

Update on H2 borrowing calendar

Centre's H2 FY25 gross borrowings have been pegged at Rs. 6.61 lakh crore, implying that the FY25 borrowing target has been maintained at Rs 14.01 lakh crore. In terms of maturity pattern, approximately 77% of the issuances are concentrated in the 10Y or higher tenor. Yields in this bracket have seen a significant moderation in H1 FY25, due to significant inflows from FPIs. Given the favourable global and domestic backdrop, we expect a further downward bias in domestic yields, particularly in the short-end side, leading to a steepening bias in the yield curve. This will be further supported by RBI rate cuts, which is expected to start from Dec'24. The above backdrop suggests that the actual interest cost for the government is likely to be lower.

Gross borrowings in line with budget:

Centre has maintained its gross borrowing target for FY25 at Rs. 14.01 lakh crore. For, H2 FY25 gross borrowings has been pegged at Rs 6.61 lakh crore which is equivalent to 47.2% of total borrowings for FY25. Notably, in FY24, Centre had raised 42.4% of its total borrowing in H2. Net borrowings in H2 FY25 stands at Rs 4.95 lakh crore, which is lower than Rs 4.3 lakh crore in the same period last year.

Maturity profile skewed towards long end:

Maturity pattern of government securities shows a higher concentration towards short-term securities. In fact, close to half of the issuances are concentrated in the 3-10 year maturity bucket. Even so, there has been a decline in the share of these securities compared with last year. While 48.1% of the total securities issued in H2 FY24 belonged to the 3-10Y bucket, their share has moderated to 47% this year. Within this, for maturity tenor less than 5Y, the issuances stand at just 5.3% of the total, lower compared with 6.1% in the same period last year. 10Y security continues to have a dominant share in total issuance at 23.3%, increasing from 22% last year.

Table 1: Maturity wise share of securities

| Tenor | Amount of issuances in H2 FY24, Rs crore | % in total | Amount of issuances in H2 FY25, Rs crore | % in total |
|---------------|---|-------------------|---|-------------------|
| less than 5Y | 40,000 | 6.1 | 35,000 | 5.3 |
| 5Y to 7Y | 1,30,000 | 19.8 | 1,20,000 | 18.2 |
| 10Y | 1,45,000 | 22.1 | 1,54,000 | 23.3 |
| 15Y to 30Y | 1,70,000 | 26.0 | 1,57,000 | 23.8 |
| 40Y and above | 1,50,000 | 22.9 | 1,75,000 | 26.5 |
| SGrBs | 20,000 | 3.1 | 20,000 | 3.0 |
| Total | 6,55,000 | | 6,61,000 | |

Source: RBI, Bank of Baroda Research

On the very long-end of the curve, share of securities with a maturity profile of 15Y to 30Y has also witnessed a decline, while the share of securities with maturity of over 40Y has increased sharply to 26.5% compared with 22.9% in the same period last year. The issuance of green bonds has remained unchanged at Rs 20,000 crore in H2 FY25, accounting for ~3.1% of total issuances. These will be sold in 4 tranches with maturities of 10Y and 30Y.

Interest outflow likely to be lower:

Based on the average yields on these securities in Sep'24 (as of 27 Sep 2024), the implicit interest cost to the Centre is approximated to be around Rs 45,000 crore. However, there has been a substantial moderation in yields across tenors in H1 FY25, due to index inclusion related inflows, lower oil prices and lower global yields. The trend is likely to continue even in H2 FY25, even as the extent may not be as significant. Given that the demand for sovereign securities has been buoyant, led by higher demand for shorter-end securities by FPIs, we see further downward bias in short-end yields. Overall, there can be a benefit of Rs 1,000-2,000 crore on account of lower yields, concentrated largely in the 10Y and lower bracket. This will be further supplemented by rate cuts by the RBI, which are expected to start from Dec'24. While the domestic rate cut cycle is expected to be shallow, an expedited or outsized rate cut cycle by the RBI will exert pressure on yields and hence, lead to further savings for the government.

Table 2: Broad-based moderation in government yields

| Tenor | Amount (in Rs crore) | Avg. yield in Sep'24, % | Avg. yield in Apr'24, % | Change in bps |
|----------|----------------------|-------------------------|-------------------------|---------------|
| 3Y | 35,000 | 6.71 | 7.15 | (44) |
| 5Y | 70,000 | 6.71 | 7.16 | (45) |
| 7Y | 50,000 | 6.77 | 7.16 | (39) |
| 10Y | 1,54,000 | 6.80 | 7.17 | (37) |
| 15Y# | 87,000 | 6.77 | 7.20 | (43) |
| 30Y | 70,000 | 6.95 | 7.25 | (30) |
| 40Y | 1,05,000 | 6.97 | 7.27 | (30) |
| 50Y | 70,000 | 6.98 | 7.26 | (28) |
| 10SGrB* | 10,000 | 7.24 | 7.24 | 0 |
| 30YSGrB* | 10,000 | 7.14 | 7.14 | 0 |

Source: RBI, Bloomberg, Bank of Baroda Research | Note: # 13Y, *: Based on cut-off yield in last auction

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