

# **Sovereign Debt Management in** **India**

Ministry of Finance  
Government of India

*Presented by*

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# **Sovereign Debt Management** **in India**

- 1. Fiscal Federalism and Public Debt.**
- 2. Debt position of the Central and State Governments.**
- 3. Debt position of the Central Government.**
- 4. Management of Domestic Debt.**
- 5. Sovereign External Debt.**
- 6. Management of Sovereign External Debt.**

# **1. Fiscal Federalism & Public Debt**

- **As per Indian budgetary practice, Public Debt comprises of :**
  - **Internal Debt**
  - **External Debt**
  - **Other Liabilities.**
- **Indian Constitution provides power to Central and State Governments to place limits on internal and external debt.**

# 1. *Fiscal Federalism & Public Debt*

- **State Government's power to borrow is limited to Internal Debt.**
- **Other Liabilities include provident funds, post office and small savings deposits, reserve funds etc.**

## 2(a). Debt Position of the Central and State Governments

(% of GDP)			
	<b>Central Govt.</b>	<b>State Govts.</b>	<b>Total</b>
<b>1965-66</b>	43.3	5.4	48.7
<b>1980-81</b>	43.9	5.1	49.0
<b>1990-91</b>	54.0	6.8	60.8
<b>1998-99</b>	49.8	7.6	57.4
<b>1999-00*</b>	49.6	8.0	57.6

\* : Figures for 1999-2000 are Budget Estimates.

## 2(b). Fiscal Deficit of the Central and State Governments

- Although fiscal consolidation efforts in 1990s brought about some decline in Debt/GDP ratios, sustained growth in stock of debt is the cumulative result of fiscal deficit over the years.

## 2(c). Gross Fiscal Deficit of the Central & State Governments

(% of GDP)			
	<b>Central Govt.</b>	<b>State Govts.</b>	<b>Total</b>
1980-81	5.2	2.9	6.8
1990-91	7.7	3.2	9.2
1991-92	5.4	2.8	6.8
1996-97	4.7	2.6	6.2
1998-99	5.9	4.3	8.5
1999-00*	5.2	4.0	7.6

\* : Figures for 1999-2000 are Budget Estimates.

## 2(d). Contingent Liabilities of the Central and State Governments

(% of GDP)			
	<b>Central Govt.</b>	<b>State Govts.</b>	<b>Total</b>
1991-92	7.5	6.0	13.5
1994-95	6.0	4.7	10.7
1997-98	4.7	5.1	9.8

\* :The 1999-2000 Budget proposed setting up of a Guarantee Redemption Fund.

## 3(a). Debt Position of the Central Government.

(% of GDP)			
	<b>Internal</b>	<b>External</b>	<b>Total</b>
<b>1980-81</b>	35.6	9.9	45.5
<b>1990-91</b>	48.6	11.4	60.0
<b>1993-94</b>	49.1	14.6	63.7
<b>1998-99</b>	46.3	10.0	56.3
<b>1999-00*</b>	46.7	9.8	56.5

\* : Figures for 1999-2000 are Budget Estimates.

## 3(b). Fiscal Deficit of the Central Government

(% of GDP)			
	Revenue Def.	Primary Def.	Fiscal Def.
1980-81	1.3	3.9	5.2
1990-91	3.2	4.0	7.7
1991-92	2.4	1.5	5.4
1996-97	2.3	0.5	4.7
1998-99	3.4	1.5	5.9
1999-00*	2.7	0.8	5.2

\* : Figures for 1999-2000 are Budget Estimates.

## 3(c). *Financing of the Central Government Deficit*

- Traditionally fiscal deficit financed by :
  - The RBI through issue of ad hoc T-Bills at fixed interest rate of 4.6 per cent;
  - The banking system to meet SLR obligations;
  - Direct market borrowings by the government;
  - Public funds (provident funds, small savings, reserve funds etc.); and
  - External Debt.

### 3(c). *Financing of the Central Government Deficit*

- Over the years, Government's emphasis has shifted to domestic and direct market borrowings.

## *3(d). Financing of Gross Fiscal Deficit of the Central Govt.*

(% of gross fiscal deficit)				
	<b>Market Borrowings</b>	<b>Other Liabilities</b>	<b>External Debt</b>	<b>Total</b>
<b>1980-81</b>	62.2	22.4	15.4	100.0
<b>1990-91</b>	43.4	49.5	7.1	100.0
<b>1998-99</b>	65.7	33.4	0.9	100.0
<b>1999-00*</b>	71.9	27.1	1.0	100.0

\* : Figures for 1999-2000 are Budget Estimates.

## 4(a). Institutional Arrangement in Management of Domestic Debt

- Reserve Bank of India acts as the principal debt manager for domestic debt of the Central Govt.
- With active advice from the Budget Division in the Ministry of Finance.
- Institutional Arrangement :
  - Front Office : RBI
  - Middle Office : Budget Division, MoF
  - Back Office : Comptroller & Auditor General.

## 4(b). Management of Domestic Debt

- Measures taken since 1991 :
  - Ad-hocs replaced by the Ways and Means Advances (WMAs) issued at market determined rates;
  - SLR/CRR reduced significantly over the years;
  - Government securities being auctioned at market rates. Primary Dealership and Satellite Dealership for Government Securities established;

## 4(b). Management of Domestic Debt

- Measures taken since 1991 :
  - First auction of the State Government Stock held in January 1999;
  - First ever price-based auction of Central Government dated securities in May 1999;
  - For the first time, RBI announced the calendar of Treasury Bill issuance in May 1999.

## 4(b). Management of Domestic Debt

- Measures taken since 1991 :
  - Maturity structure of Central Govt. debt lengthened by issuing long-term securities of 11, 12, 15 & 20-year maturity during 1998-99 to avoid roll-over problems arising from bunching of redemption in the medium term.
  - RBI has directed commercial banks and financial institutions to assign risks weights to government securities and securities guaranteed by the Central and State governments.

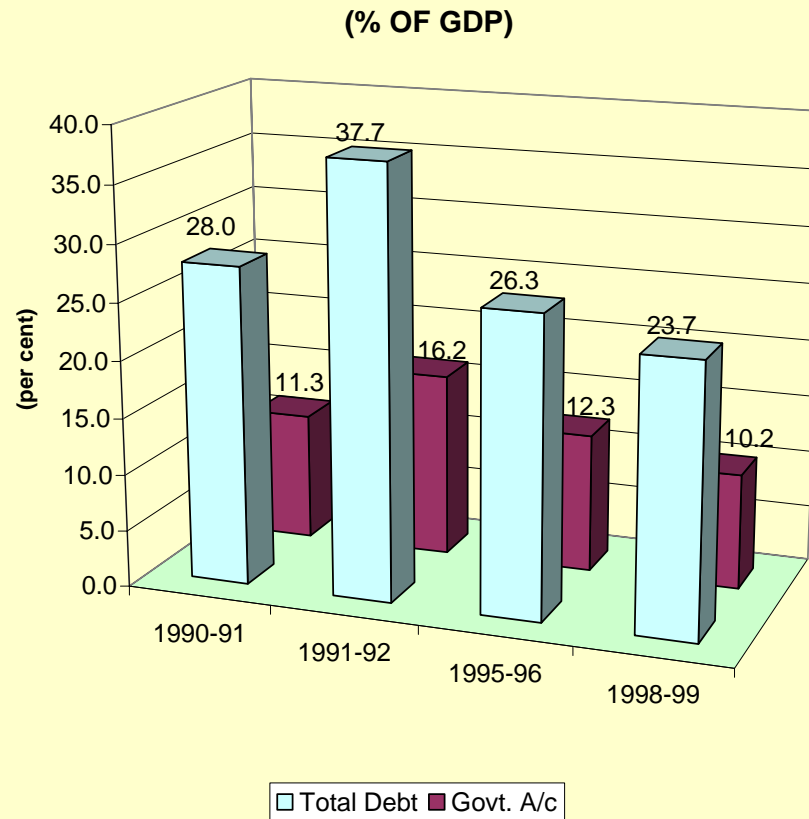
## 4(b). Management of Domestic Debt

- Changes in pension/provident fund system & small savings;
- Govt. is vacating economic space for private investment and encouraging non-debt creating financial flows;
- Above all, fiscal deficit is being reduced by mobilizing extra resources and rationalizing expenditure.
- Package of fiscal consolidation for states by providing them conditional financial assistance in exchange of fiscal reforms.

## 5(a). Sovereign External Debt

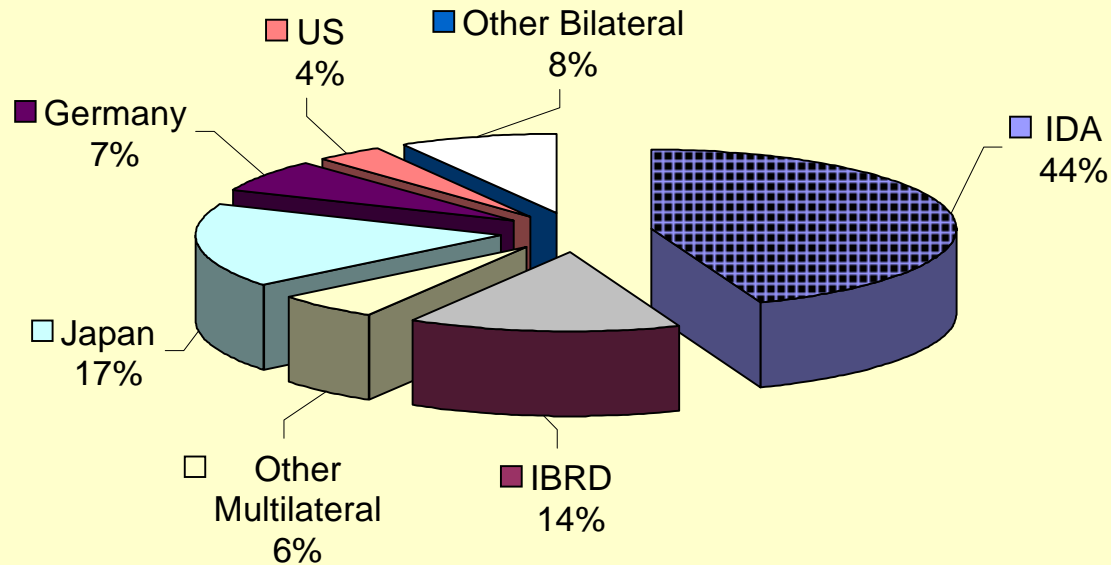
<b>External Debt</b>			
	<b>Total</b>	<b>Govt. A/c</b>	
	(US \$ bn)	(US \$ bn)	(% of total)
<b>1990-91</b>	83.8	33.7	40.3
<b>1994-95</b>	99.0	45.3	45.7
<b>1997-98</b>	93.9	41.0	43.7
<b>1998-99</b>	98.2	42.1	42.9

# 5(b). Total and Sovereign External Debt GDP Ratios



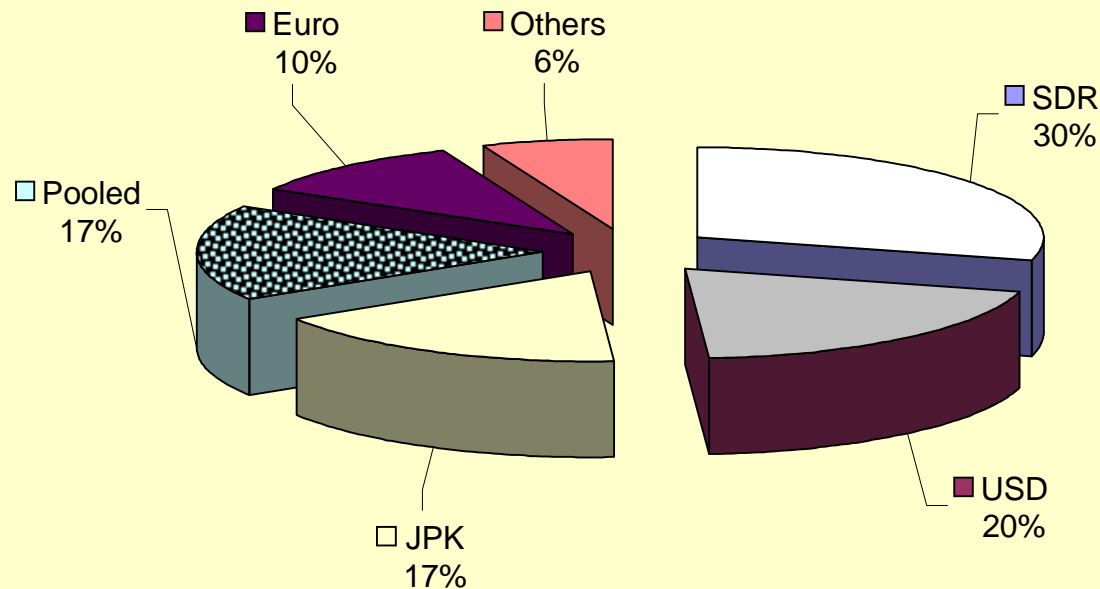
# 5(c). Creditor Composition of Sovereign External Debt

(as on 31.3.99)



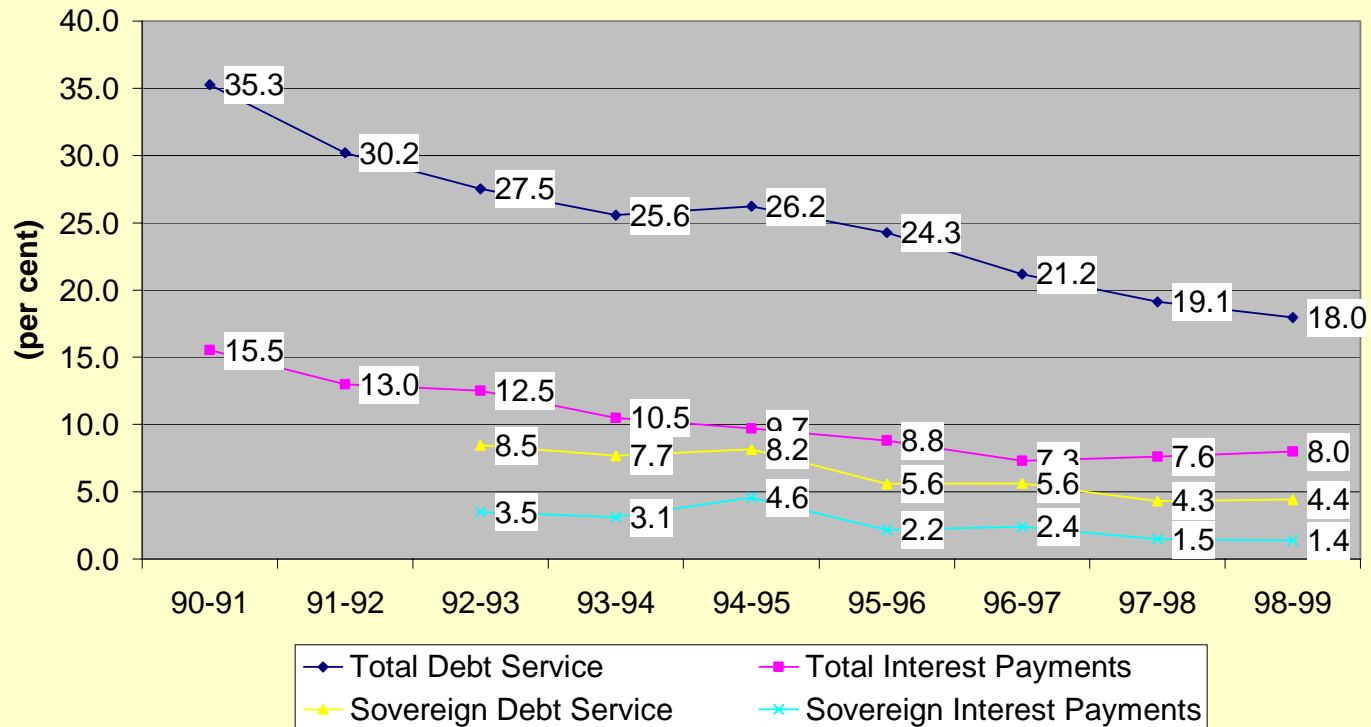
# 5(d). Currency Composition of Sovereign External Debt

(as on 31.3.99)



# 5(e). Debt Service Ratios for Total & Sovereign External Debt

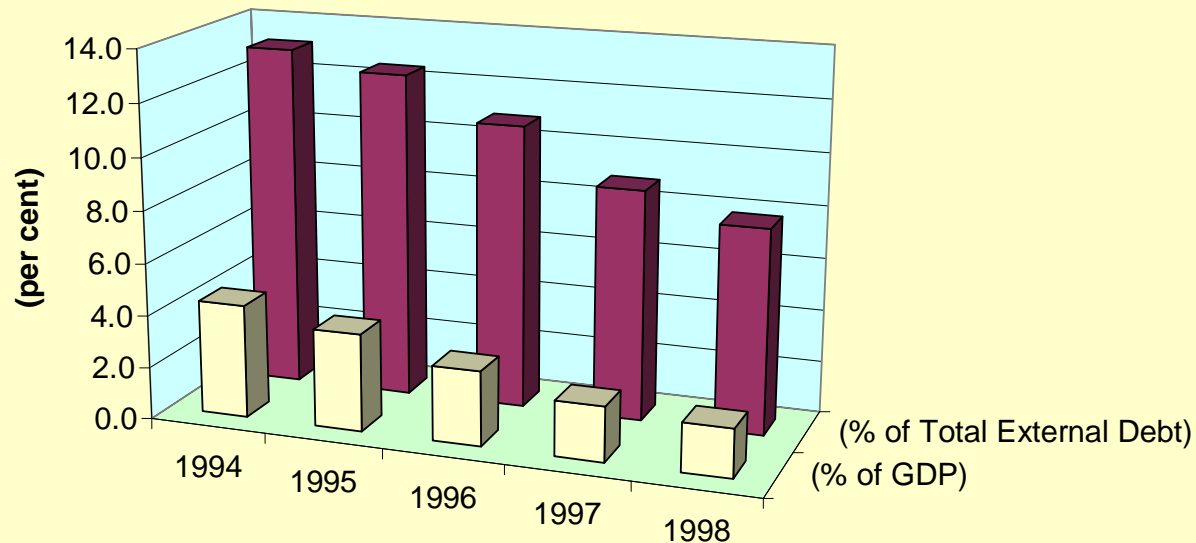
(% of Total Current Receipts)



Top line is black, second line down is pink, third line is yellow, bottom line is blue

# 5(f). Contingent External Liability of the Central Govt.

**Government Guarantees on External Debt by the Central Govt.**



	1994	1995	1996	1997	1998
□ (% of GDP)	4.3	3.7	2.9	2.1	1.9
■ (% of Total External Debt)	13.1	12.5	10.9	8.8	7.8

## 6(a). Management of External Debt

- India has followed a cautious approach towards capital account convertibility, with due regard to the strength of the domestic fiscal and financial situations
- Liberalisation of non-debt creating financial flows followed by liberalisation of long-term debt flows at stages.
- Tight control on short term external debt and close watch on the size of the current account deficits
- Capital controls for residents and modest short-term liabilities helped India to insulate from the Asian economic crisis.

## 6(b). Management of Sovereign External Debt

- High share of concessional debt (79 % at the end of March 1999). Thus, PV of debt is significantly low.
- No sovereign borrowing from external commercial sources.
- No short-term sovereign external debt.
- Maturity concentrated towards long-end for the debt portfolio.

# *6(c). Monitoring of Sovereign External Debt*

- **100% debt data computerization on Commonwealth DRMS System.**
- Historical and future projections are available for analysis, scenario building and as MIS inputs.
- Debt Data updated quarterly : March, June, September, December - June 1999 data available.
- Time lag for data update : 8 weeks - well below :
  - The SDDS benchmark of the IMF.
- Status Report on External Debt - circulated in the Parliament of India every year ([www.nic.in/finmin](http://www.nic.in/finmin) in “miscellaneous”).

## 6(d). Capacity Building for External Debt Management

- World Bank has provided an IDF Grant for strengthening external debt management capacity of India.
- Achievement under IDF Grant :
  - Computerization and common database platform.
  - CS:DRMS (Commonwealth Secretariat- Data Recording and Management System) Debt-Data connectivity between O/o CAA&A and Ministry of Finance.
  - Organized 2 international seminars and one workshop with active participation by the World Bank and RBI

## 6(e). World Bank IDF Grant

- Ongoing Projects taken up under IDF Grant :
  - Monitoring of Non-Resident Indian Deposits.
  - Monitoring of Short-term External Debt.
  - Measurement of Contingent external liabilities.
  - Sovereign External Debt Management Model.
  - On-line debt data connectivity between MOF and RBI.
  - Tailor-made User-Interface Debt Data for senior officers of the MOF.

## 6(f). Sustainability of Sovereign External Debt

- Medium term projection of debt service payments without any bunching.
- Future focus is on building debt sustainability benchmarks for the sovereign external debt by linking with :
  - Domestic debt for fiscal sustainability.
  - Total external debt for BOP sustainability.
  - Contingent external liability for extreme case scenario.

## 6(g). Portfolio Management of Sovereign External Debt

- Objective : cost and risk minimisation.
- By developing benchmarks for currency, interest and maturity mix.
- To begin with - IBRD debt portfolio as the primary vehicle for optimisation. Although share of IBRD debt in total sovereign debt is only 14 %, IBRD principal and interest payments account for 39 % and 51 % respectively of the total payments.

## 6(g). Portfolio Management of Sovereign External Debt

- ADB also to offer flexibility on loan management by borrowers.
- Link with contingent sovereign external liabilities also to be attempted in a phased manner.
- A high-powered Steering Committee, and a Core Group on Sovereign External Debt Management Modelling constituted with MOF-RBI officials.

## **6(h). Institutional arrangement**

- **Ministry of Finance plays the key role**
- **Concerned Divisions in MoF:**
  - **Front Office : Fund-Bank, ADB & EEC Divisions.**
  - **Middle Office : External Debt Management Unit in MoF: middle office**
  - **Back Office : Office of Controller Aid Accounts and Audit.**
- **Active advice & co-operation of RBI.**

# *Lessons from Indian Experience*

- It is better to switch from a system of rigid licenses, controls and directed lending to a system of prudential regulation and transparent rules and procedures.
- Adoption of transparent policies, practices, procedures and rules help economic agents to better plan their activities and minimize risk and cost.
- Management of sovereign external debt is closely related to the management of domestic debt, which in turn depends on the management of overall fiscal deficit.

# *Lessons from Indian Experience*

- It is important to strengthen public and corporate governance and enhance transparency and accountability.
- Debt management strategy is an integral part of the sound macro economic policies, which act as the first line of defense against any financial crisis.
- Policy actions also need to reflect concerns emerging from the interface between domestic and global economic environment.

# *Lessons from Indian Experience*

- For an emerging economy, it is better to adopt a policy of cautious and gradual movement towards capital account convertibility.
- At the initial stage, it is better to encourage non-debt creating financial flows followed by liberalization of long-term debt.
- It is also necessary to adopt suitable policies for enhancing exports and other current account receipts which provide the means for financing imports and debt services.

# *Lessons from Indian Experience*

- It is vital that external forward liabilities and short-term debt are kept within prudential limits.
- Detailed data dissemination is pre-requisite for effective management and monitoring of external debt and formulating appropriate policies.
- It is also necessary to strengthen the legal and institutional set up for management of both internal and external debt.
- A sound financial system with well developed debt and capital market is an integral part of a country's debt management.