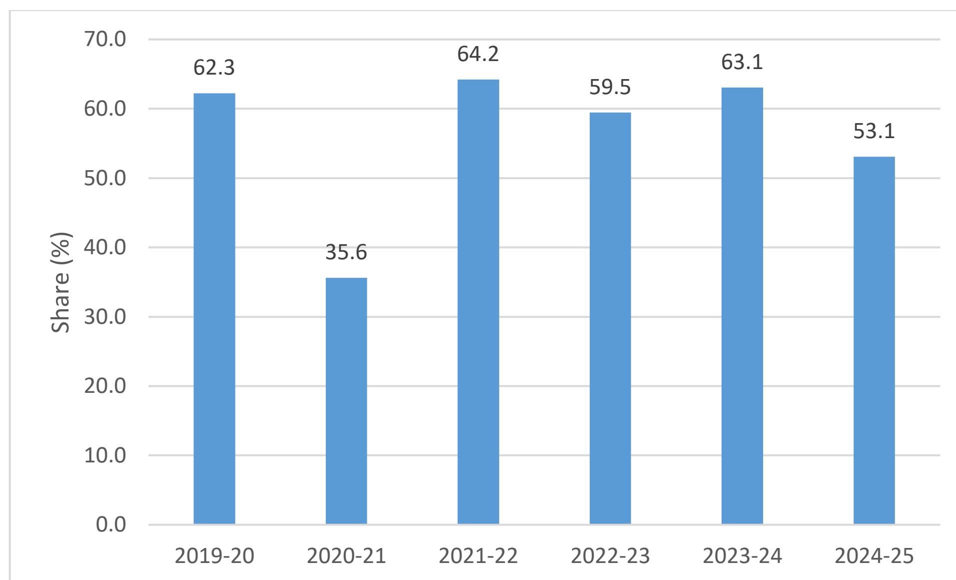
28 March, 2024

Government's borrowing programme for H1-FY25

RBI has announced that the government will borrow Rs 7.5 lakh crore during the first half of the year as against a target of Rs 14.13 lakh crore. This will be 53% of the target and is one of the lowest shares raised during the first half of the year.

Chart 1: Share of first half in total borrowings (%)



Source: RBI/Budget documents

It can be seen in the chart that the share is lowest in the last 6 years if the covid year is excluded. The lower target can be attributed to three factors. First, with the Elections being held in the first two months there could be some strains in liquidity with banks which is addressed to an extent by a lower programme. Second, banks as such are running in the deficit region in the last few months and the possibility of this trend prevailing in the next few months cannot be ruled out. Third, a larger share has been kept for the second half on the expectations of more FPIs flowing in once the inclusion of Indian bonds in the JP Morgan Bond index gets operationalized from June onwards.

In the calendar drawn up, the RBI has also indicated the likely tenure of paper that is being raised. There has not been much change in the composition of different tenures with roughly half being in the 15 years plus category. The 15 years paper would be specifically introduced this year as per the press release. The table below gives the shares of various maturity buckets that has indicated by the RBI for the first half of the year along with the shares for the last full year.

The share of 15 years and above is 51.2% for H1-FY25, which is marginally higher than the 50.9% share for 14 years and above for FY24. But for less than 15 years, the 10-year bucket has a higher share this half year at 25.6% compared with 21.3% last year. Therefore there is some attempt at elongating the repayment schedules of government debt.

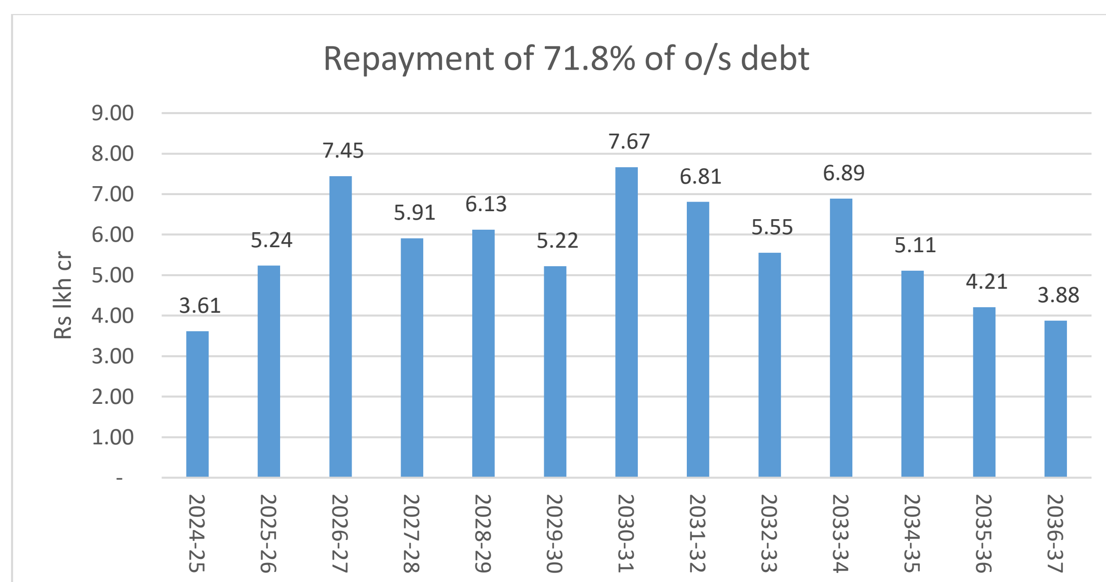
Table 1: Shares of maturity buckets in total issuances of GSecs (%)

Tenure (years)	FY24	H1-FY25
3	6.3	4.8
5	11.7	9.6
7	9.9	8.8
10	21.3	25.6
14-15	16.8	13.9
30	14.8	8.9
40	17.9	19.5
50	1.4	8.9
	100.0	100.0

Source: RBI

The maturity of debt is important from the point of view of not just the repayment period but also ensuring there is not too much bunching of redemptions in certain years. As of today outstanding debt of the government is Rs 102.65 lkh crore. The graph below gives the redemptions that will be due (if not rolled over) for the next 13 years. This phase involves almost 72% of total outstanding debt which will be maturing. It can be seen that 2024-25 would be one of the more favourable years with redemption of Rs 3.61 lakh crore. Subsequently it would be over Rs 5 lakh crore per annum peaking in 2026-27 and 2030-31 again with over Rs 7.5 lakh crore falling due. Intuitively this will push up the gross borrowing programme of the government substantially. One could expect switches taking place to lower the impact.

Chart 2: Redemption of government debt



Source: RBI

The raising of funds will tend to be for longer maturities going forward keeping in mind the redemptions that fall due every year. The table below gives the shares of various quinquennium starting from FY25-FY29 (both years included).

Table 2: Repayment of debt in batches of 5 years

Batch of 5 years	Rs lkh cr	Share %
1st	28.33	27.6
2nd	32.14	31.3
3rd	15.04	14.7
4th	4.46	4.3
5th	6.34	6.2
6th	7.17	7.0
7th	9.17	8.9
	102.65	100.0

Source: RBI

Debt management going forward will have to weigh in several factors. Drawing a calendar will be contingent on state of liquidity in the system, overall growth in the economy, debt appetite of players, tenure of debt, redemption pressures among other factors. As the volume of redemptions increase, the gross borrowing programme would also be rising which will have to be managed by the RBI. The expected flows from FPIs can be a comfort in this context.

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