

FSLRC Public Debt Management Agency

NIPFP

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Structure and composition of PDMA

Structure of PDMA

PDMA will be equipped to manage the liabilities of the Government, and have a two-tiered arrangement:

- ① PDMA will be guided by an advisory council (AC) and run by a management committee (MC).
- ② Their composition will be broadly similar, with representation from RBI and Central Government:
 - MC will be headed by PDMA's chief executive.
 - AC will be headed by an independent chairperson.
- ③ PDMA will have independent goals and objectives, but will act as agent of the Central Government.
- ④ MC will seek the AC's opinion in matters of strategy and policy.
- ⑤ In addition, the AC may also make recommendations, of its own accord, on any activities of the PDMA it finds relevant.

Composition of Management Committee

The composition of the management committee will be as follows:

- ① PDMA chief executive as its chairperson;
- ② a Central Government nominee;
- ③ an RBI nominee;
- ④ a nominee of the State Governments, only if PDMA borrows on behalf of any of them; and
- ⑤ experts.

If PDMA borrows on behalf of one State Government, such Government would nominate its officer as member. If it borrows on behalf of more than one State Government, one of such Governments would nominate that officer as member.

Composition of Advisory Council

The composition of the advisory council will be as follows:

- ① a chairperson;
- ② a Central Government nominee higher in rank than its nominee in the management committee;
- ③ an RBI nominee higher in rank than its nominee in the management committee;
- ④ experts; and
- ⑤ the PDMA chief executive.

With the exception of the chief executive of the agency, the members of the advisory council cannot be the same as the members of the management committee.

Objective and functioning of PDMA

Objective

- 1 PDMA has the objective of minimising the cost of raising and servicing public debt over the long-term within an acceptable level of risk at all times.
- 2 This will guide all of its key functions, which include managing the public debt, cash and contingent liabilities of Central Government, and related activities.

Functioning as an agency

The implications of being an agency with independent objectives and agent of Government are as follows:

- 1 PDMA will always act on instructions from Central Government.
- 2 But it has the discretion to decide on details of how it implements those instructions.
- 3 If the instructions do not enable PDMA to achieve its objectives, it may place its objections on record.
- 4 There will be a regular consultation and feedback process between PDMA and the Central Government.
- 5 When issuing instructions, Central Government must consider the PDMA's views, and would have full knowledge of the objectives of the agency.
- 6 If there is disagreement, PDMA must meet the instructions, but would have recorded the inability to meet its objective through consultation and feedback.

Functions of PDMA

Functions: Managing public debt

- ➊ PDMA must design and recommend an annual calendar for the Central Government to manage its public debt.
- ➋ The calendar will advise on all aspects of the composition of the borrowing and repayment of public debt.
- ➌ This must be designed in consultation with Central Government and other key stake-holders.
- ➍ PDMA will eventually act on instructions received from the Central Government, but must be empowered to make recommendations, even on a daily basis, if necessary.
- ➎ To ensure an integrated approach to debt management, PDMA must also manage the external debt for the Central Government.

Functions: Cash management

- 1 PDMA must co-ordinate with the departments, ministries and agencies of the Central Government and RBI to estimate, monitor and manage daily cash balances.
- 2 It must advise Government on measures to promote efficient cash management practices and to deal with surpluses and deficits.

Functions: Contingent liabilities

- 1 PDMA must manage and execute implicit and explicit contingent liabilities.
- 2 It must evaluate the potential risk of these contingent liabilities and advise the Central Government on charging appropriate fees.
- 3 The Central Government must seek PDMA's advice before issuing any fresh guarantees since this affects the overall stability of the public debt portfolio.

Functions: Research and information

- 1 PDMA must have a view of the entire liability structure of the Central Government.
- 2 In order to achieve this, it must develop, maintain and manage information systems; disseminate information and data; and conduct and foster research relating to its functions.

Functions: Fostering the G-sec market

- ❶ A liquid and efficient Government bond market enables low-cost financing in the long run.
- ❷ Hence, PDMA must take steps to foster a liquid and efficient market for Government securities, including advising the regulators and the Central Government on the policy and design of the market.
- ❸ In this role, PDMA must work towards:
 - Growth and diversity in investors and intermediaries;
 - Fairplay;
 - Competition in intermediation;
 - Cost-minimising mechanisms for issuance and trading; and
 - Measurement of liquidity and market efficiency, and presentation of an annual report on the progress of the Government of India sovereign bond market.

PDMA and State debt

Scope: Managing State debt

There are limitations on PDMA's functions in expanding it to States, as the management of State debt is a State subject under the Constitution of India:

- ① PDMA must undertake those functions related to State Government debt which have implications for the Central Government's debt portfolio, e.g.:
 - maintaining a comprehensive database of State debt; and
 - co-ordinating Central Government's borrowing calendar with the States' market borrowings.
- ② PDMA may provide States the option of managing their debt, subject to agreements with PDMA to this effect.
- ③ PDMA may also offer technical assistance to State Governments to set up their own debt management offices.

Thank you