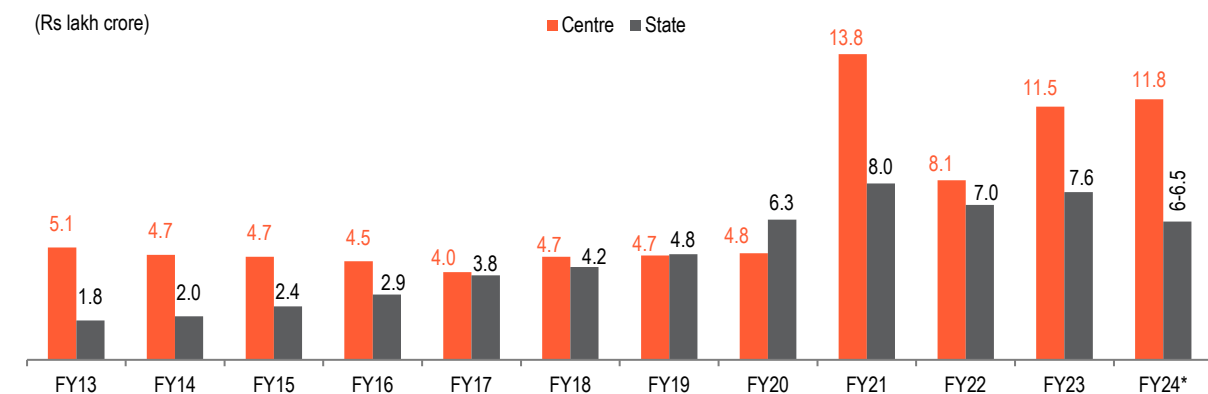


## Trends in ownership of government debt

*In this note we have briefly analysed the trends seen in ownership of debt of general government (centre and states) securities. We looked at 10Y period (starting from FY13) to note changes in patterns that have taken place in this decade. Data indicates that on an aggregate basis, SCBs continue to remain dominant holders of government securities with ~37% share as of Sep'23 and are closely followed by insurance companies with ~26% holdings. Looking at ownership of central and state governments, it emerges that share of SCBs in both has come down significantly in this past decade. In centre's case, share of RBI, Provident Funds (PFs) and FPIs has also come down, while that of insurance companies and pension funds has increased. On the other hand for states, apart from SCBs, insurance companies have trimmed down their holdings of SDLs, while pension funds, PFs, RBI and mutual funds have increased their shares over the past decade. Going forward, we expect net incremental demand for government securities to rise by Rs 16.5-17 lakh crore in FY24 (Rs 16.4 lakh crore in FY23). Of this, holdings have already increased by Rs 9.7 lakh crore in H1FY24, and remaining Rs 6.8-7.3 lakh crore would be achieved in H2FY24.*

**Supply of bonds:** The supply of government paper is driven by central and state borrowings. For the purpose of our study, we look at trends in past one decade and observe that between FY13 and FY23, centre's net borrowings have risen by 8.5% (CAGR), while state borrowings are up by 13.5%. In case of centre, net borrowing went up from Rs 5.07 lakh crore in FY13 to Rs 11.46 lakh crore in FY23, Rs 11.80 lakh crore in FY24 (RE). For states, the jump was from Rs 1.47 lakh crore in FY13 to Rs 5.19 lakh crore in FY23. In FY24, states' net borrowing is expected to be in the range of Rs 6-6.5 lakh crore. Overall supply of general government papers has risen by 9.8% on CAGR basis from Rs 6.5 lakh crore in FY13 to Rs 16.7 lakh crore in FY23. In FY24 the supply is expected to be ~Rs 17.8-18.3 lakh crore.

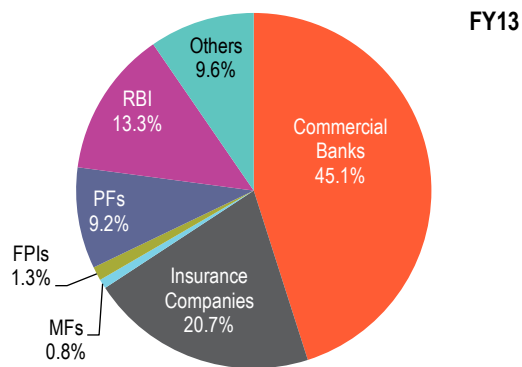
**Fig 1 – Supply of government papers**



Source: CEIC, Bank of Baroda Research | \* FY24 (RE) for centre's borrowings; Bank of Baroda estimates for state borrowings

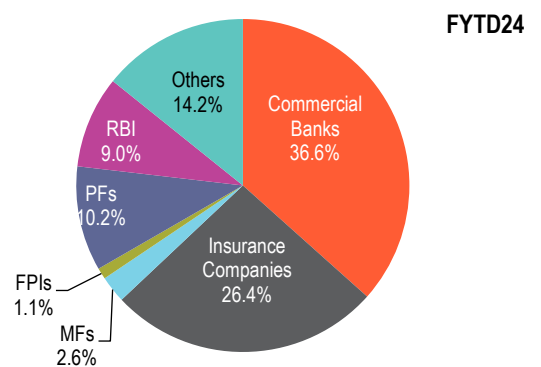
**Aggregate demand of bonds:** On the demand side, for both centre and states combined, the outstanding ownership of government debt stood at ~Rs 146 lakh crore as of Mar'23, compared with only ~Rs 42 lakh crore at the end of FY13, implying a growth rate of 13.4% (CAGR basis). As of FYTD24 (till Sep'23), the combined outstanding amount has risen to ~Rs 155 lakh crore. Notably, SCBs continue to remain the largest holders of government securities, but their share has declined considerably from 45.1% in FY13 to 35.7% in FY23. In FYTD24 it is currently at 36.6%. Significant improvement has been seen in share of insurance companies and 'others' (primarily driven by pension funds). Share of insurance companies jumped to 26.3% in FY23 (26.4% as of FYTD24) from 20.7% in FY13, and that of 'others' was up at 14.6% in FY23 (14.2% as of FYTD24) from 9.6% in FY13. Interestingly, share of RBI has declined from 13.3% in FY13 to 9.7% in FY23 (9% as of FYTD24), that of FPI has come down from 1.3% to 0.9% (1.1% in FYTD24).

**Fig 2 – Ownership pattern of general government securities in FY13**



Source: RBI, Bank of Baroda Research

**Fig 3 – Ownership pattern of general government securities in FYTD24 (as of Sep'23)**

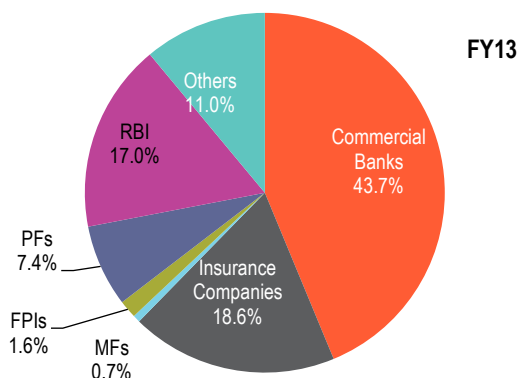


Source: RBI, Bank of Baroda Research

**Demand for central govt bonds:** Of the total ownership of ~Rs 146 lakh crore in FY23, ~Rs 96 lakh crore was outstanding in the form of central government securities. In FYTD24, of ~Rs 155 lakh crore, Rs 104 lakh crore is owned in central government securities as of Sep'23. Over the past decade, SCBs have held their position as the biggest holder of these securities, but their share has gradually come down, from 43.7% in FY13 to 36.6% in FY23 (38% as of Sep'23). Notably, share of RBI (from 17% to 14.3%; 13.1% of Sep'23), Provident Funds (7.4% to 4.7%; 4.4%), and FPIs (1.6% to 1.4%; 1.6%) has also come down in the past decade.

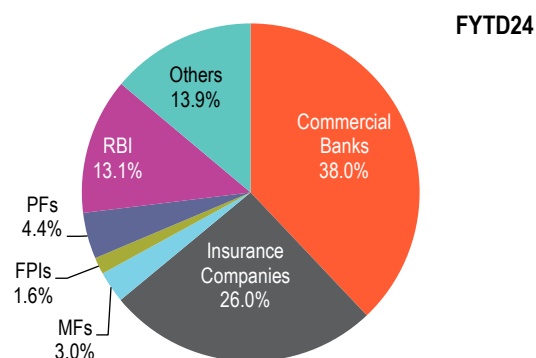
The space made by these groups, has been captured by insurance companies (26% in FY23 versus 18.6% in FY13; 26% as of Sep'23), mutual funds (2.8% versus 0.7%; 3%), and 'others', mainly pension funds (14.3% versus 11%; 13.9%). RBI has made pension funds' data available only recently and it shows that share of pension funds in central securities has risen from 3.5% in Mar'22 to 4.2% in Mar'23 and 4.3% in Sep'23. This marks 38.6% YoY jump in FY23 in ownership of securities, from Rs 3 lakh crore as of Mar'22 to Rs 4.1 lakh crore as Mar'23, and now to Rs 4.5 lakh crore as Sep'23.

**Fig 4 – Ownership pattern of Central government securities in FY13**



Source: RBI, Bank of Baroda Research

**Fig 5 – Ownership pattern of Central government securities in FYTD24 (as of Sep'23)**



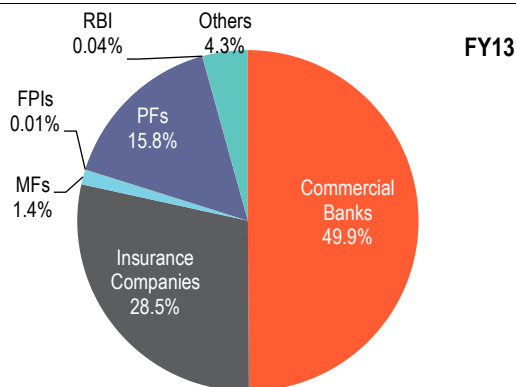
Source: RBI, Bank of Baroda Research

**Demand for state govt bonds:** It is interesting to note here that commercial banks have not only trimmed their holdings of central government securities, but also state government securities over this past one decade. SCBs share in state government securities has fallen to 33.9% as of Mar'23 from 49.9% as of Mar'13. Their share as of Sep'23, remains unchanged from Mar'23. Apart from this, insurance companies have also reduced their exposure in SDLs (26.8% from 28.5%). As of Sep'23 also, their share remains at 27%. This is in contrast to central government securities where their share has increased.

On the other hand, the 'others' component here has made significant gains in holdings with their share rising from 4.3% in FY13 to 15.3% in FY23 (14.9% as of Sep'23). This component, for the purpose of our study, encompasses co-operative banks, non-bank PDs, financial institutions, corporates, state governments and pension funds. Amongst these, as of FY23, pension funds and co-operative banks account for 8.45% of the share, compared with 8.36% as of FY22. In here also, share of co-op banks is coming down (3.6% in FY23 versus 4% in FY22), while that of pension funds is going up (4.8% versus 4.3%).

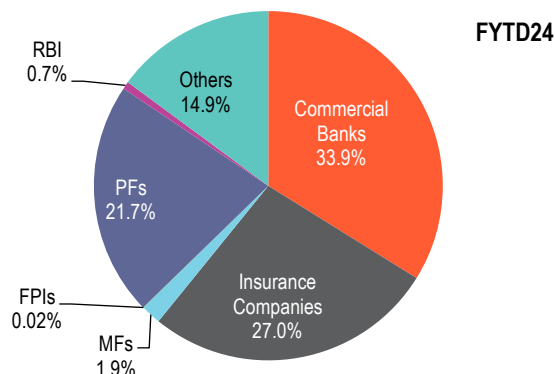
Other notable gains have been made by Provident Funds, with their share rising from 15.8% in FY13 to 21.3% in FY23 and further to 21.7% as of Sep'23. RBI and mutual funds have also increased their holdings of SDLs to 0.7% and 1.9%, respectively in FY23 from 0% and 1.4% respectively in FY13. As of Sep'23 their share remains broadly unchanged compared with Mar'23.

**Fig 6 – Ownership pattern of State government securities in FY13**



Source: RBI, Bank of Baroda Research

**Fig 7 – Ownership pattern of State government securities in FYTD24 (as of Sep'23)**



Source: RBI, Bank of Baroda Research

**Outlook for FY24:** Going ahead, we expect outstanding amount of ownership of general government securities to increase to ~Rs 162-163 lakh crore by the end of Mar'24, up from Rs 155 lakh crore as of Sep'23 and Rs 146 lakh crore as of Mar'23. Of this, ~Rs 108 lakh crore will be held as central government securities and ~Rs 54 lakh crore as state government securities. On an incremental basis, net demand of general government securities is expected to have increased by Rs 16.5-17 lakh crore in FY24, up from Rs 16.4 lakh crore in FY23. Of this, Rs 6.18 lakh crore will be owned by SCBs (Rs 6.21 lakh crore in FY23), Rs 4.5 lakh crore will be owned by insurance companies (Rs 3.7 lakh crore in FY23), Rs 0.6 lakh crore by Mutual Funds (Rs 0.4 lakh crore in FY23), Rs 0.3 lakh crore by FPIs, Rs 1.91 lakh crore by Provident Funds, Rs 0.41 lakh crore by RBI and Rs 2.8 lakh crore by 'others'.

**Fig 8 – Ownership pattern of general government securities (incremental change)**

(Rs lakh crore)	FY21	FY22	FY23	FY24E	% share in outstanding securities (FY23)	% share in outstanding securities (FY24E)
Commercial Banks	4.48	4.11	6.21	6.20-6.25	35.7	35.8
Insurance Companies	4.37	3.64	3.65	4.40-4.45	26.3	26.3
MFs	1.65	0.34	0.38	0.55-0.70	2.5	2.6
FPIs	(0.15)	(0.10)	(0.02)	0.25-0.30	0.9	1.0
PFs	1.61	1.16	1.94	1.90-1.95	10.3	10.4
RBI	2.87	1.87	(0.43)	0.45-0.50	9.7	8.9
Others	2.80	3.21	4.61	2.70-2.90	14.6	14.9
<b>Total</b>	<b>17.63</b>	<b>14.23</b>	<b>16.36</b>	<b>16.5-17.1</b>	-	-

Source: RBI, Bank of Baroda Research | E- Bank of Baroda Estimates for net demand| 'Others' includes: co-operative banks, non-bank PDs, financial institutions, corporates, state governments and pension funds

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