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Professional Risk Opinion

State Government Borrowing

11 May, 2021 I Economics

Seven states raised a total of Rs.12,150 crores at the auction of the state government securities or state development loans (SDLs) held today.

Fewer number of states have been seen to be tapping the markets for funds so far in the current financial year as compared with that in the corresponding period of FY21. Also, the quantum of borrowings has been lower this year.

- The aggregate state government borrowing during 8 April-11 May’21 has been 54% less than the borrowings in the corresponding period of FY21.
- Only 12 states and 1 UT have raised a total of Rs. 37,200 crores so far in FY22 as opposed to the 22 states and 1 UT that raised Rs.81,005 crores in the comparable period of FY21.
- As per the tentative borrowing calendar, 23 states and 1 UT were to raise Rs.81,900 crore in the period 8 April to 11 May’21. However, only 45% 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 30 April’21 at Rs.4,506 crore was significantly higher than the Rs. 2,363 crores as of 23 April’21.

Table 1: Auction of State Development Loans of State Governments: 11 May’21

	Notified Amount (Rs Crs)	Amount Raised (Rs Crs)	Cut Off Yield (%)	Tenure (Yrs)
Andhra Pradesh	1000	1000	6.94	16
	1000	1000	6.94	17
Haryana	1000	1000	6.79	10
Maharashtra	1500	1500	6.84	11
	1500	1500	6.88	12
Mizoram	150	150	6.9	12
Rajasthan	500	500	6.13	5
	500	500	6.77	10
Tamil Nadu	1500	1500	6.93	Re-issue of 6.49% Tamil Nadu SDL 2050
	1500	1500	6.93	Re-issue of 6.63% Tamil Nadu SDL 2055
West Bengal	2000	2000	6.83	10

Source: RBI

Cost of borrowings

- The borrowing cost for the state governments at today’s auction was nearly stable at week ago levels.
- The weighted average cost of borrowing for the state governments through the auction of dated securities; across states and tenures, was 6.85%.
- The weighted average yields of SDLs have risen by 29 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 helped lower yields of these securities. The benchmark 10-year GSec yield has been ruling around 6.0%, 5 bps lower than the average yield in April’21.
- The spread between the 10 -year SDLs auctioned today and the 10- year G-Sec yield (secondary market) is 80 bps, 7 bps higher than week ago.

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 lakhs crores via market borrowings, 26% more than the borrowings of Rs. 6.35 lakh crores in FY20.

Although the imposition of fresh curbs 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. This 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 as detailed in table 3 below. 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.
- Of the state's/UT that has raised funds so far, the market borrowings of Maharashtra (by 14%), Rajasthan (37%), Mizoram (50%) and Nagaland (75%) 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.

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

	FY 21 (7 April- 12 May'20)	FY 22 (8 April- 11 May'21)
Andhra Pradesh	8,000	6,000
Arunachal Pradesh	428	400
Assam	500	
Goa	300	
Gujarat	2,080	
Haryana	7,000	3,500
Jammu & Kashmir	1,300	900
Karnataka	2,000	
Kerala	7,430	
Madhya Pradesh	4,000	
Maharashtra	7,000	8,000
Manipur	350	200
Meghalaya		200
Mizoram	100	150
Nagaland	200	350
Odisha	3,000	
Punjab	2,600	
Rajasthan	4,750	6,500
Sikkim	467	
Tamil Nadu	12,000	6,000
Telangana	6,000	3,000
Uttar Pradesh	5,500	
Uttarakhand	1,000	
West Bengal	5,000	2,000
Total	**81,005**	**37,200**

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**

Source: RBI and CARE Ratings

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