



Government Borrowing H2 FY24

Highlights:

- ✓ *The center plans to borrow ~42% of its total borrowings in H2 FY24.*
- ✓ *The government has introduced a new maturity of 50 years to the yield curve, assessing the increasing demand in the ultra-long end of the curve.*
- ✓ *Sovereign Green Bonds (SrGB) worth Rs. 20,000 crore, in the 5, 10 and 30 year maturity segments are to be issued in H2 FY24.*
- ✓ *Net T-bills borrowing will be Rs.3.1 lakh crore for Q3 FY24.*

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Government Borrowing H2 FY24: An Analysis

The borrowing calendar for H2 FY24 has been announced on 26th September, 2023, with no surprises on the size of gross borrowing but a few tweaks in details. So, the fiscal balance will not change for FY24, with redemptions, net of recovery of Rs. 78,104 crore from the GST compensation fund, amounting to Rs. 3.62 lakh crore, and a net borrowing of Rs. 11.08 lakh crore for FY24. The tweaks are the introduction of the ultra-long tenor of 50 years maturity, considering the increased demand from investors such as insurance and pension funds, and issuance of SrGBs. Since the size of the borrowing has remained unchanged the markets will be pacified for now. The center's fiscal situation looks balanced, as tax collection remains decent so far. Though, risks to the fiscal deficit remain in shadows in the form of higher crude oil prices, global headwinds resulting in lower exports, and in consequence lower GDP growth and hence annual tax collections undershooting the target.

The H2 FY24 borrowing calendar is in alignment with market expectations, with the only tweak being the issuance of ultra-long maturities of 50 years. While the green bond issuance was expected, the ultra-long maturity was also to an extent suggested by the markets, especially those long maturity investors like insurance and pension funds. The baton of being the largest investors in the sovereign bond markets still lies with commercial banks, although there has been a shift of investment pattern in recent times with considerable interest in the very long end of the curve.

The view on government's fiscal balances has been fairly unchanged as of now, though risks are looming with crude oil prices inching up and exports slowdown in the face of changing global macros. The GST collection has averaged to ~Rs. 1.7 lakh crore so far and if the rate of collection remains unchanged, the tax revenue target will be met. Although some signs of a slowdown or tapering off are evident, the domestic growth momentum should keep the tax flow unaltered.

A pre-election year is always a challenging one for the incumbent ruling party, and though the current dispensation has been fiscally prudent there might be certain fiscal actions leading to a higher burden on the exchequer, depending on the situation of the monsoons which have been erratic and marginally deficient so far. The possibility of any extra borrowing remains weak at the moment.



I. Calendar Details – Dated Securities

For H2 FY24, market borrowing via dated securities is Rs. 6.55 lakh crore (including SGrBs) which is 42% of the total borrowing programme of Rs. 15.43 Lakh Crore. With 64% of the total redemptions of securities for FY24, falling in H2 FY24, net market borrowing stands at Rs 3.74 Lakh Crore, lower than Rs. 5.07 Lakh Crore in the preceding year. The following table details the market borrowing via dated securities for H2:

		H2	H2 borrowings/ redemptions as a percentage of total budgeted borrowings/redemptions
FY22	Gross Borrowing	4,25,025	38%
	Redemptions	1,25,022	47%
	Net Borrowing	3,00,003	-
FY23	Gross Borrowing	5,92,000	41%
	Redemptions	85,378	27%
	Net Borrowing	5,06,622	-
FY24	Gross Borrowing	6,55,000	42%
	Redemptions	2,81,365	64%
	Net Borrowing	3,73,635	-

Source: RBI, STCI PD Research

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

Maturity Segment	H2 FY23 (Actual)	% of Total H2 Borrowing	H2 FY24 (Budgeted)	% of Total H2 Borrowing
2 Years	36,000	6%		
3 Years			40,000	6%
5 Years	70,000	12%	70,000	11%
7 Years	60,000	10%	60,000	9%
10 Years	1,20,000	21%	1,45,000	23%
14 Years	1,10,000	19%	1,00,000	16%
30 Years	90,000	16%	70,000	11%
40 Years	90,000	16%	1,20,000	19%
50 Years			30,000	5%
Total	5,76,000	100%	6,35,000¹	100%

¹ This is net of Rs.20,000 crore of SrGB.



- The Government has increased the issuances planned in the 10-year maturity segment in H2 FY24 to 23 per cent, in comparison to 21 per cent issued in H2 FY23. In 14-year segment, Government plans to issue 16 per cent of the total H2 FY24 borrowing, lower than 19 per cent completed in H2 FY23. Thus, the belly of the curve i.e., 10–14-year segment comprises 39 per cent of the total budgeted borrowing for H2 FY24. This is lower than the traditional share 45-55 per cent and also lower than the corresponding period of the previous year’s total of 40 per cent.
- In the 7-year tenor, the Government plans to borrow Rs. 0.60 Lakh Crore, or 9 per cent of the total borrowing in H2 FY24.
- The Government has decreased the weighting in the 30-year maturity to 11 per cent as compared to the previous year borrowing at 16 per cent and has increased the weighting in the 40-year maturity to 19 per cent as compared to the previous year borrowing at 16 per cent.
- The Government has announced a new maturity segment of 50 years. In this tenor, the Government plans to borrow Rs. 0.30 Lakh Crore, or 5 per cent of the total borrowing in H2 FY24
- The Central Government has not announced issuance of Floating Rate Bonds (FRBs) in the borrowing calendar for H2 FY24.
- The government has also announced the issuance of Sovereign Green Bonds (SGrBs) of Rs. 20,000 Crore.

In terms of auction size, the notified amounts for weekly auctions are for Rs. 30,000 Crore, 33,000 Crore, 34,000 Crore, 35,000 Crore and Rs. 39,000 Crore. Table 3 summarizes the borrowing programme scheduled for H2 FY24. It compares the monthly auction size and number of auction weeks of H2 FY24.

Table 3: Market Borrowing Trends Month-wise (in Rs. Cr.)						
	H2 FY23 (Actual)			H2 FY24 (Calendar)		
	No. of weeks	Total	Redemptions	No. of weeks	Total	Redemptions
Oct	3	86,000	-	5	1,54,000	-
Nov	4	1,16,000	28,410	4	1,29,000	1,42,998
Dec	5	1,46,000	56,968	4	1,35,000	78,834
Jan	4	1,24,000	-	4	1,35,000	59,533
Feb	4	1,20,000	-	3	1,02,000	-
Total	20	5,92,000	85378	20	6,55,000	2,81,365



II. Calendar details – T-Bills

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

Gross Borrowing	Q3 FY22 (Actual)	Q3 FY23 (Actual)	Q3 FY24 (Calendar)
91 Day T-Bill	1,30,000	1,30,000	91,000
182 Day T-Bill	39,000	78,000	1,04,000
364 Day T-Bill	91,000	78,000	1,17,000
Total	2,60,000	2,86,000	3,12,000

Source: RBI, STCI PD Research

Gross borrowing via issuance of T-bills for Q3 FY24 stands at Rs. 3.12 Lakh Crore higher than Rs. 2.86 Lakh Crore observed in Q3 FY23 and Rs. 2.60 Lakh Crore in Q3 FY22. Maturity-wise comparison of the borrowing through T-Bills indicates higher borrowing in the 182-day and 364-day T-Bills, and lower borrowing in 91-day T-bills as compared to Q3 FY23.

	FY23				FY24		FY24 (Calendar)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
91 Day T-Bills							
Gross	1,69,000	1,17,000	1,30,000	92,000	1,56,000	1,30,000	91,000
Redemptions	75,000	1,69,000	1,17,000	1,30,000	92,000	1,56,000	1,30,000
Net	94,000	-52,000	13,000	-38,000	64,000	-26,000	-39,000
182 Day T-Bills							
Gross	1,59,000	91,000	78,000	1,79,000	1,56,000	1,04,000	1,04,000
Redemptions	39,000	1,55,000	1,59,000	91,000	78,000	1,79,000	1,56,000
Net	1,20,000	-64,000	-81,000	88,000	78,000	-75,000	-52,000
364 Day T-Bills							
Gross	1,04,000	65,000	78,000	1,50,000	1,04,000	78,000	1,17,000
Redemptions	78,000	52,000	91,000	1,64,000	1,04,000	65,000	78,000
Net	26,000	13,000	-13,000	-14,000	0	13,000	39,000

Source: RBI, STCI PD Research



III. Concluding Remarks:

The borrowing was on expected lines with no change in the size of gross borrowing, which is the crucial factor for market sentiment. The introduction of ultra-long maturity bonds was also in effect by RBI considering the increased demand for such maturities from specific longer-term investors. This will in our view be a repeat of the 30-year and 40-year segment with much of the debt lying dormant in these investors' books, and should not pose any drastic change in the functions of the yield curve per se. The net issuance of sovereign bonds remains unchanged though this being the pre-election year with a patchy monsoon, there is always the fear of the fiscal arithmetic facing challenges. Although the center has seen decent tax collections, signs of the GST revenues tapering off are now visible, in addition to some weakness in corporate taxes. External headwinds of rising crude oil prices and slowing exports also will pose downside risks to tax collections. We expect the RBI to hold the status quo on interest rates in the upcoming monetary policy, and the 10-year yield to trade within the 7.10-7.25 per cent range in the near term.

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