The Hindu Business Line

Budget may target gross borrowing in excess of ₹6.5-lakh crore: HDFC Bank Treasurer

There are limitations to how much can be spent on the capital expenditure side: Ashish Parthasarthy

SUNANDA JAYASEELAN / HIRAL DESAI

Global numbers and fiscal targets continue to raise doubts among experts. In an environment of global slowdown, will the Finance Minister be able to spring a surprise on Monday? Will India be able to outpace its peers? Speaking to Bloomberg TV India, HDFC Bank Treasurer Ashish Parthasarthy said the government must control spending otherwise it will stoke inflation. The Centre's gross borrowing could be in excess of ₹6.5 lakh crore, he said.

I want to start by getting your assessment of the economy that you think the Finance Minister will factor in while presenting his Budget?

Relative to what is happening all around the globe I think the Indian economy is doing pretty well. Whatever number you take — there are obviously been questions that these are government numbers — I think we are looking at a growth of 7.2-7.4 per cent for this fiscal. Given what the global economies are doing, I think the Indian economy is in a pretty good shape from the headline number perspective.

What are some of the biggest challenges that the Finance Minister faces this time around?

I think he has a lot of challenges. Obviously, there is a big debate about whether he should go for fiscal consolidation or go slightly easy on the fiscal consolidation given that the global environment does not look that good and possibly we could push for higher growth than what we are seeing now. So that debate will go on.

We have seen this year the government has definitely spent a significant amount on capital expenditure. But even there if you see, at this point in time, they are running huge balances. They have not been able to possibly spent the way they would have desired to spent. So, obviously, there are limitations to the amount of money that can be spent on the capital expenditure side by the government.

These will be related to projects and milestone completion. At this point of time, there seems to be a finite capacity to the amount that can be spent. Also, any spending will obviously put upward pressure on inflation and so it is better to try to consolidate the gains on inflation, which we have seen over the past few years and drive it down towards the desired target of 5 per cent this year and going on to a lower 4 per cent in the coming year or two.

So, in my view, they should stick to fiscal consolidation, manage the expenditure side between capital expenditure and possible committed expenditure on the revenue side, which is likely to come from OROP and the Pay Commission recommendations. So I think they should try and balance that and stick to the fiscal consolidation target.

On the debate over fiscal consolidation, what are your expectations on the borrowing targets?

Even if they were to stick to fiscal consolidation, I think the total gross borrowing is likely to be quite high. Gross borrowing could be in excess of ₹6.5-lakh crore. Added to it, the State government borrowing programme, which is likely to be ₹3-lakh crore, puts lots of bonds which are to be supplied during the year. Given the current investment outlook, in a sense, especially for investors, we are in a risk-off phase. We do not know how long it will continue?

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>
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> Treasurer, HDFC Bank

So there is unlikely to be large demand from overseas investors for domestic bonds. And, in addition to that, we will have issuance of UDAY discom bonds and discom structuring schemes, which will add some amount of available investment to entities such as provident funds, pension funds and insurance companies.

These bonds will compete with Central and State government bonds. So that is likely to push the yields higher, especially in an environment where the banking system is already sitting with surplus SLR.

For the mandated statutory liquidity ratio, there is a roadmap to bring it down as the required liquidity coverage ratio increases. So, all this put together, there is an unfavourable demand-supply condition in the market. It will be difficult for the market to absorb the extra bond supply. Eventually, the large supply will push up yields in the market.