

# Ownership Pattern of Public Debt in India: A Study

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## Abstract

To bridge the inevitable gap between the expenditure and revenue of governments, public debt has been resorted to increasingly by the government all over the world. In India, too, public debt has been reckoned as a device through which governments attempt to garner enough resources for both developmental and non-developmental activities. The present paper looks into the change and pattern in the ownership of public debt in India in recent years. In recent times, there has been a slight decline in the State government securities issued in India. Provident Funds have become dominant and permanent owners of state government securities in India, especially in recent times. Commercial banks in India are the main owners of GOI dated securities. Half of the T-Bills have been held by the Commercial Banks in the country. Mutual Funds also have been buying the Treasury Bills on a large scale. Provident Funds (PFs) do not seem to be interested in engaging in Treasury Bills operations in the country.

**Keywords:** Public Debt, Ownership of PD, Commercial Banks (CBs), Insurance Companies (ICs), Mutual Funds (MFs), Provident Funds (PFs), GOI Dated Securities, Treasury Bills (TBs)

## Introduction

It has well been acknowledged that every government, whether it is a government of capitalist or socialist system, has to deliver development and welfare-oriented functions aiming at enhancing the standard of living of its people. Such a government, of course, may have to live beyond its means in implementing projects that increase both the quantum of public goods available for the masses and the volume of subsidies to enterprises that ensure that necessary products are available at affordable prices. This developmental function naturally increases the size of the government administration, which scales up the administrative expenses of the government. Thus, as the size of the government widens, its development and non-development expenditures get escalated, sometimes even surpassing its resources. Many such governments have had to undergo all pressures of presenting a deficit budget where expenditure outweighs revenues. The burgeoning expenditure over revenues has to be met through different strategies. Three strategies stand out in this respect: one is printing additional currencies which are technically called monetization of a deficit, and the other is borrowing from the general public including financial institutions, both inside and outside the country which is called 'Public Debt'.<sup>1</sup>

1. Public Debt connotes the total amount that the government of a country borrows. In India, it is the total liabilities of the Union government payable from the Consolidated Fund of India. State governments also incur public debt. The joint debt of Union and State government is called the General Government Debt (GGD).

And the other is to divest the shares of government in public sector units<sup>2</sup> (PSUs). The first two have pros and cons, of course. For instance, printing additional currencies do not put much pressure on the government. Still, it fuels inflationary pressures in the economy, which will have far-reaching other economic, social, and political repercussions. In the second method of borrowing from the public by the government that is public debt, while it does not create inflation rather than containing it, by the way, siphoning off funds from people to government thereby reducing the purchasing power of people, it puts enormous pressure on the government because of it being a liability for the government to repay the public debt along with its interest rate in future. But in recent times, much emphasis has been placed on indulging in public debt to make both ends meet rather than going for printing additional currencies in fear of it fueling inflationary flames in the economy.

### Research Problem

As mentioned above, to bridge the inevitable gap between the expenditure and revenue of governments, public debt has been resorted to increasingly by the government all over the world. In India, too, public debt has been reckoned as a device through which governments attempt to garner enough resources for both developmental and non-developmental activities. The issue of public debt in India has a captive market for its operation. Mainly these debts are held by commercial banks, insurance companies, and provident funds, which are owned and regulated by the governments. In this respect, the present works look into the change and pattern in the ownership of public debt in India in recent years.

### Objectives

The broad objectives of this paper are outlined below:

- To examine the trend in the total amount collected using GOI dated securities and T-Bills
- To analyze the role of different buyers in the debt market

2. The Disinvestment strategy is a post-reform phenomenon in India. In the first NDA government under Atal Bihar Vajpayee, the Ministry of Disinvestment was constituted under the stewardship of Mr. Arun Jaitley only for selling the Public Sector Units in India.

To look into the growth rate of shares of ownership of different buyers

### Methodology

The present paper has been prepared mainly based on secondary data obtained from the website of RBI. Data have been properly structured and made amenable to the present works. Growth rates for different owners of the public debt have been computed.

### Literature Review

A good number of works are available on different aspects of the public debt, its management, and of course, ownership pattern. A brief review of certain selected works on this is provided below.

Public debt has been increasing in India. Investigating the trend in the public debt in India for the period from 1941 to 1974, Ghuge concluded that since 1956, public debt in India had increased. He also peeped into the association between public debt, especially internal debt and other economic variables like fiscal deficit and monetary variables (Ghughe, 1977).

Capital formation is indispensable for economic development. Countries starved of domestic resources for economic development often rely on public debt. In this context, the relationship between economic development and public debt was studied by Lal (Lal, 1978).

Public debts that are used for assets generation fuel economic growth and development. Therefore deficits being bridged by public debt could affect economies to build enormous economic and productive assets, which further adds to the process of economic development of such economies. This aspect was looked into by Boskin (Boskin, 1982), and he found that when price level increase in the economy, the real value assets generated via public debt goes up while the burden public falls.

Bhattacharya B. B. and GuhaSrabani in a study stated that the Internal Public Debt has also been rising very fast in many countries of the world—both rich and poor. But no consensus regarding the optimum of the level of internal public debt that minimizes consequences has been arrived at (Bhattacharya & Srabani, 1990).

Lekha. S. Chakraborty, her study examined the impact on new economic policy on the public debt of India. The study focused on servicing costs and another burden of public debt (Chakraborty, 2002).

Kaushik Ganguly, in his study, focused on the study on the public debt and examined the interest rates on which borrowings were made by the State governments(Ganguly, 2009).

Rangarajan C & Srivastava D.K, in their study, analyzed the problem of debt sustainability to recommend the enactment of fiscal responsibility legislation in the current or modified forms (Rangarajan & Srivastava, Federalism and Fiscal Transfers in India, 2011).

**Ownership Pattern of State Government Securities**

In a federal financial system like India, most of the highly elastic and progressive sources of revenue rest with the Centre government, but most of the developmental and welfare expenditures need to be met by the State governments. This being an important fiscal imbalance in a federal structure, to address this problem, inbuilt mechanisms have been suggested in the Constitution itself. Most often deprived of enough and affordable sources of finance, State governments have had to resort to the issue of government securities in open and captive markets to ensure the availability of necessary financial resources for the execution of administrative and developmental expenses.

**Table 1: Total Amount of State Government Securities**

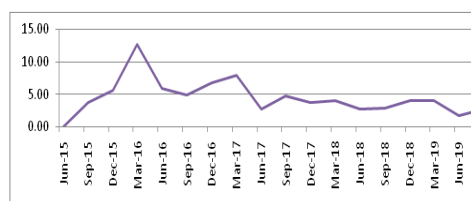
Month	Total (in Rs. Crore)	Rate of Growth
Sep-19	2905169.26	2.77
Jun-19	2826935.29	1.79
Mar-19	2777229	4.04
Dec-18	2669393.07	4.00
Sep-18	2566833.1	2.86
Jun-18	2495461.02	2.74
Mar-18	2428829.28	4.11
Dec-17	2332952.91	3.74
Sep-17	2248835	4.76
Jun-17	2146707.16	2.75
Mar-17	2089340.85	8.01

Dec-16	1934391.04	6.78
Sep-16	1811495.33	4.85
Jun-16	1727770	5.91
Mar-16	1631395	12.73
Dec-15	1447193	5.60
Sep-15	1370470	3.74
Jun-15	1321023	

**Source:** Reserve Bank of India Data accessed from the [www.rbi.org](http://www.rbi.org)

Looking at the trend in the state government securities, it could be observed that in June 2015, the state government in India issued securities worth Rs.1321023.00 where as it by September 2019, it augmented to Rs.2905169.00 (Table No.1). March 2016 witnessed the highest growth rate in the amount of State government securities in India. But in recent times, which is in 2019, there has been a slight decline in the State government securities issued in India. A glance at the trend in the rate of growth of state government securities reveals that in 2015 and 2017, this rate of growth was high, but in later years it showed a declining trend (Figure 1).

**Figure 1: Rate of Growth in the total Volume of state Government Securities**



**Source:** Constructed based on Reserve Bank of India Data accessed from the [www.rbi.org](http://www.rbi.org)

Having observed the trends in the rate of growth of state government securities, now we move on to analyzing its ownership pattern. Among the owners of government securities, three types of owners deserve much attention: Commercial Banks, Insurance Companies, and Provident Funds. It is obvious that in June 2015, 42 percent of state government securities were owned by the Commercial Banks, whereas by September 2019, it declined to 32.53. As far as the rate of growth of the ownership pattern government securities by the commercial banks is concerned, it is interesting to note that the rate of growth has been negative except in a few months. This shows

a continues to decline in the interest of commercial banks to hold State government securities. Moving on to the insurance companies, we find that, on average, 33 percent of the government securities have been held by these companies. In moth June of 2017, the growth in the holding of government securities by the Insurance companies registered an increase to the tune of 3.07 percent, the highest growth rate in the period under consideration. Barring this period, the growth rate has been quite negative.

Provident Funds also invest in government securities, especially in recent times. Many provident funds viz. General Provident Fund (GPF) and Public Provident Fund (PPF) park their pooled funds into more instruments that offer steadier and safer returns. Government securities are risk-free to a greater extent, and therefore, many provident funds

have been interested in parking their funds in these instruments. In March 2017, Provident Funds shared only 16.04 percent of the total state government securities, whereas it shot up to 22.36 percent in September 2019 (Table No.2).

Further, it is curious to note that in March 2018, the growth rate in the holding of state government securities by the Provident Funds went up to 13.32 percent. Compared to Commercial Banks and Insurance Companies, the growth in the holding of ownership of government securities by the Provident Funds has always been positive except in a few months under the present study (Figure No2). This draws the inference that Provident Funds have become dominant and permanent owners of state government securities in India, especially in recent times.

**Table 2: Ownership Pattern of State Government Securities**

Month	Commercial Banks	Growth Rate	Insurance Companies	Growth Rate	Provident Funds	Growth Rate
Sep-19	32.53	-0.12	33.39	-1.65	22.36	2.15
Jun-19	32.57	-3.99	33.94	2.65	21.88	-1.23
Mar-19	33.87	-0.38	33.04	-2.60	22.15	3.88
Dec-18	34	-1.94	33.9	0.47	21.29	1.17
Sep-18	34.66	-1.04	33.74	-1.48	21.04	3.33
Jun-18	35.02	-2.20	34.24	0.32	20.34	3.29
Mar-18	35.79	-6.54	34.13	2.29	19.67	13.32
Dec-17	38.13	1.29	33.35	-1.95	17.05	-7.74
Sep-17	37.64	-0.80	34	1.38	18.37	1.47
Jun-17	37.94	-2.82	33.53	3.07	18.1	4.59
Mar-17	39.01	-5.74	32.5	1.94	17.27	2.66
Dec-16	41.25	2.50	31.87	-2.51	16.81	-0.18
Sep-16	40.22	-2.44	32.67	0.43	16.84	2.67
Jun-16	41.2	-2.21	32.53	0.09	16.39	2.68
Mar-16	42.11	4.61	32.5	-4.80	15.95	-4.64
Dec-15	40.17	-2.36	34.06	1.70	16.69	1.62
Sep-15	41.12	-2.14	33.48	1.28	16.42	2.31
Jun-15	42		33.05		16.04	

**Source:** Reserve Bank of India Data accessed from the [www.rbi.org](http://www.rbi.org)



Jun-14	43.43	-2.32	20.21	3.43	7.21	0.42	15.03	-6.36
Mar-14	44.46	-0.60	19.54	1.40	7.18	-2.58	16.05	0.25
Dec-13	44.73	0.07	19.27	0.00	7.37	2.36	16.01	-4.87
Sep-13	44.7	1.94	19.27	0.36	7.2	0.14	16.83	-7.63
Jun-13	43.85	-0.02	19.2	3.45	7.19	-2.44	18.22	7.24
Mar-13	43.86	-0.23	18.56	-5.02	7.37	3.51	16.99	6.52
Dec-12	43.96	-1.30	19.54	-8.26	7.12	-0.97	15.95	-0.44
Sep-12	44.54	0.72	21.3	0.52	7.19	-1.64	16.02	-9.08
Jun-12	44.22	-4.10	21.19	0.52	7.31	-1.88	17.62	22.28
Mar-12	46.11	-2.54	21.08	-5.98	7.45	1.92	14.41	6.27
Dec-11	47.31	-1.21	22.42	-0.66	7.31	1.11	13.56	8.31
Sep-11	47.89	0.72	22.57	0.45	7.23	3.14	12.52	-2.95
Jun-11	47.55	1.11	22.47	1.13	7.01	-0.71	12.9	0.47
Mar-11	47.03	-0.78	22.22	0.50	7.06	2.47	12.84	20.34
Dec-10	47.4	-2.23	22.11	-0.32	6.89	1.47	10.67	15.98
Sep-10	48.48	0.44	22.18	0.59	6.79	3.51	9.2	-4.86
Jun-10	48.27	2.16	22.05	-0.50	6.56	-2.96	9.67	-17.77
Mar-10	47.25	-0.27	22.16	0.41	6.76	3.84	11.76	15.29
Dec-09	47.38	1.24	22.07	-0.32	6.51	3.17	10.2	-3.50
Sep-09	46.8	-0.57	22.14	-4.03	6.31	-1.56	10.57	-4.43
Jun-09	47.07	0.36	23.07	-0.56	6.41	-2.73	11.06	13.90
Mar-09	46.9	-3.93	23.2	-5.38	6.59	0.00	9.71	29.12
Dec-08	48.82	-5.15	24.52	-3.92	6.59	5.44	7.52	31.24
Sep-08	51.47	0.76	25.52	-0.04	6.25	-5.59	5.73	1.60
Jun-08	51.08	-0.35	25.53	3.03	6.62	3.76	5.64	17.99
Mar-08	51.26	-2.03	24.78	-5.20	6.38	-1.85	4.78	-12.45
Dec-07	52.32	0.56	26.14	-0.68	6.5	-0.61	5.46	2.06
Sep-07	52.03	3.62	26.32	-2.95	6.54	-4.80	5.35	-7.76
Jun-07	50.21	1.07	27.12	3.55	6.87	2.84	5.8	-10.91
Mar-07	49.68		26.19		6.68		6.51	

**Source:** Reserve Bank of India Data accessed from the [www.rbi.org](http://www.rbi.org)

Unsurprisingly, Commercial banks in India are the main owners of GOI dated securities. As of September 2019, CBS owns 39.66 percent of GOI dated securities while Insurance Companies (ICs) and Provident Funds (PFs) hold relatively 24.86 and 4.87 percent. However, it is interesting to note that the holding of GOI dated securities by CBS has been continually declining over the reference period under this study. In March 2007, CBS held 49.68 percent of GOI dated securities against the 39.66 percent in September 2019. The rate of growth of CBS ownership of GOI dated securities hovers around 1.5 percent during the reference period, of course, with

periodical ups and downs. Coming to the Insurance Companies (ICs), their holdings in GOI dated securities have been declining over the reference period with insignificant oscillations in certain years. A glance at the table (Table No: 3) reveals that in September 2019, its ownership of dwindled to 24.86 percent from 26.19 percent in March 2007. The same seems to the story of Provident Funds albeit with minor changes, sometimes entering into the negative growth zone as shown in the table (Table No: 3)

Reserve Bank of India has also been an important owner of the GOI of Dated securities. It is quite interesting to note that the RBI. However,



it has been sharing only an insignificant part of the ownership of GOI dated securities, the volatility in the growth of its ownership deserves much attention. For instance, in December 2008, RBI's ownership in GOI dated securities witnessed a growth rate to the tune of 30 percent, whereas in September 2013, it drastically declined to the tune of minus 7 percent. Such volatility in the holding of GOI dated securities by RBI could be read along with the ups and downs in economic growth in the country. For instance, in 2008, when the global financial meltdown was hanging over the country, RBI increased its holding in GOI dated securities, perhaps to offset the possible decline in the holding by other sources. It may be noted during this time, the Commercial Banks and Provident Funds withdrew from investing in GOI dated securities, which led to negative growth in their holdings.

#### Ownership Pattern of Treasury Bills

Treasury bills are also government securities or bonds with a maturity of less than one year. They are issued to meet the difference between short period receipts and expenditures of the governments, and therefore this is regarded as a money market instrument in India (<https://economictimes.indiatimes.com/definition/treasury-bills>).

**Table 4: Total Amount Collected via Treasury Bills**

Quarter ended	Total (in Rs. Crore)	Growth Rate
Sep-19	538041.16	2.56

Jun-19	524618.3	27.12
Mar-19	412704	-22.11
Dec-18	529825.76	-6.35
Sep-18	565750.36	7.15
Jun-18	528006.79	38.99
Mar-18	379876.43	-25.56
Dec-17	510281.61	-10.55
Sep-17	570450.12	-7.02
Jun-17	613501.06	84.74
Mar-17	332080.48	-23.95
Dec-16	436647.23	3.90
Sep-16	420239.64	-2.50
Jun-16	431009	18.28
Mar-16	364402	-14.38
Dec-15	425600	5.91
Sep-15	401867	-2.66
Jun-15	412861	

Source: Reserve Bank of India Data [www.rbi.org](http://www.rbi.org)

In June 2015, Treasury Bills worth Rs.412861 crores were issued by the Government. Still, by September 2019, it increased to Rs.538041 crore, showing an increasing mismatch between the short term receipts and expenditures of government (Table No:4). Similarly, the growth rate in the total amount collected via the sale T-Bills also shows much volatility. For instance, in June 2017, the amount collected from the sale T-Bills registered an increase to the tune of 84 percent, but in March 2018, a negative growth of 25 percent was shown in the collection of amount via the sale T-Bills in India.

**Table 5: Ownership of Treasury Bills in India**

Quarter ended	Commercial Banks	Insurance Companies	Mutual Funds	Provident Funds
Sep 2019	50.81	5.55	14.08	0.01
Jun 2019	53.60	5.13	13.00	0.07
Mar 2019	57.56	6.61	2.78	0.08
Dec 2018	53.76	4.74	5.65	0.02
Sep 2018	47.84	4.55	10.69	0.01
Jun 2018	55.30	3.66	7.03	0.21
Mar 2018	60.74	4.17	2.27	0.11
Dec 2017	48.40	5.22	10.40	0.02
Sep 2017	52.15	4.32	12.44	0.20
Jun 2017	53.96	3.20	15.31	0.06
Mar 2017	57.85	4.58	7.85	0.35

Dec 2016	50.47	2.02	12.91	0.43
Sep 2016	52.58	1.91	16.06	0.45
Jun 2016	54.41	1.83	11.77	0.03
Mar 2016	71.79	1.50	1.66	0.25
Dec 2015	58.91	2.19	5.86	0.06
Sep 2015	59.67	2.19	9.05	0.05
Jun 2015	58.62	1.93	6.60	0.11

**Source:** Reserve Bank of India Data accessed from the [www.rbi.org](http://www.rbi.org)

It is interesting to note that half of the T-Bills have been held by the Commercial Banks in the country. In June 2015, CBS held 58.62 percent of the T-Bills sold in our country. However, Insurance Companies (ICs) share of the holding of Treasury Bills has been increasing in the recent period. In June 2015, 1.93 percent of the T-Bills were held by the ICs, but by September 2019, it enhanced to 5.55 percent. Mutual Funds also have been buying the Treasury Bills on a large scale. For instance, in September 2019, 14.08 percent of the T-Bills were held by the MFs. Provident Funds (PFs) do not seem to be interested in engaging in Treasury Bills operations in the country (Table No: 5)

### Conclusion

The total volume of Public Debt and the changes in the ownership of Public Debt are closely associated with the structural changes taking place in an economy, mainly in the financial sector. To meet the mismatch between the expenditure and revenue of governments, public debt has been resorted to increasingly by the government all over the world. In India, too, public debt has been reckoned as a device through which governments attempt to garner enough resources for both developmental and non-developmental activities. It has been revealed in the study that in recent times, there has been a slight decline in the State government securities issued in India. Provident Funds have become dominant and permanent owners of state government securities in India, especially in recent times. Commercial banks in India are the main owners of GOI dated securities. Half of the T-Bills have been held by the Commercial Banks in the country. Mutual Funds also have been buying the Treasury Bills on a large scale. Provident Funds (PFs) do not seem to be interested in engaging in Treasury Bills operations in the country.

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