

INTEREST RATE OUTLOOK

08 May 2020

Government alters H1 borrowing calendar

Central government has revised its borrowing to Rs 12tn in FY21 from Rs 7.8tn earlier. Now borrowing in H1 and H2 is split in half at Rs 6tn each compared with Rs 4.88tn and Rs 2.92tn. In addition to this, borrowing of states will also increase to meet their revenue shortfall. Thus overall issuance by centre and states will be closer to Rs 20tn as against Rs 12.8tn in FY20. The large liquidity surplus (Rs 5.6tn) with RBI and OMOs by RBI can absorb higher supply. Thus we believe 10-year yield is likely to remain in 5.5-6% range in the near-term.

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Centre's borrowing calendar revised to Rs 12tn: Gross borrowing for FY21 has been revised to Rs 12tn (54% increase) as against Rs 7.8tn as per FY21BE. Net borrowing is also pegged higher at Rs 9.6tn (Rs 5.4tn estimated earlier). H1FY21 borrowing is also revised upward to 6tn (50% of total issuance) as against Rs 4.8tn earlier. Net issuances in H1FY21 are higher at Rs 4.62tn as against Rs 3.5tn earlier and (Rs 3.3tn last year). In H2FY20, remaining Rs 6tn issuances will be carried on with lower repayment of Rs 0.97tn. 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 10 year and above bucket at 38% (Rs 2.28tn) compared with 35% (Rs 1.48tn) in H1FY20. Issuances in 1-5-year category has come off to 25% (Rs 1.5tn) in H1FY21 compared to 32% (1.36tn) in H1FY20. Markets had already priced-in an inevitable increase in long-end yields with a steepening bias as spread between 1year T-Bill and 10Y G-Sec increased to 220bps in Apr'20 (126bps in Mar'20). FRB issuances are also pegged higher in the revised calendar at Rs 400bn (6.7% of overall issuance) as against Rs 240bn earlier.

Fiscal deficit revised upward: With borrowing program increased by 2% of GDP to Rs 12tn in FY21 from Rs 7.8tn budgeted earlier, we expect a similar increase in the fiscal deficit from FY21BE of 3.5% of GDP to 5.5% of GDP. States too would require additional borrowing in FY21 as their own tax revenues from GST, VAT from petroleum products and excise on alcohol have been impacted. Thus consolidated fiscal deficit is estimated to be 10% of GDP.

KEY HIGHLIGHTS

- Gross borrowing in FY21 revised higher to Rs 12tn as against Rs 7.8tn in BE.
- H1 borrowing is pegged higher at Rs 6tn.
- We are revising our fiscal deficit projection upward to 5.5% (of GDP) from BE of 3.5%.



FIG 1 – BORROWING PLAN REVISED UPWARD TO RS 12TN AS AGAINST RS 7.8TN BUDGETED EARLIER

(Rs bn)	FY17	FY18	FY19	FY20RE	FY21BE	FY21 Revised
H1	3,410	3,570	2,760	4,250	4,880	6,000
H2	2,420	2,310	2,950	2,850	2,920	6,000
Gross borrowing	5,830	5,880	5,710	7,100	7,800	12,000
Repayments	(1,748)	(1,373)	(1,483)	(2,360)	(2,351)	(2,351)
Net borrowing	4,082	4,507	4,227	4,740	5,449	9,649
Buyback	(597)	(416)	0	0	(300)	(300)
Net Switching	11	11	5	0	0	0
Short-term borrowing	55	449	69	250	250	250
NSSF	674	1,026	1,250	2,400	2,400	2,400
State provident funds	177	158	161	180	180	180
Others	861	54	740	49	508	508
External debt	180	79	55	49	46	46
Drawdown of cash	(89)	41	(13)	0	(570)	(570)
Total debt receipts	5,356	5,911	6,494	7,668	7,963	12,163

Source: Budget Documents, Bank of Baroda Research

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