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Government Borrowing H1 FY24

Highlights:

- ***The center plans to borrow ~58% of its total borrowings in H1 FY24.***
- ***The RBI and the central government seem hopeful of a robust demand from the insurance sector in the 14-40 year segment of the curve.***
- ***No FRBs to be issued in H1 FY24***
- ***Net T-bills borrowing will be Rs.2.4 lakh crore for Q1 FY24***

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Government Borrowing H1 FY24: An Analysis

The RBI announced the borrowing calendar for H1 FY24 on 29th March, 2023. The total amount to be borrowed is Rs. 8.88 Lakh Crore. This indicates that the government plans to borrow ~58% of its total borrowings in H1, which is slightly lower than the average of ~60% seen post COVID. The market is accustomed to a ~Rs.30,000 crore G-sec supply per week, although for H1 FY24 the RBI has structured the average auctions size at Rs.34,000 crore per month, with weekly auctions ranging from Rs.31,000 crore to Rs.39,000 crore. Besides the weightage to the 10-14 year segment, which has been kept flattish, the RBI has increased longer end duration assuming a repeat of the demand seen during the preceding year by insurance companies.

The RBI has announced the borrowing calendar with some notable tweaks, reintroduction of a 3 year paper, a Rs.39,000 crore auction size once month, and higher weightage given to longer duration bonds. There might be episodes of supply pressures driving yields up in H1 FY24 possibly in Q2 FY24. This will also be the year of keeping liquidity on a tighter leash by the RBI, and tax revenues of the government to be steady at around the Rs.1.5-1.6 Lakh Crore mark per month, since growth projections are lower this year with a 6%-6.4% level appearing stretched. This could spell some challenge for banks as largest investors in sovereign bonds, and will reflect in yield movements across the curve, and especially in the belly of the curve. As a counter point the annual book-shifting exercise of bonds across the HTM, AFS books might lead to some demand for duration in Q1 FY24.

Once the pent up demand for duration of insurance companies is satisfied in Q1 FY24, the situation might turn out to be placid, since the tax exemptions for insurance companies tweaked in the FY24 budget might lead to lower premium flows to the industry as compared to FY23. This will likely create a shortfall in the duration demand and supply for FY24.

Also, with the advanced economies braced for a "higher for longer" interest rates, in addition to unwinding of the various easing measures termed as quantitative tightening, and a series of banking crises, foreign capital will be scarce for emerging markets. The central bank will have to step in terms of OMO purchases probably earlier than was anticipated, towards the end of H1 FY24.

I. Calendar Details – Dated Securities

For H1 FY24, market borrowing via dated securities is ascertained to be Rs.8.88 Lakh Crore which is 58% of the total borrowing programme of Rs.15.43 Lakh Crore. With 36% of the total redemptions of securities for FY24, falling in H1 FY24, net market borrowing stands at Rs. 7.29 Lakh Crore, higher than Rs. 6.01 Lakh Crore in the preceding year. The following table details the market borrowing via dated securities for H1:

Table 1: Borrowing Programme for H1 (in Rs. Cr.)

		H1	H1 borrowings/ redemptions as a percentage of total budgeted borrowings/redemptions
FY22	Gross Borrowing	7,02,356	62%
	Redemptions	1,39,256	53%
	Net Borrowing	5,63,100	-
FY23	Gross Borrowing	8,29,000	58%
	Redemptions	2,27,361	73%
	Net Borrowing	6,01,639	-
FY24	Gross Borrowing	8,88,000	58%
	Redemptions	1,58,764	36%
	Net Borrowing	7,29,236	-

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	H1 FY23 (Actual)	% of Total H1 Borrowing	H1 FY24 (Budgeted)	% of Total H1 Borrowing
2 Years	52000	6%	-	-
3 Years	-	-	56000	6%
5 Years	117000	14%	104000	12%
7 Years	91000	11%	91000	10%
10 Years	169000	20%	182000	20%
14 Years	134000	16%	156000	18%
30 Years	113000	14%	143000	16%
40 Years	117000	14%	156000	18%
FRB 28	20000	2%	-	-
FRB 34	16000	2%	-	-
Total	**8,29,000**	**100%**	**8,88,000**	**100%**

- The Government has kept the weightage unchanged in the 10-year maturity segment of H1 FY24 at 20%, in comparison to H1 FY22. In 14-year segment, Government plans to issue 18% of the total H1 FY24 borrowing, higher than 16% in H1 FY23. Thus, the belly of the curve i.e., 10–14-year segment comprises 38% of the total budgeted borrowing for H1 FY24. This is marginally lower than the average of 40% seen since FY17.

- The Government has announced a new maturity segment of 3 year. In this tenor, the Government plans to borrow Rs. 0.56 Lakh Crore, or 6% of the total borrowing in H1 FY24.

- In the overall borrowing, the 5-year and 7-year maturity segments have been assigned a weightage of 12% and 10% respectively in H1 FY24, marginally lower than last year's borrowing of 14% and 11%.

- The Government has significantly increased the weightage in the longer maturities, specifically 30 and 40 year to 16% and 18% respectively as compared to the previous year borrowing at 13% and 14%.

- The Union budget FY24 had also accounted for conversion of securities/ switches for a total amount of Rs. 1.00 Lakh Crore. The switch enables the government to push the redemption pressure to later years by converting the near-term maturing securities to longer-term maturities.

In terms of auction size, the notified amounts for weekly auctions are for Rs. 31,000 Crore, 33,000 Crore and Rs. 39,000 Crore. Table 3 summarizes the borrowing programme scheduled under the six months of H1 FY24. It compares the monthly auction size and number of auction weeks of H1 FY23.

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

	H1 FY23 (Actual)			H1 FY24 (Calendar)		
	No. of weeks	**Total**	**Redemptions**	**No. of weeks**	**Total**	**Redemptions**
Apr	4	1,30,000	27,355	4	1,36,000	40,559
May	4	1,30,000	47,966	4	1,36,000	1,05,052
Jun	4	1,30,000	59,669	5	1,69,000	13,153
Jul	5	1,62,000	-	4	1,36,000	-
Aug	4	1,22,000	47,369	4	1,36,000	-
Sep	4	1,55,000	45,002	5	1,75,000	-
Total	**25**	**8,29,000**	**2,27,361**	**26**	**8,45,000**	**1,58,764**

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 FY22 (Actual)**	**Q1 FY23 (Actual)**	**Q1 FY24 (Calendar)**
91 Day T-Bill	1,95,000	1,69,000	1,56,000
182 Day T-Bill	1,95,000	1,59,000	1,56,000
364 Day T-Bill	78,000	1,04,000	1,04,000
Total	4,68,000	4,32,000	4,16,000
Source: RBI, STCI PD Research			

Gross borrowing via issuance of T-bills for Q1 FY24 stands at Rs. 4.16 Lakh Crore lower than Rs. 4.32 Lakh Crore observed in Q1 FY23 and Rs. 4.68 Lakh Crore in Q1 FY22. Maturity-wise comparison of the borrowing through T-Bills exhibits lower borrowing in the 91-day and 182-day T-Bills.

Table 5: T-Bill Issuances and Redemptions (in Rs. Cr.)					
	FY23				**FY24 (Calendar)**
	Q1	**Q2**	**Q3**	**Q4**	**Q1**
91 Day T-Bills					
Gross	1,69,000	1,17,000	1,30,000	92,000	1,56,000
Redemptions	75,000	1,69,000	1,17,000	1,30,000	92,000
Net	94,000	-52,000	13,000	-38,000	64,000
182 Day T-Bills					
Gross	1,59,000	91,000	78,000	1,79,000	1,56,000
Redemptions	39,000	1,55,000	1,59,000	91,000	78,000
Net	1,20,000	-64,000	-81,000	88,000	78,000
364 Day T-Bills					
Gross	1,04,000	65,000	78,000	1,50,000	1,04,000
Redemptions	78,000	52,000	91,000	1,64,000	1,04,000
Net	26,000	13,000	-13,000	-14,000	0
Source: RBI, STCI PD Research					

III. Concluding Remarks:

The H1 FY24 borrowing calendar indicates a lighter borrowing burden in the second half of the year, with almost 58% of the total borrowing to be through by September. The RBI has seemingly factored in a robust demand from the insurance companies and other long duration buyers like pension funds and increased the borrowing in 14-40 year of the curve. As compared to the previous year, factoring in a robust demand by insurance companies and pension funds, there has been an increase of 33% in the issuance of 40 year bonds. With the tax exemptions for insurance and mutual funds now tweaked, there might be a shortfall in the expected investment by these entities and the actual flows that will come through to the sovereign bond market. Moreover, with the US Fed still going by the “higher for longer” paradigm, quantitative tightening, banking crises, it seems unlikely that foreign capital will flow in to emerging economies with the same intensity as was seen in the recent years. Given the huge supply, a supporting act by the RBI in terms of OMOs might be seen earlier than expected in FY24.

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