

State Borrowings-An Update

State governments recently concluded their borrowing program for Q2FY24 and announced planned borrowing for Q3FY24. As per plan, states were estimated to borrow Rs 2.4 lakh crore in Q2 and they managed to achieve 90% of their target with Rs 2.1 lakh crore of borrowing. In Q3, states have projected to raise another Rs 2.4 lakh crore from the markets. With this, total planned borrowing for states in FYTD24 (Apr-Dec) stands at Rs 6.7 lakh crore, of which Rs 3.8 lakh crore has been raised till 3 Oct 2023. Cost of borrowing for states in FYTD24 remained 17-35bps higher than G-Sec rates, and ranged from 7.31% (Gujarat) to 7.48% (Uttarakhand). Gujarat being one of the better fiscally managed state was able to raise money through short-term papers also at a lower rate. On the other hand, states with higher fiscal imbalances, like Punjab, Rajasthan, W. Bengal, Andhra Pradesh, borrowed through longer-tenured papers to manage cost. Further, states like Tamil Nadu, Telangana, and Andhra Pradesh also exceeded their targeted level of borrowing in FYTD24, while states like Gujarat and Maharashtra borrowed much less than planned.

In comparison, central government raised money in H1FY24 through long-term borrowing at an average yield of 7.2%. Other instrument for borrowing such as WALR show that cost of borrowing from SCBs was at 9.47% (as of Aug'23) and Corporates with AAA rated 10Y bonds could raise money at 7.64% in Q2. In FYTD24, WALR has increased by 15bps for SCBs and by 13bps for PSBs.

Actual versus planned borrowing-FYTD24

In FYTD24 state governments have together raised Rs 3.8 lakh crore from the markets so far (till 3 Oct 2023). Of this amount, Rs 2.1 lakh crore (~56%) was raised in Q2FY24 (Jul-Sep'23) by 23 states. Notably, this is slightly lower than Rs 2.4 lakh crore planned by in the indicative calendar. State-wise analysis for FYTD24 shows that:

- Out of 23 states, 12 states accounted for 90% of the borrowing and these included: Tamil Nadu, Andhra Pradesh, Maharashtra, Rajasthan, Punjab, Telangana, Haryana, Kerala, W. Bengal, Uttar Pradesh, Madhya Pradesh and Bihar.
- Tamil Nadu and Andhra Pradesh raised the maximum amount from the market, and both exceeded their planned target of borrowing in FYTD24.
- Other states which exceeded their target were: Rajasthan, Punjab, Telangana, Kerala, Bihar, J&K, Manipur, Nagaland and Mizoram.
- Most significant increase in actual borrowing compared to planned borrowing was done by Andhra Pradesh (+Rs 8,500 crore), Telangana (+Rs 6,300 crore) and Tamil Nadu (+Rs 5,000 crore).
- There were certain states which raised market loans considerably less than anticipated. These include: Uttar Pradesh, Gujarat, W. Bengal, Maharashtra, Haryana, MP, Himachal Pradesh, Uttarakhand, Goa and Chhattisgarh.

- Amongst these, major miss in target was seen by states like UP (-Rs 21,500), Gujarat (-Rs 15,000 crore each), West Bengal (-Rs 11,000 crore) and Maharashtra (-Rs 6,000). Better than expected revenue receipts could have lowered the need to enter the market for loans.
- States like Arunachal Pradesh, Karnataka, Puducherry and Tripura have not borrowed anything from the markets in FYTD24 so far.

Indicative calendar for state borrowings in Q3FY24 (Oct-Dec) shows that 26 states will collectively raise Rs 2.37 lakh crore, with ~54% of the borrowing expected to be raised by 5 states alone—UP, Karnataka, W. Bengal, Maharashtra and Tamil Nadu. Other major borrowers may include: MP, Rajasthan, Andhra Pradesh, Bihar, Telangana, Haryana and Punjab.

Table 1: State-wise borrowings

Rs Crore	Planned borrowing (Q1+Q2)	Actual borrowing (FYTD24)	Wtd. Avg. yield (FYTD24, %)	Planned borrowing (Q3)
Andhra Pradesh	35,000	43,500	7.42	12,000
Arunachal Pradesh	-	-	-	670
Assam	9,700	9,250	7.44	4,350
Bihar	14,000	16,000	7.47	12,000
Chhattisgarh	7,000	6,000	7.43	3,000
Goa	2,300	1,150	7.44	1,200
Gujarat	23,000	8,000	7.31	6,000
Haryana	28,000	23,500	7.41	10,500
Himachal Pradesh	4,500	2,300	7.38	2,300
Jammu and Kashmir	3,700	4,973	7.41	2,400
Karnataka	19,000	-	-	30,000
Kerala	17,500	20,800	7.40	1,552
Madhya Pradesh	22,000	18,000	7.45	15,000
Maharashtra	45,000	39,000	7.36	22,000
Manipur	250	900	7.47	300
Meghalaya	1,200	700	7.41	550
Mizoram	460	510	7.39	190
Nagaland	800	900	7.41	851
Puducherry	200	-	-	-
Punjab	26,800	29,989	7.45	7,500
Rajasthan	30,000	32,000	7.43	14,000
Sikkim	1,000	550	7.41	400
Tamil Nadu	49,000	54,000	7.39	18,000
Telangana	22,700	29,000	7.42	12,000
Tripura	300	-	-	-
Uttar Pradesh	40,000	18,500	7.44	31,500
Uttarakhand	3,400	1,500	7.48	2,500
West Bengal	30,500	19,500	7.43	26,500
Total	4,37,310	3,80,522	-	2,37,263

Source: RBI, Bank of Baroda

Cost of Borrowing for States

In FYTD24, weighted average yield for states ranged from 7.31% (Gujarat) to 7.48% (Uttarakhand). During the same period, 10Y G-sec yield ranged from 6.96% to 7.31%, thus leading to spread between SDLs and G-Sec to 17-35bps.

Apart from Uttarakhand, other states which had to borrow at notably higher rates were Manipur, Bihar (7.47% each), Punjab, Madhya Pradesh (7.45% each), Goa, Uttar Pradesh and Assam (7.44%).

Amongst the states which were able to borrow at more favourable rates were Maharashtra (7.36%), Himachal Pradesh (7.38%), Mizoram and Tamil Nadu (7.39% each).

The weighted average cost for states also depended upon the tenors under which they borrowed. For the purpose of this analysis, we divided securities under 4 buckets:

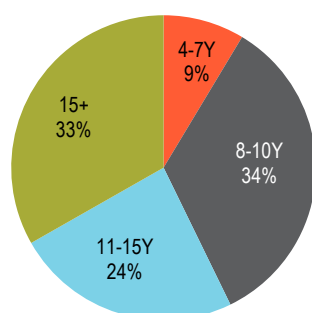
1. 4Y-7Y
2. 8Y-10Y
3. 11Y-15Y
4. Above 15Y

We note that majority (~34%) of the borrowing was done in the 8-10Y bucket, followed by more longer-tenured issuances (15Y+: ~33%), and 11-15Y range (~24%). Only few securities were issued in the 4-7Y bucket (~9%).

- States like Haryana (~85%), Punjab (80%), Maharashtra (77%), and Andhra Pradesh (~53%), focused on 8-15Y papers.
- Rajasthan's preference was split equally between 11-15Y and 15Y+ buckets.
- Kerala, J&K, Tamil Nadu and W. Bengal only borrowed through 15Y+ securities.
- On the other hand, borrowing by states like Chhattisgarh, Gujarat and Telangana, was more skewed towards the shorter-end of the curve (4-7Y).

Figure 1: Tenor-wise issuances by states in fiscal year 2024 so far

Tenor-wise securities issued by states (FYTD24)



Source: RBI, Bank of Baroda Research

Cost of borrowing through other instruments

Central government securities: In FYTD24 so far (till 6 Oct 2023) union government has borrowed Rs 9.18 lakh crore at an average cost of 7.2%. In Q2FY24 (Jul-Sep), central government raised Rs 4.77 lakh crore at 7.26%. In H1, majority of the borrowing was done in the 10-40Y bucket, followed by 5-10Y bucket. Least amount was raised through auction of 2-5Y papers. In H2 as well, bias will be towards

longer-end borrowing with papers of 10Y and above (14Y, 30Y, 40Y and 50Y) accounting for a major chunk of borrowing (~72%). At the beginning of Oct'23, cost of borrowing has seen a rise, with average yield rising to 7.44% in the 6 Oct 2023 auction.

WALR: The weighted average lending rate (WALR) on fresh rupee loans sanctioned by SCBs averaged 9.29% in FYTD24 (Apr-Aug). Within SCBs, a higher rate is charged by private sector banks (10.16% as of Aug'23) in comparison to public sector banks (8.8% as of Aug'23). As compared to Mar'23, WALR for SCBs has risen by 15bps (9.32% in Mar'23), with major change visible in case of PSBs (+13bps from 8.67% in Mar'23). For private sector banks, WALR is up by 8bps (10.08% as of Mar'23).

Corporate bonds: To compare the cost of borrowing by corporates and state/central government, we looked at AAA corporate bond yields. In H1FY24, corporate AAA rated 1Y bonds traded at an average of 7.53% (7.73% as of Mar'23), 3Y at 7.63% (7.80% as of Mar'23), 5Y at 7.60% (7.85% as of Mar'23) and 10Y at 7.61% (7.81% as of Mar'23). At the start of H2 (Oct'23 onwards), yields have seen some inching up, with average yield on 1Y paper inching up to 7.69%, 3Y at 7.73%, 5Y at 7.77% and 10Y at 7.70%, but still remain lower than what was seen at the end of previous fiscal year.

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