STCI
Primary Dealer Ltd

Government Borrowing H1FY21: An Analysis

The RBI has released the half yearly borrowing calendar for central government securities as well as treasury bills for FY21. An indicative calendar for state development loans (SDLs) has also been released on 31st March 2020. The central government in its budget presented in February 2020, has a gross borrowing of Rs.7.80 Lac Cr in FY21. In terms of financing this deficit, the net market borrowings for FY20 would finance about 68% of the fiscal deficit. As the financing needs have changed so has the government's reliance on market borrowings over the years.

With the government managing the yield curve with measures like Operation Twist- simultaneous buying and selling of government securities to make the cost of borrowing amenable to corporate borrowers and effect the monetary transmission in a non-disruptive manner, the fiscal monetary co-ordination has acquired a crucial role in the present situation of the unfolding crisis. The RBI has already cut the policy repo rate by 75 basis points making the ground softer for government borrowings in the coming financial year, or so it seems. The COVID-19 crisis has hit the financial markets far too deeply to predict how the borrowing costs will evolve over the next year.

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I. Calendar Details – Dated Securities

For H1FY20, market borrowing via dated securities is pegged at Rs 4.88 Lac Cr which is 63% of the total borrowing program. With ~59% of the total redemptions of securities maturing in FY21, falling in the H1 of FY21, net market borrowing stands at Rs 3.49 Lac Cr, higher than Rs.3.40 Lac Cr in the preceding year. The following table details the market borrowing via dated securities for H1:

Table 1: Borrowing Program for H1 (in Rs Cr)

		H1	H1 borrowings/ redemptions as a percentage of total budgeted borrowings/redemptions
FY19	Gross Borrowing	2,88,000	50%
	Redemptions	(87,568)	59%
	Net Borrowing	2,00,432	-
FY20	Gross Borrowing	4,42,000	62.3%
	Redemptions	(1,01,878)	43%
	Net Borrowing	3,40,122	-
FY21	Gross Borrowing	4,88,000	63%
	Redemptions	(1,38,438)	59%
	Net Borrowing	3,49,562	-

Source: RBI, STCI PD Research

A brief summary of the tenor wise borrowing for dated securities is outlined below:

Table 2: Market Borrowing Trends tenor wise (in Rs Cr)					
Maturity Segment	**H1FY21**		**Maturity Segment**	**H1FY20**	
1-4 years	37,000	7.60%	1-4 years	39,000	8.80%
5-9 years	1,05,000	21.50%	5-9 years	1,04,000	23.50%
10-14 years	1,75,000	35.90%	10-14 years	1,43,000	32.40%
15-19 years	-	-	15-24years	52,000	11.80%
20 years and above + FRB	1,71,000	35.10%	25 years and above	1,04,000	23.50%
Total	4,88,000		Total	4,42,000	
Source: RBI, STCI PD Research					

- As can be seen from the table above, the Government has increased the issuances planned in the 10-14 year maturity bucket in FY21 at 36%, albeit lower than the historical average of 45%-55%. For FY21, the short end of the curve will see slightly lower borrowings of Rs.37,000 crore, as compared to Rs.39,000 in FY20. In terms of redemptions in FY21, around 26% of the redemptions are in the shorter end of the curve. The only 10 year bond to mature is the 7.80% GS 2020 stock accounting for 36% of the redemptions in FY21. Though the largest in terms of redemption is the 6 year bond 8.27 GS 2020, maturing in June-2020 which is almost 38% of the total redemptions in H1FY21.

- The government has shifted much of the burden of debt on the longer tenor maturities as can be seen in the table given above. Of the total borrowings, ~36% is in the 10-14 year bucket, and similarly around 31% is in the 20 year and above bucket, with the auctions alternating with the 30 year and 40 year bonds. While the shorter end of the curve that is bonds maturing with less than 5 years has seen a marginal decline from 9% in FY20 to 7.6% in FY21.

- The central government has also scheduled to issue floating rate bonds this year worth Rs.24,000 crore. The RBI and the central government have announced the amounts and dates of the FRBs to be auctioned but have not given any indication of the tenors of the same. It remains to be seen whether the government chooses to issue new FRBs or reissue stocks like FRB 2035, which has a meagre outstanding of Rs. 350 crore and which would fall in the 15-19 year bucket. Incidentally, the government has decided not to issue any other stock in this maturity bucket. So it would be fitting to issue/reissue FRBs in this segment.

- The Union budget FY21 has also accounted for Rs.2.7 Lac Cr worth of switch and Rs. 30,000 crore worth of buyback. The government had given a calendar for switches and buyback in FY20, a similar calendar is awaited in FY21, though it has not been announced yet. As of now switches are usually conducted on the Third Monday of every month.

In terms of auction size, the notified amount for weekly auctions varies within Rs 19,000-21,000 Cr. Table 3 summarizes the borrowing program scheduled under the six months of H1 FY21. It compares the monthly auction size and number of auction weeks of auction with H1 FY19.

Table 3: Market Borrowing Trends Month-wise (in Rs Cr)

	H1FY21 (Calendar)			**H1FY20 (Actual)**		
	No of weeks	Total	Redemptions	No of weeks	Total	Redemptions
Apr	3	60,000	35,608	4	68,000	-
May	5	76,000	49,962	5	85,000	-
Jun	5	99,000	52,868	4	68,000	53,038
Jul	4	78,000	-	4	68,000	42,840
Aug	5	97,000	-	5	85,000	6,000
Sept	4	78,000	-	4	68,000	-
Total		4,88,000	1,38,438		4,42,000	1,01,878

Source: RBI, STCI PD Research

II. Calendar details – T-Bills

A short summary of the tenor wise issuance of T-Bills is detailed below:

Table 4: Borrowing via issuance of T-Bills (in Rs Cr)

Gross Borrowing	Q1 FY21 (Calendar)	Q1 FY20 (Actual)	Q1 FY19 (Actual)
91 Day T-Bill	1,20,000	1,17,000	91,000
182 Day T-Bill	96,000	91,000	52,000
364 Day T-Bill	84,000	52,000	52,000
Total	3,00,000	2,60,000	1,95,000

Source: RBI, STCI PD Research

Gross borrowings via issuance of T-bills for Q1FY21 stands at Rs 3.00 Lac Cr which is higher than Rs 2.60 Lac Cr observed in Q1FY20 and Rs 1.95 Lac Cr in Q1FY19. Maturities wise comparison of the borrowing through T-Bills exhibits greater disposition towards 91-day and 182-day T-Bills in Q1FY21.

Table 5: T-bill Issuances and Redemptions: 2018-19 (in Rs Cr)					
	2019-20				**2020-21 (Calendar)**
	Q1	**Q2**	**Q3**	**Q4**	**Q1**
91 Day T-Bills					
Gross	1,17,000	91,000	1,23,000	59,000	1,20,000
Redemptions	52,000	1,17,000	91,000	1,23,000	59,000
Net	65,000	(26,000)	32,000	(64,000)	61,000
182 Day T-Bills					
Gross	91,000	65,000	52,000	93,000	96,000
Redemptions	52,000	40,000	91,000	65,000	52,000
Net	39,000	15,000	(39,000)	28,000	44,000
364 Day T-Bills					
Gross	52,000	52,000	39,000	63,000	84,000
Redemptions	52,000	52,000	52,000	34,000	52,000
Net	-	-	(13,000)	29,000	32,000
Source: RBI, STCI PD Research					

III. Calendar Details – State Development Loans

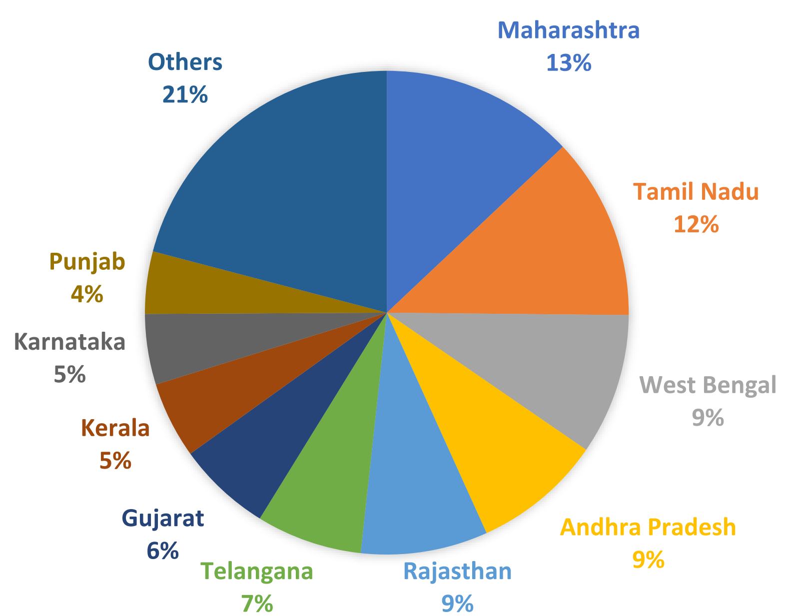
Indicative SDL borrowing calendar for Q1 FY20 shows a massive amount of Rs 1.27 Lac Cr that the states intend to borrow from the market. The amount mentioned in the calendar is tentative and states can change the amount they want to borrow in the weekly auction notification. The indicative borrowing amount for Q1 FY21 is 56% higher than the funds raised by issuing SDLs in Q1 FY20. The borrowing amount came in much higher than what market had expected. A huge rise is observed majorly due to the ongoing pandemic and its unfolding impacts on the financial health of states. However, when we look at the weekly auction amount, the first two weeks are the only weeks where the supply is expected to be more than Rs 11,000 Cr. The first auction of SDL for FY21 would be conducted on April 07, 2020. However, the in the notification released by RBI for the first auction, the notified amount is higher by Rs 10,000 Cr to the tentative amount mentioned in the borrowing calendar. A short summary of SDL issuances in Q1 over the years is detailed below:

Table 6: Borrowing via issuances of SDLs						
	Q1 FY16	**Q1 FY17**	**Q1 FY18**	**Q1 FY19**	**Q1 FY20**	**Q1 FY21 (Calendar)**
Gross Borrowings	50,183	54,780	64,949	76,589	81,523	1,27,205
Redemptions	10,245	5,885	7,403	8,224	20,266	24,622
Net Borrowings	39,938	48,895	57,546	68,365	61,257	1,02,583
Source: RBI, STCI PD Research						

The indicative net borrowing for Q1 FY20 stands at 1.03 Lac Cr after deducting the redemption amount of Rs 24,622 Cr from gross borrowings. While the indicative gross borrowings are higher than 56% when compared to corresponding period last year, the net borrowings are 67% higher than SDL issuances Q1 FY20.

When we look at the State wise share in the total borrowing amount, ten states constitute nearly 80% of the tentative borrowing amount. States of Maharashtra and Tamil Nadu have the highest share of 13% and 12% respectively of the total tentative borrowing amount.

FIG 1 : STATEWISE ISSUANCE Q1 FY21



IV. Concluding Remarks:

The Government revised its fiscal deficit target for FY20 to 3.8% of GDP from 3.3% of GDP. Owing to structural reforms and its unanticipated fiscal implications, the government invoked the escape clause in the Fiscal Responsibility and Budget Management (FRBM) Act to revise the fiscal deficit upwards. However, the government decided not to fund the widened fiscal deficit through additional issuances of Government securities. For FY21, fiscal deficit is pegged lower at 3.5% of GDP; the G-Sec borrowing has been raised to Rs 7.80 Lac Cr compared to Rs 7.10 Lac Cr in FY20. Heavy borrowing i.e., almost 63% of the total borrowing amount is planned to be borrowed by the Central Government in the first half of the financial year. The ongoing pandemic and its evolving effects amid huge redemption pressure has led the Government to front load G-Sec supply. However, the supply would be easily absorbed by the market as there is ample of liquidity in the market as credit off-take remains weak and despite the RBI's measures to ease liquidity conditions by extending various segment specific measures to ensure credit flow, demand for credit should remain moderate given the current uncertain conditions of the financial markets in the near term. Even as G-Sec borrowings seem to be in comfortable position, larger SDL supply (56% higher than Q1 FY20 borrowing) could see some difficulty in absorption by the market.

Amidst the outbreak of COVID-19, RBI in the seventh bi-monthly monetary policy meeting cut policy repo rate by a massive 75 bps along with various monetary measures including introduction of TLTROs, reduction of CRR etc. These measures are announced by RBI to support the frail economic conditions. Easy liquidity conditions would help the demand supply dynamics in the market. The 10 year stock should be trading at around 6.05-6.35 in the near term.

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