

State Government Borrowings

12 October, 2021 | Economics

Nine states raised a total of Rs. 11,140 crore at the weekly auction of the state government securities or state development loans (SDLs) held today. This was Rs. 2,089 crore lower the notified amount of the auction as Gujarat and Punjab accepted less than the notified amount of the auction. Seven of the nine states that borrowed today were those that had confirmed participation as per the indicative calendar. Two states – Gujarat and Manipur were not part of the indicative borrowing calendar.

- The market borrowings of the state governments during 8 April-12 October of FY22 is 13% less than that in corresponding period of FY21.
 - Twenty-seven states and two UTs have raised a total of Rs. 3.43 lakh crore during the period 8 April – 12 Oct’21 as against the Rs.3.95 lakh crore borrowed in the corresponding period of FY21 (by twenty-eight states and two UTs).
 - The borrowings so far in FY22 have been 11% lower than the borrowings as per the indicative auction calendar for this period.
- The market borrowings by many states in the current financial year has been lower than a year ago. This could probably be due to their improved revenue position relative to the expenditure being undertaken by them. Also, states may be reluctant to add to their liabilities after having borrowed heavily in FY21 (around Rs. 8 lakh crore). Fiscal consolidation considerations could also be a factor.
- Some states in the first quarter of FY22 were meeting their revenue shortfalls by tapping into 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 the three-month period 9 Apr-9 Jul’21 the WMA borrowings of states was notably higher than year ago (by 35% at Rs.0.92 lakh crore). This was also the period when pandemic restrictions were in place across states impacting their revenue collections.
 - The WMA borrowings by states moderated since mid-July and this can be attributed to the receipt of the GST compensation shortfall (of Rs.0.75 lakh crore) from the central government as well as the easing of the lockdowns across states that could have led to improved revenue inflows.
 - The WMA borrowings during Apr to 1 October of FY22 at Rs.1.93 lakh crore has been 12% lower than that in the same period of FY21. The release of Rs.0.40 lakh crore of GST compensation shortfall to states on 7 Oct could further lower WMA borrowings in the coming days.
 - Andhra Pradesh, Kerala, Telangana, and Punjab have been the major states that have availed financial accommodation from the RBI during April-July’21. These four states have been witnessed a revenue deficit in these months.

Table 1: Auction of State Development Loans of State Governments: 12 October’21

| State | Notified Amount (Rs Crs) | Amount Accepted (Rs Crs) | Cut off Price (Rs) / Yield (%) | Tenure (Yrs) |
|----------------|---------------------------|--------------------------|--------------------------------|--|
| Andhra Pradesh | 1000 | 1000 | 7.13 | 15 |
| | 1000 | 1000 | 7.14 | 20 |
| Gujarat | 2500 | 1054.202 | 6.76 | 8 |
| Karnataka | 1000 | 1000 | 6.96 | 10 |
| | 1000 | 1000 | 7.03 | 11 |
| Manipur | 140 | 140 | 7 | 10 |
| Nagaland | 89 | 89 | 7 | 10 |
| Punjab | 750 | 357.01 | 98.87/6.9988 | Re-issue of 6.84% Punjab SDL 2031 Issued on September 29, 2021 |
| | 250 | | | Re-issue of 6.98% Punjab SDL 2033 Issued on September 29, 2021 |
| Rajasthan | 1000 | 1000 | 6.98 | 10 |
| Tamil Nadu | 2000 | 2000 | 6.97 | 10 |
| Uttar Pradesh | 2500 | 2500 | 6.97 | 10 |

Source: RBI

Cost of borrowings

- The borrowing cost for the state governments at the auction held today rose to a three-month high.
- The weighted average cost of borrowings, across states and tenures, at 6.99% was 8 bps higher than a week ago.
- The spread between the 10 -year SDLs auctioned today and the primary market yield of the 10- year G-Sec widened to 74 bps from 68 bps a week ago.
- The rise in the yields of SDLs follows the uptick in yields of GSecs in recent days. GSec yields have moved upwards following the rise in US Treasury yields coupled with the rise in crude oil prices. Higher US Treasury yields have raised concerns over the outflow and funds from the domestic debt markets while the increase in crude oil prices has led to inflation worries.

State-wise Borrowings

The borrowings by most states in the period 9 April to 12 October of FY22 have been lower than that in the comparable period of FY21.

- When compared with FY21, fifteen states and two UTs have undertaken lower borrowing so far in the current financial year, while one state has not resorted to market borrowings.
 - Odisha has not availed market borrowing so far in FY22 (Rs. 3,000 crore raised during the same period in FY21). The borrowing by Karnataka has been 88% lower than a year ago. Neither of the two- states has sought financial accommodation from the RBI (i.e., WMA) during April-July'21 either. Both the states have been witnessing conducive financial position that has necessitated lower borrowings. Karnataka and Odisha have witnessed a revenue surplus during the first four and five months of FY22 respectively.
 - Among the major states, the borrowings (y-o-y) of Gujarat have been 30% lower, that of Madhya Pradesh is less by 38%, Haryana by 27%, Tamil Nadu by 19%, and Andhra Pradesh is less by 13%. Borrowings by Rajasthan has declined by 3% and that of Punjab has fallen by 12%. While Madhya Pradesh has witnessed a revenue surplus during April-July'21, the others have had a revenue deficit. Apart from Andhra Pradesh, none of the other six states have availed WMA from the RBI.
- Among the major states, the year-on-year borrowings have been higher for Uttar Pradesh (by 91%), West Bengal (25%), and Kerala (19%). These three states have been facing revenue deficit in the current fiscal.
- Maharashtra, Tamil Nadu, West Bengal, Uttar Pradesh, Andhra Pradesh, Rajasthan, and Telangana are the top borrowing states so far in FY22, accounting for nearly 70% of the total borrowings.

Table 2: State-wise market borrowings

| | FY 21 (7 April- 13 October'20) | FY 22 (8 April-12 October'21) | % change | Amount of borrowing as per indicative borrowing calendar during Apr-12 Oct'FY22 |
|-------------------|--------------------------------|-------------------------------|----------|---|
| Andhra Pradesh | 34,250 | 29,750 | -13 | 23,000 |
| Arunachal Pradesh | 428 | 400 | -7 | 563 |
| Assam | 4,300 | 4,500 | 5 | 8,100 |
| Bihar | 14,000 | 14,000 | 0 | 26,000 |
| Chhattisgarh | 3,000 | 3,000 | 0 | 7,000 |
| Goa | 1,600 | 1,200 | -25 | 1,750 |
| Gujarat | 20,780 | 14,554 | -30 | 20,500 |
| Haryana | 18,500 | 13,500 | -27 | 13,500 |
| Himachal Pradesh | 1,000 | 1,000 | 0 | 5,000 |
| Jammu & Kashmir | 5,205 | 4,200 | -19 | 2,800 |
| Jharkhand | 1,200 | 1,500 | 25 | 3,000 |
| Karnataka | 33,000 | 4,000 | -88 | 12,000 |
| Kerala | 15,930 | 19,000 | 19 | 15,000 |
| Madhya Pradesh | 13,000 | 8,000 | -38 | 15,000 |
| Maharashtra | 56,500 | 46,250 | -18 | 52,500 |
| Manipur | 700 | 887 | 27 | 347 |
| Meghalaya | 1,050 | 1,000 | -5 | 1,100 |
| Mizoram | 442 | 434 | -2 | 634 |
| Nagaland | 750 | 989 | 32 | 739 |
| Odisha | 3,000 | 0 | -100 | 1,000 |
| Puducherry | 225 | 124 | -45 | 0 |
| Punjab | 13,910 | 12,282 | -12 | 22,750 |
| Rajasthan | 29,450 | 28,600 | -3 | 27,500 |
| Sikkim | 615 | 751 | 22 | 1,251 |
| Tamil Nadu | 52,000 | 42,000 | -19 | 40,950 |
| Telangana | 24,461 | 25,000 | 2 | 15,500 |
| Tripura | 400 | 300 | -25 | 600 |
| Uttar Pradesh | 17,000 | 32,500 | 91 | 26,500 |
| Uttarakhand | 3,000 | 1,200 | -60 | 4,900 |
| West Bengal | 25,500 | 32,000 | 25 | 34,500 |

Source: RBI and CARE Ratings

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