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COVID ALTERS INDIA'S BORROWING PLAN, TARGET NOW RAISED TO RS 12L CR

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

New Delhi: The government has raised its gross market borrowing target for the current financial year to Rs 12 lakh crore from Rs 7.8 lakh crore estimated in the budget, attributing the increase of more than 50% to the coronavirus outbreak that’s stalled the economy.

Experts said the higher borrowing is possibly due to a combination of lower tax collections and the fiscal stimulus needed to support the economy, though it could raise interest rates and crowd out the private sector. One of them said this would peg the much-awaited fiscal stimulus at Rs 5 lakh crore, or 2.5% of GDP, which pales in comparison with those announced by other countries. Another expects the fiscal deficit to widen to as much as 6% of GDP.

“The above revision in borrowings has been necessitated on account of the Covid-19 pandemic,” the finance ministry said in a statement on Friday, announcing the new borrowing schedule.

Rs 7 Lakh Crore in First Half

The government has already announced a fiscal support package of Rs 1.7 lakh crore and there is expectation of a bigger stimulus programme in the days ahead, with tax revenue expected to take a big hit from the lockdown.

Moody’s said India’s economy will not grow in FY21, paring its forecast for the year to 0% from 2.5% estimated in March.

“There is definitely revenue shortfall as most industries were shut down in April... We are watching the expenditure side,” a senior government official told ET. “This is an evolving situation and we could scale down the borrowing estimate if situation improves in the second half... Review would be carried out in the second half.”

No call has yet been taken on monetisation of the deficit by the Reserve Bank of India (RBI), the official said. The government is also working on a stimulus package that will be announced soon, he said.

According to the new calendar, the government will borrow a total Rs 7 lakh crore in the first half of the year against the earlier plan of Rs 4.88 lakh. That means it can borrow up to Rs 6 lakh crore more in the period until September end. The government could borrow an average Rs 30,000 crore per week until then against the Rs 19,000-21,000 crore weekly borrowing planned earlier.

That leaves up to Rs 5 lakh crore to be borrowed in the second half against Rs 2.92 lakh crore estimated in the budget based on this latest programme.

MARKET IMPACT

Market interest rates are set to appreciate due to the move.

“Higher borrowings are likely to push up yields, unless OMOs (open market operations) or other instruments are deployed by the RBI (Reserve Bank of India) to absorb a part of the higher issuance, and crowd out borrowings by state governments and corporates,” said Aditi Nayar, principal economist, ICRA.

The benchmark 10-year bond closed at 5.97% on Friday, the lowest in over a decade.

“A takeaway is that this also means that presently there is no intention of RBI lending directly to the government,” CARE Ratings said in a note, adding that surplus liquidity in the system would help. “Also, the surplus money going into reverse repo could not be diverted to G-Secs (government securities), which make a safe avenue for parking surplus funds.”

Stimulus, Fiscal Deficit The increased borrowing is indicative of a stimulus package in the offing, according to EY chief policy advisor DK Srivastava.

“It definitely means the government has decided to introduce a stimulus. As borrowing has been increased from 3.5% of GDP to 6%, the size of the stimulus is about Rs 5 lakh crore,” he said.

The fiscal deficit will widen more than targeted as the government borrows heavily.

CARE Ratings pegged the fiscal deficit at 5.5% of GDP given other conditions remain unchanged, as the fiscal deficit will likely rise byRs 4.2 lakh crore from an estimated Rs 8 lakh crore.

“Since the Covid-19 outbreak has impacted economic activities, which in turn will have an impact on growth, revenue and expenditure, fiscal deficit-to-GDP ratio is likely to be close to 6% of GDP,” said DK Pant, chief economist at India Ratings. The government targeted a fiscal deficit of 3.5% in the budget.

The move is likely to increase the cost of borrowing for states, which are in a similarly constrained situation, Srivastava said. However, the ample liquidity in the system may provide some relief to bond yields, according to Pant. Net surplus liquidity in the banking system stood at Rs 6.07 lakh crore, according to a finance ministry report on May 5.

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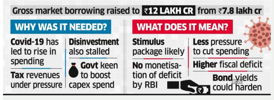

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