Printed from
THE TIMES OF INDIA

At 6.96%, borrowing costs continue to remain high for states

PTI | Jul 19, 2021, 11.23 PM IST

MUMBAI: Cash-starved states are continuing to pay higher for their market borrowings, being forced to offer yields close to 7 per cent even as the system is awash with liquidity amid benign interest rates, as per a report.

The six states which went to the market to auction state government securities on Monday to raise Rs 8,700 crore had to offer 6.96 per cent on a weighted average level, a paltry 3 basis points (bps) lower than that the previous weekly auctions.

Higher cost forced Haryana to reject the entire bid for its Rs 1,000 crore auction, while other states accepted the notified amount.

The weighted average cost of borrowing across the states and tenures was 6.96 per cent, just 3 bps lower than the auctions

held last week. The decline can be attributed to the easing of the global crude prices following the major oil producers agreeing over the weekend to boost oil output, Care Ratings said.
The cost of market borrowings for the states has been ruling over 6.9 per cent since the third week of June. It has risen by 21 bps since mid-June and by 40 bps since April 8, the report said.
The spread between the 10-year state bonds and the secondary market yield of new 10-year G-secs was stable at 88 bps, same as last week. The spreads have risen from around 50 bps in early April.

The cost remains high despite the borrowings by the states so far being 13 per cent lower on an annual basis. Twenty-three states and Delhi have raised a total of Rs 1,86,850 crore so far this fiscal, as against Rs 2,13,776 crore borrowed y-o-y.

According to the tentative borrowing calendar, 26 states and Delhi were to sell debt worth Rs 2,22,550 crore as of now, but they have raised only 87 per cent of this and that too by 23 states and Delhi.

The lower quantum of market borrowings is reflective of the states' lower expenditure following the second wave of Covid-19, which led to both revenue generation as well revenue collection dropping.

Compared to last year, 14 states have either borrowed less or not borrowed at all. While Kerala, which had paid 8.96 per cent last April for a five-year money, has borrowed as much as 33 per cent less this year, for Tamil Nadu it is 21 per cent down.

On the contrary, Karnataka has not raised funds from the market at all. This is notable as last year the state had raised Rs 12,000 crore during year to date (YTD).

But YTD borrowings have been higher for Uttar Pradesh (by 67 per cent), West Bengal (17 per cent), Telangana (14 per cent) and Rajasthan (6 per cent).

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