

State Government Borrowings

6 July, 2021 | Economics

Twelve states raised a total of Rs.14,900 crores at the auction of the state government securities or state development loans (SDLs) held today. Maharashtra accepted an additional amount of Rs.500 crores over the notified amount of the auction. The other states accepted the notified amount of the auction.

- The borrowing of the state governments so far in FY22 has been 11% less than that in the comparable period of FY21.
- Twenty-two states and one UT have raised a total of Rs. 1,59,450 crores during the period 8 April – 6 July’21 as against the twenty-three states and 1 UT that raised Rs.1,80,026 crores in the same period of FY21.
- As per the tentative borrowing calendar, twenty-six states and one UT were to raise Rs.2,05,050 crore during the period 8 April – 6 July’21. Only 78% of this amount has been raised by twenty-two states and one UT.
 - As per the indicative borrowing calendar, 5 states i.e., Himachal Pradesh, Jharkhand, Madhya Pradesh, Odisha and Tripura were to cumulatively raise Rs. 9,600 crores. These states have not yet tapped the market for funds.
- The lower quantum of market borrowing by states so far in FY22 is reflective of the lower expenditure being undertaken by states relative to their income.
- 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 25 June’21 at Rs.6,526 crore was significantly higher than the Rs. 3,372 crores availed by the states in the beginning of April’21 and the Rs. 3,416 crores availed in the corresponding period of June’20.

Table 1: Auction of State Development Loans of State Governments: 6 July’21

	State	Notified Amount (Rs Crs)	Amount Accepted (Rs Crs)	Cut off Price (Rs) / Yield (%)	Tenure (Yrs)
1	Andhra Pradesh	1000	1000	7.15	16
		1000	1000	7.19	17
2	Assam	500	500	6.33	5
3	Bihar	2000	2000	6.75	6
4	Chhattisgarh	1000	1000	6.82	7
5	Goa	100	100	6.99	10
6	Gujarat	1000	1000	6.91	9
		1000	1500	6.94	10
7	Maharashtra	1000	1000	7.01	11
8	Mizoram	100	100	7.12	13
9	Punjab	1200	1200	6.9905	Re-issue of 6.95% Punjab SDL 2031
10	Rajasthan	1000	1000	6.97	10
11	Tamil Nadu	1000	1000	6.95	10
		1000	1000	6.9604	Re-issue of 6.83% Tamil Nadu SDL 2031
12	West Bengal	1500	1500	6.83	7

Source: RBI

Cost of borrowings

- The borrowing cost for the state governments at today’s auction moderated from week ago but continued to be elevated levels.
- The weighted average cost of borrowing for the state governments through the auction of dated securities; across states and tenures was 6.92%, 7 bps lower than that at the auctions a week ago.
- The cost of borrowings for the states has risen by 16 bps since mid-Jun’21 and by 36 bps since the start of April’21. Concerns over the government’s (centre and state) finances and the likelihood of additional market coupled with worries over inflation with the rise in global commodity prices viz. crude oil prices has pushed up the yields of government securities.
- The spread between the 10 -year SDLs auctioned today and the secondary market yield of 10- year G-Secs is 79 bps, 5 bps lower than week ago. The spreads have risen from around 50 bps in early April’21, reflective of the firming of yields of SDLs.

State-wise Borrowings

The second wave of the pandemic led to the reimposition of lockdown across states since the start of FY22, resulting in the loss of economic output and thereby income for the government. With the loss of revenues on account of the lockdowns unlikely to be fully compensated following the unlocking of the economies and resumption of economic and business activity, state’s are expected to resort to market borrowings to meet the shortfall in revenues.

- Of the state's/UT that has raised funds in so far in FY22, the market borrowings of Nagaland (by 71%), West Bengal (by 20%), Haryana (11% rise), Sikkim (increase of 7%), Jammu & Kashmir and Maharashtra (by 4% each) and Rajasthan (3% increase) have been higher on a year -on-year basis. It has been lower than the comparable period of year ago in case of the other states. In case of Kerala it is 28% lower and in case of Tamil Nadu it is 15% less than year ago. In case of Andhra Pradesh and Telangana it has been 7% lower than year ago.
- Among the large states, Karnataka and Madhya Pradesh have not raised funds from the market thus far in FY22. This is a notable change from year ago when both these states had cumulatively raised Rs.13,000 crores (Rs. by way of market borrowing by this).

Table 2: State-wise market borrowings

	FY 21 (7 April-7 July'20)	FY 22 (8 April-6 July'21)	Amount to be borrowed as per indicative borrowing calendar during Q2 FY22
Andhra Pradesh	17,000	16,000	8,000
Arunachal Pradesh	428	400	163
Assam	1,000	500	4500
Bihar		6,000	12,000
Chhattisgarh		1,000	4,000
Goa	700	400	1000
Gujarat	9,280	5,500	12000
Haryana	9,000	10,000	8,000
Himachal Pradesh			3,000
Jammu & Kashmir	2,500	2,600	1100
Jharkhand			1000
Karnataka	7,000		8,000
Kerala	12,430	9,000	8,000
Madhya Pradesh	6,000		8000
Maharashtra	25,500	26,500	25000
Manipur	450	400	347
Meghalaya	200	400	350
Mizoram	310	250	180
Nagaland	350	600	300
Odisha	3,000		
Punjab	5,450	4,700	11,500
Rajasthan	17,000	17,500	10000
Sikkim	467	500	651
Tamil Nadu	30,500	26,000	15,500
Telangana	14,461	13,500	6,000
Uttar Pradesh	6,000	5000	
Uttarakhand	1,000	700	3000
West Bengal	10,000	12,000	18,000
Total	1,80,026	1,59,450	1,69,591

Source: RBI and CARE Ratings

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