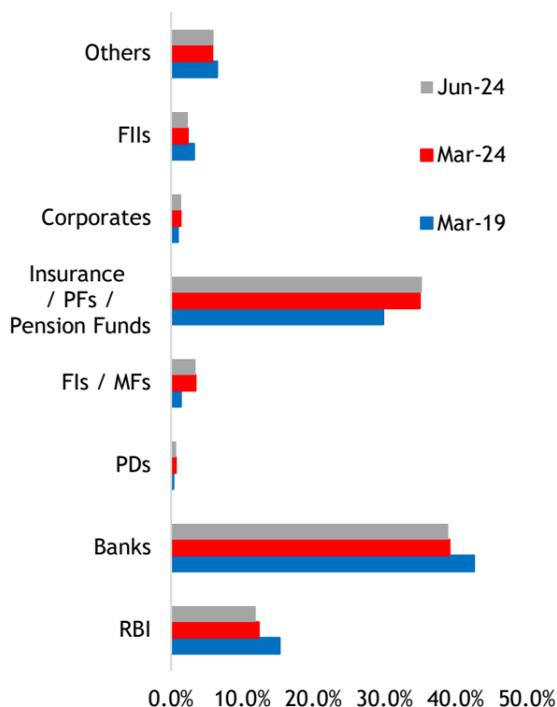
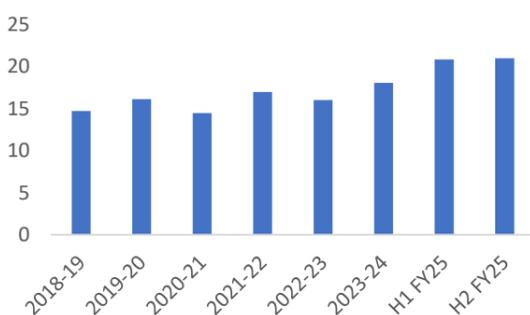


Fig.1: Ownership of Central Government Securities; (%)



Source: RBI, CEIC, UBI Research

Fig.2: Weighted Average Maturity getting elongated; (years)



Source: RBI, UBI Research

The Central Government targets a gross G-Sec borrowing of Rs.6.61 lakh crore which is exactly aligned to the annual budget gross borrowing amount of Rs.14.01 lakh crore. RBI has already conducted auctions till date for H1 FY25 amounting to Rs.7.40 lakh crore. We firmly believe that government is unlikely to deviate from fiscal target of 4.9% and the path towards fiscal consolidation in the coming years. Since the announcement of IGBs inclusion in JPM Bond Index, we have been bullish on Duration trade. While we continue to recommend the same, now lower end of the curve presents relatively better trade opportunities.

H2 FY25 Borrowing Calendar matches the Budgeted FY25 borrowings:

- The government has budgeted Rs.14.03 lakh crore of gross borrowings for FY25 in the budget presented in July 2024. The borrowing number of Rs.6.61 lakh crore is in line with the budgeted target for H2 FY25.
- The share of borrowing under different maturities will be below 5 years (5.3%), 5 to 9 years (18.2%), 10 to 14 years (24.8%), 15 to 19 years (13.2%), and beyond 20 years (38.6%). There is reduction in the borrowing share at the shorter end (below 5 years) while the belly (7-15 years) continues to retain the maximum share of (45.53%).
- As per Jun-2024 data available, outstanding share of long-term investors like Pension & Provident Funds along with Insurance companies is elevated at 35.3%, whereas, that of 38.9% with Banks still holding highest G-Secs. In Mar-2019, pre-Covid period, Pension & Provident Funds along with Insurance companies were holding 29.8% and Banks were holding 42.6% of dated securities.
- For FIs, the incremental share turned positive in Mar-2024 (11%) and maintained at 9.4% in Jun-2024, due to inclusion of IGBs in JPM Bond Index.
- The market possesses demand appetite for long term IGBs via investors like PFs, Insurance & Banks and short term IGBs via FIs & mutual funds. The same is also reflected in the weighted average of issuances which was elongated to c.20 years in FY25 from c.15.6 years in FY19-FY23.

Fiscal dynamics remain comfortable due to robust tax buoyancy:

- As per fiscal data released upto Jul-2024, the India's fiscal deficit for April-July FY25 came in at Rs 2.77 lakh crore (17.2% of Budget Estimate). This was led by a combination of strong tax revenues, robust dividend from RBI & PSUs and lower spending during election quarter.
- Revenue momentum remained supported led by both tax and non-tax revenues. The key driver within taxes was direct taxes. In specific, income tax showed a growth of c.53.4% YoY during Apr-Jul FY25. However, corporation tax growth was lower at 4.8% (Fig 3), in line with the weak earnings results posted by listed corporates during Q1 FY25.
- Meanwhile growth in indirect taxes like GST and customs were lagging at 9.9% and 3.8%, respectively. This is a key cause for concern as run rate same period last year was way higher.
- The government cash balance with RBI saw a build-up as well on lagged spending. As per CGA data, cash balance saw a build up from Rs 1.7 lakh crore at march end to Rs 2.5 lakh crore by July. This trend may reverse as the government has budgeted for drawdown in cash balance to the tune of Rs. 1.40 lakh crore in FY25 adding to liquidity in the banking system.

Borrowing calendar continues to increase supply at the longer end of the curve

- The borrowings beyond 20 years has stretched above 35% in FY 2024-25. During FY22 & FY23, the borrowings were below 30% while FRBs (Floating Rate Bonds) are 7.8% & 2.5% respectively. The change over came in FY24 with nil FRBs and 34.3% borrowings in more than 20 years.
- More importantly, the duration of supply of G-Secs is getting elongated. For instance, weighted average maturity of issuances was elongated to 18.09 years in FY24 from 16.99 years in FY22.

FY	<5Y	5-9Y	10-14Y	15Y-19Y	>20Y	FRBs	Total Gross Borrowing (%)	Total Gross Borrowing (Rs. In Lakh Cr.)	Net Borrowing (Rs. In Lakh Cr.)
FY22	5.4%	16.5%	40.5%	0.0%	29.8%	7.8%	100.0%	11.27	8.63
FY23	6.2%	24.3%	38.1%	0.0%	28.8%	2.5%	100.0%	14.21	11.08
FY24	6.2%	21.4%	38.1%	0.0%	34.3%	0.0%	100.0%	15.43	11.80
H1 FY25	6.5%	17.0%	24.6%	14.1%	37.9%	0.0%	100.0%	7.40	5.44
H2 FY25	5.3%	18.2%	24.8%	13.2%	38.6%	0.0%	100.0%	6.61	4.95
FY25								14.01	10.39*

*the number was budgeted at Rs 11.63 lakh cr assuming that GST compensation cess fund is used for financing redemptions worth Rs 1.24 lakh cr; Source: RBI, India Budget documents, UBI research

Lower T- Bill issuances likely to lead rally at the shorter end of G-Sec

- RBI has lowered T-Bill weekly auctions to Rs.19,000 Crore for Q3FY25 which is down in comparison to Rs.20,000 Crore for Q2FY25 which were already reduced.
- Lower T-Bill supply and no change in dated securities calendar holds similarity to the final FY25 budget presented in July 2024. Post Budget, we have witnessed sharp rally in the shorter end of curve as T-Bill supply was lowered.
- This borrowing calendar is positive for the short end of the yield curve. We expect softening in the lower end of the curve as the below 5-year issuance is relatively lower. Further, demand has remained elevated from FPIs during FY25 buying the lower end and also from Banks for meeting the higher LCR requirements.

Q3FY25 T-Bill Calendar				
Rs. in Lakh Crore	91 day	182 day	365 day	Total
Gross Borrowing	0.91	0.78	0.78	2.47
Redemption	1.39	0.91	1.22	3.52
Net issuance	-0.48	-0.13	-0.44	-1.05*

*this number can be small if the collections from non-competitive bids continue to remain strong; Source: RBI, India Budget documents, UBI research

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