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Economy

Government raises borrowing target for FY12

Economy Update

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- **The Government has announced for an additional borrowing programme to the tune of Rs528bn or 13% of the FY12 fiscal deficit. However, fiscal deficit target has been kept unchanged at 4.6% of GDP**
- **GoI attributed higher additional borrowing to net outflow from smaller savings schemes and lower cash balances. It now expects a shortfall of Rs350bn in small savings for FY12**
- **With 47% of FY12 borrowing in H2 and deficit liquidity, we believe there could be some crowding out of private borrowings**
- **Additional borrowing along with any further increase in interest rates could put pressure on the yield curve. Expect the longer yield curve (10-yr Gsec currently quoting at 8.44% levels) to inch-upwards of 8.6% levels**

Government raises borrowing target by Rs528bn

The Government of India has announced for an additional borrowing programme to the tune of Rs528bn or 13% of the FY12 fiscal deficit. Fiscal deficit target however has been kept unchanged at 4.6% of FY12 GDP. Resultant, H2FY12 borrowing programme now stands at Rs2.2tn as against earlier budgeted borrowing of Rs1.67tn.

… led by shortfall in Small savings schemes and cash balances

GoI attributed the reason for additional borrowing to net outflow from smaller savings schemes and lower cash balances. The government now expects a shortfall of Rs350bn for FY12 in small savings. Moreover, the cash balance has also been lower as there was higher than budgeted expenditure in last fortnight of March, 2011.

Historically borrowing programme has been front-ended

Historically, borrowing programme has been front-ended as credit growth remains lower in H1 and gradually picks up in H2 owing to festive season and capex plans by corporates. With borrowing being higher at 47% of FY12 in H2 and liquidity being in deficit of ~Rs500bn, we believe there could be some crowding out of private borrowings.

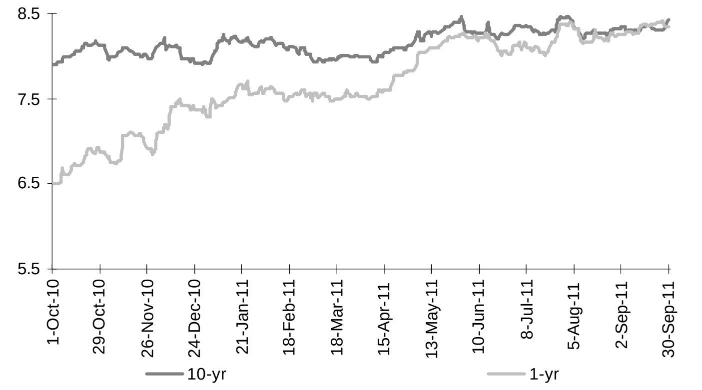
H2FY12 borrowing is higher at 47% of FY12

Rs bn	H2FY12	% of total	H2FY11	% of total
Oct	430	19.5	440	27.0
Nov	520	23.6	330	20.2
Dec	380	17.3	330	20.2
Jan	390	17.7	430	26.4
Feb	480	21.8	100	6.1
Mar				
Total	2,200		1,630	
Total borrowing programme for the year	4,700		4,500	
H2 as % of total	46.8		36.2	

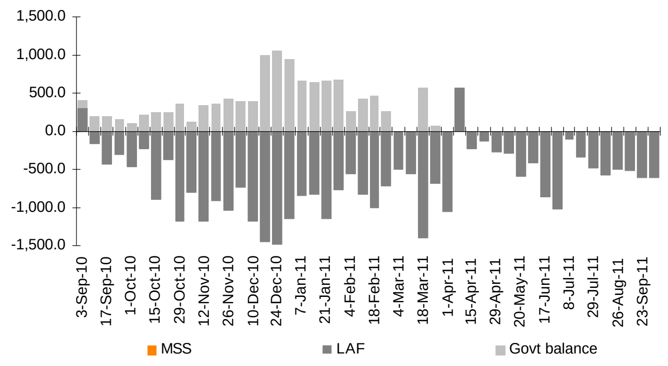
Bond yields to inch upwards of 8.6% trajectory; may crowd out private borrowing

For a long time now, spreads of short tenure yield over long tenure had remained flat owing to liquidity squeeze. However, in our view, with additional borrowing programme, largely being in nature of dated securities, we expect the longer yield curve (10-yr Gsec currently quoting at 8.44% levels) to inch-upwards of 8.6% levels. Non-food credit growth had gained momentum and inched towards 20% levels (fortnight ended 9th September, 2011). However, with additional borrowing (61% being in Q3), we expect crowding out-effect to come into play.

Additional borrowing to put further pressure on yield curves



… liquidity continues to remain in deficit mode



Source: Bloomberg, Emkay Research

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