HIGHER BORROWING – RBI MOVE AWAITED…

The Problem

- Extended slowdown in the wake of Covid-19 has brought the economy to a standstill.
- The economy was already reeling under the pressure post the NBFC crisis.
- Both these factors in conjunction have put tremendous strain on the Government's finances.

Government Reaction

- In a move to bridge the shortfall in its revenue collection and unscheduled spending (which included a stimulus package to reverse a slump in the economy), Government announced additional borrowing to the tune of INR 4.2 Lakh Cr.
- Hence, now the gross borrowing stands INR 12 Lakh Cr as against INR 7.8 Lakh Cr as per the budget estimates.
- Meanwhile in a move to shore up its revenue, the Centre hiked excise duty on petrol & diesel by INR 10 and INR 13 per litre respectively.

Our Take

- It remains to be noted that even if the Centre maintains the hike throughout the year, there is likely to be significant short fall in the revenue collection, with the tall target of disinvestment being highly ambitious.
- Moreover any new stimulus, is likely to increase the slippages further and top up further the revised borrowing target.
- A look at the table below indicates that India's fiscal deficit is likely to be at least **200 bps higher** than the budget estimates of **3.50% for the F.Y. 2020-21**.

Particulars	2019-20 (RE)	2020-21 (BE)	Assumption 10% GDP growth	Assumption 0% GDP growth	Assumption 2% GDP growth
Fiscal Deficit	7,66,846	7,96,337	12,16,338	12,16,338	12,16,338
GDP estimated Rs cr	2,04,42,233	2,24,89,420	2,24,89,420	2,04,42,233	2,08,51,078
Fiscal Deficit as % of GDP	3.8%	3.5%	5.4%	6.0%	5.8%

While it is a given that higher supply of bonds puts upward pressure on rates, RBI has always come to rescue every segment of the market whenever required -

Money Market	Cut in rates, TLTRO1
NBFCs	TLTRO2 for an aggregate amount of INR 50,000 Cr in tranches of appropriate sizes of which at least 50% will be targeted towards mid and small sized NBFCs and MFIs
FI	RBI has decided to provide special refinance facilities for a total amount of INR 50,000 Cr to NABARD, SIDBI & NHB
State Development loan	Increase in WMA limit by 60% over March 31st levels and help them plan their borrowings from the markets
Mutual Funds	Special Liquidity window to meet the redemption requirement
T bills	Reports of RBI participating in the weekly T bill auctions through its proxy have pushed T bills rates lower
Government Securities	Increase in WMA limit, conduct of special open market operation to cap the rise in the yields till now.

Meanwhile, with a view to cap the rise in the bond yields, RBI is likely to undertake some of the following measures - **Cap on parking of funds under reverse repo window; Increase HTM limit of banks; Announce Open market operation calendar; Monetizing of deficit.**

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