

State Government Borrowings

18 October, 2021 | Economics

Three states raised a total of Rs. 5,000 crore at the weekly auction of the state government securities or state development loans (SDLs) held today. The notified amount of the auction was raised by the states. Of the three states that borrowed today, only Karnataka has confirmed participation as per the indicative borrowing calendar. Four states that were due to borrow today as per the indicative calendar were not part of the auction.

- The market borrowings of the state governments during 8 April-18 October of FY22 is 15% less than that in corresponding period of FY21.
 - Twenty-seven states and two UTs have raised a total of Rs. 3.48 lakh crore during the period 8 April – 18 Oct’21 as against the Rs.4.10 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 on 15 July and Rs.0.40 lakh crore on 7 Oct) from the central government as well as the improved revenue inflows following the easing of the lockdowns and resumption of economic activity across states.
 - The WMA borrowings by States during the period 16 July’21 to 8 Oct’21 at Rs.1.07 lakh crore was 35% lower than the borrowings of Rs.1.64 lakh crore in the same period of FY21.
 - 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: 18 October’21

State	Notified Amount (Rs Crs)	Amount Accepted (Rs Crs)	Cut off Price (Rs) / Yield (%)	Tenure (Yrs)
Gujarat	1,500	1,500	6.04	5
Haryana	1,500	1,500	6.99	10
Karnataka	1,000	1,000	6.95	10
	1,000	1,000	7.08	13

Source: RBI

Cost of borrowings

- The weighted average yield of the 10-year SDLs at 6.97% was unchanged from a week ago. SDL yields (10 year) are ruling at the highest level since mid-August and have been tracing the rise in GSec yields since late September. GSec yields have inched up on concerns over the rise in global energy prices and the uptick in US Treasury yields.
- The spread between the 10 -year SDLs auctioned today and the primary market yield of the 10- year G-Sec was 64 bps, 4 bps lower than at the start of the month.
- The weighted average cost of borrowings, across states and tenures, at 6.72% was 27 bps lower than a week ago.

State-wise Borrowings

The borrowings by most states in the period 9 April to 18 October of FY22 have been lower than that in the comparable period of FY21.

- When compared with FY21, eighteen 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 83% 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 23% lower, that of Madhya Pradesh is less by 43%, Haryana by 19%, Tamil Nadu by 21%, and Andhra Pradesh is less by 16%. Borrowings by Rajasthan has declined by 3% and that of Punjab has fallen by 15%. The borrowings

have been lower, despite these states having recorded a revenue deficit during the first 5 months of FY22. 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 71%), 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-20 October'20)	FY 22 (8 April-18 October'21)	% change	Amount of borrowing as per indicative borrowing calendar during Apr-18 Oct'FY22
Andhra Pradesh	35,250	29,750	-16	23,000
Arunachal Pradesh	428	400	-7	563
Assam	5,300	4,500	-15	8,100
Bihar	16,000	14,000	-13	26,000
Chhattisgarh	3,000	3,000	0	7,000
Goa	1,600	1,200	-25	1,850
Gujarat	20,780	16,054	-23	20,500
Haryana	18,500	15,000	-19	13,500
Himachal Pradesh	1,000	1,000	0	5,000
Jammu & Kashmir	5,205	4,200	-19	2,800
Jharkhand	2,600	1,500	-42	3,000
Karnataka	35,000	6,000	-83	14,000
Kerala	15,930	19,000	19	15,000
Madhya Pradesh	14,000	8,000	-43	17,000
Maharashtra	59,500	46,250	-22	54,500
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	14,395	12,282	-15	22,750
Rajasthan	29,450	28,600	-3	27,500
Sikkim	615	751	22	1,251
Tamil Nadu	53,000	42,000	-21	41,950
Telangana	24,461	25,000	2	15,500
Tripura	400	300	-25	600
Uttar Pradesh	19,000	32,500	71	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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