Government Borrowing H1 FY22: An Analysis

The RBI released H1 FY22 borrowing calendar for central government securities and Q1 FY22 borrowing calendar for treasury bills on March 31, 2021. In the Union Budget presented on February 01, 2021, the Central Government had announced gross market borrowing of Rs. 12.06 Lakh Crore for FY22 as against the revised gross market borrowing of Rs. 12.80 Lakh Crore in FY21. After accounting for the redemptions, the net market borrowing for FY22 stand at Rs. 9.41 Lakh Crore, that is about 62% of the budgeted fiscal deficit for FY22. The unprecedented times witnessed in the previous financial year led to a sharp surge in government borrowing in order to support the widened fiscal gap. Though the previous year noted a larger demand-supply mismatch, the RBI successfully completed the borrowing programme by keeping the yields in check through active measures including special OMOs, outright OMO purchases and secondary market intervention. For FY22, gross borrowing is pegged lower in comparison to the previous year. A detailed analysis of H1 FY22 borrowing is presented below.

Aditya Vyas
aditya@stcipd.com
022-66202244

Nalini Gupta
nalini@stcipd.com
022-66202245

I. Calendar Details – Dated Securities

For H1FY22, market borrowing via dated securities is pegged at Rs 7.24 Lakh Cr which is 60% of the total borrowing programme of Rs. 12.06 Lakh Crore. With ~53% of the total redemptions of securities in FY22, falling in the H1 FY22, net market borrowing stands at Rs 5.85 Lakh Crore, lower than Rs. 6.35 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
FY20	Gross Borrowing	4,42,000	62%
	Redemptions	(1,01,028)	43%
	Net Borrowing	3,40,972	-
FY21	Gross Borrowing	7,66,000	60%
	Redemptions	(1,30,572)	57%
	Net Borrowing	6,35,428	-
FY22	Gross Borrowing	7,24,000	60%
	Redemptions	(1,39,256)	53%
	Net Borrowing	5,84,744	-

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 FY21**	**% of Total H1 Borrowing**	**H1 FY22**	**% of Total H1 Borrowing**
2 Years	53,055	7%	36,000	5%
5 Years	1,46,000	19%	1,43,000	20%
10 Years	2,13,000	28%	1,68,000	23%
14 Years	1,39,000	18%	1,30,000	18%
30 Years	88,000	11%	91,000	13%
40 Years	80,945	11%	1,08,000	15%
FRB	46,000	6%	48,000	7%
Total	**7,66,000**	**100%**	**7,24,000**	**100%**
Source: RBI, STCI PD Research				

- As can be seen from the table above, the Government has decreased the issuances planned in the 10-year maturity segment in H1 FY22 at 23%, in comparison to 28% of the issuance done in 10-year segment in H1 FY21. In the 14-year segment the weightage of 18% has not been changed. Thus, the belly of the curve i.e., 10–14-year segment comprises 41% of the total budgeted borrowing for H1 FY22, albeit marginally lower than the historical average of 45%-55%. The current 10Y benchmark paper, 5.85% GS 2030 has an outstanding amount of Rs. 74,405 Crore, implying that the new 10Y benchmark paper would likely be issued by end of May 2021.

- 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 for H1 FY22, ~41% is in the 10–14-year segment, and similarly around 28% is in the 30–40-year segment. For the corresponding period last year, the weightage for 10–14-year segment and 30–40-year segment was 46% and 22% respectively.

- In the shorter end, i.e., 2- and 5-year maturity segments have been assigned a weighting of 5% and 20% respectively in H1 FY22, in line with last year's borrowing of 7% and 19% respectively in said segments.

- The central government has also scheduled to issue floating rate bonds this year worth Rs. 48,000 crore, marginally higher than Rs. 46,000 Crore borrowed in H1 FY21.

- The Union budget FY22 has also accounted for conversion of securities/ switches for a total amount of Rs. 1.80 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. Conversion auctions, which are conducted on every third Monday of the month, would increase the duration in the market.

In terms of auction size, the notified amount for weekly auctions varies within Rs. 26,000-32,000 Crore. Table 3 summarizes the borrowing programme scheduled under the six months of H1 FY22. It compares the monthly auction size and number of auction weeks of H1 FY21.

Table 3: Market Borrowing Trends Month-wise (in Rs. Cr.)						
	H1 FY21 (Actual)			H1 FY22 (Calendar)		
	No of weeks	Total	Redemptions	No of weeks	Total	Redemptions
Apr	4	83,000	35,608	4	1,16,000	53,272
May	4	1,31,000	49,962	4	1,16,000	51,914
Jun	4	1,32,000	45,001	4	1,16,000	0
Jul	5	1,70,000	-	5	1,48,000	34,070
Aug	4	1,30,000	-	4	1,14,000	0
Sept	4	1,20,000	-	4	1,14,000	0
Total		**7,66,000**	**1,30,571**		**7,24,000**	**1,39,256**
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 FY20 (Actual)**	**Q1 FY21 (Actual)**	**Q1 FY22 (Calendar)**
91 Day T-Bill	1,17,000	1,70,000	1,95,000
182 Day T-Bill	91,000	1,76,000	1,95,000
364 Day T-Bill	52,000	1,54,000	78,000
Total	2,60,000	5,00,000	4,68,000
Source: RBI, STCI PD Research			

Gross borrowing via issuance of T-bills for Q1 FY22 stands at Rs. 4.68 Lakh Crore marginally lower than Rs. 5.00 Lakh Crore observed in Q1 FY21 and higher than Rs. 2.60

Lakh Crore in Q1 FY20. Maturity-wise comparison of the borrowing through T-Bills exhibits lower borrowing in the 364-day T-Bills.

Table 5: T-Bill Issuances and Redemptions (in Rs. Cr.)

	FY21				FY22 (Calendar)
	Q1	Q2	Q3	Q4	Q1
91 Day T-Bills					
Gross	1,70,000	1,56,000	1,17,000	52,000	1,95,000
Redemptions	59,000	1,70,000	1,56,000	1,08,000	52,000
Net	1,11,000	-14,000	-39,000	-56,000	1,43,000
182 Day T-Bills					
Gross	1,76,000	1,69,000	39,000	91,000	1,95,000
Redemptions	52,000	93,000	1,89,000	1,56,000	36,000
Net	1,24,000	76,000	-1,50,000	-65,000	1,59,000
364 Day T-Bills					
Gross	1,54,000	1,30,000	52,000	1,04,000	78,000
Redemptions	52,000	52,000	42,000	60,000	1,54,000
Net	1,02,000	78,000	10,000	44,000	-76,000

Source: RBI, STCI PD Research

III. Concluding Remarks:

During the previous financial year i.e., FY21, the Central Government revised the borrowing programme on three instances, in order to finance the added fiscal burden that the government had to take on due to the COVID-19 pandemic. Amidst the strained financial conditions and dwindling revenues, the Government announced various fiscal measures, thereby leading to a widening of the fiscal gap. As a consequence, the Government revised the fiscal deficit target to 9.5% for FY21, a significant jump from the budget estimate of 3.5%. In the Union Budget, the Government announced additional borrowing to the tune of Rs. 80,000 Crore for FY21 which was a surprise for the markets. However, the last auction for the year was later cancelled due to higher tax mop-up. For FY22, the fiscal deficit target has been pegged at 6.8%, substantially lower than the FY21 revised estimate. The G-Sec borrowing has been kept at Rs. 12.06 Lakh, marginally lower than Rs. 12.60 borrowed in FY21. About 60% of the total budgeted amount is planned to be borrowed in the first half of the financial year. The front loading of supply was largely expected by the market participants. Although the RBI has time and again used all means of communication to convey its support and ensure the market participants of an efficient management of the huge borrowing programme, the participants would be keenly watching the timing and method of the support from the Central Bank.

Amidst the second wave of COVID-19 which India is currently experiencing, we expect a growth supportive monetary policy outcome in the upcoming meeting on April 07, 2021. Therefore, we expect the 10Y benchmark paper to trade with a positive bias before the policy and should trade within a range of 6.10-6.25% in the near term.

STCI Primary Dealer Ltd.
CIN: U67110MH2006PLC165306
A/B1- 801, A Wing, 8th floor, Marathon Innova, Marathon Next Gen Compound,
Off. Ganpatrao Kadam Marg, Lower Parel (w), Mumbai 400013.

Dealing Room: (022) 66202217-20 ● Settlements: (022)66202262-64, Fax (022) 66202288
Delhi Office: (011) 47676555-570 ● Kolkata Office: (033) 40611435-36 ●Bengaluru Office: (080) 42183166/1021
Please mail your feedback to stcipd@stcipd.com ● Website: http://www.stcipd.com