

STATE GOVERNMENT FINANCES- Weekly SDL

Weighted average cost of SDL rises to 7.96% from 7.89%, with more than 70% of issuance in longer tenors

JULY 19, 2022





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Nine raised Rs. 128 billion SDLs, ~17% lower than the indicated level

Weighted average cut-off of SDLs rose by 7 bps to 7.96% today

Spread between 10-year SDL and G-sec yield declined to 39 bps today from 42 bps last week

States' off-budget debt of FY2022 only, to be adjusted from the net borrowing ceiling over FY2023-FY2026

Nine states raised Rs. 128 billion through state development loans (SDLs) on July 19, 2022, ~17% lower than the indicated amount for this week. The weighted average cut-off of SDLs rose by 7 bps to 7.96% today from 7.89% in the last auction, with the increase in weighted average tenor to 15 years from 13 years during the same period. The spread between the weighted average 10-year SDL and 10-year Government of India security yield declined to 39 bps today from 42 bps last week.

The GoI has recently clarified that the off-budget debt of the state governments for FY2022 will be adjusted in a staggered manner during FY2023 to FY2026, reducing the extent of downward adjustment in the Net Borrowing Ceiling (NBC) for FY2023 from the amount that would have been adjusted based on the GoI's March 2022. As per the data available on Lok Sabha's website, GST compensation of Rs. 353 billion remains to be transferred to the states. If it is transferred in FY2023 itself, the total GST compensation for FY2023 would be Rs. 1.2 trillion.

Cumulatively, 20 state governments/Union Territories (UTs) have raised Rs. 1,446 billion during April-July 19, 2022, nearly 23% lower than the year-ago level (Rs. 1,869 billion) and ~37% lower than the indicated amount (Rs. 2,291 billion). In today's auction, Rs. 91 billion (or ~71% of the total issuance) was issued in the longer tenors SDLs and the balance Rs. 38 billion (~21% of the total issuance) in the 10-year. Interestingly, in today's auction Rajasthan raised a 20-year SDL at a cut-off of 7.98%, whereas its 16-year paper was awarded a higher cut-off of 8.10%.

The benchmark 10-year GoI security (G-sec; 6:54 GS 2032) yield rose to 7.43% from 7.39% last Tuesday, tracking depreciation of the Indian rupee against the US dollar and rising US Treasury yields. The weighted average cut-off of the 10-year SDLs increased mildly to 7.82% today from 7.81% last week.

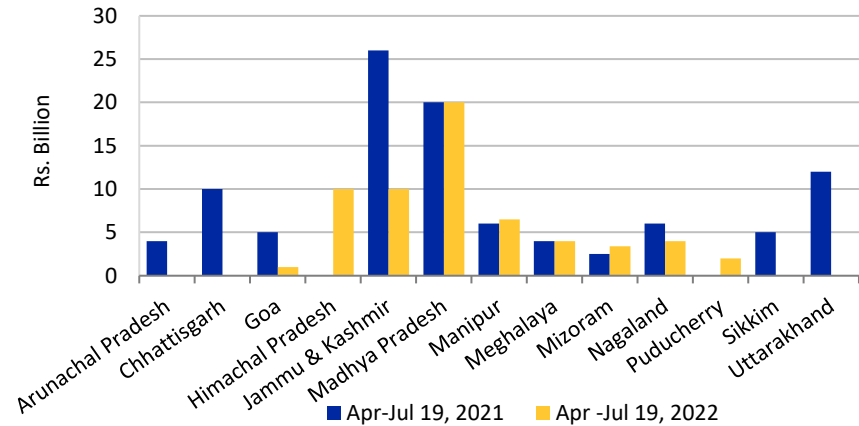
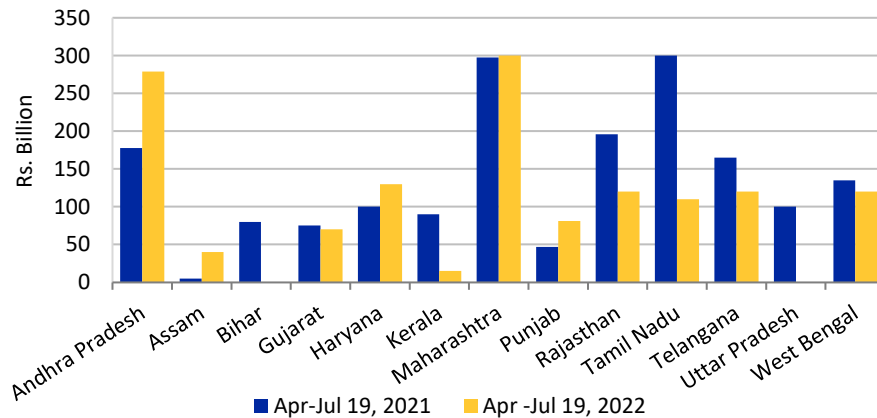
Separately, the number of days as well as the number of states/UT that availed the Ways and Means Advances (WMA) and Overdraft (OD) facilities from the RBI rose in May 2022 compared to April 2022.

SDL issuance has declined by 22.6% in FY2023 (so far) on a YoY basis, led by 15 states/UT

Exhibit: SDL issuances during FY2023 (so far)

Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of July 19, 2022	154	128	128	1,446
Week of July 19, 2021	96	97	87	1,869
Growth	60.3%	32.4%	47.6%	-22.6%

Exhibit: Cumulative SDL issuance during Apr-July 19, 2022, and year-ago level

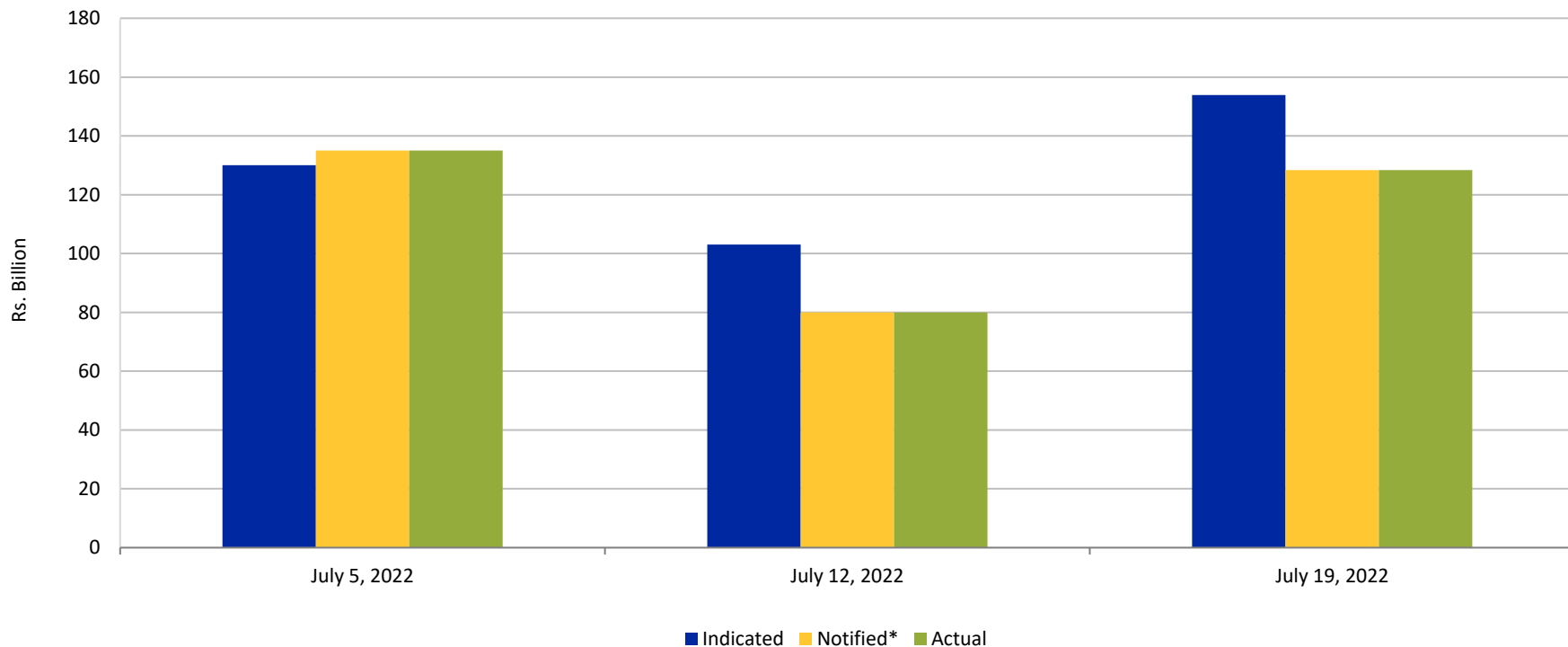


Note: *Including green shoe

Source: Reserve Bank of India (RBI); ICRA Research

SDL issuance today was 16.6% lower than indicated for this week

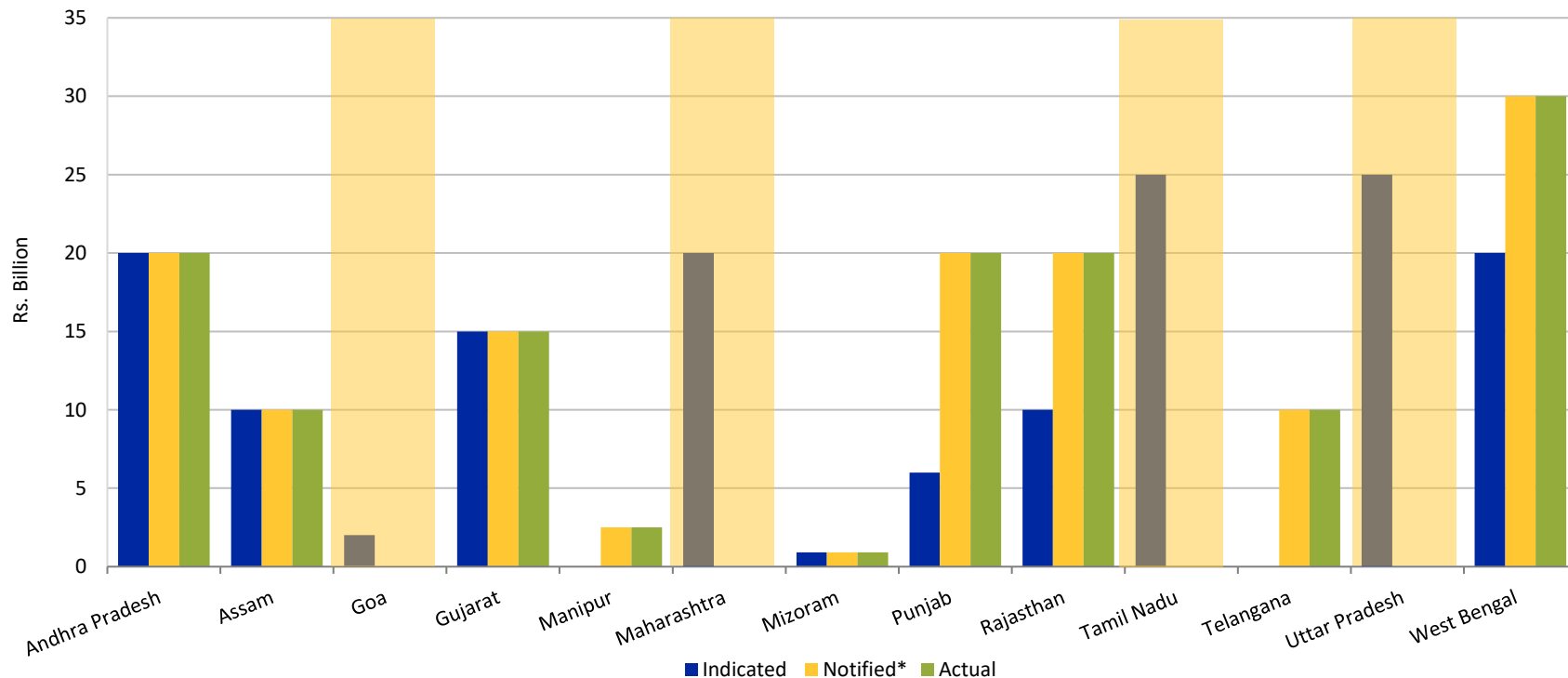
Exhibit: Indicated, notified and actual SDL issuances in Q2 FY2023 (so far)



Note: *Including green shoe
Source: RBI; ICRA Research

Goa, Maharashtra, Tamil Nadu and Uttar Pradesh did not participate today

Exhibit: State-wise indicated, notified and actual SDL issuance on July 19, 2022



Note: *Including green shoe

Source: RBI; ICRA Research

Weighted average cut-off of SDLs rose by 7 bps to 7.96% today from last week

Exhibit: Tenor-wise SDL issuance and cut-offs on July 19, 2022

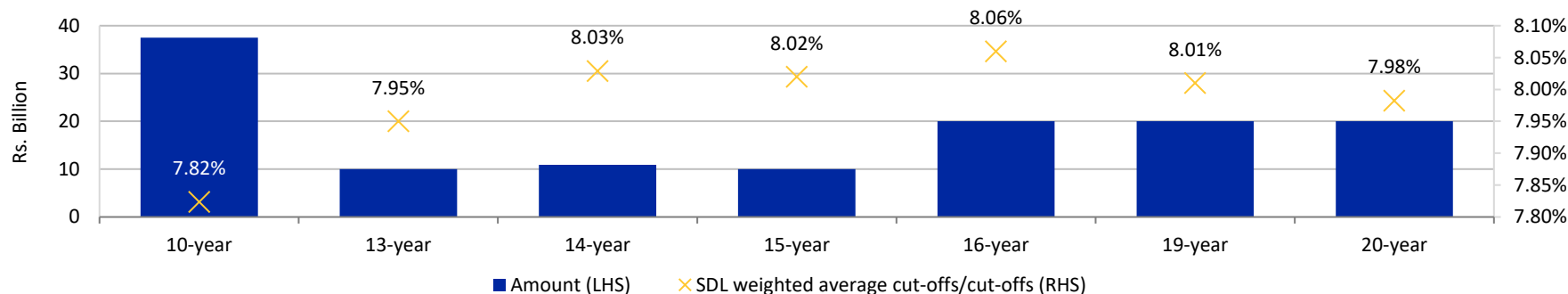
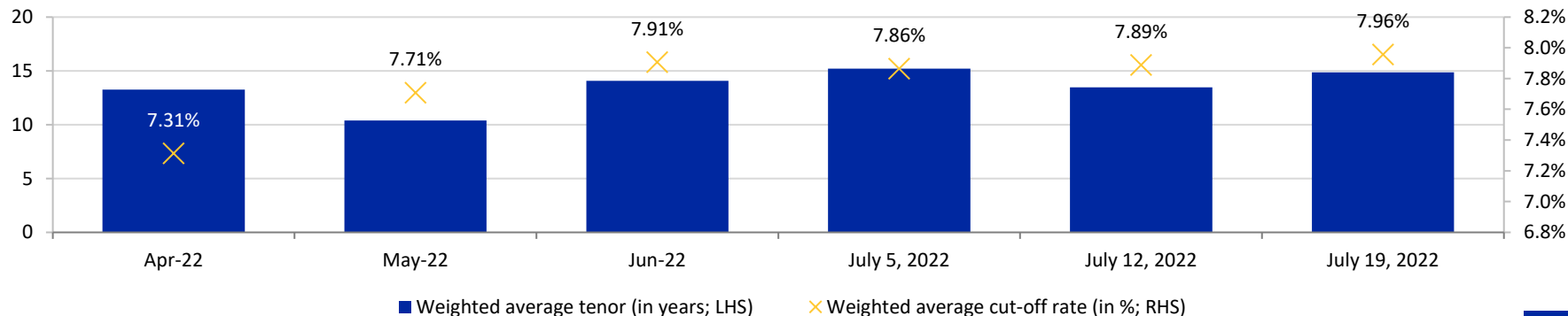
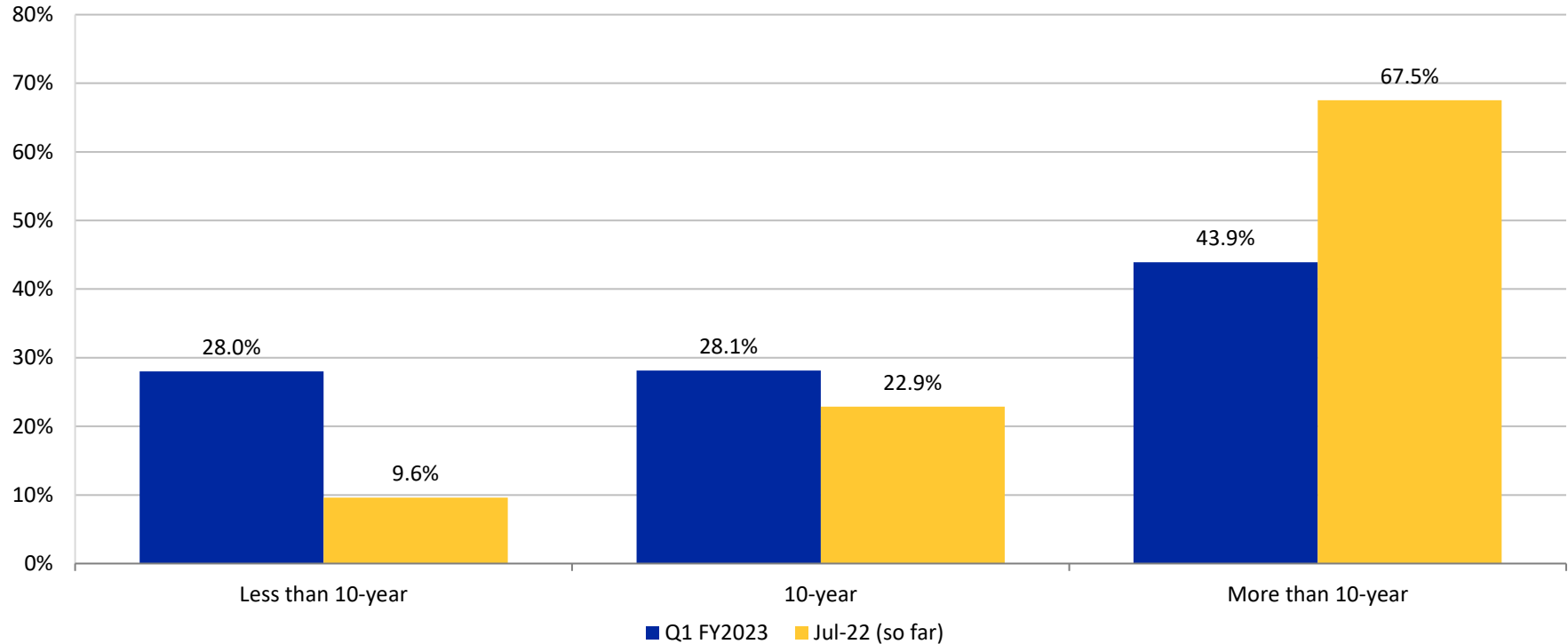


Exhibit: Weighted average cut-off and tenor of SDLs during FY2023 (so far)



Share of longer tenor issuances has risen to ~68% in July-22 (so far) from ~44% in Q1 FY2023

Exhibit: Classification of SDL issuance in FY2023 (so far)



Spread between the 10-year SDL and G-sec declined to 39 bps today from 42 bps last week

Exhibit: 10-year SDL and G-sec cut-offs

	June 21, 2022	June 28, 2022	July 5, 2022	July 12, 2022	July 19, 2022
Assam	7.86%	7.85%	7.82%		7.83%
Gujarat		7.82%			7.80%
Haryana		7.86%		7.81%	
Himachal Pradesh			7.82%		
Madhya Pradesh		7.85%			
Manipur					7.83%
Mizoram	7.86%				
Nagaland	7.88%				
Puducherry				7.81%	
Punjab					7.85%
Rajasthan	7.83%				
Weighted Average 10-year SDL cut-offs (A)	7.85%	7.85%	7.82%	7.81%	7.82%
Minimum 10-year SDL cut-off	7.83%	7.82%	7.82%	7.81%	7.80%
Maximum 10-year SDL cut-off	7.88%	7.86%	7.82%	7.81%	7.85%
10-year G-sec closing yield (B)	7.48%	7.47%	7.39%	7.39%	7.43%
Spread (A-B)	37 bps	38 bps	43 bps	42 bps	39 bps

WMA and OD usage rose on a sequential basis in May 2022 from April 2022

Exhibit: Number of days the WMA facilities were availed by states/UTs during May 2021, April 2022 and May 2022

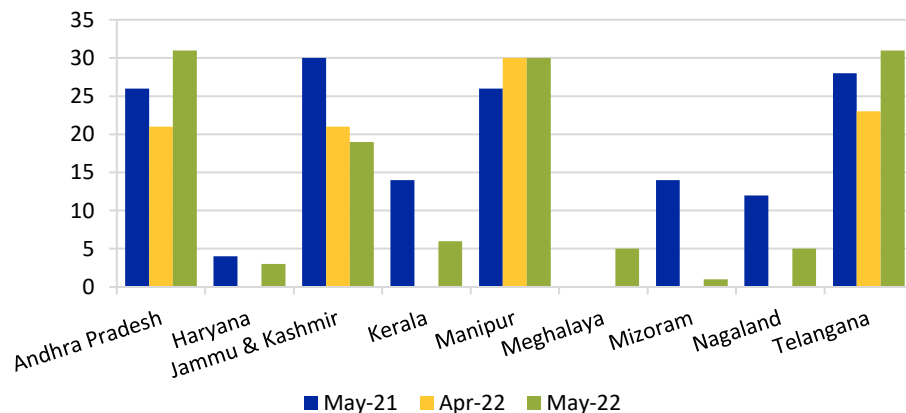
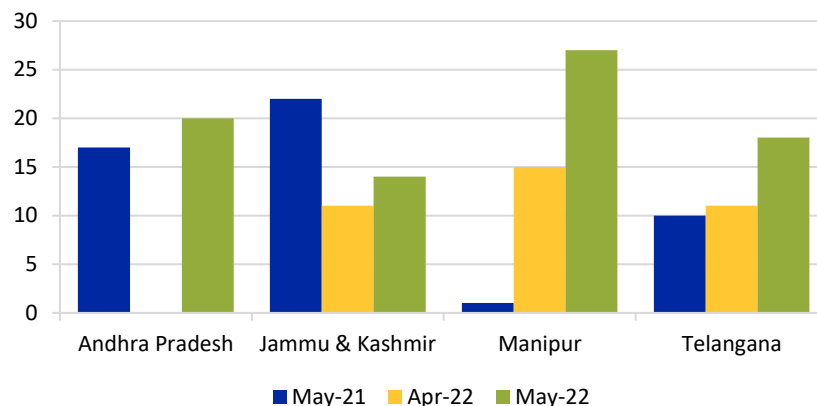


Exhibit: Number of days in OD during May 2021, April 2022 and May 2022



- Nine states availed WMA for 131 days in May 2022 compared to 154 days by eight states in May 2021 and 95 days by four states in April 2022. Haryana, Kerala, Meghalaya, Mizoram and Nagaland tapped the WMA window in May 2022 whereas they had not used this facility in April 2022.
- Four states availed the OD facility in May 2022, the same as in May 2021. However, the number of days for which these states/UT availed OD increased to 79 in May 2022 from 50 in May 2021 and 37 days in April 2022.
- While the comfortable opening balances related to the central tax devolution in Q4 FY2022 could have moderated the usage of these facilities in April 2022, the increase in the sequential usage of these facilities by some of the states in May 2022 could be attributed to their tightening liquidity situation, partly on account of a delay in receiving borrowing permission for FY2023 from the GoI.

GST compensation flows in FY2023 estimated at Rs. 1.2 trillion, less than half the amount released in FY2021-22

Exhibit: GST compensation transfers during FY2020-23

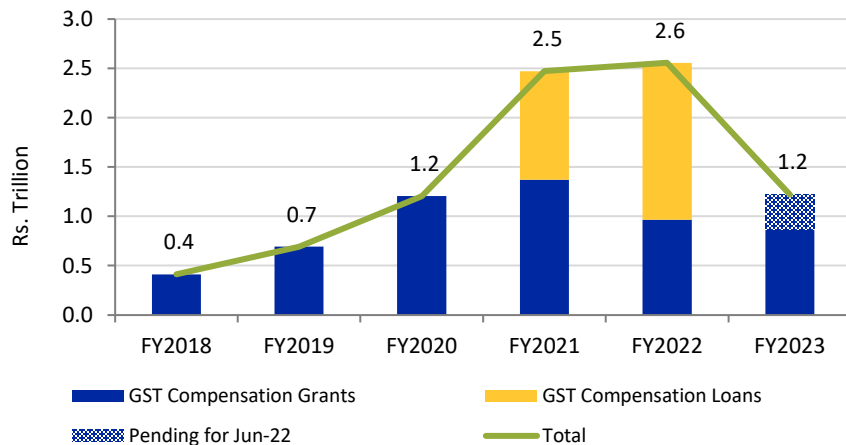
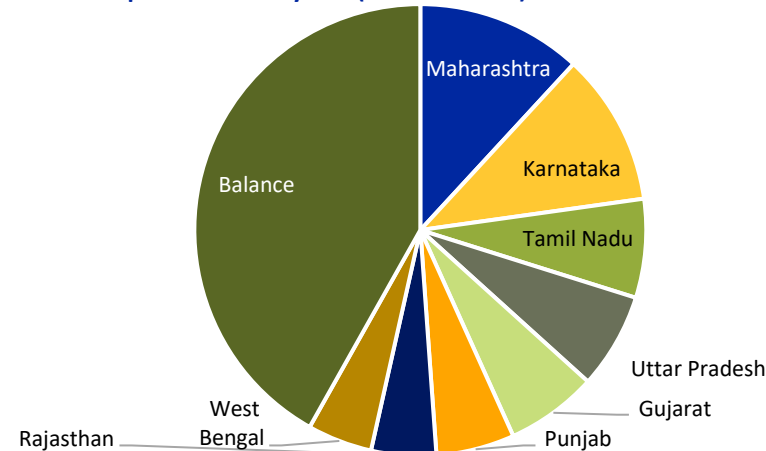


Exhibit: State-wise share in pending GST compensation for June 2022 and arrears of previous fiscal years (Rs. 353 billion)



- During the 42nd GST Council meeting, the GoI extended the levy and collection of the GST compensation cess till March 2026 for servicing the GST compensation back-to-back loans raised in FY2021 and FY2022 and transferring the pending GST compensation payable to the states upto June 2022.
- As per the data available on the Lok Sabha's website, the GST compensation (for June 2022 and previous financial years) of Rs. 353 billion remains to be transferred to the states. If this amount is released in FY2023 itself, the total GST compensation in the ongoing fiscal is estimated at Rs. 1.2 trillion, a step-down from the transfers in FY2021-22 (Rs. 2.5-2.6 trillion), similar to the amount disbursed in FY2020.
- The GoI had initially communicated that the entire off-budget debt of FY2021 and FY2022 would be reduced from the NBC for FY2023. It has recently clarified that the off-budget debt of the state governments for FY2022 alone will be adjusted in a staggered manner during FY2023 to FY2026. This will reduce the extent of downward adjustment in the NBC for FY2023.



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