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Centre has finely managed its H1FY24 calendar

Centre has come up with its H1FY24 borrowing calendar. The borrowing plan for H1 is pegged at Rs 8.88 lakh crore which is 57.6% of overall borrowing plan of FY24. This share is lower than the long run average of 60.8%. Maturity wise concentration is skewed towards longer end securities, especially between 10-40 year papers. This is likely to keep yield of the longer tenor papers stable.

Post the borrowing calendar announcement, the 10Y benchmark paper's yield has been broadly stable at 7.32% (previous close: 7.29%). Even the yield on 30Y and 40Y paper is trading at 7.4%, only 4bps up from its previous trading session. Going forward, we expect that India's yield curve is likely to have a flattening bias. Short end papers, especially the 182 days and 364 days TBIll rates are still quite elevated. Call rates are also nearing the MSF rate. Further, strain on liquidity is likely to continue due to year-end target meeting of various ministries. Further if RBI resorts to another round of rate hike in its Apr'23 meeting as the OIS papers are reflecting, pressure on short end yields will continue. However, we don't foresee much volatility on the long end curve.

Based on our calculation, average interest cost of the Centre on all these securities translates to around 7.29-7.35% for the first half borrowing programme.

Centre frontloaded 57.6% in H1FY24:

- The H1FY24 gross issuance calendar was pegged at Rs 8.88 lakh crore. This is only 57.6% of the overall borrowing. In fact, this share is lower than the long run average of 60.8% and also came in lower compared to H1FY22 and H1FY23 issuance. Net borrowing is also pegged at Rs 7.28 lakh crore in H1FY24 which is lower compared to Rs 7.89 lakh crore in H1FY23. This is because the net repayment in H1FY24 translates to Rs 1.6 lakh crore which is higher than Rs 56,103 crore in H1FY23.

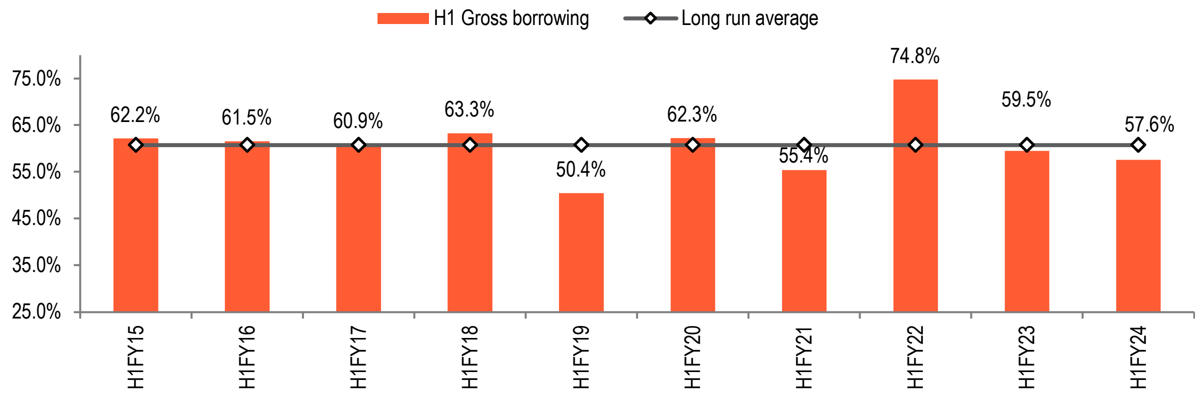
- FRB issuances is not noticed in H1FY24 calendar, due to weaker appetite for this instrument in the past.

Table 1: Borrowing pattern in H1 in absolute amount

Amount, Rs lakh crore	H1FY15	H1FY16	H1FY17	H1FY18	H1FY19	H1FY20	H1FY21	H1FY22	H1FY23	H1FY24
H1 Gross borrowing	3.7	3.6	3.6	3.7	2.9	4.4	7.0	7.2	8.5	8.9
Total Borrowing	5.9	5.9	5.8	5.9	5.7	7.1	12.6	9.7	14.2	15.4

Source: RBI, Bank of Baroda Research, Note: For H1FY21, the revised calendar is also incorporated

Figure 1: Gross Borrowing share in H1 over the years



Source: RBI, Bank of Baroda Research

Maturity profile skewed towards long end:

- In the recent borrowing calendar, maturity pattern of securities is skewed towards the longer tenor. In fact between 10-40 year buckets, the concentration stands at 51.2%. This is the highest that has been seen in the past 4 years H1 calendar. This may be to keep the long end yields in check. For the short term papers (between 2-5 year bucket), the share stands at 18% in H1FY24 which is lower compared to 20% seen in H1FY23. Thus we still expect some flattening of yield curve to continue in the near term as finely tuned borrowing in H1, which is also lower than the long run average would keep the yields at the longer end stable in the medium term.

Table 1: Maturity wise share of securities

Tenor of Securities	H1FY21	H1FY22	H1FY23	H1FY24
2-5 Y	25.4%	24.7%	20.0%	18.0%
5-10 Y	29.9%	23.2%	30.8%	30.7%
10-40 Y	38.4%	45.4%	43.1%	**51.2%**
FRB	6.3%	6.6%	6.2%	0.0%

Source: RBI, Bank of Baroda Research, Note: 2-5 Year means upto 5 Year and the calculation goes accordingly for other securities as well

Interest payment of the Centre on all these securities taking into the account the current interest rate (as on 29 Mar 2023) translates to around Rs 65,000 crore. This tantamount to average interest cost of 7.29% in the base case. In the scenario, where yields are rising, in line with RBI's rate cycle, the implicit yield is likely to rise to 7.35% on all these securities.

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