Public debt

- **Article 292** of the Indian Constitution states that the Government of India can borrow amounts specified by the Parliament from time to time.
- **Article 293** of the Indian Constitution mandates that the State Governments in India can borrow only from internal sources.
- Thus the Government of India incurs both external and internal debt, while State Governments incur only internal debt under Article 293.
- As per the recommendations of the 12th Finance Commission, access to external financing by the States for various projects is facilitated by the Central Government, which provides the sovereign guarantee for these borrowings.
- From April 1, 2005, all general category states borrow from multi-lateral and bilateral agencies (World Bank, ADB etc.) on a back-to-back basis viz. the interest cost and the risk emanating from currency and exchange rate fluctuations are passed on to States.
- In the case of special category states (North-eastern states, Himachal, Uttarakhand and J&K), external borrowings of state governments are given by the Union Government as 90 per cent loan and 10 per cent grant.

In India, total Central Government Liabilities constitutes the following three categories;

[i] Internal Debt.

[ii] External Debt.

[iii] Public Account Liabilities.

Public Debt in India includes only Internal and External Debt incurred by the Central Government.

Internal Debt includes liabilities incurred by resident units in the Indian economy to other resident units, while External Debt includes liabilities incurred by residents to non-residents.

The major instruments covered under Internal Debt are as follows:

**Dated Securities:** Primarily fixed coupon securities of short, medium and long term maturity which have a specified redemption date. These are the single-most important component of financing the fiscal deficit of the Central Government (around 91% in 2010-11) with average maturity of around 10 years.

**Treasury-Bills:** Zero coupon securities that are issued at a discount and redeemed in face value at maturity. These are issued to address short term receipt-expenditure mismatches under the auction program of the Government. These are primarily issued in three tenors, 91, 182 and 364 day.

**14 Day Treasury Bills.**

- Securities issued to International Financial Institutions: Securities issued to institutions viz. IMF, IBRD, IDA, ADB, IFAD etc. for India’s contributions to these institutions etc.
Securities issued against 'Small Savings': All deposits under small savings schemes are credited to the National Small Savings Fund (NSSF). The balance in the NSSF (net of withdrawals) is invested in special Government securities.

Market Stabilization Scheme (MSS) Bonds: Governed by a MoU between the GoI and the RBI, MSS was created to assist the RBI in managing its sterilization operations. GoI borrows under this scheme from the RBI, while proceeds from such borrowings are maintained in a separate cash account with the latter and is used only for redemption of T-bills/dated securities raised under this scheme.

Adjusted debt

- **Adjusted debt** indicates the debt amount after factoring in the impact of external debt at current change rate and netting out Market Stabilization Scheme and NSSF liabilities not used for financing Central Government deficit.
- While analyzing the general Government debt (consolidated debt for Central and State Governments), 14 days T-bills investment by States and Central loans to State Governments have also been netted out to avoid double accounting. However, this concept of adjusted debt is not reported in the quarterly reports.
- The Government of India has been publishing a number of documents detailing overall debt position of the country, consolidated data relating to public debt, debt management strategies of Central Government Debt, etc.
- It has now been decided to consolidate all these publications into ‘Status Paper on Government Debt’ Report to bring complete Government Debt and its Management related information at one place. The first such report was released on 21 October 2016.