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Switching- a breather for centre's debt management

A careful evaluation of the debt of central government reveals that it has been finely managed over the years. The subtle balancing of market borrowing and reliance on smaller savings schemes shows prudent management without unanticipated shocks on market yields. Another instrument that is frequently used to smooth out the liability profile of the government is conversion/switches.

In simple words, it is an instrument for deferment of debt for certain maturity tenors and has been efficiently used whenever the repayment burden of marketable loans goes up. This exercise is basically cash neutral except for the difference between the price at which it buys back bonds and the price at which it sells bonds.

In this exercise, we tried to evaluate *only one aspect of the exercise which is the interest cost advantage of the government* simply from the perspective of difference in coupon rate on the face value of source security, irrespective of the auction price.

Few interesting things that come out clearly from this exercise are:

- This fiscal saw conversion/switches of around Rs 1.13 lakh crore which is higher compared to same period of previous year. This excludes the transactions with the RBI on April 30, 2025 (explained later).
- The cut-off yield of auction revealed strong demand for majority of the securities.
- Regarding maturity profile, the preference has been towards the 5 to less than 10-year securities tenor bucket. This is contingent on the liquidity profile and price discovery of the securities in due course.
- The interest cost advantage so far in FYTD26 to the government simply due to conversion/switches has been Rs 560 crore and is higher than same period of previous year.
- In the coming years, we might see more reliance towards conversion/switches due to the increase in repayment of marketable loans by centre.

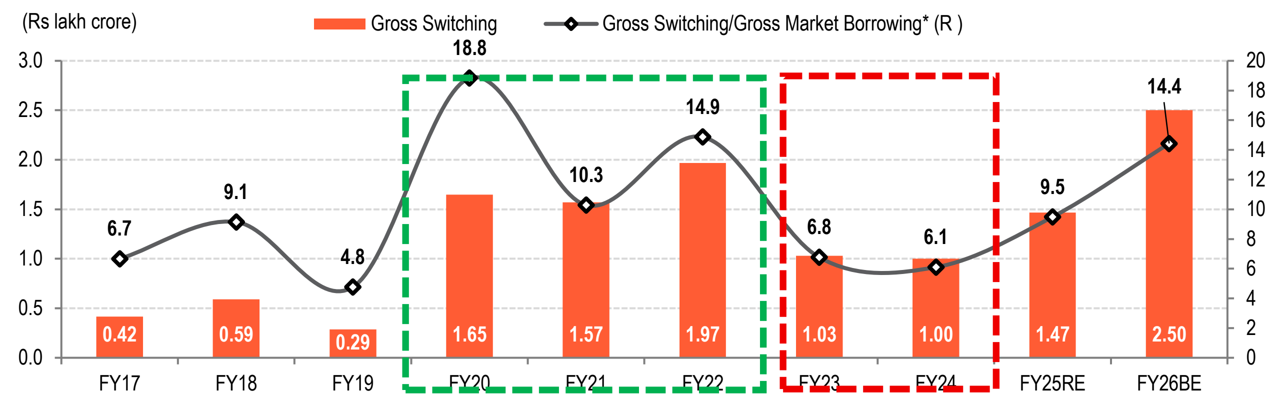
Switch emerging a major route in debt dynamics

A careful evaluation of the debt profile of central government reveals that conversion/switching has gained prominence in terms of smoothening out liability profile of the government. This has happened especially since the Covid period. In FY20, Gross switching increased almost 5-fold. From Rs 28,590 crore, it went up to Rs 1.6 lakh crore. It is important to mention that during the same period the repayment burden also significantly increased more than 2-fold. The trend of resorting to switching as an important instrument continued till FY22 while some normalization happened in FY23 and FY24. Post this phase there is some popularity being seen in terms of the sharp pickup in Gross switching amount allocated in the Budget. In fact, in FY26, the amount is at a decadal high level.

- The ratio of Gross switching to Gross Borrowing has also shown significant momentum. It is expected to go up to 14.4% as per FY26BE, almost approaching the high seen in FY20 at 18.8%. However, the absolute value of switching amount in FY20 was much lower than what is expected currently in FY26. There has been a continuous pickup in the ratio in the past two years.

- The second interesting thing is that the pickup in Gross switching amount also coincides with monetary policy cycle. During FY20-22 period when there was significant easing of repo rate by 225bps in the entire cycle, the amount allocated for switching has also gone up significantly. In the next cycle of monetary tightening in the subsequent years of FY23 and FY24, in which repo rate was hiked by 250bps, some moderation in the switching amount was seen. Ideally, repo rate cycles should not have any relation with switching being conducted as it is simply a way to manage the upcoming debt portfolio of the government. However, what could be the possible explanation is that generally repo rate cycles give a sense of direction to market yields. For example, in a phase of monetary easing, it hints at yield heading southward. Hence there is some sense of likely reduction in interest cost. Thus, an ideal scenario for switching of securities as the secondary market might garner higher demand and the possibility that the cut-off yields might be lower.

Figure 1: Switching route of government is gaining popularity



Source: Union Budget, Bank of Baroda Research, Note: RE: Revised Estimates, BE, Budget Estimates, Green box denotes monetary easing and red box signals tightening, Gross borrowing includes Normal/Fresh, Switching, Borrowing for providing back to back loans to States and UTs for GST Compensation cess shortfall and others

Details of Conversion/Switch in the current fiscal

In FYTD26, we have seen four conversion/Switch happening, amounting to a total of Rs 1.13 lakh crore. These are the conversion/Switch where secondary market auction has been conducted. Hence, we do not include the conversion/switch transactions with the RBI on 30 Apr 2025, carried out using Financial Benchmarks India Pvt Ltd. (FBIL) price. The face value amounted to Rs 37,300 crore for the source securities.

Let's now analyse the auction results:

- If we compare the quantum of four conversion/Switch that has happened this fiscal, it is far higher at Rs 1.13 lakh crore compared to the same period of previous year at Rs 86,000 contingent on the repayment profile of the government. The Q1 repayment for FY26 is also higher at Rs 1.35 lakh crore compared to Rs 1 lakh crore in FY25.
- **How did the maturity of conversion/Switch fare?** Evaluating the auction, it is seen that in FYTD26 the preference has been towards the 5 to less than 10-year securities with 76.5% of the source security switched to this tenor bucket. This is different compared to FY25 where

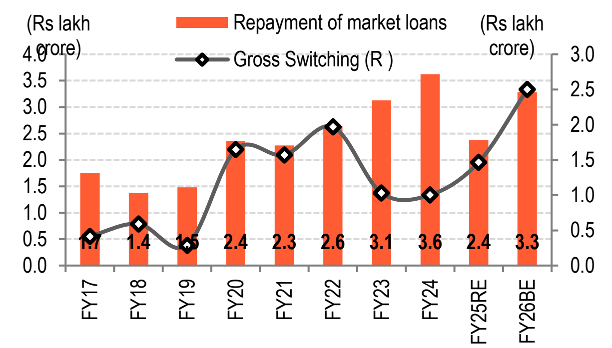
we have seen the preference for both 5-10 tenor bucket and above 10-year bucket. The preference of maturity is dependent on the liquidity of the destination security and how price discovery is expected to evolve for that bucket.

- The auction results also indicated that the cut off yields for majority of the destination securities have been lower indicating of buoyant demand conditions except for certain destination security whose maturity is scheduled in 2033, 2034 and 2035. Needless to mention that the selection of switch securities is contingent on their liquidity and the repayment amount that needs to be rolled over.

What advantage of the exchequer in terms of interest cost?

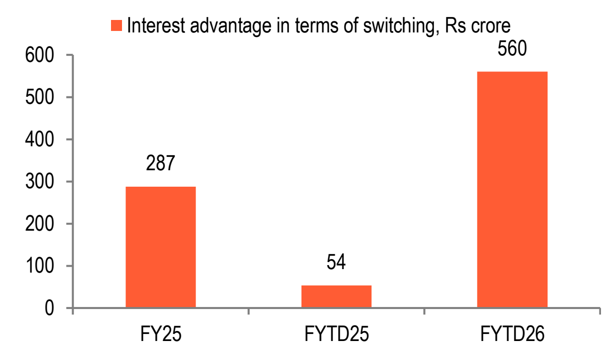
Next, we tried to evaluate the revenue loss/gain of the exchequer due to this conversion/switching route of debt deferment. Evaluating the historical period, one thing which comes out clearly is that when the burden of repayment of marketable loans increases, the gross switching amount goes up. In **Fig 1** we have seen that in the past 6 out of 10 years the amount allocated for switching has gone up in correspondence to repayment profile of central government debt. This is on account of government finely managing the debt pressure without any untoward pressure towards yields. The interest cost calculation is a theoretical exercise to calculate simply the revenue gain or loss taking the coupon rate on face value of source securities, which is basically the cost/savings to the exchequer. This is irrespective of the auction price. **Fig 2.** shows that the interest cost advantage calculated as interest cost of destination securities net of interest cost of source securities has been higher in this fiscal compared to same period of previous year.

Figure 2: Switching and repayment profile…



Source: Union Budget, Bank of Baroda Research RE: Revised Estimates, BE, Budget Estimates

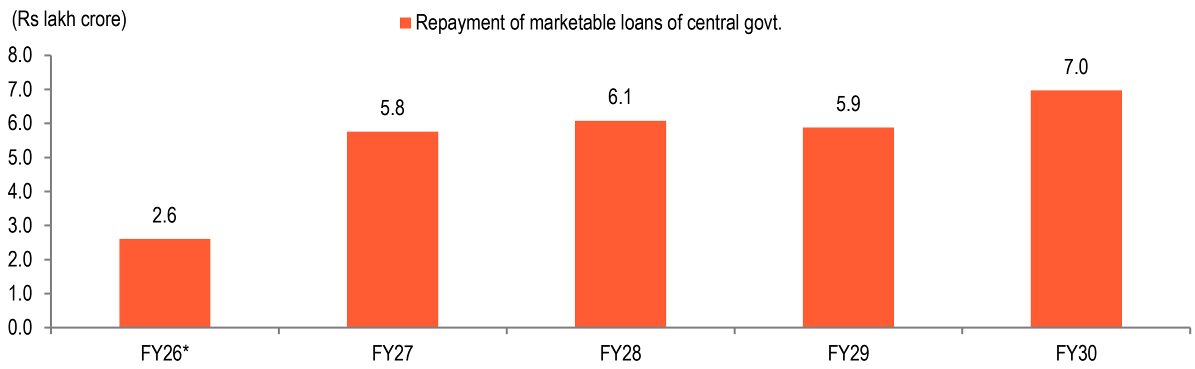
Figure 3: …interest cost advantage



Source: RBI, Bank of Baroda Research

However, small the amount of interest cost advantage to the government it may seem, it is crucial since in the coming months we might see government walking through more avenues of conversion/switching route as the repayment profile is expected to gradually increase (Figure 4).

Figure 4: Repayment profile of the centre in the coming years



Source: RBI, Bank of Baroda Research, Note: For FYTD26 only remaining maturity period is accounted for and not the full fiscal

Conclusion

One route which has gained popularity in terms of debt management of the centre is conversion or switches and buybacks. This note focusses on the former. Prima facie conversion/switches are a way of deferment of debt by simply choosing certain securities based on their liquidity or quantum of repayment in the future. This year saw a considerable increase in the number of conversion/switches that have been conducted. Till now the interest cost advantage of the government, amounting from such an operation is far higher at Rs 560 crore compared to FY25. This number, however small, holds relevance. Since in the coming years with higher quantum of repayment being visible in centre's borrowing calendar, frequency of such conversion/switches are likely to increase resulting in higher interest cost advantage for the government.

Appendix

Table 1: Details of conversion/Switch conducted in FYTD26

Date of Auction	Source Securities	Amount (FV of Source Securities), Rs crore	Destination Securities	Deferred Maturity	Cut off yield
July 21, 2025	8.15% GS 2026	3000	7.50% GS 2034	Aug 10, 2034	NA
	8.24% GS 2027	3000	7.50% GS 2034	Aug 10, 2034	NA
	6.79% GS 2027	4000	8.24% GS 2033	Nov 10, 2033	6.35
	7.17% GS 2028	4000	8.24% GS 2033	Nov 10, 2033	6.35
	7.06% GS 2028	4000	7.62% GS 2039	Sep 15, 2039	6.62
	8.60% GS 2028	4000	6.22% GS 2035	Mar 16, 2035	NA
	7.37% GS 2028	4000	7.62% GS 2039	Sep 15, 2039	NA
	7.26% GS 2029	2000	6.22% GS 2035	Mar 16, 2035	NA
	7.59% GS 2029	4000	8.32% GS 2032	Aug 02, 2032	NA
June 16, 2025	8.15% GS 2026	3000	6.19% GS 2034	Sep 16, 2034	6.35
	8.24% GS 2027	3000	6.64% GS 2035	Jun 16, 2035	NA
	8.26% GS 2027	2000	8.33% GS 2036	Jun 07, 2036	NA
	8.26% GS 2027	2000	7.40% GS 2062	Sep 19, 2062	7.04
	7.06% GS 2028	3000	8.24% GS 2033	Nov 10, 2033	6.35
	7.06% GS 2028	2000	7.06% GS 2046	Oct 10, 2046	NA
	8.60% GS 2028	3000	8.33% GS 2036	Jun 07, 2036	6.50
	7.59% GS 2029	3000	7.57% GS 2033	Jun 17, 2033	NA
	7.59% GS 2029	4000	8.32% GS 2032	Aug 02, 2032	6.35
May 19, 2025	5.63% GS 2026	2000	8.32% GS 2032	Aug 02, 2032	6.18
	6.99% GS 2026	2000	6.19% GS 2034	Sep 16, 2034	6.29
	7.33% GS 2026	2000	6.67% GS 2035	Dec 15, 2035	6.32
	8.15% GS 2026	5000	6.22% GS 2035	Mar 16, 2035	6.27
	8.24% GS 2027	2000	7.40% GS 2062	Sep 19, 2062	6.83
	8.24% GS 2027	2000	8.32% GS 2032	Aug 02, 2032	6.18
	7.17% GS 2028	1000	8.33% GS 2036	Jun 07, 2036	6.34
	7.26% GS 2029	5000	7.50% GS 2034	Aug 10, 2034	6.29
	7.59% GS 2029	7000	6.57% GS 2033	Dec 05, 2033	6.29
April 21, 2025	6.99% GS 2026	3000	6.22% GS 2035	Mar 16, 2035	6.41
	8.33% GS 2026	3000	6.64% GS 2035	Jun 16, 2035	6.42
	6.97% GS 2026	4000	6.67% GS 2035	Dec 15, 2035	6.42
	8.15% GS 2026	5000	6.19% GS 2034	Sep 16, 2034	6.38
	7.06% GS 2028	5000	6.22% GS 2035	Mar 16, 2035	6.39
	8.60% GS 2028	4000	6.19% GS 2034	Sep 16, 2034	6.38
	7.59% GS 2029	4000	6.57% GS 2033	Dec 05, 2033	6.38
Total		**1,13,000**			

Source: RBI, Bank of Baroda Research

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