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States' borrowing cost falls to 2-month low at 6.87%

Synopsis
The weighted average cost of borrowing across states and tenures at the latest weekly auction declined to an eight-week low of 6.87 per cent, or by 11 bps from the past, Care Ratings said, adding however, the cost of funds is notably higher than at the start of the current fisca as the weighted average yields continue to be 31 bps higher than in April, and were ruling around 6.9 per cent since the third week of Jun


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As more and more states continue to borrow less from the markets, cost of their market borrowing fell by 11 bps to a two-month low of 6.87 per cent at Tuesday's auction when eight states drew down just Rs 12,100 crore. The market borrowings by the states so far in **FY22** has been 11 per cent less than that in the comparable period in FY21, as 23 states and Delhi have so far raised only Rs 2.18 lakh crore as against the Rs 2.45 lakh crore in the same period in FY21, and this is 15 per cent lower than indicated auction earlier, according to an analysis by **Care Ratings** NSE -2.56 %.

The weighted average cost of borrowing across states and tenures at the latest weekly auction declined to an eight-week low of 6.87 per cent, or by 11 bps from the past, Care Ratings said, adding however, the cost of funds is notably higher than at the start of the current fiscal as the weighted average yields continue to be 31 bps higher than in April, and were ruling around 6.9 per cent since the third week of June.

But the spread between the 10-year state bonds and the secondary market yield of the 10-year G-secs narrowed to 77 bps, which is the lowest since mid-June and 6 bps lower than week ago.

The main reason for the fall in borrowing is that the states are less inclined to raise more debt having borrowed heavily in FY21 (around Rs 8 lakh crore), indicating their resolve to get back to the fiscal consolidation path, Madan Sabanvis, chief economist at Care Ratings said.

However, another rating agency **Icra** NSE -1.75 % attributed the 11 bps decline in the yields to the states lowering their borrowing tenor, which earlier was mostly 10-year money.

It also said states are borrowing less than indicated amount for the fourth consecutive week as they for liquidity from GST compensation.

Many states have also been availing of the financial accommodation provided by the RBI by way of short-term borrowing through special drawing facility and the higher ways and means advances.

Between April 9 and July 21, the ways and means advances borrowings by the states was 35 per cent higher than year ago at Rs 0.92 lakh crore. But since then it has moderated since then which can be attributed to improved revenue inflows with the easing of lockdowns and gradual resumption of economic and business activity across the states, Sabnavis said.

Compared to last year ago, 15 states have borrowed less so far in the current financial and three states have not resorted to market borrowings at all. While Madhya Pradesh so far borrowed 78 per cent less than last year, for Punjab it is 32 p cent down, Kerala (30 per cent) and Gujarat (27 per cent), Rajasthan (12 per cent) and Tamil Nadu borrowed 9 per cent l according to Care.

Karnataka, a heavy borrower, has not raised funds from the market so far in FY22, while it had raised Rs 15,000 crore during the comparable period. Similarly **Odisha** and Himachal too have not availed of the market debt so far, according to Care. But Uttar Pradesh borrowed by 132 per cent more than last year, Bengal (19 per cent) and Telangana (18 per cent).

Tamil Nadu, **Maharashtra**, Andhra, Rajasthan, and Telangana are the top five borrowers so far in FY22, accounting for around 60 per cent of the total borrowings.