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States borrowing cost continue to rise, yields soar back to 7%

Synopsis
The yields are trading high as banks, the main investors into state debt, are concerned over the rising government debt of the Centre and the states coupled with worries over the rising inflation which may force the central bank to exit the lose monetary policy earlier than expected.


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The cost of borrowings for the states has reversed the decline witnessed at the last auction and scaled back to the 7 per cent level at the auctions held on Tuesday. The weighted average cost of borrowing for the states across tenures rose to 6.99 per cent, 7 bps higher than last the auctions held last week, according to a note by **Care Ratings** NSE -0.53 % chief economist **Madan Sabnavis**.

The cost of borrowings for the states has been ruling over 6.9 per cent since the third week of June. It has since risen by 24 bps since mid-June, and by 43 bps since the first auction of state government bonds on April 8.

The yields are trading high as banks, the main investors into state debt, are concerned over the rising government debt of the **Centre** and the states coupled with worries over the rising inflation which may force the central bank to exit the lose monetary policy earlier than expected.

The spread between the 10-year state debt and the yield of new 10-year **G-Secs** is 88 bps now. The spreads have risen from around 50 bps in early April, he said.

Twelve states raised Rs 18,700 crore on Tuesday. Maharashtra accepted an additional Rs 500 crore over the notified amount, while Gujarat accepted an additional Rs 250 crore. The other states accepted only the notified amount.

Meanwhile, rival rating agency **Icra** NSE 1.44 % said the issuance on Tuesday was nearly 45 per cent higher than initially indicated in the revised Q2 borrowing calendar.

Share of 10-year state bonds increased to 54 per cent in July so far from 24-45 per cent in Q1.

The borrowing by the states so far has been 8.1 per cent less than that in the comparable period in FY21, with 23 states and Delhi raising Rs 1,78,150 crore between April 8 and July 13 as against Rs 1,93,776 crore a year ago.

According to the tentative borrowing calendar, 26 states and Delhi were to raise Rs 2,15,450 crore so far but 23 states and Delhi have so far raised only 83 per cent of this amount.

The amount is lower as Himachal Pradesh, Jharkhand, Madhya Pradesh, Odisha and Tripura have not raised any debt from the market so far against their tentative borrowing calendar of Rs 7,600 crore.

The lower quantum of market borrowings by states so far is reflective of the lower expenditure being undertaken by the states, even though there has been an increase in the quantum of debt and also the number of states raising funds fro the market since May, indicating the fund shortfalls following the lockdowns.

Tamil Nadu, Maharashtra, Rajasthan, Andhra and Telangana have been the top five borrowing states so far in FY22, accounting for 60 per cent of the total borrowings.

For 15 of the 23 that have raised funds so far, their borrowings have been lower compared to the year-ago period.

In case of Kerala, it is 28 per cent lower and for Tamil Nadu it is 15 per cent.

Significantly, Karnataka has not raised funds from the market so far, as against Rs 8,000 crore during the same period last year.