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Cost of state debt jumps to 2-month high of 6.91 pc

Source: PTI

Mumbai, Oct 5 (PTI) Ahead of the fourth monetary policy review on Friday when the market fears RBI may begin to normalise the easy money policy by sucking out liquidity from the system, the cost of borrowing for the states jumped by 6 basis points (bps) to a two-month high of 6.91 per cent.

As many as 17 states raised Rs 22,809 crore at the weekly auctions held on Tuesday, the first auction of the second half of the borrowing season. This was Rs 55 crore over the notified amount as Gujarat accepted an additional Rs 500 crore, while Punjab accepted only Rs 55 crore of the notified Rs 500 crore.

The weighted average cost for borrowing across the states and maturities has risen to a two-month high of 6.91 per cent, up 6 basis points (bps) over the past week. It widened the spread between the 10-year state bonds auctioned today and the primary market yield of the 10-year G-Secs to 68 bps from 65 bps a week ago, according to a note by Care Ratings.

The rise in the yields of state bonds follows the uptick in yields of government securities (G-Secs) in recent days. G-Sec yields have moved upwards following the rise in US treasury yields coupled with the rise in crude prices, raising concerns over the outflow and funds from the domestic debt markets, while the increase in crude prices once again raises inflationary worries, the note said.

The borrowing by most states so far is 12 per cent lower than the comparable period last fiscal, as 27 states and two UTs have so far raised Rs 3.32 lakh crore as against Rs 3.76 lakh crore in the corresponding period of FY21 by 28 states and two UTs. This is also 10 per cent lower than the indicated auction amount. PTI BEN HRS

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