INTEREST RATE OUTLOOK

31 March 2020

Government sticks to borrowing calendar

Centre's H1FY21 gross borrowing is pegged at Rs 4.88tn in H1FY21 compared with Rs 4.25tn in H1FY20. States will borrow Rs 1.27tn in Q1FY21 (Rs 1.1tn last year). Maturity pattern is skewed towards 30 year at 32% compared with 24% last year. Notably, 5, 10 and 30 year issuances from 1 April are eligible for FPI investment without cap. Despite this yields are unlikely to decline much as there is considerable uncertainty on fiscal deficit and borrowing on account of sharp downward revision in growth and thus revenue collections for FY21.

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KEY HIGHLIGHTS

- Gross borrowing in H1FY21 higher at Rs 4.88tn.
- H2 borrowing expected to be lower at Rs 2.92tn.
- Yields are unlikely to fall as fiscal uncertainty remains.

H1FY21 gross borrowing at Rs 4.8tn: Gross borrowing in H1FY21 is pegged at Rs 4.8tn (62.6% of total issuances) compared with Rs 4.25tn (59.9%) in H1FY20. Net issuances in H1FY21 are Rs 3.5tn as against Rs 3.3tn last year after accounting for repayment of Rs 1.4tn in H1FY21. WMA limit for government has been increased to Rs 1.2tn as against Rs 750bn as government revenues may remain a bit soft in the near-term on account of lockdown. State borrowing for Q1FY21 is pegged at Rs 1.27tn as against Rs 1.1tn last year.

Maturity pattern skewed towards long-end: Issuance pattern is skewed towards 20 year and above bucket at 32% in H1FY21 vs 24% in H1FY21. Issuances in other buckets as % of total have come-off. Notably, RBI notified 5, 10 and 30 year securities under Fully Automatic Route for foreign investment which should pave the way for inclusion of India in global bond indices. The specified securities constitute 4.7% of outstanding securities. FRB issuances are pegged at Rs 240bn. In addition to this, debt ETF will also be rolled out in H2FY21. Overall switches for the year are pegged at Rs 2.7tn.

Higher fiscal deficit worries: While the government has stuck to its borrowing calendar for FY21, there is considerable uncertainty vis-à-vis FY21 fiscal deficit. Receipts on account of direct and indirect taxes will be lower than Budget estimates on account of substantial downward revision in growth estimates since the Budget was presented. We have revised our GDP growth estimate lower to 4% from 5.5% earlier with risks tilted to the downside. As a result, despite 75bps reduction in repo rate, Indian 10Y yield has remained flat since the announcement of RBI policy. However, we do see deposit rates heading lower with government announcing sharp reduction in small saving deposit rates by 70-140bps across maturities.

FIG 1 – BORROWING MATH

(Rs bn)	FY17	FY18	FY19	FY20RE	FY21BE
H1	3410	3570	2760	4250	4880
H2	2420	2310	2950	2850	2920
Gross borrowing	5830	5880	5710	7100	7800
Repayments	-1748	-1373	-1483	-2360	-2351
Net borrowing	4082	4507	4227	4740	5449
Buyback	-597	-416	0	0	-300
Net Switching	11	11	5	0	0
Short-term borrowing	55	449	69	250	250
NSSF	674	1026	1250	2400	2400
State provident funds	177	158	161	180	180
Others	861	54	740	49	508
External debt	180	79	55	49	46
Drawdown of cash	-89	41	-13	0	-570
Total debt receipts	**5356**	**5911**	**6494**	**7668**	**7963**

Source: Budget Documents, Bank of Baroda Research

FIG 2 – INTEREST RATES ON SMALL SAVINGS SCHEME

Instrument (%)	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Savings deposit	4.0	4.0	4.0	4.0	4.0	4.0	4.0
1 year time deposit	6.9	7.0	7.0	6.9	6.9	6.9	5.5
2 year time deposit	7.0	7.0	7.0	6.9	6.9	6.9	5.5
3 year time deposit	7.2	7.0	7.0	6.9	6.9	6.9	5.5
5 year time deposit	7.8	7.8	7.8	7.7	7.7	7.7	6.7
5 year recurring deposit	7.3	7.3	7.3	7.2	7.2	7.2	5.8
5 year senior citizen savings scheme	8.7	8.7	8.7	8.6	8.6	8.6	7.4
5 year monthly income scheme	7.7	7.7	7.7	7.6	7.6	7.6	6.6
5 year national savings certificate	8	8	8	7.9	7.9	7.9	6.8
Public provident fund scheme	8	8	8	7.9	7.9	7.9	7.1
Kisan vikas patra	7.7	7.7	7.7	7.6	7.6	7.6	6.9
Sukanya samriddhi account scheme	8.5	8.5	8.5	8.4	8.4	8.4	7.6

Source: Department of Economic Affairs, Ministry of Finance, Government of India

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