Borrowing plan breaks bond mkt

Team TOI

The government's plans to increase borrowing in the current financial year by Rs 80,000 crore and also keep it elevated in the next year led to sharp slides in prices and rise in yields in the government securities (G-sec) market on Monday. At close of trading, 10-year G-sec yields, the benchmark for the market, jumped 15 basis points to end at 6.06%, official data showed. Yields on other bonds also rose.

According to Siddhartha Sanyal, chief economist & head (research), Bandhan Bank, it is no surprise that the knee-jerk reaction of the fixed income market was negative given the significantly higher-than-expected fiscal deficit and borrowing. "The market would expect hints of continued support from the RBI at this juncture, without which the pressure on yields might persist."

In the evening, the RBI announced the revised borrowing calendar of nearly Rs 2.2 lakh crore with weekly borrowings running till the last week of the financial year. Usually government ends its annual borrowing programme by mid-February.

The borrowing programme, however, should be considered along with its long-term fiscal deficit programme, a bond industry official said. "Government prudently used the pandemic situation to support growth through fiscal expansion. Realistic fiscal consolidation path (4.5% fiscal deficit target up to FY26), with the emphasis on capital spending, will ensure sustainable economic recovery," said Ram Kamal Samanta, VP (investment), Star Union Dai Ichi Life Insurance.

Market players also said that earlier the government was worried about expanding borrowings to support growth, fearing that could have led to a ratings downgrade. However, given the Covid environment, chances of a ratings downgrade is very negligible now.

Ram

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