



## Government Borrowing H2FY21: An Analysis

The Government in consultation with the RBI has announced the borrowing calendar for H2FY21. The gross borrowing for the second half of the year are as per expectations of the market, as the Government has kept the overall gross borrowing for FY21 at Rs.12 Lakh Crore. Expectations of additional borrowings were causing sovereign yields to be volatile. Along with the G-sec borrowing calendar, quarterly borrowing calendars for State Development Loans (SDLs), and Treasury bills (T-Bills) have also been announced by the RBI. Although in the present economic situation, the fears of additional borrowing by the Central Government cannot be completely eliminated, this would provide relief to the markets for now.

The recent auctions in sovereign bonds have seen huge devolvement on Primary dealers, as the RBI signaled its discomfort with the bids being tendered at higher yields. As a natural reaction to the unusually large borrowings this financial year, market have been pushing sovereign yields higher, while the RBI has been cautiously working towards keeping yields stable and not let the apprehension of the markets push the yields higher. RBI's measures like the Operation Twist where the Central Bank conducts a simultaneous sale and purchase –buying long term and selling short term, Long term repo operations (LTRO), and a 2.5% limit increase for SLR holdings in HTM category for commercial banks was directed at creating robust demand for the government's borrowing. Notwithstanding these developments, the markets were still edgy about the supply hitting the markets.

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### I. Calendar Details – Dated Securities

For H2FY21, market borrowing via dated securities is pegged at Rs.4.34 Lakh Crore which is 36% of the total borrowing program. With ~42% of the total redemptions of securities maturing in H2FY21, net market borrowing stands at Rs.3.37 Lakh Crore, higher than Rs.1.33 Lakh Crore in the preceding year. The following table details the market borrowing via dated securities for H2:

<b>Table 1: Borrowing Program for H2 (in Rs.Cr)</b>			
		<b>H2</b>	<b>H2 borrowings/ redemptions as a percentage of total budgeted borrowings/redemptions</b>
FY19	Gross Borrowing	2,83,000	50%
	Redemptions	(60,695)	41%
	Net Borrowing	2,22,305	-
FY20	Gross Borrowing	2,68,000	38%
	Redemptions	(1,35,000)	57%



	Net Borrowing	1,33,000	-
FY21	Gross Borrowing	4,34,000	36%
	Redemptions	(96,638)	43%
	Net Borrowing	3,37,362	-

Source: RBI, STCI PD Research

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

Maturity Segment	H2FY21		Maturity Segment	H2FY20	
1-4 years	24,000	6%	1-4 years	18,000	7%
5-9 years	64,000	15%	5-9 years	46,000	17%
10-14 years	1,93,000	44%	10-14 years	86,000	32%
15-24 years	-	-	15-24years	26,000	10%
25 years and above	1,29,000	30%	25 years and above	68,000	25%
FRB	24,000	6%	FRB	24,000	9%
Total	4,34,000		Total	2,68,000	

Source: RBI, STCI PD Research

- This year the Central Government's borrowing is the highest on record. Comparison with any other year will be disparate. Notably, the Central Government has allocated much of the borrowing in the medium to long term as a percentage of overall borrowing. While the belly of the curve i.e. 10-14 year segment sees a borrowing of Rs.1.93 Lakh Crore, which is 44% of the overall borrowing, the very long end of the curve i.e. the 25 Years and above segment will see a supply of Rs.1.29 Lakh Crore, which amounts to around 30% of the overall borrowing of the Central Government. This indicates an overall 74% borrowing happening in the 10 year or longer maturity buckets.
- The short end of the yield curve sees the minimum borrowing as the government would likely not face a huge redemption pressure in the coming years, in addition to the earlier redemptions. The government has off late started issuing more in the longer tenor bonds as opposed to issuing largely in the 10-14 year segment. The very short end of the curve will see a minuscule Rs.24,000 Crore supply in H2FY21, a 6% share in the total borrowing in H2FY21, while the maturity bucket of 5-9 years will see a supply of Rs.64,000 Crore, and a percentage share of 15% in the borrowing of the Central Government for H2FY21.



- The Central Government will also issue Floating Rate Bonds (FRBs) worth Rs 24,000 Crore during the second half of the year. The Government has already borrowed Rs.46,000 Crore in the first half of the year. The market will expect more issuance in the GOI FRB 2033 security given that the current outstanding of the security is Rs.37,330 crore, which can easily accommodate the H2FY21 issuance of the Government.

	H2FY21 (Calendar)			H2FY20 (Actual)		
	No of weeks	Total	Redemptions	No of weeks	Total	Redemptions
Oct	4	1,10,000		3	48,000	0
Nov	3	81,000		5	80,000	0
Dec	4	1,08,000	67,493	4	64,000	0
Jan	5	1,35,000	29,145	5	76,000	1,35,000
Total		4,34,000	96,638		2,68,000	1,35,000

Source: RBI, STCI PD Research

In terms of auction size, the notified amount for weekly auctions varies within Rs. 27,000-28,000 Crore. Table 3 summarizes the borrowing program scheduled under the six months of H2 FY21

## II. Calendar Details – T-Bills

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

Gross Borrowing	Q3 FY21 (Calendar)	Q2 FY21 (Actual)	Q1 FY21 (Actual)
91 Day T-Bill	1,17,000	1,56,000	1,70,000
182 Day T-Bill	39,000	1,69,000	1,76,000
364 Day T-Bill	52,000	1,30,000	1,54,000
Total	2,08,000	4,55,000	5,00,000

Source: RBI, STCI PD Research

FY21 has seen a large supply of Rs.9.55 Lakh Crore in first half of the year. Gross borrowing via issuance of T-Bills for Q3 FY21 is pegged considerably lower at Rs.2.08 Lakh Crore than previous two quarters of the current financial year. Weekly auction size of T-Bills has been reduced to Rs.16,000 Crore from Rs.35,000 Crore in the preceding quarter. Maturity-wise comparison of the borrowing through T-Bills exhibits greater amount in 91-day T-bills in Q3 FY21.



<b>Table 5: T-bill Issuances and Redemptions (in Rs.Cr)</b>					
	<b>FY 20</b>		<b>FY21</b>		
	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3 (Calendar)</b>
<b>91 Day T-Bills</b>					
Gross	1,23,000	59,000	1,70,000	1,56,000	1,17,000
Redemptions	91,000	1,23,000	59,000	1,70,000	1,56,000
Net	32,000	-64,000	1,11,000	-14,000	-39,000
<b>182 Day T-Bills</b>					
Gross	52,000	93,000	1,76,000	1,69,000	39,000
Redemptions	91,000	65,000	52,000	93,000	1,76,000
Net	-39,000	28,000	1,24,000	76,000	-1,37,000
<b>364 Day T-Bills</b>					
Gross	39,000	63,000	1,54,000	1,30,000	52,000
Redemptions	52,000	34,000	52,000	52,000	42,000
Net	-13,000	29,000	1,02,000	78,000	10,000

Source: RBI, STCI PD Research

The current quarter will witness a net redemption of Rs.1.66 Lakh Crore. H1FY21 net T-Bill borrowing was heavy (Rs.4.77 Lakh Crore), thereby indicating larger redemptions in H2 FY21.

### **III. Calendar Details – State Development Loans**

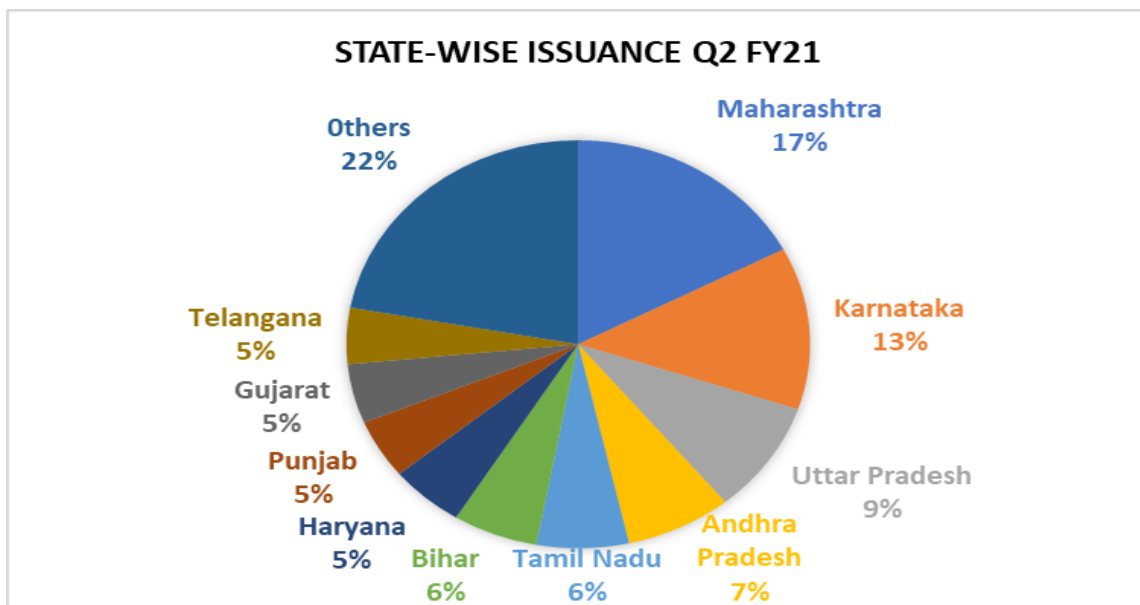
Indicative SDL borrowing calendar for Q3 FY21 pegged the gross borrowing amount at Rs.2.02 Lakh Crore. The amount mentioned in the calendar is tentative and states can change the amount they want to borrow in the weekly auction notification. The borrowing amount came in line or rather lower than market expectations as the markets were expecting a number as high as Rs.2.40-2.50 Lakh Crore. The indicative borrowing amount for Q3FY21 is ~25% higher than actual gross borrowing in Q3FY20 and ~9 higher than the actual gross borrowing in Q2FY21. With increased quantum of borrowing, the average weekly auction size has also increased. The average weekly auction size for Q3FY21 works out to be around Rs.17,000 Crore. Gross borrowing for all the states/union territories in H1FY21 was Rs.3.54 Lakh Crore, which was ~57% than the SDL supply recorded in H1FY20. Usually the SDL supply is skewed towards the second half of the financial year and so it is expected that the borrowing amount for H2FY21 would be much higher than Rs.3.54 Lakh Crore.



A short summary of SDL issuances in Q3 over the years is detailed below:

	Q3 FY18	Q3 FY19	Q3 FY20	Q3 FY21 (Calendar)
<b>Gross Borrowing</b>	1,05,440	1,29,657	1,61,931	2,02,242
<b>Redemptions</b>	21,138	26,712	39,273	44,592
<b>Net Borrowing</b>	84,302	1,02,945	1,22,658	1,57,650

Source: RBI, STCI PD Research



Source: RBI, STCI PD Research

The indicative net borrowing for Q3 FY21 stands at Rs.1.58 Lakh Crore after deducting the redemption amount of Rs.44,592 Crore from gross borrowing. Net borrowing for the current quarter is ~30% higher than the Q3 FY20 net borrowing.

When we look at the State wise share in the total gross borrowing amount, ten states constitute nearly 80% of the total budgeted gross borrowing amount. States of Maharashtra and Karnataka have the highest share of 17% and 13% respectively of the total gross borrowing amount.



#### **IV. Concluding Remarks:**

The revision of the gross borrowings as a response to the pandemic, from Rs.7.80 Lakh Crore announced in the budget to a significantly higher number of Rs.12 Lakh Crore had created apprehension in the markets with regards to the huge supply that would hit the markets in the coming quarters. The RBI has been managing the yields through various means like Operation Twist, OMOs, and regulatory measures like the increase in the HTM holding limit of commercial banks to keep demand for the sovereign issuances robust. Despite all the efforts taken by the central bank the markets appear apprehensive as was seen in the four successive auctions which saw massive devolvement of Rs.58,455 Crore. The central Government has borrowed Rs.7.66 Lakh Crore (64% of the Revised gross borrowing of Rs.12 Lakh Crore) in first half of the year, with Rs.68,000 being borrowed under the green shoe option. The supply pressure in the market from both G-Sec and SDL fronts could pose upside risk for the yields due to demand-supply mismatch.

The stimulus package announced in May 2020, will not have a fiscal impact of more than 1% of GDP or ~ Rs.2.2 Lakh Crore, but the hit on the government's coffers will be more pronounced due to the significant loss in the tax revenues this year estimated at ~2% of GDP. This would lead according to our calculations to a fiscal deficit number close to 8% of GDP. The H2FY21 calendar indicates the end of borrowing by January-2021. We expect an additional borrowing to the tune of Rs.1-1.5 Lakh Crore in H2FY21. With the lingering uncertainty with respect to the growth, inflation, fiscal conditions and borrowings, market sentiments could remain edgy in the near term.



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