

# STATE GOVERNMENT FINANCES

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**Frequency of availing liquidity facilities  
may rise in Q1 FY2023 following changes  
related to borrowing permissions**

**MAY 2022**





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*Frequency and number of states/UT availing SDF and WMA declined in FY2022 from FY2021*

*However, OD usage rose substantially during FY2022 compared to FY2021 led by AP, J&K and Manipur*

*Liquidity tightness persisted for a few states during Covid-19 2.0*

*Frequency of availing liquidity facilities may rise in Q1 FY2023 with changes related to borrowing permissions*

The number of states/Union Territory (UT) that availed the special drawing facility (SDF) and ways and means advances (WMA) facilities offered by the Reserve Bank of India (RBI) to the state governments declined mildly in FY2022 relative to FY2021, while exceeding the pre-pandemic level. Nine states tapped the overdraft (OD) facility in FY2022 compared to eight in FY2021 and 10 in FY2020.

There was a mild decline in the total number of days, for which the states used the WMA facilities in FY2022 relative to FY2021, although it was a substantial ~39% higher than FY2020. Discouragingly, the number of days of usage of the OD facility rose by a steep 62% in FY2022 relative to FY2021, and nearly doubled relative to FY2020. The frequency of Andhra Pradesh (AP), Manipur, Meghalaya and Mizoram of tapping the WMA and OD windows increased in FY2022 relative to FY2021. Moreover, Jammu & Kashmir (J&K), Kerala and Telangana continued to access these facilities for a substantial period of time during FY2022. Overall, these trends suggest that liquidity tightness was persistent for a few states during the second wave of Covid-19.

In our view, the changes related to the borrowing permission for FY2023, as well as the likely further rise in interest rates, may lead to an increase in the frequency and/or number of days of usage the liquidity facilities by a few states in FY2023 relative to FY2022.

### Exhibit: Number of states/UTs that availed the facilities during FY2020-22

	FY2020	FY2021	FY2022
<b>SDF</b>	15	18	17
<b>WMA</b>	13	15	14
<b>OD</b>	10	8	9

### Exhibit: Number of days the facilities were availed by states/UTs during FY2020-22

	FY2020	FY2021	FY2022
<b>SDF</b>	1,635	2,055	1,314
<b>WMA</b>	1,255	1,842	1,747
<b>OD</b>	355	443	719

# A few states stepped up the frequency of availing WMA and OD from the RBI in FY2022 relative to the pandemic-hit FY2021

Exhibit: Number of days the facilities were availed by states/UTs in FY2022

	AP	CT	GA	HR	HP	JK	JH	KL	MH	MN	ML	MZ	NL	PY	PB	RJ	TS	TR	UK	WB
SDF	305	38	80	4	1	-	22	99	1	16	64	-	231	1	12	143	291	-	5	1
WMA	283	-	53	15	15	303	9	95	-	349	42	180	135	-	-	6	261	-	1	-
OD	146	-	-	1	-	178	-	14	-	213	25	5	33	-	-	-	104	-	-	-

Incremental decline in FY2022 over FY2021

No change in FY2022 from FY2021

Incremental increase in FY2022 from FY2021

Did not avail in FY2022 and FY2021

- Usage of WMA facilities by Manipur, AP, Telangana, Mizoram, Meghalaya and Jharkhand increased during FY2022 from FY2021. Additionally, J&K, Nagaland and Kerala continued to resort to this facility for an extended period in FY2022.
- Manipur, J&K, AP, Meghalaya, Mizoram and Haryana availed OD for a higher number of days in FY2022 relative to FY2021. Although, the frequency of days in OD declined for Telangana on a YoY basis, it remained substantial in FY2022.
- Eight states, namely, Assam, Bihar, Gujarat, Karnataka, Madhya Pradesh (MP), Odisha, Tamil Nadu (TN) and Uttar Pradesh (UP), did not avail any liquidity facilities from the RBI during FY2020-22.**

Note: Note: AP-Andhra Pradesh; CT-Chhattisgarh; GA-Goa; HR-Haryana; HP-Himachal Pradesh; JK-Jammu & Kashmir; JH-Jharkhand; KL-Kerala; MH-Maharashtra; MN-Manipur; ML-Meghalaya; MZ-Mizoram; NL-Nagaland; PY-Puducherry; PB-Punjab; RJ-Rajasthan; TS-Telangana; TR-Tripura; UK-Uttarakhand and WB-West Bengal; Sikkim does not avail these facilities available from the RBI.

Source: RBI; ICRA Research

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# Repo-rate linked financial accommodation provided by the RBI to the states/UTs

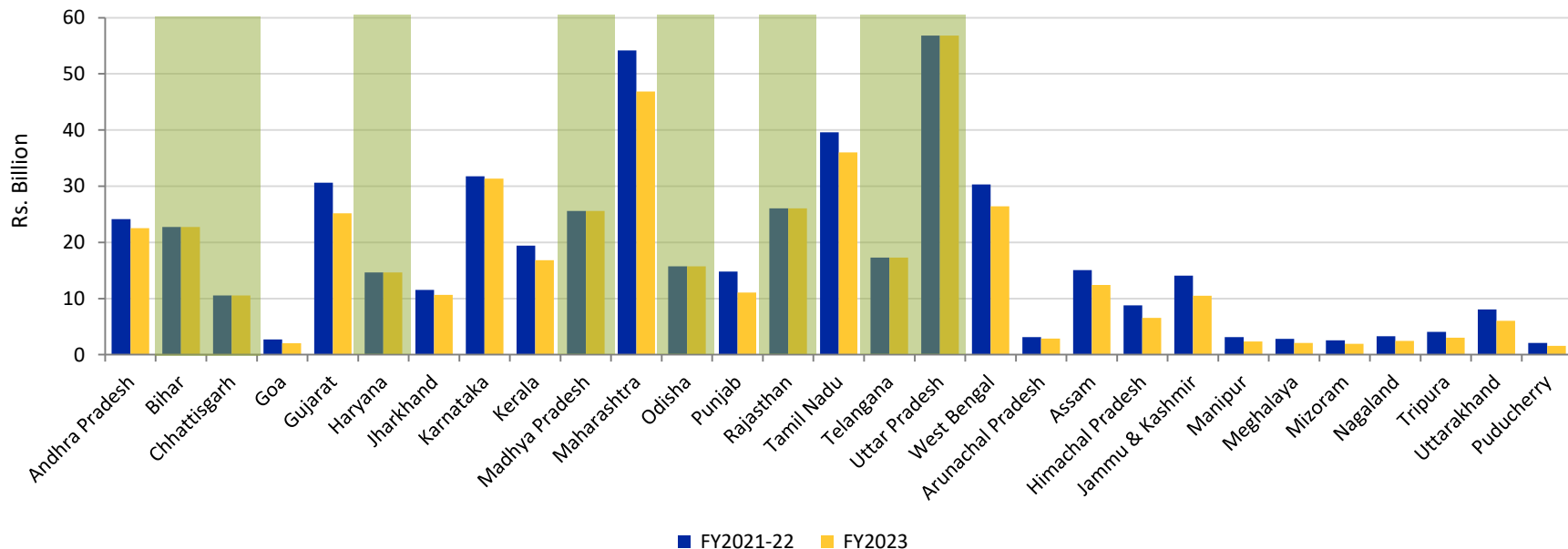
Scheme	Limit	Rate of Interest
SDF	If availed against net annual incremental investment in Consolidated Sinking Fund (CSF) and Guarantee Redemption Fund (GRF)	Repo rate minus 2%
	If availed against investment in Government Security (G-sec)/Auction Treasury Bills (ATBs)	Repo rate minus 1%
WMA	If outstanding up to 3 months from the date of making the advance	Repo rate
	If outstanding beyond three months from the date of making the advance	Repo rate plus 1%
OD	If availed up to 100 per cent of WMA limit	Repo rate plus 2%
	If exceeds 100 per cent of WMA limit	Repo rate plus 5%

- The RBI provides financial accommodation to the 27 states (except Sikkim) and 2 UTs in the form of SDF, WMA and OD for overcoming temporary mismatches in their receipts and payments, wherein SDF is a collateralized borrowing option. An OD facility is extended by the RBI when the advances to the state/UT exceed their SDF and WMA limits
- The maximum amount of WMA that a state/UT can avail is decided by the RBI and is based on the recommendations of a Committee set by it. At present the state/UT-wise WMA limits are based on a formula which is expenditure based and this loan is extended by the RBI for a period of three months.
- The RBI had increased the aggregate WMA limit for states/UTs by 60% in April 2020 to Rs. 516 billion from the Rs. 320 billion that prevailed previously. It had also increased the number of days for which a state/UT can be in overdraft continuously (a) to 21 working days from 14 working days previously and (b) 50 working days in a quarter from 36 working days previously. These relaxations were earlier available till March 2021 and had been extended till March 2022.
- **Based on the recommendations of the Advisory Committee on Ways and Means Advances to State Governments, Chaired by Mr. Sudhir Shrivastava, the RBI has revised the WMA limits to Rs. 470 billion effective from April 2022 and reverted to the previously prevailing timelines for the OD facility.**

Source: RBI; ICRA Research

# State-wise WMA limits for FY2023 have been lowered for 21 of the 29 states/UT from FY2021-22 level

Exhibit: State-wise WMA limits during FY2021-23



- Out of 29 states/UTs, WMA limits for only eight states, namely Bihar, Chhattisgarh, Haryana, Madhya Pradesh, Odisha, Rajasthan, Telangana and Uttar Pradesh for FY2023 remain similar to the enhanced limit of this facility prevailing during FY2021-22.

# Aggregate SDF usage declined to 1,314 days in FY2022 from 2,055 days in FY2021; however, four states tapped SDF more frequently in FY2022

Exhibit: Number of days in which SDF was availed by states/UT during FY2020-22

	FY2020	FY2021	FY2022
Total number of states	15	18	17
Total number of days	1,635	2,055	1,314
Andhra Pradesh	206	322	305
Arunachal Pradesh	6	-	-
Chhattisgarh	36	30	38
Goa	79	167	80
Haryana	-	41	4
Himachal Pradesh	-	1	1
Jharkhand	-	-	22
Kerala	234	195	99
Maharashtra	5	67	1
Manipur	190	171	16
Meghalaya	-	4	64
Mizoram	2	23	-
Nagaland	227	333	231
Puducherry	-	14	1
Punjab	226	145	12
Rajasthan	4	99	143
Telangana	209	308	291
Tripura	5	5	-
Uttarakhand	128	88	5
West Bengal	78	42	1

- During FY2022, 16 states and one UT accessed SDF for 1,314 days from the RBI, lower than 18 states/UT for 2,055 days in FY2021 and 15 states/UT for 1,635 days in FY2020.
- Of the 17 states/UT availing SDF in FY2022, only four states, namely, Chhattisgarh, Jharkhand, Meghalaya and Rajasthan availed SDF more frequently in that year relative to FY2021.
- Compared to the pre-Covid level of FY2020, 11 states/UT (except Arunachal Pradesh, Kerala, Maharashtra, Manipur, Mizoram, Punjab, Tripura, Uttarakhand and West Bengal) increased their frequency of availing SDF in FY2022.
- Assam, Bihar, Gujarat, J&K, Karnataka, MP, Odisha, TN and Uttar Pradesh did not avail SDF during FY2020-22.

# Aggregate WMA usage dipped in FY2022 on YoY basis; however, six states availed WMA for a higher number of days in FY2022 relative to FY2021

Exhibit: Number of days in which WMA was availed by states during FY2020-22

	FY2020	FY2021	FY2022
<b>Total number of states</b>	<b>13</b>	<b>15</b>	<b>14</b>
<b>Total number of days</b>	<b>1,255</b>	<b>1,842</b>	<b>1,747</b>
Andhra Pradesh	163	273	283
Goa	17	88	53
Haryana	11	23	15
Himachal Pradesh	52	104	15
Jammu & Kashmir	294	318	303
Jharkhand	30	-	9
Kerala	202	162	95
Manipur	136	206	349
Meghalaya	-	-	42
Mizoram	-	69	180
Nagaland	43	187	135
Punjab	196	69	-
Rajasthan	-	34	6
Telangana	54	255	261
Tripura	-	1	-
Uttarakhand	34	39	1
West Bengal	23	14	-

- 13 states and one UT accessed WMA for 1,747 days from the RBI in FY2022, lower than 1,842 days by 15 states/UT in FY2021. However, the usage remained higher than the pre-Covid level of 1,255 days by 13 states/UT in FY2020.
- Six of the 14 states/UT, namely, Andhra Pradesh, Jharkhand, Manipur, Meghalaya, Mizoram and Telangana tapped the WMA window more frequently in FY2022 from FY2021.
- Although the frequency of utilizing WMA facility declined on a YoY basis for J&K and Nagaland, the usage of this facility remained high for them during FY2022.
- Relative to FY2020, WMA usage declined for Himachal Pradesh, Jharkhand, Kerala, Punjab, Uttarakhand and West Bengal during FY2022.
- Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Karnataka, MP, Maharashtra, Odisha, Puducherry, TN and UP did not access WMA during FY2020-22.

# OD usage rose substantially to 719 days in FY2022 from 443 days in FY2021, primarily led by AP, J&K and Manipur; Telangana's usage remained high

Exhibit: State-wise number of days in OD during FY2020-22

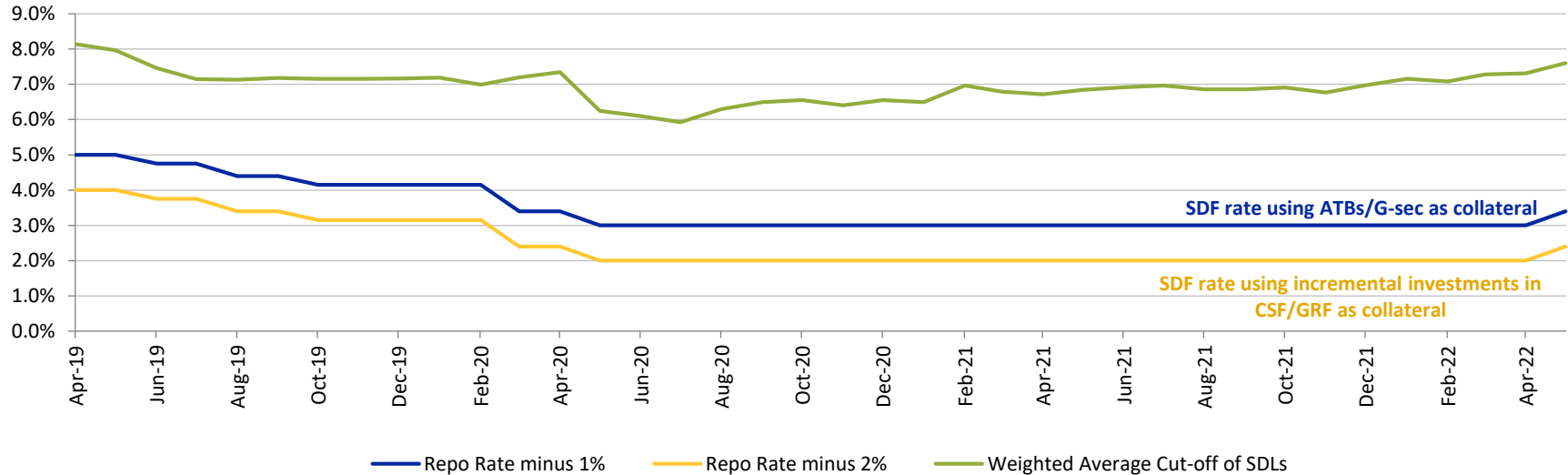
	FY2020	FY2021	FY2022
Total number of states	10	8	9
Total number of days	355	443	719
Andhra Pradesh	46	84	146
Haryana	-	-	1
Himachal Pradesh	22	19	-
Jammu & Kashmir	68	59	178
Kerala	57	35	14
Manipur	89	53	213
Meghalaya	-	-	25
Mizoram	-	-	5
Nagaland	7	58	33
Punjab	44	-	-
Telangana	15	132	104
Uttarakhand	1	3	-
West Bengal	6	-	-

- The number of days states/UT utilising OD rose to 719 days in FY2022 (by nine states/UT) from 443 days in FY2021 (by eight states/UT) and 355 days in FY2020 (by 10 states/UT).
- Utilisation of OD facilities increased substantially for Andhra Pradesh, J&K, Manipur during FY2022 compared to FY2021. While the duration of OD usage for Telangana eased, it remained considerable in FY2022.
- Additionally, Haryana, Meghalaya and Mizoram were in OD for a relatively higher number of days during the same period, although the duration itself was limited.
- Relative to the pre-Covid level, the number of days of OD usage rose for the aforementioned six states/UT as well as Telangana during FY2022. In contrast, Himachal Pradesh, Punjab, Uttarakhand and West Bengal did not utilise OD in FY2022.
- Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Goa, Gujarat, Jharkhand, Karnataka, MP, Maharashtra, Odisha, Puducherry, Rajasthan, TN, Tripura and UP did not utilise the OD facility during FY2020-22.



# Despite the increase in the repo rate in May 2022, the usage of these facilities may rise in Q1 FY2023, led by changes following the borrowing permission for FY2023

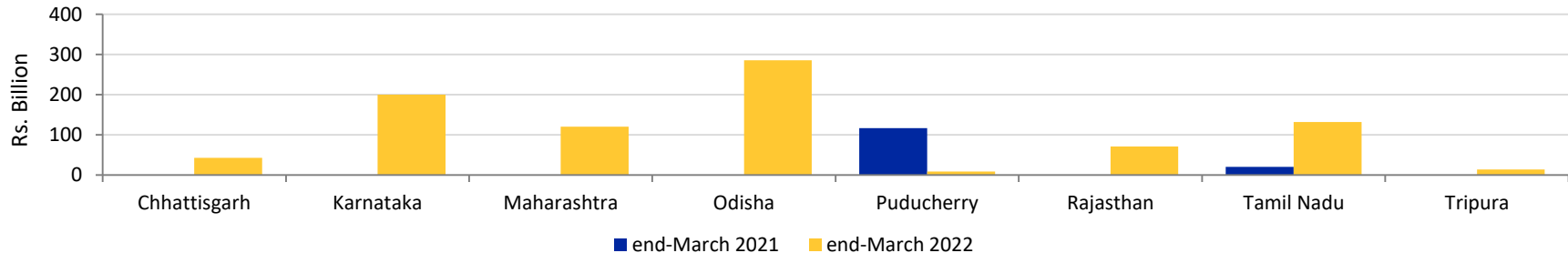
Exhibit: Repo rate during FY2020-23



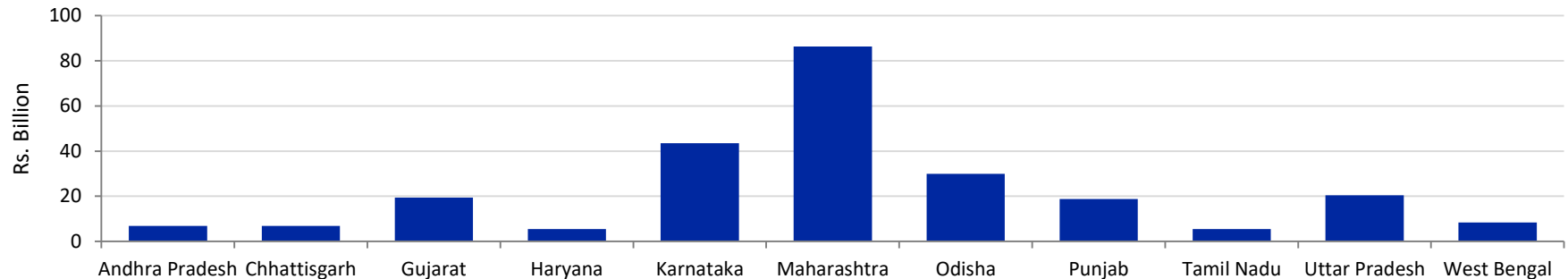
- Following the change in guidelines related to the permission for market borrowings in FY2023, it appears that several states were yet to receive the sanction for raising funds at least till mid-May 2022. It is possible that some of these states may have resorted to SDF (based on adequate collateral) or WMA to tide over temporary mismatches. Additionally, states that may experience a large downward adjustment in their FY2023 net borrowing ceiling may resort to higher usage of liquidity facilities such as WMA and OD from the RBI during the ongoing fiscal.
- Moreover, weighted average cut-offs of SDLs have hardened in the recent weeks, which may nudge some states to tap the RBI's liquidity facilities on account of their relatively attractive rates. The average spread between the weighted average cut-off SDLs and repo rate increased from 248 bps during FY2021 to 294 bps in FY2022 and further rose to 326 bps in FY2023 (till May 17, 2022), making borrowing through SDF/WMA relatively attractive.

# While only a few states have large investments in eligible collateral for the SDF facility, many of these have not availed liquidity facilities in the last three years

**Exhibit: Investments in ATBs at end March 2021 and 2022**



**Exhibit: Incremental investments (greater than Rs. 5 billion) in CSF at end-March 2022**



- Of the states which have large investments, Gujarat, Karnataka, Odisha, TN and UP did not avail any of the liquidity facilities from the RBI during FY2020-22.



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# ICRA Analytical Contact Details



**Aditi Nayar**

*Chief Economist*

**Neetika Shridhar**

*Assistant Vice President*

**Jaspreet Kaur**

*Analyst*



aditin@icraindia.com

neetika.shridhar@icraindia.com

jaspreet.kaur@icraindia.com



0124- 4545 385

0124 – 4545 305

0124 – 4545 853





ICRA

## Business Development/Media Contact Details



**L. Shivakumar**

*Executive Vice-President*

**Jayanta Chatterjee**

*Executive Vice-President*

**Naznin Prodhani**

*Head Media & Communications*



shivakumar@icraindia.com

jayantac@icraindia.com

communications@icraindia.com



022- 6114 3406

080 – 4332 6401

0124 – 4545 860





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