

State Government borrowing cost at elevated levels

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Seven states raised a total of Rs.15,900 crores at the auction of the state government securities or state development loans (SDLs) held today. Maharashtra accepted an additional amount of Rs.1,000 crores over the notified amount of the auction.

There has been a notable shift in the state government borrowings so far in FY22, when compared with that in the same period of FY21. A fewer number of states have tapped the market for funds and the quantum of borrowing too has been significantly lower.

- The aggregate state government borrowing in the first five auctions of FY22 has been 64% less than the borrowings in the corresponding period of FY21.
- Only 10 states and 1 UT have raised a total of Rs. 25,050 crores so far in FY22 as opposed to the 22 states and 1 UT that raised Rs.70,255 crores in the comparable period of FY21.
- As per the tentative borrowing calendar, 22 states and 1 UT were to raise Rs.66,650 crore in the period 8 April to 4 May'21. However, only 38% of this amount has been raised by 10 states and 1 UT.
- The lower quantum and fewer number of state undertaking market borrowing so far in the current financial year could largely be ascribed to the lower expenditure undertaken by the states relative to their revenues.
- Some states could also be availing the financial accommodation being provided by the RBI i.e., 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 SDLs. The borrowing via SDF and WMA being linked to the repo rate comes at a lower cost than the funds raised through the SDL issue. The WMA of the states as of 23 April'21 at Rs.2,363 crore was significantly higher than the Rs. 1,063 crores of 24 April'20.

Table 1: Auction of State Development Loans of State Governments: 04 May'21

	Notified Amount (Rs Crs)	Amount Raised (Rs Crs)	Cut Off Yield (%)	Tenure (Yrs)
Andhra Pradesh	1000	1000	6.90	18
	1000	1000	6.91	19
Haryana	1000	1000	6.92	15
	1500	1500	6.95	Re-issue of 6.68% Haryana SDL 2039
Jammu and Kashmir	400	400	6.90	12
Maharashtra	2000	2500	6.82	11
	2000	2500	6.87	12
Rajasthan	1500	1500	6.78	10
Tamil Nadu	1500	1500	6.77	10
	1500	1500	6.79	Re-issue of 6.53% Tamil Nadu SDL 2031
Telangana	1500	1500	6.96	30

Source: RBI

Cost of borrowings

- The borrowing cost for the state governments at today's auction stayed at elevated levels.
- The weighted average cost of borrowing for the state governments through the auction of dated securities; across states and tenures, was 6.86%.
- The weighted average yields of SDLs have risen by 30 bps since the first auction of FY22 i.e., 8 April'21, reflective of the lower demand for these securities amid anticipated higher supply in coming periods. Investors are seen to prefer central government securities as the RBI has been undertaking secondary market purchases of G-Secs. The increase demand for G-Secs has led to the easing of their yields. The yield of the benchmark 10- year G-Sec fell by 5 bps in the last one week.
- The spread between the 10 -year SDLs auctioned today and the 10- year G-Sec is 73 bps, 10 bps higher than that in end Mar'21

State-wise Borrowings

States and UTs resorted to higher market borrowings in FY21 as lower economic activity consequent to the lockdown and restrictions impacted their revenues. In FY21, 28 states and 2 UTs (Union Territories) cumulatively raised a total of Rs.7.98 lakh crores via market borrowings, 26% more than the borrowings of Rs. 6.35 lakh crores in FY20.

Although the reimposition of restrictions and lockdowns across nearly all states has once again led to a loss of economic output, it is not as severe as compared with year ago given the less stringent and localised nature of lockdowns in many regions thus far. However, given the sharp resurgence in the pandemic, restrictions and lockdowns are expected to be in place for an extended period across regions it would pose a setback for the revival of the region's economy and could impact revenue collections of the government. The reliance of states on market borrowings is likely to continue in FY22 also.

- As per the indicative borrowing calendar for Q1 FY22, 28 states and 1 UT are cumulatively slated to raise Rs. 1.78 lakh crs via market borrowings. This is 7% more than the borrowings of Rs.1.67 lakh crs raised in Q1FY21. The amount raised in Q1 FY21 was 32% (or Rs. 40,071 crs) more than what was proposed in the indicative borrowing calendar for the period.
- Maharashtra is slated to borrow the highest quantum in Q1 FY22 at Rs. 25,000 crs, followed by Tamil Nadu at Rs.23,450 crs and Uttar Pradesh at Rs.21,500 crs. The other major borrowers are likely to be Rajasthan (Rs.14,500 crs), West Bengal (Rs.14,000 crs), Andhra Pradesh and Bihar (Rs. 12,000 crs each). These seven states are likely to account for 70% of the overall market borrowings by states in Q1 FY22.
- There would be a notable increase in the borrowings by Uttar Pradesh, Punjab, West Bengal and Assam in Q1 FY22 v/s Q1 FY21, as highlighted in table 3 below.

Table 2: State-wise market borrowings (Rs. Crores)

	FY 21 (7 April- 5 May'20)	FY 22 (8 April-4 May'21)
Andhra Pradesh	7,000	4,000
Arunachal Pradesh	428	400
Assam	500	
Goa	200	
Gujarat	2,080	
Haryana	7,000	2,500
Jammu & Kashmir	1,300	900
Karnataka	2,000	
Kerala	6,930	
Madhya Pradesh	3,000	
Maharashtra	7,000	5,000
Manipur	200	200
Meghalaya	-	200
Mizoram	100	
Nagaland	200	350
Odisha	3,000	
Punjab	2,100	
Rajasthan	4,250	5,500
Sikkim	467	
Tamil Nadu	10,000	3,000
Telangana	4,000	3,000
Uttar Pradesh	5,500	
Uttarakhand	1,000	
West Bengal	2,000	
Total	70,255	25,050

Source: RBI and CARE Ratings

Table 3: Market Borrowing in Q1 FY21 and Q1 FY22 (proposed)

	Market Borrowings in Q1 FY21: Rs crs	Indicative Market Borrowings in Q1 FY22: Rs crs
Andhra Pradesh	15,000	12,000
Arunachal Pradesh	428	400
Assam	500	3,000
Bihar		12,000
Chhattisgarh		2,000
Goa	700	650
Gujarat	8,580	7,500
Haryana	9,000	5,500
Himachal Pradesh		2,000
Jammu & Kashmir	1,700	1,700
Jharkhand		1,000
Karnataka	7,000	
Kerala	12,430	5,000
Madhya Pradesh	5,000	5,000
Maharashtra	25,500	25,000
Manipur	450	
Meghalaya		550
Mizoram	160	350
Nagaland	200	350
Odisha	3,000	1,000
Punjab	4,200	9,000
Rajasthan	16,000	14,500
Sikkim	467	600
Tamil Nadu	28,000	23,450
Telangana	12,461	8,000
Tripura		600
Uttar Pradesh	5,500	21,500
Uttarakhand	1,000	1,600
West Bengal	10,000	14,000
Total	1,67,276	1,78,250

Contact:

Madan Sabnavis
Author: Kavita Chacko
Mradul Mishra

Chief Economist
Senior Economist
(Media Contact)

madan.sabnavis@careratings.com
kavita.chacko@careratings.com
mradul.mishra@careratings.com

+91-22-6837 4433
+91-22-6837 4426
+91-22-6754 3573

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CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel. : +91-22-6754 3456 | CIN: L67190MH1993PLC071691

Connect :

