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State Borrowing

Actual state borrowing for FYTD'23 (as of 28 Feb 2023) cumulatively continues to be way behind the actual target for the year. Amongst different tenors, securities with tenor of more than 10 and 15 years are a much preferred alternative than the securities with tenor less than 10 years. In the recent months, cost of raising funds has also become expensive, with states having to pay more for their market borrowing. The 10Y G-sec yield has edged upwards following global cues with Fed expected to keep rates elevated for a longer duration than anticipated. RBI too is likely to continue with the monetary tightening if inflation doesn't cool off in the near term.

Actual versus Planned Borrowing

- In FYTD23 (till 28 Feb 2023), states have borrowed Rs 6.19 lakh crore, at par with the amount raised last year during the same period. This is 62% of the total supply (Rs 10 lakh crore) announced for the whole year. With only a month left in the given fiscal, states are not likely to meet their planned demand. Moreover, if states are able to meet their target, this might add pressure on liquidity.
- Notably, states have borrowed much higher this year (Rs 6.19 lakh crore) than last year (Rs 6.14 lakh crore) for the same period. The states have raised the maximum amount in the month of Feb'23 in FYTD'23, to the tune of Rs 84,220 crore.
- Amongst states, Maharashtra, Uttar Pradesh and Madhya Pradesh are far off from their borrowing target for FY23. Actual borrowing for Tamil Nadu has only reached the half way mark at Rs 73,000 crore against a planned borrowing of Rs 1.4 lakh crore.
- Also states like West Bengal and Uttarakhand are not expected to meet their planned target in FY23.
- States such as Andhra Pradesh, Haryana, Himachal Pradesh are relatively closer to their mark.
- There are also states that have already exceeded their planned target. These include, Assam, Meghalaya and Jammu & Kashmir.

Average Cost

The average cost amongst states have registered marginal difference. The weighted average yield for state bonds have risen, resulting in states having to pay more towards their market borrowing. Notably, the highest cost has been borne by states like Rajasthan, West Bengal, Telangana and Goa with weighted average yield at 7.76%, while the lowest is at 7.47% for Meghalaya. On the other hand, the weighted average yield for the 10Y paper for all states is at 7.68%. In comparison, the 10Y G-sec for FYTD'23 has averaged around 7.32% (31st Mar 2022 to 28 Feb 2023).

The 10Y yields have hardened this year on the back of the global cues with aggressive tightening by global central banks. Fed is expected to continue with rate hike spree and the terminal rates are now expected to peak to 5.5% against an earlier expectation of 5%. On the domestic front, higher inflation continues to remain a cause of concern.

Table 1: State wise borrowing

States	Weighted Average Yield*	Actual Borrowing (Rs in cr)	Planned Borrowing (Rs in cr)
Andhra Pradesh	7.75	54,760	64,000
Arunachal Pradesh	7.62	559	151
Assam	7.69	16,100	14,600
Bihar	7.67	33,000	44,044
Chhattisgarh	-	-	12,500
Goa	7.66	1,350	5,300
Gujarat	7.65	35,000	48,000
Haryana	7.7	38,500	41,500
Himachal Pradesh	7.65	10,800	13,500
Jharkhand	7.67	4,000	13,200
Karnataka	7.61	36,000	55,000
Kerala	7.69	24,039	37,003
Madhya Pradesh	7.65	28,000	51,158
Maharashtra	7.65	55,000	1,07,000
Manipur	7.73	1,422	1,072
Meghalaya	7.47	1,753	1,500
Mizoram	7.75	1,190	1,125
Nagaland	7.74	1,763	1,835
Odisha	-	-	-
Punjab	7.71	38,600	43,300
Rajasthan	7.76	36,734	44,039
Sikkim	7.7	1,314	2,030
Tamil Nadu	7.68	73,000	1,41,000
Telangana	7.76	36,000	39,150
Tripura	-	-	1,314
Uttar Pradesh	7.7	33,500	1,07,500
Uttarakhand	7.7	2,500	11,750
West Bengal	7.76	46,500	86,500
Jammu and Kashmir	7.73	6,745	4,858
Puducherry	7.59	1,200	1,900
Total		6,19,329	9,95,829

Source: RBI Bank of Baroda Research Note* Weighted average yield has been calculated

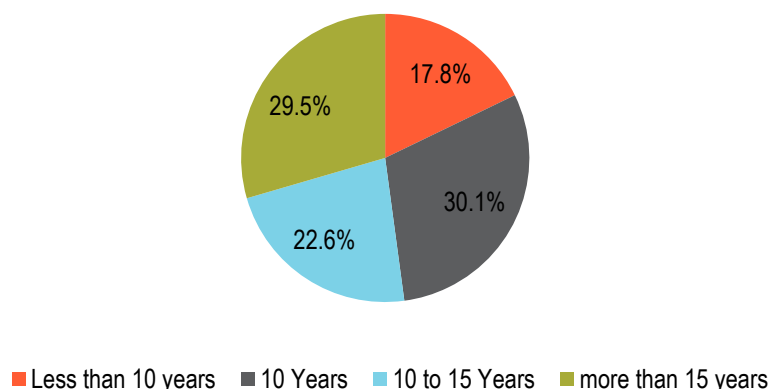
Tenor

Securities of different maturities have been auctioned for state borrowing. On the basis of tenor, these securities are divided in to 4 different buckets, (**chart 1**)

- 1) securities less than 10 years are clubbed together,
- 2) securities for 10 years,
- 3) securities in the range of 10 to 15 years,
- 4) securities with tenor more than 15 years.

In particular, the 10 Years securities account for 30.1% share followed by securities maturing in over 15 years with a share of 29.5%. States such as Rajasthan, Punjab, Telangana and Tamil Nadu are prime examples of the same. On the other hand, states such as Haryana and Maharashtra have preferred 6Y, 7Y and 8Y papers. Andhra Pradesh is an exception which prefers 6Y, 7Y and also 18Y as well as 20Y papers.

Chart 1: Type of Tenor preferred across states



Source: RBI, Bank of Baroda Research

Conclusion

Elevated inflation on global front has pushed global central banks to resort to aggressive monetary action. In India, RBI has also been trying to combat higher inflation with the rate hike cycle. This in turn get reflected with higher repo and 10Y bond yields.

For their market borrowing, states continue to pay more as the weighted average 10Y yield has edged up. In terms of tenor, there has been a higher preference for longer term securities in comparison to short term securities.

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