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GOING TO MARKET

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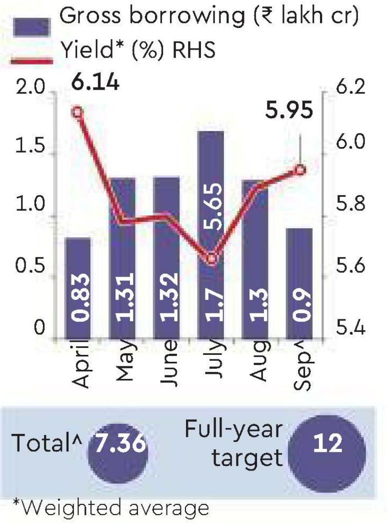

*Weighted average
^Up to September 18

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New Delhi, September 27

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- Some analysts said the government may either keep its overall **borrowing target** for the full year unchanged or resort to "minor tinkering"

AN ACUTE RESOURCE crunch and pressure to roll out more fiscal stimulus have prompted the government to keep alive plans to raise its gross market borrowing again in FY21, having already hiked it by 54% from the budgeted level to ₹12 lakh crore. But any announcements to this effect would be "appropriately timed", factoring in a precise assessment of the deficit level as well as market anxiety, an official source indicated.

Some analysts said the government may either keep its overall borrowing target for the full year unchanged or resort to "minor tinkering" when it announces the H2 calendar later this week, given that several variables are in a state of flux. However, it may choose to tweak its H2 borrowing plans substantially only by November, when it reassesses its finances for the revised estimates, based on the requirements to stimulate the economy, they added.

Importantly, the government hasn't junked the idea of deficit monetisation but that would be the last resort, given the already-elevated level of inflation and other associated risks, the source said. Its decision on deficit monetisation will determine the quantum of its additional market borrowing in the second half.

Continued on Page 2

Centre may hike borrowing in November

While a section of the finance ministry had favoured greater off-take from the National Small Savings Fund (NSSF) to fund a part of the yawning fiscal gap, income losses of households in the wake of the Covid-19 pandemic has forced a rethink on it, as any massive withdrawal by investors could anyway shrink the net kitty substantially. The NSSF had financed a record 31.3% of fiscal deficit in FY20 and was budgeted to fund 30.1% (₹2.4 lakh crore) of it in FY21 before the pandemic struck.

The government borrowed ₹7.36 lakh crore from the market until September 18, which was 81% higher than a year before and represented 61% of the revised, full-year market borrowing limit, show the RBI data. After some moderation in May through July, the weighted average bond yield has started rising again, remaining close to the 6% mark since August 21. According to a CARE Ratings report, up to September 18, there had been three auctions, wherein the unaccepted amount had to be devolved to primary dealers.

With net tax revenues declining 40% on year in April-July (the budgeted growth was 21% in FY21 over the actual of FY20), analysts see fiscal deficit even doubling from the budgeted target of ₹8 lakh crore. The April-July fiscal deficit has already exceeded the Budgeted target for the full year.

Mindful of its fragile fiscal position, the government of late put a leash on certain spending. Its expenditure in July grew just 6% on year, compared with 46% achieved in June and the budgeted spending growth of 13.2% for the whole of FY21. The capex in July at ₹23,576 crore, down a sharp 47% on year.

India Ratings chief economist DK Pant didn't expect any major shift in the government's full-year market borrowing plan this year. Given the uncertainties around the revenue flow as well as expenditure requirement, the government may alter the borrowing plan meaningfully only later this fiscal, when it has a more realistic assessment of the state of the economy. "Also, the extent of market borrowing hinges on whether the government opts for deficit monetisation," he added.

Icra principal economist Aditi Nayar said the Centre's fiscal deficit could widen to at least ₹14 lakh crore (7.4% of the shrunk GDP) in FY21 from the budgeted ₹8 lakh crore. "This exceeds the extent by which the Centre's gross market borrowings have already been augmented (₹4.2 lakh crore), as well as the additional funds raised through the exercise of green shoe options (₹0.7 lakh crore)." The government had budgeted to contain fiscal deficit at 3.5% of GDP in FY21 but its fiscal math, obviously, has gone haywire due to the pandemic.