

India: Govt. trims bond issuance for the first half of FY19

The move postpones the woes of the Indian bond market but doesn't eliminate them



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INR 2.9tr

Planned borrowing in 1H FY2019

22% lower than the same period last year

Lower government borrowing in 1H FY2019

The Indian government announced its borrowing plan for the first half of fiscal-year 2018-19 (FY2019) that begins on April 1. The authorities plan to sell INR 2.88tr of debt during the period, amounting to 47% of total INR 6.06tr full-year borrowing earmarked for funding the fiscal deficit in FY2019 and down 22% from the same period of the current fiscal year. This contrasts with the usual front-loading, with about two-thirds of the full-year borrowing usually occurring in the first

half of the year (67% in FY18).

Some respite from the bond market selloff

The move should provide some respite to the bond market, which has been selling off since July 2017 resulting in a 140bp rise in 10-year sovereign yields to 7.8%. However, the fact remains that the government needs to borrow more to finance a wider fiscal deficit. On official estimates, the deficit exceeded the 3.2% of GDP initial target for FY18 coming in at 3.5% and is projected to remain elevated at about 3.3% in FY2019. Borrowing for the corresponding year has risen from INR 5.8tr to INR 6.06tr. As in the current year, the possibility of another deficit overshoot cannot be ruled out in the pre-election year.

The budget figures for February due tomorrow (March 28) will be under scrutiny for the extent of the deficit overshoot in current fiscal year. At INR 6.8tr in the first 10 months of the current fiscal year deficit was 20% wider on the year, imparting upside risk to the government's revised forecast of INR 5.9tr or 3.5% of GDP fiscal deficit for the full-year.

The worst isn't over yet

We expect fiscal slippages to remain among the main headwinds for local financial assets, including government bonds and the INR this year. The other headwinds will be high inflation, a widening external trade deficit and the tightening bias of the Reserve Bank of India's monetary policy. Fears of the 10-year bond yield testing 8%, the level not seen since August 2015, cannot be fully discounted.

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