

RESEARCH
BOB ECONOMICS RESEARCH | STATE BORROWING

Taking stock

SUMMARY
INDIA ECONOMICS: 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.

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Daily macro indicators

Ticker	01-Mar	02-Mar	Chg (%)
US 10Y yield (%)	3.99	4.06	6bps
India 10Y yield (%)	7.39	7.42	2bps
USD/INR	82.51	82.59	(0.1)
Brent Crude (US\$/bbl)	84.3	84.8	0.5
Dow	32,662	33,004	1.0
Hang Seng	20,620	20,429	(0.9)
Sensex	59,411	58,909	(0.8)
India FII (US\$ mn)	28-Feb	01-Mar	Chg (\$ mn)
FII-D	(2.3)	15.3	17.6
FII-E	(561.5)	101.9	663.4

Source: Bank of Baroda Economics Research

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03 March 2023

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Jahnavi Prabhakar
Economist

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).



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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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