

27 July, 2021

Three states raised a total of Rs. 7,000 crore at the auction of the state government securities or state development loans (SDLs) held today. All the three states accepted the notified amount of the auction.

State government borrowings in FY22

- The market borrowings of the state governments in the first five months of FY22 is 14% less than that in the same period of FY21.
- Twenty-three states and one UT have raised a total of Rs. 1,93,850 crore during the period April-July'21 as against the Rs.2,24,876 crores borrowed in the corresponding period of FY21.
- As per the tentative borrowing calendar, twenty-six states and one UT were to raise Rs.2,25,050 crore during the first five months of FY22. However, only 86% of this amount has been raised by twenty-three states and one UT during this period. While some states have borrowed more than the indicative borrowing calendar, the others have either raised lower quantum or have not tapped the market at all so far this year.
 - As per the indicative borrowing calendar, four states i.e., Himachal Pradesh, Jharkhand, Odisha and Tripura were to cumulatively raise Rs. 5,600 crore. These states have not yet tapped the market for funds.
 - Borrowing of Assam, Punjab, Bihar, Uttar Pradesh, Gujarat and West Bengal has cumulatively been Rs. 36,200 crore less than the indicative borrowing calendar.
 - Manipur was not scheduled to borrow as per the borrowing calendar but has raised Rs. 600 crore.
 - Borrowing of seven states and one UT (J & K) has been more than the indicative scheduled borrowings (by Rs.20,050 crore). These states include Telangana, Andhra Pradesh, Haryana, Kerala, Rajasthan, Tamil Nadu and Nagaland.
- The overall lower quantum of market borrowings by states so far in FY22 is reflective of the lower expenditure being undertaken by various states. With the second wave of the pandemic affecting the revenues of states since the onset of the current financial year, states have been curtailing their non-essential/ developmental expenditure. They have also been less inclined to raise longer term funds via market borrowings and add to their liabilities after having borrowed heavily in FY21. This could also be done with an eye on fiscal consolidation and for maintaining their fiscal deficit within the target set by the Finance Commission (4% of GSDP in FY22).

Table 1: Auction of State Development Loans of State Governments: 27 July'21

	State	Notified Amount (Rs Crs)	Amount Accepted (Rs Crs)	Cut off Price (Rs) / Yield (%)	Tenure (Yrs)
1	Tamil Nadu	2000	2000	6.97	10
2	Uttar Pradesh	2500	2500	6.99	10
3	West Bengal	2500	2500	6.99	9

Source: RBI

Cost of borrowings

- The borrowing cost for the state governments at today's auction was higher than week ago.
- The weighted average cost of borrowing for the state governments through the auction of dated securities; across states and tenures was 6.98%, a 2 bps increase from that at the auctions held a week ago.
- The cost of market borrowings for the states has been ruling over 6.9% since the third week of June'21. It has risen by 23 bps since mid-June'21 and by 42 bps year-to-date (since 8 April'21).
- Concerns over the government's (centre and state) finances and the likelihood of additional market borrowings coupled with worries over the inflation trajectory have been pressuring the yields of government securities.
- The spread between the 10 -year SDLs auctioned today and the secondary market yield of new 10- year G-Secs was 83 bps. The spreads have risen from around 50 bps in early April'21.

State-wise Borrowings

Although, the reimposition of lockdown across states since the start of FY22 has resulted in the loss of economic output and thereby income for the government, the borrowings by most of the state governments in the first five months (Apr-Jul) have been lower than that in the comparable period of FY21 which was also a period of lockdown and restrictions.

- When compared with year ago (Apr-Jul), 16 states have either borrowed less or not borrowed at all.
 - In case of Kerala, it is 33% lower and for Tamil Nadu it is 16% less than year ago. Borrowings by Gujarat has been 19% less than last year and that of Punjab and Maharashtra has each been 14% lower.
 - Karnataka has not raised funds from the market thus far in FY22. This is a notable change from year ago when the states had raised Rs.12,000 crores during the comparable period.
- Among the major states, the year-on-year borrowings have been higher for Uttar Pradesh (by 92%), Bihar (by 33%) and West Bengal (19%),
- Tamil Nadu, Maharashtra, Rajasthan, Andhra Pradesh and Telangana have been the top five borrowing states so far in FY22, accounting for around 60% of the total borrowings.

Table 2: State-wise market borrowings

	FY 21 (7 April- 28 July'20)	FY 22 (8 April-27 July'21)	% change
Andhra Pradesh	19,000	17,750	-7
Arunachal Pradesh	428	400	-7
Assam	1,000	500	-50
Bihar	6,000	8,000	33
Chhattisgarh		1,000	
Goa	900	500	-44
Gujarat	9,280	7,500	-19
Haryana	11,000	10,000	-9
Himachal Pradesh	500		-100
Jammu & Kashmir	2,500	2,600	4
Karnataka	14,000		-100
Kerala	13,430	9,000	-33
Madhya Pradesh	7,000	2,000	-71
Maharashtra	34,500	29,750	-14
Manipur	600	600	0
Meghalaya	200	400	100
Mizoram	310	250	-19
Nagaland	350	600	71
Odisha	3,000		-100
Punjab	5,450	4,700	-14
Rajasthan	20,500	19,600	-4
Sikkim	467	500	7
Tamil Nadu	38,000	32,000	-16
Telangana	15,461	16,500	7
Uttar Pradesh	6,500	12,500	92
Uttarakhand	1,000	1,200	20
West Bengal	13,500	16,000	19

Source: RBI and CARE Ratings

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