Logo

Borrowing by state govts 11% lower than last year: CARE Ratings

25 states, 1 UT have raised Rs 2.92 trn, against Rs 3.27 trn by 27 states, 2 UTs last fiscal

Anup Roy | Mumbai September 22, 2021 Last Updated at 06:05 IST

Illustration

State governments are borrowing less from the market, aiming for fiscal prudence as suggested by the Finance Commission, even as Covid-related economic dislocations squeeze their existing revenue streams.

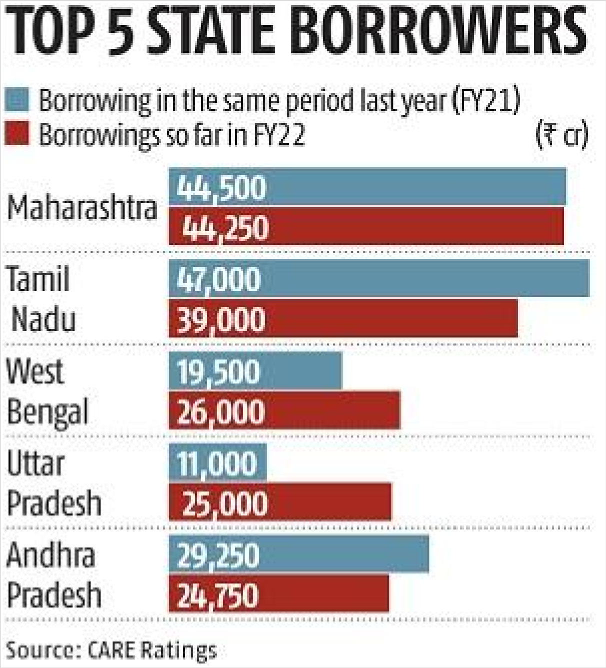
Market borrowings by states thus far in financial year 2021-22 (FY22) is 11 per cent lesser than last year. In fact, it is 12 per cent lower even than what they had planned to borrow according to their calendar for this year, according to CARE Ratings.

So far, 25 states and one Union territory (UT) have raised a cumulative Rs 2.92 trillion, as against Rs 3.27 trillion borrowed by 27 states and two UTs in the comparable period last fiscal.

“States this year have been less inclined to raise longer-term funds via market borrowings and add to their liabilities after having borrowed heavily in FY21 (around Rs 8 trillion). This could also be done with an eye on fiscal consolidation and for maintaining their fiscal deficit within the target set by the Finance Commission,” CARE Ratings wrote in a report. The Finance Commission has set a fiscal deficit target of 4 per cent of a state’s gross state domestic product (GSDP) for FY22.

Instead of borrowing from the markets, states are meeting their revenue shortfalls by tapping short-term borrowings through special drawing facility (SDF) and ways and means advances (WMA), both provided by the Reserve Bank of India (RBI). State development loans (SDL), or bonds issued by states, are of much longer tenure.

The WMA borrowings of states between April 9 and July 9 was higher by 35 per cent at Rs 0.92 trillion, but it moderated by mid-July and in August as the Centre paid Rs 0.75 trillion to the states towards goods and services tax (GST) compensation shortfall. The easing of lockdown restrictions also helped states mobilise more revenue.



However, in the first two weeks of September, WMA borrowings have risen again, with states tapping into Rs 22,810 crore from the RBI. Still, states are enjoying relatively lower rates in their SDL borrowings.

Eight states raised Rs 8,910 crore on Tuesday at a three-week-low borrowing cost. Rating agency ICRA noted the borrowing was 91 per cent higher than the initial guidance of Rs 4,700 crore, but still 37.7 per cent lower than the year-ago level of Rs 14,300 crore for the week.

The weighted average cost of borrowings for the states was at 6.80 per cent, which was 7 basis points (bps) lower than a week ago, CARE estimated. The spread between the 10 - year SDLs and equivalent maturity government security (G-sec) also narrowed to 60 bps from 70 bps a week ago, the lowest since the first week of April.

This is because the G-sec rates also softened significantly after the RBI announced on Monday that it would simultaneously buy and sell Rs 15,000 crore of government bonds on Thursday, rating agency ICRA said. In these auctions, the RBI purchases longer tenor bonds and sells shorter tenor ones to bring down the rates in the longer tenor.

The 10-year G-sec yield softened by 8 bps to 6.12 per cent on Tuesday from 6.20 per cent a week ago. Foreign investors are also taking an interest in G-secs and SDLs, CARE Rating said, amid the moderation in inflation readings, huge liquidity surplus, and expectations of the continuation of the accommodative monetary policy stance by the RBI.