

Shed inertia over public debt reforms

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and Auditor General (CAG) report on Public Debt Management (PDM) is an eye-opener. Released on 26th July, the report has pitched for revival of PDM reforms while noting that the lion's share of fresh borrowings are used to service the past debt.

As put by the report,

"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."

The report would stir several questions in the mind of any rationalist. Does this mean Government debt as a tool for national development has been blunted over the decades? Should there not be a cap on 'zero-sum game' debt raising & servicing? Does the cycle of fresh borrowings to clear past liabilities not reflect failure to put to past loans to optimal use? Should there not be a cap on public debt as well as consolidated national debt?

These are serious issues that must be debated keeping in what framers of our Constituted stated on government debt. We should also keep in mind the US 3rd President Thomas Jefferson's eternal advice that he penned on 12th July 1816:

"And to preserve their independence, we must not let our rulers load us with perpetual debt...."

The total outstanding public debt of India as on 31 March 2015 was Rs 51,04,675 crore of which Rs 47,38,291 crore (92.82 per cent) was internal debt and Rs 3,66,384 crore (7.18 per cent) was external debt.

CAG has found complacency on the part of Department of Economic Affairs (DEA) in pulling up its socks in debt management. It says: ***"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."***

CAG has thus rightly advised the Government to create a legal framework, consisting of both the primary as well as secondary legislation. It says this framework

"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."

CAG has also pitched for development of a centralized database of internal debt, external debt and other liabilities. It suggests that Government may create a mechanism to ensure consistency in the reporting of public debt by RBI and DEA.

This brings us to the fundamental issue of sovereign debt sustainability against the backdrop of unsustainable corporate debt piled up by many big companies, resulting in repayment defaults and repeated debt restructuring.

The first and foremost step in PDM reforms should be enactment of a comprehensive legislation for setting up of PDM office/agency (PDMO/PDMA). This should be independent of both Finance Ministry and RBI. PDMO should, however, work in close consultation with both in a transparent manner.

The proposal to set up a statutory PDMO has been recommended, pursued half-heartedly and put on hold time and again during the last several years.

One of the relatively new initiatives by Finance Ministry was formation of a Task Force for preparation of road map for setting up PDMA in September 2014. The report of this panel is hard to come by public domain.

The latest policy flux on PDM was disclosed by Finance Minister Arun Jaitley in reply to a question on PDMO in Lok Sabha on 26th February 2016.

Mr. Jaitley stated:

"In the Budget session 2015, provisions relating to setting up of a Statutory Public Debt Management Agency were withdrawn from the Finance Bill, 2015. It was stated that Government, in consultation with RBI, will prepare a detailed roadmap separating the debt management functions. No final decision has been taken in the matter."

As an interim arrangement, Finance Ministry has been managing public debt through an in-house Middle Office that was set up in September 2008.

CAG has pointed out that public debt management is contained in the Constitution, RBI Act, 1934, Public Debt Act, 1944 and Fiscal Responsibility Budget Management (FRBM) Act 2003. The Statute book 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.

The 14th Finance Commission also mooted concept of extended public debt but could not elaborate it for want of comprehensive and latest data.

In its report released in February 2015, the Commission observed:

"we have explored the concept of extended debt, analysing different indicators, including the debt of public sector enterprises (PSEs), guarantees to PSEs, and a risk-weighted combination of guarantees. However, our analysis has been constrained by the non-availability of comprehensive audited recent data on State public sector debt."

It recommended that both Union and State Governments adopt a template for collating, analysing and annually reporting the total extended public debt in their respective budgets as a supplement to the budget document.

Apart from eminent domestic institutions, multilateral institutions have also been pitching for sustainable public debt management.

A case in point is the revised guidelines on Public Debt Management prepared jointly by International Monetary Fund (IMF) and the World Bank in 2014.

As put by the Guidelines,

"governments should seek to ensure that both the level and rate of growth in their public debt are on a sustainable path and that the debt can be serviced under a wide range of circumstances, including economic and financial market stress, while meeting cost and risk objectives."

While enacting PDMO law and undertaking allied reforms, the Finance Ministry should keep in view in all such good ideas as well as painful lessons from countries such as Greece.