Govt likely to borrow more in 2013-14

With the country likely to for general elections in early 2014, market participants expects the government to borrow more in 2013-14 as compared to the current financial year. As a result, sovereign bond yields are set to rise in the first half of the next fiscal (April-September) and the pressure on yields only be countered if the central bank decides to lower key policy rate, going ahead.

The gross government borrowings for the current fiscal was Rs 5.7 lakh crore and most experts expect it to be about Rs 6 lakh crore for FY14. The figures will be announced in the Union Budget on February 28.

“I am expecting gross market borrowing in FY14 to be in the vicinity of Rs 6 lakh crore. Due to this in the April-September period government bond yields will underperform at the shorter-end of the rate curve,” said Suyash Choudhary, head-fixed income, IDFC Mutual Fund. According to Choudhary positive trigger will be further repo rate cuts. But countering that will be initial supply pressure by way of government bond auctions in the range of Rs 15,000-16,000 crore a week.

The yield on the 10-year benchmark bond 8.15% 2022 ended at 7.92% on Tuesday compared with previous close of 7.94%. It is expected that by March the yield will fall further from current levels. “We will not have supply of government bonds after Feb 22 to March end due to which the yield should be about 7.75-7.80% sometime in March,” said Dwijendra Srivastava, head of fixed income, Sundaram Mutual Fund.

However, the fall in yields is seen a temporary phenomena due to demand-supply mismatch of government bonds in FY14. “Demand supply mismatch is likely to remain which may be addressed by Open Market Operation purchase of government bonds, further opening up of Foreign Institutional Investors limit or allow more players in the government securities market,” said Srivastava.

According to Srivastava in expectations of a higher GDP growth next fiscal and in order to keep the fiscal deficit lower, in gross terms the government's market borrowing will be slightly higher.

RBI has recently cut the FY13 GDP growth projection to 5.5% for FY13. It had earlier projected 6.5% growth in July, 2012. But lowered it to 5.8% three months later as investment demand slowed, consumption spending moderated and export performance eroded. For the current fiscal the government is confident of keeping fiscal deficit at 5.3% of GDP.

But few also expect the gross market borrowings to be announced in the Union Budget to be lesser than this fiscal. “Due to expectation of the government to keep the fiscal deficit at 4.8% of GDP next fiscal, the government's borrowing is likely to come. However, the sustainability of fiscal deficit at 4.8% needs to be seen over a period of time. The gross market borrowing may be Rs 5.5 lakh crore,” said S Srinivasaraghavan, executive vice president and head- treasury of Dhanlaxmi Bank.

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