



## Revised Borrowing Calendar H2FY21

The Central Government has announced a revision of the borrowing calendar for H2FY21 in consultation with the RBI, with additional borrowings of Rs. 1.10 Lakh Crore. The total revenue shortfall for FY21 is estimated to be Rs. 2.35 Lakh Crore, attributed to GST implementation by states. Given the anticipated loss of revenue for the states due to the fall in GST collections for FY21, the Central Government had offered two options to the states which would facilitate additional resources during FY21. 21 states have agreed to borrow under Option1. The first option entailed a borrowing amount of Rs.97,000 crore which was later revised to Rs.1.10 Lakh Crore. This option also entailed a Special window coordinated by the Ministry of Finance, under which the remaining amount of Rs.1.10 Lakh crore would be raised by issuing debt. The question as to who would be the issuer of the debt was not announced by the Centre. The Central Government has announced that it will be the issuer of the debt to the tune of Rs.1.10 Lakh Crore for FY21. This increases the total market borrowings of the Central Government from Rs.12 Lakh Crore announced in May 2020 to Rs.13.1 Lakh Crore for FY21.

The Central Government has further announced that the Open Market Borrowings (OMBs) will be passed on to the states as back-to-back loans in lieu of the GST Compensation cess releases. Hence, this borrowing will not show up in the centre's borrowings and hence not be a part of the fiscal deficit of the Centre. This would make the case for an argument stating that if this additional borrowing does not affect the centre's fiscal arithmetic the centre should borrow the entire amount as the many of the logistic concerns regarding state borrowings through SDLs like differential yields for different states would automatically get addressed.

The break-up of the financing for the states:

<b>State Borrowings FY21</b>	<b>Upper limit for borrowing FY21(Rs Crore)</b>	<b>Borrowing allowed by GOI FYTD (Rs Crore)</b>
States net borrowing ceiling for FY21-3% of GSDP	6,41,000	6,41,000
0.5% of GSDP - unconditional	1,07,000	1,07,000
1% of GSDP in 4 tranches of 0.25% of GSDP	2,14,000	17,289
0.5% of GSDP - if atleast 3 out of 4 reforms are met (waived off for states which opted for option 1 of GST compensation shortfall)	1,07,000	78,452
<b>Total</b>	<b>10,69,000</b>	<b>8,43,741</b>

Source:Minsitry of Finance



The announcement to revise the borrowing by the Central Government will lead to less borrowing on the part of the states in Q4FY20, and overall in H2FY21. Our estimates pointed to a state gross borrowing number of Rs.8.77 Lakh Crore for FY21. With the burden of additional borrowing now falling on the Central Government to the tune of Rs.1.10 Lakh Crore the gross borrowings for the state governments should fall in the range of Rs.7.65-7.80 Lakh Crore. The estimated borrowings for FY21 will be as follows:

<b>SDL Borrowings FY21</b>	<b>Budgeted Amount (Rs Crore)</b>	<b>Actual/Estimated Borrowings (Rs Crore)</b>	<b>Redemptions (Rs Crore)</b>	<b>Net Borrowings (Rs Crore)</b>
<b>Q1</b>	1,27,205	1,67,276	24,622	1,42,654
<b>Q2</b>	1,78,276	1,86,320	26,439	1,59,881
<b>Q3</b>	2,02,242	2,02,242	44,592	1,57,650
<b>Q4*</b>	2,20,000	2,20,000	40,414	1,79,586
<b>Total</b>	<b>7,27,723</b>	<b>7,75,838</b>	<b>1,36,067</b>	<b>6,39,771</b>

Source: Ministry of Finance

\*STCI Estimates

The ceiling for borrowing under the revised limits of 5% (3% of GSDP +2% of GSDP additional) will lead to a net borrowing number of Rs.10.69 Lakh Core and till now the Central government has allowed total borrowings to the tune of Rs.8.43 Lakh Crore. The redemptions for SDLs in FY21 stand at Rs.1.36 Lakh Crore so the total gross borrowings of the state will be to the tune of Rs.12.05 Lakh crore. If the assumption is that the additional borrowings by the Central Government are to be accounted for as debt capital receipts of the state governments then the total Gross borrowing for the Centre and States combined will be ~Rs.24 Lakh Crore. We expect that the borrowing for state governments in Q3FY21 should be in alignment with the budget estimates. With the additional resource being raised by the Centre and with an additional borrowing allowed by the centre of Rs.1.10 Lakh Crore, whether states will then use 2% (over and above the 3% of GSDP limit in FRBM) of GSDP limit will depend on the hit that the states' own tax revenues have taken over the course of the year, and the fiscal deficit faced by the states.

**Outlook:** The Central Government has changed its position of not borrowing on behalf of states. The earlier stance of the Central Government was to nudge the states to borrow in the open market. This would have created pressure on SDL yields and the G-Sec-SDL yield spread would have widened to 80-100 basis points, as compared to about 50-60 basis points under normal circumstances, above the sovereign bonds. Additionally, there is a credit risk premium attached to states, which would have resulted in differential pricing across states. The decision to borrow under the aegis of the Central Government will solve these issues and will be beneficial to the states to overcome the present crisis. The GST impasse in the 42<sup>nd</sup> GST Council meeting has for now been addressed, and states those who were not willing to take up option 1 will now be willing to cooperate with the centre. The G-sec bond yields have seen little movement in the belly of the curve, however yields of the shorter tenor papers sharply



surged by ~11-12 bps post this announcement as additional bond supply will be in 3 & 5 years In this context, we expect the 10 year to trade around the level of 5.85-6.05 in the near term.

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