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States halve borrowing as Covid wreaks havoc

Raise only ₹37,200 crore so far against planned borrowing of ₹81,900 crore

ANUP ROY
Mumbai, 13 May

States are going slow on fundraising from the market at a time when the second wave of the Covid-19 pandemic has turned out to be far more disastrous than the first wave. Ratings agency Care Ratings has said the aggregate state government borrowing so far this fiscal year has been 54 per cent less than the corresponding borrowings last year. "Only 12 states and one Union Territory (UT) have raised a total of ₹37,200 crore so far in FY22, as opposed to the 22 states and one UT that raised ₹81,005 crore in the comparable period of FY21," it said.

According to the borrowing calendar, 23 states and 1 UT were to raise ₹81,900 crore in this period, but the fundraising is barely 45 per cent of the amount.

The spreads — yields of state development loans over equivalent maturity government securities — are about 80 basis points for the 10-year segment. This is reasonable, considering that in normal times the spreads remain within 50-60 basis points.

At the first glance, this may look like good news for the bond market, but market participants are not so sure.

"States are not borrowing because they are focused on fighting the Covid surge. They have not really started spending on other projects. Once the pandemic subsides, they will bunch up their issuances and that will create a lot of stress in the market," said the head of treasury of a foreign bank.

The reason for states going slow on tapping the bond market could also lie in the Reserve Bank of India's (RBI's) accommodation to them. Care Ratings surmised that some states could be availing of the short-term borrowing through SDF (special drawing facility) and WMA (ways and means advances), in place of long-term borrowing through the issue of state development loans (SDL).

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ILLUSTRATION: BINAY SINHA

GOING SLOW

State borrowings, in ₹ crore

	FY21*	FY22**
Andhra Pradesh	8,000	6,000
Arunachal Pradesh	428	400
Haryana	7,000	3,500
Jammu & Kashmir	1,300	900
Maharashtra	7,000	8,000
Manipur	350	200
Meghalaya	0	200
Mizoram	100	150
Nagaland	200	350
Rajasthan	4,750	6,500
Tamil Nadu	12,000	6,000
Telangana	6,000	3,000
West Bengal	5,000	2,000
Total	52,128	37,200

Note: States not named have not borrowed this fiscal; * (Apr 7-May 12, '20); ** (Apr 8-May 11, 2021)
Source: Care Ratings