

State Government Borrowings: 17 November'20

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9 states raised a total of Rs.8,716 crores at the auction of state government securities or state development loans (SDLs) held today. The entire notified amount was raised at the auction.

So far in the current fiscal year (7 Apr-17 Nov'20), 28 states and 2 UTs have cumulatively raised a total of Rs.4.72 lakhs crores via market borrowings, 49% more than the borrowings in the corresponding period of 2019-20 (Rs. 3.16 lakh crores). As per the borrowing calendar for the first 3 quarters of 2020-21 (Apr-Dec), the states are to borrow Rs. 5.07 lakhs crores. States have already borrowed 93% of this amount.

The average weekly SDL borrowings has been Rs.14,328 crores so far in 2020-21 and ranged between Rs.5,200 – 32,560 crores.

Table 1: Auction of State Development Loans of State Governments: 17 November'20

State	Notified Amount (Rs Crs)	Amount Raised (Rs Crs)	Cut Off Yield (%)	Tenure (Yrs)
Arunachal Pradesh	53	53	6.54	10
Assam	500	500	6.6	10
Karnataka	1000	1000	6.49	10
	1000	1000	6.72	13
Madhya Pradesh	1000	1000	6.7688	Re-issue of 6.76% Madhya Pradesh SDL 2040
Punjab	750	750	6.6	10
Rajasthan	1000	1000	6.54	10
Tamil Nadu				Re-issue of 6.33% Tamil Nadu SDL 2030
	1000	1000	6.4676	
Tripura	413	413	6.81	15
West Bengal	2000	2000	6.78	15

Source: RBI

Increase in cost of borrowings (weighted average)

- The cost of borrowing for state governments rose this week. The weighted average cost of borrowing for the state government dated securities (across states and tenures) auctioned today was 6.65%, 38 bps higher than week ago (6.27% on 10 Nov'20) and the highest in the last 6 auctions.
- The increase in yields at today's auction could in part be attributed to the expectations of additional supply of government securities following the central government's stimulus package announced on 13 Nov'20 that could lead to higher market borrowings. Higher supply amid the persistent high inflation levels that limit the ability of the RBI to cut interest rates could have also dampened investors sentiments
- Although the weighted average cost of borrowing for state governments has declined consequent to the RBI introducing OMO purchase of SDLs at its 9 October'20 policy meet, the extent of decline has narrowed from 30 bps (on 13 Oct'20) to 15 bps (17 Nov'20).
- The RBI has so far purchased SDLs of Rs.20,000 crs via OMO spread across 2 auctions held in late October'20 and early November'20.

Chart 1: Weighted Average Cost of Borrowings

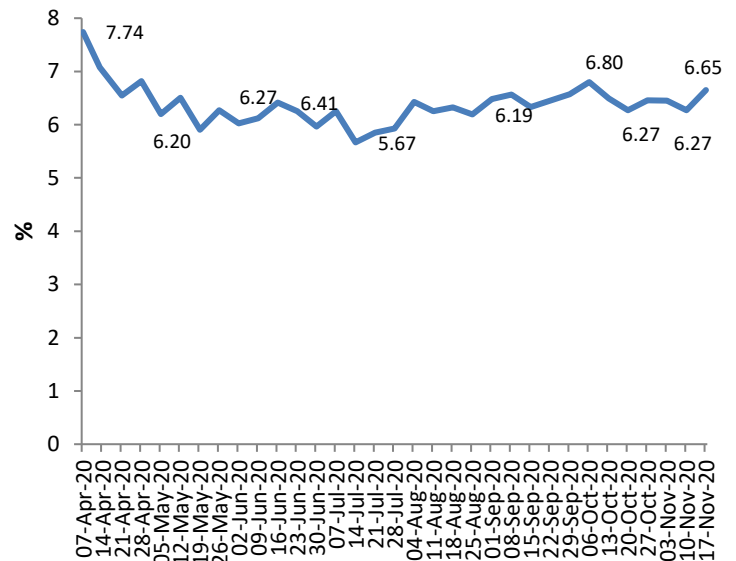


Chart 2: Yield Movement : 10 year SDLs

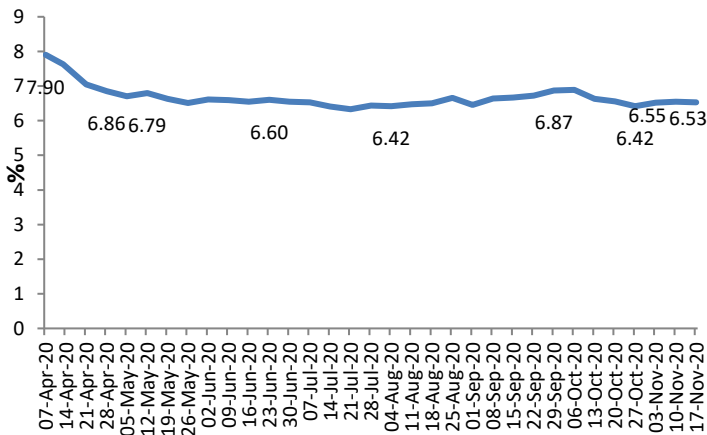
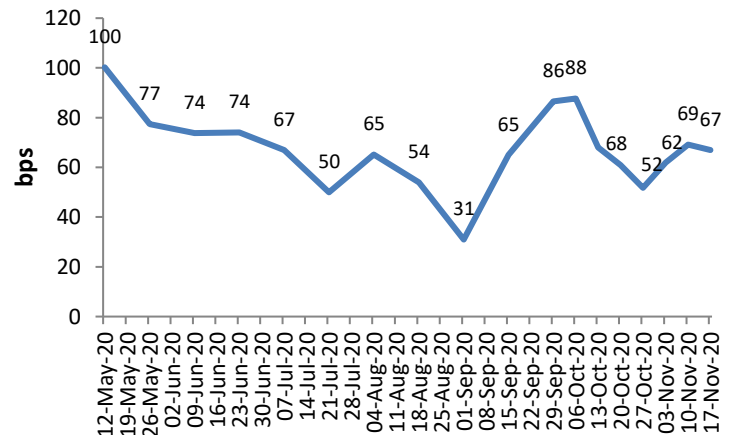


Chart 3: Spread: 10 year GSec and SDLs (bps)



Source: RBI and CARE Ratings calculations

The (weighted average) yields of the 10 year SDLs (across states) at the auction held today at 6.53% was marginally lower than week ago i.e. by 2 bps. The spread between the 10 year SDLs and GSecs this week at 67 bps too was 2 bps lower than week ago. Nearly 50% of the SDL issuances today and 40% of issuances so far in 2020-21 carry a tenure of 10 years.

State-wise Borrowings and weighted average cost of borrowings

States have been resorting to higher market borrowings to meet the shortfalls in their finances consequent to the sharp fall in the revenues on account of the lockdown along with the increase in expenditure that is being incurred by them for controlling and mitigating the impact of the pandemic. The majority of the states have seen a notable increase in their market borrowing in the ongoing financial year as against year ago. The year-on-year state-wise increase in market borrowings has been highlighted in table 2 below.

Barring 4 states i.e. Himachal Pradesh, Manipur, Uttar Pradesh and Odisha the borrowing of all the other states has seen a notable increase from year ago. Maharashtra, Tamil Nadu, Karnataka, Andhra Pradesh, and Rajasthan have been the top 5 borrowing states, accounting for 50% of the total borrowings by state governments so far in 2020-21.

Table 2: State-wise market borrowings

	FY 20 (9 April-19 November'19) Rs crs	FY 21 (7 April-17 November'20) Rs crs	% change
Andhra Pradesh	26,893	39,250	46
Arunachal	472	481	2
Assam	5,200	6,800	31
Bihar	14,642	18,000	23
Chhattisgarh	2,000	5,000	150
Goa	1,400	1,900	36
Gujarat	20,400	26,780	31
Haryana	14,501	22,500	55
Himachal Pradesh	2,000	2,000	0
Jammu & Kashmir	4,383	5,805	32
Jharkhand	1,500	2,600	73
Karnataka	19,200	43,000	124
Kerala	13,682	16,566	21
Madhya Pradesh	7,000	18,000	157
Maharashtra	22,500	62,000	176
Manipur	803	700	-13
Meghalaya	450	1,050	133
Mizoram	358	674	88
Nagaland	250	1,064	326
Odisha	3,500	3,000	-14
Puducherry	400	550	38
Punjab	17,820	18,216	2
Rajasthan	24,832	33,211	34
Sikkim	451	927	106
Tamil Nadu	34,390	57,000	66
Telangana	20,800	27,461	32
Tripura	1,065	1,113	5
Uttar Pradesh	27,500	23,500	-15
Uttarakhand	1,600	3,700	131
West Bengal	26,010	29,500	13

Source: RBI

Table 3: Weighted average cost of borrowings state-wise

	Apr-20	Jun-20	Aug-20	Oct-20	Nov'20 (till 17 Nov)
Andhra	6.85	6.11	6.35	6.87	6.61
Arunachal	7.98				6.54
Assam	8.00			6.19	5.86
Bihar			5.02	5.34	5.12
Chattisgarh				5.66	5.35
Goa	7.76	6.56	6.59	6.66	6.55
Gujarat	7.73	6.55	6.51	6.55	6.48
Haryana	8.00		6.61	6.72	6.59
Himachal				6.62	
Jammu &	8.15	6.62	6.46	7.15	6.80
Jharkhand				6.76	
Karnataka	7.87	6.30	6.55	6.66	6.60
Kerala	8.32	6.07	5.55		4.15
Madhya	5.89	6.61	6.58	6.96	
Maharashtra	7.76	5.31	6.47	6.68	6.78
Meghalaya				6.65	6.50
Manipur	8.00	6.56	6.45		
Mizoram	7.04	6.60			6.68
Nagaland	8.00			6.91	6.50
Puducherry				5.75	6.52
Punjab	6.86	6.70	6.52	6.92	6.77
Odisha	5.98				
Rajasthan	7.13	6.24	6.20	6.43	6.64
Sikkim	7.14				6.60
Tamil Nadu	7.00	6.16	6.16	5.90	5.62
Telangana	7.21	6.82	6.61	6.86	6.80
Tripura				6.55	6.81
Uttar	7.20		6.67	6.60	6.60
Uttarakhand	7.85			6.52	
West Bengal	6.85	6.58	6.65	6.87	6.83

Source: CARE Ratings calculations

Among the borrowing states, the weighted average cost of borrowing (across tenures) has been the highest for West Bengal at 6.83% in Nov'20 and lowest in case of Kerala at 4.15%. All states have witnessed a decline in cost of borrowings since the start of the 2020-21 financial year.