-)33 *per cent* to 225 *per cent*. Thus, it appeared that the system of preparation of BE and RE in respect of external debt was not robust.

5.4 Approval of External Assistance Proposals without considering Knowledge Transfer, Technology Transfer and Best Practices Transfer from International Experience

DEA was the nodal agency for posing projects to WB, ADB and the IFAD. No proposal for external assistance was posed directly by any Central Ministry or State Government to the multilateral/bilateral funding agency. A Screening Committee[8] in DEA (constituted in August 2009) decided proposals to be posed to WB, ADB and IFAD.

[8] Screening Committee consisted of Joint Secretary (MI), DEA and other Officers from DEA.

DEA vide its circular dated 01 September 2011 instituted a new set of principles and 'Finance Plus' criteria to govern the selection of projects to be posed to the WB, ADB and the IFAD. The goal of instituting the criteria was to maximize access and leverage of Multilateral Financial Institutions' (MFIs')/Multilateral Development Banks' (MDBs') knowledge base, international experience and familiarities with best practices making the best use of limited available external resources.

The 'Finance Plus' criteria formed the main approach for accessing assistance from the WB, ADB and IFAD. The criteria, *inter alia*, included that knowledge transfer, technology transfer and best practices transfer from international experience should be envisaged with adequate long term engagement for ensuring sustainability of the projects in the context of India. This could be considered the crux of 'Finance Plus' criteria going a long way in realizing the goal of instituting this criteria. The Screening Committee had, in one of its meetings (01 December 2011), also underscored the fact that external assistance should not be taken only for resources, reiterating the spirit of the criteria cited above.

Scrutiny of minutes of the Screening Committee meetings held after the issue of the 'Finance Plus' criteria, i.e., after 01 September 2011, provided to audit revealed that the Screening Committee had deferred two[9] proposals for loan assistance due to lack of knowledge transfer, technology transfer and best practices transfer from international experience. However, the minutes of the meetings of the Screening Committee did not indicate whether knowledge transfer, technology transfer and best practices transfer from international experience were considered while approving 60 projects (**Annexure-II**) out of a total of 82 approved projects for external assistance.

DEA in their reply (April 2015) stated that Screening Committee examined the preliminary proposal for financial assistance from multilateral agencies received from State Governments/ Central Ministries, in consultation with Central Line Ministries (in case of State projects) and Planning Commission/NITI Aayog (in case of Central projects), and decided about their suitability for external funding. It was added that during the meetings of the Screening Committee, a preliminary presentation on Finance Plus elements was made that ultimately took shape after the complete design of the project. In the Exit Conference, DEA accepted that in some cases, the verification of these criteria was not documented but added that they were considered in all cases.

[9] Drinking Water Supply Scheme, Madhya Pradesh (Meeting dated 03 February 2013) and Rehabilitation and Upgradation to two – lane, Uttarakhand (Meeting dated 22 August 2014)

Audit noticed that in 60 proposals/projects approved by the Screening Committee, the minutes of the meetings of the Screening Committee did not indicate that knowledge transfer, technology transfer and best practices transfer were considered. This was contrary to the provisions of the circular cited above. Thus, in the absence of documentation, Audit could not draw an assurance that the goal of instituting the criteria, to maximize access and leverage of MFIs/MDBs knowledge base, international experience and familiarities with best practices had been fulfilled.

5.5 Cash Management

Cash management mainly entails cash flow forecasting, arranging temporary liquidity, maintaining target balance in the Government account, investment of surplus balance over and above the target balance in the market etc. The market borrowing undertaken for budget execution may contribute to large build up of surplus cash balance in the Government account making it challenging for the cash management to deploy these surplus balances efficiently.

In India, RBI was entrusted with the cash management of Government of India under Sections 17, 20 and 21 of the RBI Act, 1934 which they performed in coordination with the Ministry of Finance, Government of India.

The key features of the cash management operations were as under:

- There was treasury single account (TSA)[10] with RBI and all the transactions (i.e. receipts and payments) were routed through this account. GOI maintained minimum balance of ₹ 100 crore on each reporting Friday and RBI's annual closing day and ₹ 10 crore on all other days.
- RBI forecast the weekly inflows and outflows in GOI account based on past trends, information given in the budget and any other information provided by the MOF, GOI from time to time.
- The mismatches between inflows and outflow in TSA were rough tuned through issuance of cash management instruments, viz., treasury bills and further fine tuned through availing Ways and Means Advances (WMA)/ Overdraft (OD) and issuing cash management bills (CMBs). WMA are the advances made by the RBI to the

[10] A TSA (Treasury Single Account) is a unified structure of government bank accounts that gives a consolidated view of government cash resources. Based on the principle of unity of cash and the unity of treasury, a TSA is a bank account or a set of linked accounts through which the government transacts all its receipts and payments.

Government. Limits on the WMA are fixed on a half yearly basis. OD is similar to WMA and can be resorted to for maximum 10 days at a stretch, when limit of WMA is crossed. CMBs were non-standard, discounted instruments issued for maturities less than 91 days. The half yearly limits of WMA for the period 2009-10 to 2014-15 are mentioned in **Table 5.2** below:

Table 5.2: WMA Limits of GOI

(₹ in crore)

Year	April-September	October-March
2009-10	20,000	10,000
2010-11	30,000	10,000
2011-12	30,000 (45,000*)	10,000 (20,000**)
2012-13	50,000 (Q1) 45,000 (Q2)	20,000
2013-14	30,000	20,000
2014-15	35,000	20,000
*** Raised from April 21 to June 30, 2011** **** Raised for October-December 2011**		

(Source: Records of DEA & RBI)

- Surplus cash balances in GOI's account were invested up to ₹ 50,000 crore in the government securities through sale of securities to GOI from RBI's investment account. With effect from 16 December 2014, RBI had put in place a mechanism for investing surplus cash balances (above precautionary balance of ₹ 20,000 crore) of the GOI in variable rate repo instruments[11]. The end of day balance was placed in reverse repo instruments [12] with RBI.

5.5.1 Deficiencies in Projected Cash Balances

Examination of Weekly Projected Cash Balance and Actual Cash Balance for the period 2010-11 to 2014-15 revealed that:

(i) In at least 40 weeks in each year, the variations between the weekly projected cash balances and the actual cash balance were more than ₹ 10,000 crore as reflected in **Table 5.3** below :

[11] Repo instrument means an instrument for borrowing funds by selling securities with an agreement to repurchase the said securities on a mutually agreed future date at an agreed price which includes interest for the funds borrowed.

[12] Reverse repo instrument means an instrument for lending funds by purchasing securities with an agreement to resell the said securities on a mutually agreed future date at an agreed price which includes interest for the funds lent.

Table 5.3: Number of Instances of Variations in Weekly Projected Cash Balance and Actual Cash Balance

Year	Variation of more than ₹ 10,000 crore
2010-11	47
2011-12	40
2012-13	49
2013-14	41
2014-15	41

(*Source*: *Records of RBI*)

(ii) As reflected in **Table 5.4** below, the weekly projected cash balance was negative in many instances:

Table 5.4: Instances of Weekly Negative Projected Cash Balance

Year	Number of Instances
2010-11	16
2011-12	30
2012-13	26
2013-14	04
2014-15	19

(*Source*: *Records of DEA/RBI*)

From the above, it appears that the system of forecast of inflow and outflow in TSA of GOI was not robust.

RBI replied (August 2015) that though their endeavour was to project cash balances with fair degree of accuracy, there were occasions when the actual balances differed from projections. RBI stated that the GOI's cash balances were projected at least six months in advance and were impacted by multiple factors including spending by GOI departments/units across the country, spending by States (reflected by withdrawal from Intermediate Treasury Bills), etc. It was added that RBI and GOI were continuously striving to improve the efficacy of the cash forecasting. RBI further stated that issuance of dated securities and Treasury Bills were generally evenly distributed across the weeks to enable successful auctions without distorting the market and yield movements. It was further stated that issue of huge amount just to meet the funding requirement may impact cost of issuances and hence, there might be instances wherein cash balances could turn out to be negative and such mismatches in funding would be met by WMA / OD and /or issuance of Cash Management Bills.

DEA replied (September 2015) that the purpose of forecasting GOI balances for the purpose of Debt Management was not forecasting actual cash (as might be done for the purpose of cash management in a commercial institution), but to ensure that GOI balances are between WMA limits to a reasonable surplus, generally to prepare itself for bulky payments. It was added that due to uncertainties involved in the forecasting and as market might not be able to fund a very large requirement in a short period, it was prudent to allow negative GOI balances upto permissible WMA limit.

The reply of RBI and DEA needs to be seen in the light of the fact that WMA/OD was for the purpose of fine tuning the actual mismatches between the inflows and outflows and should not be considered for forecasting cash balances. The purpose of the forecast was to ascertain the possible position of cash so that appropriate steps could be taken to bridge the gap between projected cash requirement and projected cash availability, if any. A wide variation between the projected and the actual cash balance defeated the purpose of this projection.

In the Exit Conference, DEA stated that a Cash Coordination Committee had been set up to strengthen cash flow forecasting and cash management.

5.5.2 Issuance of CMBs and Availing WMA/OD

As stated in the preceding paragraphs, the fine tuning of mismatches in TSA may be done through CMBs/ WMA/ OD. The instances of fine tuning of the mismatches during the period from 2009-2010 to 2014-2015 are presented in **Table 5.5** below:

Table 5.5: Issuance of CMBs and Availing WMA/OD

Year	CMBs (No. of Instances)	WMA (No. of days)	OD (No. of days)
2009-10	-	76	28
2010-11	2 (35 days, 28 days)	57	02
2011-12	14(35 -77 days)	263	74
2012-13	-	40	0
2013-14	13 (7-56 days)	42	9
2014-15	1(42 days)	74	25

(Source: Records of DEA and RBI)

5.5.2.1 Issuance of CMBs for Monetary Policy Objectives

CMBs were introduced in 2009 to meet temporary cash flow mismatches of the Government. However, it was observed that during August and September 2013, CMBs worth ₹ 96,000 crore were issued to meet monetary policy objectives as shown in **Table 5.6** given below:

Table 5.6: CMBs Issued for Monetary Policy Objectives

(₹ in crore)

Sl. No.	Date	Amount of CMBs issued for monetary purpose	Discount (Cost)
1	13 August 2013	11,000	119.49
2	14 August 2013	11,000	119.38
3	20 August 2013	11,000	100.91
4	21 August 2013	11,000	98.46
5	27 August 2013	11,000	167.64
6	28 August 2013	11,000	169.18
7	03 September 2013	11,000	166.65
8	04 September 2013	11,000	163.19
9	06 September 2013	8,000	87.71
Total		**96,000**	**1192.61**

(Source: Records of RBI)

In this regard, DEA had also communicated (14 August 2013) to RBI that use of debt instruments for monetary policy objectives would interfere with the Government's debt strategy apart from fiscal implications. DEA advised that RBI may examine the option of using non–debt instrument for the purpose of monetary policy. However, DEA approved issuance of CMBs by RBI for monetary policy objectives.

RBI in their reply accepted (May 2015) the audit view with the remarks that the exchange rate of the Indian Rupee (May 2013) had come under intense pressure, depreciated significantly and was viewed by markets as the worst performing emerging market currency (with a maximum depreciation of about 19 *per cent* during a short span of about three months between 22 May to 28 August 2013) warranting the issue of CMBs.

The above facts need to be seen in the light of:

- CMBs were to be issued to meet temporary cash flow mismatches.
- In such a scenario, even the monetary objectives may not be achieved as liquidity absorbed through regular issuance of CMBs remained available with the GOI for spending as the money impounded through CMBs got injected back into the system.

5.5.2.2 Issuance of CMBs on consecutive days

It was seen from the records that in anticipation of the government account not coming out of overdraft within stipulated period of 10 consecutive working days, RBI had proposed (2 November 2011) to the GOI to issue CMBs in two tranches, i.e., for ₹ 6,000 crore on 3 November 2011 and for ₹ 8,000 crore on 8 November 2011. RBI reassessed the position as the Government had not issued the proposed first tranche on 3 November 2011 and proposed that the Government may issue CMBs for ₹ 10,000 crore on 8 November 2011. However, it was observed that the GOI decided to issue the CMBs on two consecutive days, i.e., 8 and 9 November 2011. RBI informed DEA vide their letter dated 25 November 2011 that in such an environment, the cash management operation could have serious implications for the remaining portion of market borrowing programme as well as the financial system including primary dealers. Further, RBI had proposed (November 2011) that cash management operations, especially issuance of CMBs, might be planned well in advance, preferably as soon as WMA reaches 75 *per cent* of the limit.

RBI in their reply (May 2015) stated that it was suggested that the issuance of CMBs on consecutive days should be avoided in the best interest of the market borrowing programme as well as the stability of the financial system, as the market reads such move adversely. However, RBI stated that the yields had not hardened very much in the subsequent days as expected indicating that the yield had hardened by 20 basis points.

The reply of RBI should be viewed in light of the fact that RBI had informed the DEA (even when RBI was aware that the yield had hardened by only 20 basis points) that the timing of issuance of CMBs on two consecutive days, i.e., on 8 November 2011 and 9 November 2011, when the Government had utilized OD for eight and nine working days had dampened the market sentiment and pushed the yields upwards across the maturity in government securities market.

RBI further furnished (April 2016) copies of correspondence with the DEA wherein it was stated that they would endeavour to ensure that the GOI will not be availing OD. RBI had again proposed that they will trigger issuance of CMBs as soon as WMA reaches 75 *per cent* based on assessment of market conditions which indicates that the previous proposal of the RBI has not yet been acted upon.

It is recommended that a decision on issue of CMBs as soon as WMA reaches 75 *per cent* be taken expeditiously.

Recommendation:

2. ***Conditions of 'Finance Plus' criteria aimed at maximizing access and leverage of Multilateral Financial Institutions'/Multilateral Development Banks' knowledge base, international experience and familiarities with best practices may be applied in deciding on the projects for external assistance and the same should be properly documented.***

Chapter 6

Debt Information System, Debt Servicing and Debt Reporting

6.1 Debt Information System

Debt management activities should be supported by an accurate and comprehensive information system with proper safeguards. The information system should comprise of components that capture, monitor, analyse and report debt information of a country. The system may be a combination of software, hardware, people that support data input, processing, storage and report generation. While the importance of the system for effective public debt management cannot be overemphasized, it should be ensured that the costs and complexities of the system are appropriate to the needs of the organization. A Public Debt Information System should support the following functions:

- **Recording Function:** To record debt and debt related information including basic details and terms of contractual debt instruments such as loans and debt securities in addition to actual transactions of disbursements and debt service and forecast for debt service schedules.
- **Reporting Function:** To generate reports that meet internal and external reporting requirements.
- **Analytical Function:** To obtain debt indicators and develop 'what-if' scenario analysis resulting from hypothetical changes in financial variables, which linked with market information and key macroeconomic information, assists in analysing the public debt portfolio and the debt strategy.

In respect of internal debt, RBI used E-Kuber for primary auctions of dated securities and treasury bills, debt service payments and generating various reports. In respect of external debt, CAAA used Integrated Computerised System (ICS) for maintaining various ledgers and registers relating to each loan/grant, debt servicing and generating various reports.

6.1.1 Analytical Functions

Audit observed that E-Kuber and ICS did not have the provision for analytical functions as mentioned in previous paragraphs.

RBI replied (September 2015) that they were using Excel based tools for debt management strategy and added that going forward, they would consider incorporating such analytical tools in E-Kuber.

DEA replied (September 2015) that there existed no such software at their end. It was, however, added that the relevant debt and cash related information was collated in spreadsheets and maintained in W&M Section and MO.

In the Exit Conference, DEA stated that a system would be developed to support analytical functions.

6.1.2 Deficient / Inaccurate report generation

The report generation in E-Kuber did not appear to be accurate as indicated by the following instances:

- All the loans (dated securities and treasury bills) floated during the period 01 April 2009 to 31 March 2014 did not appear in the report generated from E-Kuber.
- The list of interest payment generated from E-Kuber did not indicate interest payment during 01 April 2009 to 31 March 2014 in respect of all of the securities outstanding during the aforesaid period.
- The list on redemptions generated from E-Kuber did not indicate all the loans that had matured and been repaid during the period from 01 April 2009 to 31 March 2014.

In the absence of complete and correct lists, interest payments and redemptions made against dated securities during the period 2009-10 to 2013-14 could not be verified.

In the Exit conference, RBI stated that all data was available as system of maintaining physical registers also existed in parallel and there was no risk of data loss and accepted that there might be issues with the report generation.

6.1.3 Centralised Database

It was observed that a centralized database of all internal and external liabilities of the Government was not available. It was seen that this issue was considered over four years ago when the Working Group on Debt Management (WG) had in its meeting suggested (December 2011) that steps be initiated to develop MO's own database with the help of National Informatics Centre (NIC). It was also suggested that the Commonwealth Secretariat's Debt Recording and Management System (CS-DRMS) be adopted as a temporary arrangement. Audit observed that the requisite amount for conducting a System Requirement Study (SRS) could not be released to NIC due to delayed processing of invoice. CS-DRMS had not been adopted as a temporary measure in line with suggestion of the WG.

DEA in their reply (September 2015) stated that development of debt database was a desirable outcome and not a necessity. DEA further stated that though adoption of the CS-DRMS would have involved an expenditure of ₹ 1.92 lakh only, its implementation would require significant human resources and also physical space. It was added that in the meanwhile, NIC initiated the process and started working on the project in association with the MO and hence committing MO's limited human and physical resource to the temporary measure such as the CS-DRMS was felt unfeasible.

In the Exit Conference, DEA agreed with the audit observation and stated that efforts would be made to put in place a centralised database.

6.2 Debt Servicing

Debt Servicing refers to payments made to creditor(s) towards interest and matured principal amount. It usually includes service charges, commitment charges etc.

6.2.1 Payment of Commitment Charges

Commitment Charges on undrawn balance of external loans are paid on principal amount rescheduled for drawal on later dates. During the period from 2009-10 to 2014-15, commitment charges to the extent of ₹ 602.66 crore were paid. The year-wise total undrawn balance (loans) from various sources and payment of commitment charges are shown in **Table 6.1**.

Table 6.1: Undrawn Balance (Loans) and Payment of Commitment Charges

(₹ in crore)

Year	Undrawn Balance (loans)	Commitment charges
2009-10	1,05,668	86.11
2010-11	1,10,872	112.57
2011-12	1,48,182	83.29
2012-13	1,89,197	92.95
2013-14	2,16,900	117.21
2014-15	2,10,099	110.53
Total		**602.66**

(Source: External Assistance (2013-14), CAAA, GOI)

The need for payment of commitment charges points towards inadequate planning of the loans/credits without proper linkages with the requirement leading to avoidable payment of commitment charges.

6.3 Debt Reporting

6.3.1 Delay in Publication of Status Paper

In the Union Budget for 2010-11, it was announced that a Status Paper would be brought out giving detailed analysis of the Government's debt situation. Consequently, DEA published the Status Paper as indicated in the **Table 6.2** below:

Table 6.2: Month of Publication of Status Paper

S. No.	Year to which pertaining	Month of publication
1	2009 – 10	November 2010
2	2010 – 11	March 2012
3	2011 – 12	Not published
4	2012 – 13	July 2013
5	2013 – 14	December 2014
6	2014 – 15	January 2016

The above table reveals that:

- Status Paper was not brought out for the year 2011–12.
- Four of the five editions of the Status Paper were published with a lag of more than six months from the close of the financial year.
- One edition was brought out within four months of the close of the financial year.

In the Exit Conference, DEA stated that it was difficult to decide a precise date for the publication of the Status Paper as it was dependent upon the availability of the Finance Accounts and other State – wise statistics. It further added that it was their endeavour to bring the Status Paper as quickly as possible after the required statistics become available. It was added that Budget Division would explore to decide a timeline for publication of this document to infuse elements of certainty and discipline.

Delay in publishing the status paper may impact the usefulness of the analysis of debt presented in the Status Paper. The Government may decide to bring out the Status Paper at a particular time every year or within a fixed time after receipt of all information.

6.3.2 Variations in Figures of Internal Debt in different Reports

The details of internal debt are shown in 'Statement 14: Statement of debts and other interest bearing obligations of Government' of the Finance Accounts of GOI. The figures of internal debt are also presented in other documents/publications like the Status Paper and the Indian Public Finance Statistics (IPFS) published by the MOF and the Handbook of Statistics on the Indian Economy brought out by the RBI. The figure of internal debt presented in these publications is shown in **Table 6.3** below:

Table 6.3: Internal Debt of Central Government

(₹ in crore)

Year	Finance Accounts	Status Paper January 2016 Budget Division	IPFS, Economic Division	Handbook of Statistics on the Indian Economy, RBI
2009-10	23,28,339	23,34,310	33,95,877	23,28,339
2010-11	26,67,115	26,67,115	37,81,135	26,67,115
2011-12	32,30,622	32,30,622	43,33,165	32,30,622
2012-13	37,64,566	37,64,566	48,72,409	37,64,566
2013-14	42,40,767	42,40,767 (Provisional)	53,83,827 (RE)	42,40,767

(Source: *Status Paper, IPFS, RBI's Handbook and Finance Accounts, GoI for the year*)

From the above, it can be seen that the figure of internal debt presented in the IPFS varied from the figure of internal debt presented in the Finance Accounts in all the five years while the figure in the Status Paper varied from the figure in the Finance Accounts in 2009-10. It was further noted that the figures of outstanding debt which were presented in the IPFS and the Status Paper, which are both published by the MOF, differed from each other in all the five years.

Further, Audit observed that the figures of outstanding amounts against individual government securities as on 31 March 2014 presented in the Status Paper did not match with the corresponding figures in the Finance Accounts in respect of 19 outstanding securities as shown in **Annexure-II**.

DEA in their reply (March 2016) stated that the data provided by the Budget Division and the DMO was the right source of information and requested not to consider the figures given in the IPFS of the Economic Division. In respect of the differences in the outstanding amounts against individual outstanding securities, it was stated that they were either due to typographical errors in the nomenclature of the stock or due to non–inclusion of the amount of debt under the head conversion of bonds in marketable securities and that they were compensatory errors.

Though the DEA accepted that the figures as shown in the IPFS did not match with their figures and stated that the same should not be considered, it needs to be noted that the IPFS is also brought out by the MOF and therefore it should be in consonance with the figures presented in the other documents. Government needs to ensure that all reports published by them are reconciled and reflect the accurate figures.

6.3.3 Publication of Security-wise Interest Payment

Audit observed that the amount of interest paid against each security during a year was not reflected in any of the reports published by RBI/DEA. The depiction of this information would make the reports more informative and transparent and might also be helpful in the verification and accounting of the interest payment details at the government accounting units.

In the Exit Conference, DEA stated that they would explore the feasibility of compiling such data and take necessary action accordingly.

Recommendations:

3. ***A centralized database of internal debt, external debt and other liabilities may be developed.***
4. ***Steps may be taken to ensure that the public debt information systems used (E-Kuber and ICS) support analytical functions.***
5. ***Mechanism may be developed to ensure consistency in the reporting of public debt by RBI and DEA and amongst the various divisions of DEA.***

Chapter 7

Government Securities Market

7.1 Introduction

One of the objectives of Public Debt Management is to develop a liquid market. Developing a liquid and vibrant secondary market for government securities and broadening the investor base are the key factors to ensure that debt is raised in a cost effective manner. Further, the government securities market provides the benchmark yield and imparts liquidity to other financial markets and is considered an essential precursor, in particular, for development of the corporate debt market. Moreover, government securities market acts as a channel for integration of various segments of the domestic financial market and helps in establishing inter linkages between the domestic and external financial markets.

7.2 RBI Holding of Government Securities

In terms of the FRBM Act, 2003, RBI was not allowed to subscribe to the primary issuance of the Government from April 2006 while they were allowed to buy and sell government securities in the secondary market. In practice, RBI purchases and sells government securities through Open Market Operations (OMOs) to infuse or absorb liquidity for monetary operations and to adjust the monetary base and/or the interest rate in line with their targets. The OMOs may also result in infusing liquidity to support the banking sector's purchases of government bonds. Audit observed that during the period 2009-10 to 2014-15, the holdings of Government securities by Commercial Banks, Life Insurance Companies and RBI together ranged between 77.65 to 82.09 *per cent* of the outstanding dated securities as shown in the **Table 7.1** below:

Table 7.1: Major Holders of Government Securities

(In per cent)

Category	2010 March	2011 March	2012 March	2013 March	2014 March	2015 March
Commercial Banks (including Bank PDs)	47.25	47.03	46.11	43.86	44.46	43.30
Insurance companies	22.16	22.22	21.08	18.56	19.54	20.87
RBI	11.76	12.84	14.41	16.99	16.05	13.48
Total	**81.17**	**82.09**	**81.6**	**79.41**	**80.05**	**77.65**

(Source: Status Paper January 2016)

From the above, it can also be seen that RBI's holding of Government securities had increased from 11.76 *per cent* of dated securities in March 2010 to 16.99 *per cent* in March 2013 before declining to 13.48 *per cent* in March 2015.

7.3 Concentrated Trading in a Few Securities

The total annual trading (outright) in government securities had increased from ₹ 24,80,850 crore to ₹ 91,49,608 crore over the period from 2009-10 to 2014-15 indicating a 268.81 *per cent* increase. The details of the total dated government securities outstanding, total quarterly trade in dated Government securities, trade in top three and 10 dated Government securities has been presented in **Annexure-III**.

It was observed that though the trading volume of government securities had increased nearly threefold, trade in government securities in the secondary market was predominantly taking place in a few securities as can be seen from the **Annexure-III.** Thus, objective of developing a deep and liquid market did not appear to have been fully achieved.

RBI in their reply stated (August 2015) that they were committed to development of the government securities market and focused on market development along with cost minimisation and risk mitigation while adding that Indian government securities market was reasonably deep and liquid as evidenced by some measures of liquidity like average trading volumes, turnover ratio, bid-ask spread, impact cost etc. RBI further enumerated the steps taken by them for the development of the government securities markets in India and added that they would continue efforts to further develop liquidity in government securities market.

7.4 Retail Participation in Government Securities Market

In order to encourage participation of medium and small investors in the primary market for government securities, a scheme of non-competitive bidding for allocation of upto 5 *per cent* of the notified amount in the specified auctions of dated securities at weighted average rate of accepted bids was introduced in January 2002. The participation of retail investors in the auction of dated securities during 2009-10 to 2014-15 is presented in **Annexure-IV**.

Audit observed that the total amount of bids received and accepted in respect of retail investors during 2009-10 to 2014-15, ranged from 0.30 *per cent* to 0.47 *per cent* of the notified amount as can be seen in **Annexure-IV**. From the above, it appeared that the steps taken by RBI and the Government for improving retail participation in government securities market were not producing the desired results.

RBI in their reply (August 2015) enumerated the steps taken to promote retail participation and stated that retail participation in government securities market, even though low, had been increasing gradually over the years. RBI added that they were continuously exploring possibility of making the system more investor friendly and that recent steps taken to enable seamless transfer of securities from de-mat to Subsidiary General Ledger may increase the retail participation.

In the Exit Conference, DEA accepted the audit observation and stated that steps would be taken to improve the position.

7.5 Participation of Foreign Institutional Investors (FIIs) in Government Security Market

Foreign investment in rupee denominated government securities takes the form of foreign investors buying Government bonds in the Indian Government bond market, all of which are denominated in rupees. The percentage of foreign investment in outstanding government securities during the period 2009-10 to 2014-15 ranged from 0.59 *per cent* to 3.67 *per cent*. The limits on foreign investment in government debt and the minimum and maximum foreign investment in government debt during the years 2013-14 and 2014-15 are presented in **Table 7.2** below:

Table 7.2: Minimum and Maximum Foreign Investment in Government Debt

(₹ in crore)

	2013 – 14 (upto 11 June 2013)	2013 – 14 (from 12 June 2013)	2014 - 15
Ceiling Limit	1,24,432	1,53,569	1,53,569
Minimum Investment	79,906	53,491.95	81,795
Maximum Investment	96,392	88,078.5	1,53,387

As can be seen from the above, the holdings of the FIIs in government securities during 2013-14 were considerably less than the limits prescribed for them, while it seemed to have improved considerably during 2014-15.

RBI in their reply stated (August 2015) that there was robust demand from FIIs for government securities and the limits were fully utilized. RBI added that there was a demand from various quarters to further open up the limits and that they had taken measures to improve the participation of FIIs in government securities market.

RBI may continue to take steps to ensure that the participation of FIIs in the Indian government securities market is maintained.

Chapter 8

Conclusion and Recommendations

8.1 Conclusion

Union Government's public debt, consisting of internal and external debt, was managed by various agencies with internal debt being managed by Budget Division of the DEA of the MOF along with the IDMD of RBI and external debt being managed by MR, BC and MI divisions of DEA and supported by the CAAA. The Performance Audit on Public Debt Management showed that:

- The legal framework for debt management did not define the term public debt. The legal framework did not indicate clearly debt management objectives and borrowing purposes; and also did not provide for formulation of a debt management strategy.
- There were no objective criteria/guidelines for devolvement on PDs in auction of securities. Subsequently RBI informed (May 2016) that a policy on devolvement criteria had been prepared which *inter alia* incorporated the factors to be considered for arriving at the devolvement decision.
- The minutes of the meetings of the Screening Committee did not indicate whether knowledge transfer, technology transfer and best practices transfer from international experience were considered while approving projects for external assistance in 60 of the 82 approved projects.
- CMBs, introduced to meet temporary cash flow mismatches of the Government, were issued to meet monetary policy objectives.
- The public debt information systems used for internal debt (E-Kuber) and external debt (ICS) did not have provisions for analytical functions.
- There was no centralized database of all internal and external liabilities of the Government. Further, discrepancies were noticed in the internal debt figures published by various divisions of DEA and RBI.

8.2 Recommendations

Based on the audit findings discussed in the foregoing chapters, the following recommendations are made:

- Legal framework, consisting of both the primary as well as secondary legislation, may include the definition of public debt, debt management objectives, borrowing purposes, and requirement of debt management strategy. DEA may consider doing this in a phased manner.

- Conditions of 'Finance Plus' criteria aimed at maximizing access and leverage of Multilateral Financial Institutions'/Multilateral Development Banks' knowledge base, international experience and familiarity with best practices may be applied in deciding on the projects for external assistance and the same should be properly documented.
- A centralized database of internal debt, external debt and other liabilities may be developed.
- Steps may be taken to ensure that the public debt information systems used (E-Kuber and ICS) support analytical functions.
- Mechanism may be developed to ensure consistency in the reporting of public debt by RBI and DEA and amongst the various divisions of DEA.

Dated: 14 June 2016
Place: New Delhi

(MALA SINHA)
Director General of Audit
(Economic and Service Ministries)

Countersigned

Dated: 22 June 2016
Place: New Delhi

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

Annexures

Annexure-I
(Refer to para No. 5.4)

Projects/Proposals approved by the Screening Committee[13]

Sl. No.	Proposal	Date of approval	Proposal posed by	Funding agency	Amount
1.	Second Uttarakhand rural water supply and sanitation project II	27-02-15	Uttarakhand	WB	USD 120 million
2.	Assam agriculture competitiveness project	27-02-15	Assam	WB	USD 200 million
3.	Reconstruction and recovery from damages due to Hudhud	25-02-15	Andhra Pradesh	WB	USD 250 million
4.	National cyclone risk mitigation project II	25-02-15	National Disaster Management Authority	WB	USD 34.81 million
5.	Renewable energy in agriculture sector	25-02-15	Punjab	ADB	USD 55 million
6.	Solid waste management project in urban areas	25-02-15	Uttar Pradesh	WB	USD 85 million
7.	Mukhyamantri Gram Sampark Yojana	20-11-14	Bihar	WB	USD 235 million
8.	Six lane green field bridge over river Ganga	22-08-14	Bihar	ADB	USD 500 million
9.	MP integrated urban water resource management program	22-08-14	Madhya Pradesh	ADB	USD 266 million
10.	Special project on production and marketing with an emphasis on post harvest management practices of horticulture crops in HP	28-05-14	Himachal Pradesh	WB	USD 135 million
11.	Nagaland multi sectoral heath initiative project	28-05-14	Nagaland	WB	USD 48 million

[13] Where minutes did not indicate whether knowledge transfer, technology transfer and best practices transfer from international experience were considered.

Sl. No.	Proposal	Date of approval	Proposal posed by	Funding agency	Amount
12.	Additional financing for Andhra Pradesh under NCRMP	28-02-14	Andhra Pradesh	WB	USD 49 million
13.	Second Punjab rural water supply and sanitation	28-02-14	Punjab	WB	USD 248 million
14.	Additional financing of Phase II of Gram Swaraj- Karnataka Panchayat Strengthening Project	28-02-14	Karnataka	WB	USD 220 million
15.	Odisha power sector emergency assistance	28-02-14	Odisha	ADB	USD 30 million
16.	Higher education reforms in Madhya Pradesh	24-02-14	Madhya Pradesh	WB	USD 300 million
17.	TN sustainable Urban Development Programme	24-02-14	Tamil Nadu	WB	USD 400 million
18.	Strenghting of Lok Sewa Kendra	24-02-14	Madhya Pradesh	WB	₹ 210 crore
19.	Supporting additional skill acquisition programme	03-02-14	Kerala	ADB	USD 100 million
20.	Urban Development Investment Programme Phase-III	17-01-14	Rajasthan	ADB	USD 250 million
21.	Reconstruction of damaged houses	31-12-13	Odisha	WB	USD 153 million
22.	National Cyclone Risk Mitigation Project	31-12-13	Odisha	WB	USD 55 million
23.	Integrated Coastal Zone management Project (ICZMP), Odisha	31-12-13	Odisha	WB	USD 3 million
24.	Rehabilitating damaged power sector infrastructure	31-12-13	Odisha	ADB	USD 70 million
25.	Odisha Intergrated Agriculture and Water Management Project for Saline and River Embankments	31-12-13	Odisha	ADB	USD 35 million
26.	Nagaland Multi Sectoral Health Initiative	29-11-13	Nagaland	WB	USD 48 million

Sl. No.	Proposal	Date of approval	Proposal posed by	Funding agency	Amount
27.	National Urban Health Mission	29-11-13	Ministry of Health and Family Welfare	ADB	USD 500 million
28.	Revised National Tuberculosis Control Programme	29-11-13	Ministry of Health and Family Welfare	WB	USD 100 million
29.	Uttar Pradesh Core Road Network Development Programme	29-11-13	Uttar Pradesh	ADB	USD 300 million
30.	SASEC road connectivity project	29-11-13	Manipur	ADB	USD 500 million
31.	Mizoram State Roads Project-II	24-09-13	Mizoram	WB	USD 237 million
32.	TN climate adaptation through sub-basin development programme	13-09-13	Tamil Nadu	ADB	USD 210 million
33.	Assam Power Sector Enhancement Project-II	13-09-13	Assam	ADB	USD 300 million
34.	Livelihood improvement of particularly vulnerable tribal groups	13-09-13	Odisha	WB	USD 50 million
35.	Improvement of water supply system in Wazirabad WTP command area of Delhi	13-09-13	Delhi Jal Board	ADB	USD 290 million
36.	Uttarakhand health systems development project	13-09-13	Uttarakhand	WB	USD 100 million
37.	Reconstruction and disaster response project	19-08-13	Uttarakhand	WB	USD 150 million
38.	Rural water supply project	19-08-13	Uttarakhand	WB	USD 24 million
39.	Reconstruction and disaster response project	19-08-13	Uttarakhand	ADB	USD 200 million
40.	Livelihoods project	19-08-13	Uttarakhand	IFAD	USD 28 million

Sl. No.	Proposal	Date of approval	Proposal posed by	Funding agency	Amount
41.	City cluster development around Bangalore	19-07-13	Karnataka	ADB	USD 300 million
42.	National Cyclone Risk Mitigation Project II	19-07-13	National Disaster Management Authority	WB	USD 250 million
43.	Karnataka Integrated and Sustainable Water Resource Management Investment Programme- Urban Water Supply & Sanitation component	15-05-13	Karnataka	ADB	USD 150 million
44.	Jaipur Rail Metro Corporation project	15-05-13	Rajasthan	ADB	USD 176 millon
45.	Indian Renewable Energy Development Agency	15-05-13	Ministry of New and Renewable Energy	ADB	USD 500 million
46.	Project proposal for power transmission	15-05-13	Madhya Pradesh	ADB	USD 350 million
47.	Livelihood improvement of vulnerable tribal group	15-05-13	Odisha	IFAD	USD 35 million
48.	Ravine Reclamation UP Sodic Land Reclamation III	15-05-13	Uttar Pradesh	WB	USD 84 million
49.	Tiranga Infrastructure Finance Facility	15-05-13	India Infrastructure Finance Company Limited	ADB	USD 700 million
50.	Punjab development finance programme	18-02-13	Punjab	ADB	USD 200 million
51.	Second Kolkata Environment improvement project	18-02-13	West Bengal	ADB	USD 400 million
52.	Meghalaya Integrated Rural Development Project	21-01-13	Meghalaya	IFAD	USD 45 Million
53.	Karnataka state road improvement project (KSHIP-III)	21-12-12	Karnataka	ADB	USD 350 million

Sl. No.	Proposal	Date of approval	Proposal posed by	Funding agency	Amount
54.	Rapid response to the food price crisis and malnutrition in Karnataka	21-12-12	Karnataka	WB	USD 5 million
55.	Chhattisgarh state road connectivity project	05-11-12	Chhattisgarh	ADB	USD 300 million
56.	TN Roads II	31-08-12	Tamil Nadu	WB	USD 300 million
57.	Watershed Management Project	27-07-12	Ministry of Rural Development	WB	USD 245 million
58.	Piped Water Supply	21-05-12	Ministry of Drinking Water and Sanitation	WB	USD 500 million
59.	AP Rural Inclusive Growth project	18-05-12	Andhra Pradesh	WB	USD 150 million
60.	Strengthening of teacher training institutes for training of untrained teachers of Bihar using distance mode	18-05-12	Bihar	WB	₹ 1280 crore

(Source: Screening Committee Minutes)

Annexure-II
(Refer to para No. 6.3.2)

Variation in Figures of Outstanding amount of Dated Securities as on 31 March 2014

(₹ in crore)

Sl. No.	Nomenclature	Outstanding amount as per Status Paper December 2014	Outstanding amount as per Finance Accounts	Difference
1.	7.56% GS 2014	40,845.08	15,845.08	25,000
2.	7.38% GS 2015 (Conv.)	57,386.74	54,386.73	3,000.01
3.	7.56% GS 2016 (Conv.)	-	25,000	-25,000
4.	7.49% GS 2017(Conv.)	58,000	53,000	5,000
5.	6.25% GS 2018 (Conv.)	16,886.80	10,886.80	6,000
6.	5.69% GS 2018 (Conv.)	16,130	10,000	6,130
7.	6.50% GS 2019	-	4,000	- 4,000
8.	6.35% GS 2020 (Conv.)	61,000	56,000	5,000
9.	7.83% GS 2021	-	68,000	-68,000
10.	6.17% GS 2023 (Conv.)	14,000	6,000	8,000
11.	1.44 Inflation Index GS 2023	-	6,582.58	-6,582.58
12.	8.28% GS 2032	90,687.11	85,687.11	5,000
13.	8.32% GS 2032	62,434.05	67,434.05	-5,000
14.	8.30% GS 2040	72,000	-	72,000

Sl. No.	Nomenclature	Outstanding amount as per Status Paper December 2014	Outstanding amount as per Finance Accounts	Difference
15.	6.30% GS 2040	-	72,000	-72,000
16.	Inflation Indexed National Saving Securities – 2013	-	92	-92
17.	7.80% GS 2021	68,000	-	68,000
18.	5.87% GS 2022 (Conv.)	11,000	-	11,000
19.	5.97% GS 2025 (Conv.)	16,687.95	-	16,687.95

(*Source: Status Paper 2014 and Finance Accounts, GoI*)

Annexure -III
(Refer to para No. 7.3)
Trade in Dated Government Securities

(₹ in crore)

Quarter	Number of dated Government securities outstanding	Total amount outstanding against dated Government securities	Total trade in dated Government securities	Total trade in Top 10 traded dated Government securities	Percentage of total trade in top 10 traded dated Government securities against total trade in dated Government securities	Total trade in top 3 traded dated Government securities	Percentage of total trade in top 3 against total in dated Government securities
Apr-Jun 2010*	96	19,41,595.40	8,95,231	8,22,630	91.89	6,58,018	73.50
Jul-Sep 2010	95	20,32,467.40	6,98,608	6,48,863	92.88	5,34,262	76.48
Oct-Dec 2010	94	21,29,843.00	5,14,299	4,77,444	92.83	3,32,976	64.74
Jan-Mar 2011	92	21,56,914.70	4,44,043	4,27,976	96.38	3,28,542	73.99
Apr-Jun 2011	92	22,63,441.70	5,09,795	4,92,163	96.54	4,24,671	83.30
Jul-Sep 2011	89	23,47,580.40	7,70,109	7,52,586	97.72	6,75,850	87.76
Oct-Dec 2011	91	24,62,333.50	8,19,819	7,94,562	96.92	6,16,644	75.22
Jan-Mar 2012	92	25,93,328.50	9,99,384	9,56,844	95.74	8,82,881	88.34
Apr-Jun 2012	90	27,05,754.30	11,50,531	11,20,254	97.37	9,83,930	85.52
Jul-Sep 2012	90	28,62,712.50	13,23,826	12,73,275	96.18	9,67,603	73.09
Oct-Dec 2012	91	30,12,712.50	11,65,239	11,21,349	96.23	7,90,520	67.84
Jan-Mar 2013	91	30,60,712.50	22,81,333	21,82,433	95.66	17,53,563	76.87

Quarter	Number of dated Government securities outstanding	Total amount outstanding against dated Government securities	Total trade in dated Government securities	Total trade in Top 10 traded dated Government securities	Percentage of total trade in top 10 traded dated Government securities against total trade in dated Government securities	Total trade in top 3 traded dated Government securities	Percentage of total trade in top 3 against total in dated Government securities
Apr-Jun 2013	92	31,98,961.20	36,32,422	34,67,288	95.45	26,91,049	74.08
Jul-Sep 2013	90	33,29,977.30	14,23,720	13,07,364	91.83	10,17,297	71.45
Oct-Dec 2013	92	34,95,277.00	13,12,755	12,41,440	94.57	8,96,836	68.32
Jan-Mar 2014	91	35,14,178.43	15,99,764	15,45,564	96.61	12,65,135	79.08
Apr-Jun 2014	89	36,37,065.40	23,67,773	22,84,644	96.49	18,03,718	76.18
Jul-Sep 2014	90	37,72,260.50	18,06,274	17,28,369	95.69	13,88,656	76.88
Oct-Dec 2014	89	38,69,869.61	26,90,532	24,93,679	92.68	20,32,631	75.55
Jan-Mar 2015	88	39,59,445.65	22,85,029	20,80,761	91.06	16,91,912	74.04

* Quarterly data is available in the quarterly reports from the year 2010-11.

(*Source: Quarterly Report on Public Debt Management*)

Annexure-IV
(Refer to para No. 7.4)
Retail Participation in the Auction of Dated Government Securities

(₹ in crore)

Year	Notified Amount	Amount Allocated for retail participation (i.e. 5 *percent* of notified amount)	Non-competitive bids received				Non-competitive bids accepted			
			Number	Amount	Percentage of the notified amount	Percentage against amount allocated for retail investors	Number	Amount	Percentage of Notified Amount	Percentage against amount allocated for retail investors
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
					((5)/ (2)*100)	(5)/(3)*100)			(9)/–(2)*100	(9)/– (3)*100)
2009-10	4,18,000.00	20,900.00	504.00	1,241.00	0.30	5.94	504.00	1,241.00	0.30	5.94
2010-11	4,37,000.00	21,850.00	620.00	2,045.00	0.47	9.36	620.00	2,045.00	0.47	9.36
2011-12	5,10,000.00	25,500.00	714.00	1,703.00	0.33	6.68	714.00	1,698.00	0.33	6.66
2012-13	5,58,000.00	27,900.00	813.00	1,881.00	0.34	6.74	813.00	1,881.00	0.34	6.74
2013-14	5,63,500.00	28,175.00	898.00	1,738.00	0.31	6.17	898.00	1,738.00	0.31	6.17
2014-15	5,92,000.00	29,600.00	965.00	2,111.00	0.36	7.13	965.00	2,111.00	0.36	7.13
Total	30,78,500.00	1,53,925.00	4,514.00	10,719.00	0.35	6.96	4,514.00	10,714.00	0.35	6.96

(Source: RBI's website)

List of Abbreviations

Sl. No.	Term	Description
1.	ADB	Asian Development Bank
2.	BC	Bilateral Cooperation
3.	CAAA	Controller of Aid, Accounts and Audit
4.	CCA	Chief Controller of Accounts
5.	CS-DRMS	Commonwealth Secretariat's Debt Recording and Management System
6.	CFI	Consolidated Fund of India
7.	CGM	Chief General Manager
8.	CMB	Cash Management Bill
9.	CSO	Central Statistical Office
10.	DEA	Department of Economic Affairs
11.	DEIO	Department of External Investments and Operations
12.	DMO	Debt Management Office
13.	ED	Executive Director
14.	FIMMDA	Fixed Income Money Market and Derivatives Association of India
15.	FMOD	Financial Markets Operation Department
16.	FSLRC	Financial Sector Legislative Reforms Commission
17.	GDP	Gross Domestic Product
18.	GOI	Government of India
19.	IBRD	International Bank for Reconstruction and Development
20.	ICS	Integrated Computerised System
21.	IDA	International Development Association
22.	IDMD	Internal Debt Management Department
23.	IFAD	International Fund for Agricultural Development
24.	IGAS	Indian Government Accounting Standard
25.	ITB	Intermediate Treasury Bill

Sl. No.	Term	Description
26.	MDB	Multilateral Development Bank
27.	MFI	Multilateral Financial Institution
28.	MGCDM	Monitoring Group on Cash & Debt Management
29.	MI	Multilateral Institutions
30.	MO	Middle Office
31.	MOF	Ministry of Finance
32.	MPD	Monetary Policy Department
33.	MR	Multilateral Relations
34.	MTDS	Medium Term Debt Strategy
35.	MUC	Minimum Underwriting Commitment
36.	NBFC	Non Banking Finance Company
37.	NIC	National Informatics Centre
38.	NIPFP	National Institute of Public Finance and Policy
39.	NSSF	National Small Savings Fund
40.	OD	Overdraft
41.	OMO	Open Market Operation
42.	PDMA	Public Debt Management Agency
43.	PD	Primary Dealer
44.	QR	Quantitative Restriction
45.	RBI	Reserve Bank of India
46.	RMF	Risk Management Framework
47.	SRS	System Requirement Study
48.	TSA	Treasury Single Account
49.	UK	United Kingdom
50.	WB	World Bank
51.	WMA	Ways and Means Advances
52.	WSS	Weekly Statistical Supplement

Glossary

Sl. No.	Term	Description
1.	Bid – Ask spread	The difference between the offer price and the bid price.
2.	Buyback of Government Securities	Buyback of Government securities is a process whereby the Government of India buys back their existing securities from the holders.
3.	Cash Management Bills (CMBs)	The CMBs have the generic character of T-bills but are issued for maturities less than 91 days. The tenure, notified amount and date of issue of the CMBs depends upon the temporary cash requirement of the Government. Investment in CMBs is also reckoned as an eligible investment in Government securities by banks for SLR purpose under Section 24 of the Banking Regulation Act, 1949.
4.	Competitive Bidding	Competitive bidding is a process in which an investor bids at a specific price / yield and is allotted securities if the price / yield quoted is within the cut-off price / yield.
5.	Consolidated Fund of India	The fund constituted under Article 266 (1) of the Constitution of India into which all receipts, revenues and loans flow. It consists of two main divisions, namely, Revenue Account (Revenue Receipts and Revenue Expenditure) and Capital Account (Public Debt and Loans, etc.).
6.	Currency Risk	The risk of loss from an adverse movement in exchange rates between the time of purchase and the time of sale of a currency position / security.
7.	Dated Government Securities	Dated Government securities are long term securities and carry a fixed or floating coupon (interest rate) which is paid on the face value, payable at fixed time periods (usually half-yearly).
8.	Debt Service	Payments made to creditor(s) towards matured principal amount and interest. It usually includes service charges, commitment charges etc.
9.	Devolvement	Devolvement is a process whereby if an investment issue is undersubscribed, an underwriter is required to subscribe to the remaining securities / bonds. The outstanding unsubscribed amount devolves onto the underwriter.

Sl. No.	Term	Description
10.	FIMMDA	Fixed Income Money Market and Derivatives Association of India (FIMMDA), a Company incorporated under section 25 of the Companies Act, 1956, has members representing all major institutional segments of the market. FIMMDA releases rates of various Government securities that are used by market participants for valuation purposes.
11.	Fiscal Deficit	It means the excess of total disbursements, from the Consolidated Fund of India, excluding repayment of debt, over total receipts into the Fund (excluding the debt receipts), during a financial year.
12.	Fixed Rate Bonds	These are bonds on which the coupon rate is fixed for the entire life of the bond.
13.	Floating Rate Bonds	Floating Rate Bonds are securities which do not have a fixed coupon rate. The coupon is re-set at pre-announced intervals (say, every six months or one year) by adding a spread over a base rate.
14.	Government Security	A Government security is a tradable instrument issued by the Central Government or the State Governments. It acknowledges the Government's debt obligation.
15.	Impact Cost	Impact cost represents the cost of executing a transaction in a given stock, for a specific predefined order size, at any given point of time.
16.	Indexed Bonds	These are bonds, the principal and coupon of which is linked to an accepted index of inflation with a view to protecting the holder from inflation.
17.	Interest Rate Risk	The risk faced by an entity holding a debt portfolio on account of adverse movements in interest rates.
18.	Market clearing rate	Market clearing rate is the rate at which the quantity supplied equals the quantity demanded.
19.	Market Risk	Market risk is the exposure that arises as a consequence of movement in market price of assets and positions which can be traded in a defined market.
20.	Maturity Buckets	Maturity bucket denotes the period of residual maturity of a security.
21.	Maturity Date	The date when the principal (face value) is paid back.

Sl. No.	Term	Description
22.	Monetary Policy	The procedures by which Governments or the Central Banks try to affect macroeconomic conditions by influencing the supply of money.
23.	Multiple/Uniform price based auction	In a uniform price auction, all the successful bidders are required to pay for the allotted quantity of securities at the same rate, i.e., at the auction cut-off rate, irrespective of the rate quoted by them. On the other hand, in a multiple price auction, the successful bidders are required to pay for the allotted quantity of security at the respective price/yield at which they have bid.
24.	Multilateral and Bilateral Debt	Multilateral debt is debt contracted from multilateral institutions such as the International Development Association (IDA), International Bank for Reconstruction and Development (IBRD), Asian Development bank (ADB) etc. Bilateral debt is contracted from sovereign countries.
25.	Non-Competitive Bidding	Non – competitive bidding is a process by which investors can participate in the auction process without mentioning a specific price / yield. Such bidders are allotted securities at the weighted average price / yield of the auction.
26.	Open Market Operations (OMOs)	OMOs are the market operations conducted by the Reserve Bank of India by way of sale/ purchase of Government securities to/ from the market with an objective to adjust the rupee liquidity conditions in the market on a durable basis.
27.	Price based auction/yield based auction	A price based auction is conducted when GOI reissues securities issued earlier. Bidders quote in terms of price per ₹ 100 of face value of the security (e.g., ₹ 102.00, ₹ 101.00, ₹ 100.00, ₹ 99.00 etc. per ₹ 100). Bids are arranged in decending order and the successful bidders are those who have bid at or above the cut-off price. A yield based auction is generally conducted when a new government security is issued. Investors bid in yield terms up to two decimal places (e.g., 8.19 percent, 8.20 percent, etc.). Bids are arranged in ascending order and cut-off yield is arrived at the yield corresponding to the notified amount of the auction. The cut-off yield is taken as a coupon rate of security. Successful bidders are those who have bid at or below the cut-off price.
28.	Primary Dealers	Primary dealers are a group of highly qualified financial firms/ banks who are appointed to play the role of specialist intermediaries in the government security market between the issuer on the one hand and the market on the other to accomplish the objective of meeting the government borrowing needs as cheaply and efficiently as possible.

Sl. No.	Term	Description
29.	Public Account	All moneys other than those included in the Consolidated Fund, received by or on behalf of Government of India, are credited to the Public Account of India [Article 266 (2) of the Constitution of India]. It includes transactions relating to 'debt' other than those included in the Consolidated Fund of India. Public Account transactions are not subject to vote/appropriation by Parliament and the balances are carried forward.
30.	Public Debt Office (PDO)	Public Debt Office of the Reserve Bank of India acts as the registry / depository of Government securities and deals with the issue, interest payment and repayment of principal at maturity.
31.	Refinancing/Rollover Risks	The risk associated with the redemption and renewal of government debt.
32.	Repo	Repo is an instrument for borrowing funds by selling securities with an agreement to repurchase the said securities on a mutually agreed future date at an agreed price which includes interest for the fund borrowed.
33.	Reverse Repo	Reverse Repo is lending funds against purchasing securities with an agreement to resell the said securities on a mutually agreed future date at an agreed price which includes interest for the fund lent.
34.	Residual Maturity	The remaining period until maturity date of a security is its residual maturity. For example, a security issued for an original term to maturity of 10 years, after 2 years, will have a residual maturity of 8 years.
35.	Secondary Market	The market in which outstanding securities are traded. This market is different from the primary or initial market where securities are sold for the first time. Secondary market refers to the buying and selling that goes on after the initial public sale of the security.
36.	Special Securities	These are Securities issued by the Government of India to entities like Oil Marketing Companies, Fertilizer Companies, the Food Corporation of India, etc. as compensation to these companies in lieu of cash subsidies, with a spread of about 20-25 basis points over the yield of the dated securities of comparable maturity.
37.	Stress Test	A method of risk analysis in which simulations are used to estimate the impact of worst case situations.

Sl. No.	Term	Description
38.	Target Balance	The minimum balance which should be kept in the Government account with the Central Bank on a given date.
39.	Treasury Bills (T-bills)	Treasury bills or T-bills are short term debt instruments issued by the Government of India and are presently issued in three tenors, namely, 91 day, 182 day and 364 day. Treasury bills are zero coupon securities and pay no interest.
40.	Treasury Single Account (TSA)	TSA (Treasury Single Account) is a unified structure of government bank accounts that gives a consolidated view of government cash resources. Based on the principle of unity of cash and the unity of treasury, a TSA is a bank account or a set of linked accounts through which the government transacts all its receipts and payments. The principle of unity follows from the fungibility of all cash irrespective of its end use.
41.	Underwriting	The arrangement by which investment bankers undertake to acquire any unsubscribed portion of a primary issuance of a security.
42.	Ways and Means Advance (WMA)	Advances to the Government made by the central bank. These are made when necessary, if Government expenditure runs in advance of receipts from taxation plus receipts from borrowings.
43.	Weighted Average Price/ Yield	It is the weighted average mean of the price/yield where weight being the amount used at that price/yield.
44.	Yield	The annual percentage rate of return earned on a security. Yield is a function of a security's purchase price and coupon interest rate.