

STATE GOVERNMENT FINANCES

Liquidity tightness limited to certain
states during second wave of Covid-19

JULY 2021





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No. of States/UTs	FY2020	FY2021
SDF	15	18
WMA	13	15
OD	10	8

No. of States/UTs	Apr-May 2019	Apr-May 2020	Apr-May 2021
SDF	9	11	6
WMA	12	6	8
OD	7	2	7

The revenue shock engendered by the nation-wide lockdown had led to an increase in the number of states/Union Territories (UTs) availing the Special Drawing Facility (SDF) and Ways and Means Advances (WMA) facilities of the Reserve Bank of India (RBI) during FY2021, relative to FY2020.

Eighteen states/UT availed SDF for 2,007 days in FY2021 compared to 15 states for 1,635 days in FY2020. Moreover, 15 states/UT availed WMA for a total duration of 1,974 days in the pandemic-stricken FY2021, compared to 13 states/UT for 1,255 days in FY2020. Notably, the number of states/UT resorting to the OD facility of the RBI declined to eight in FY2021 from 10 in FY2020. However, the aggregate utilisation of the OD facility by the states/UT increased by 25% to 443 days in FY2021, led by Telangana, AP and Nagaland.

Amid the second wave of Covid-19, a fewer six states have availed the SDF facility in April-May FY2022 as compared to 11 states/UT in April-May FY2021. However, the number of states/UT availing WMA and OD has risen to 8 and 7, respectively, during April-May FY2022 from 6 and 2, respectively, during April-May FY2021. At the same time, the aggregate state development loan (SDL) issuances by the state governments/UT during April-May FY2022 declined by nearly 44% in year-on-year (YoY) terms. Taken together, these trends suggest that liquidity tightness was limited to a few states during the second wave of Covid-19.

We expect the release of nearly half of the goods and services tax (GST) compensation back-to-back loan of Rs. 1.6 trillion in a single tranche of Rs. 750 billion in July 2021, to ease the liquidity situation of the state governments in aggregate in Q2 FY2022.

However, those states that have not received a large share in this back-to-back loan, may continue to avail of the RBI's liquidity facilities in the ongoing quarter. The pace of economic recovery and trends in revenue collections and expenditure outgo will crucially determine the cash flow situation, pace of borrowing and usage of liquidity facilities of these states in the near term.

Frequency of availing liquidity facilities from the RBI increased with Covid-19

Exhibit: Number of days the facilities were availed by states/UTs in FY2021

	AP	AR	CT	GA	HR	HP	JK	JH	KL	MH	MN	ML	MZ	NL	PY	PB	RJ	TS	TR	UK	WB
SDF	291	-	30	167	41	1			195	67	171	4	23	333	14	128	99	308	5	88	42
WMA	273			88	23	104	318	-	162		206		69	187		67	168	255	1	39	14
OD	84					19	59		35		53			58		-		132		3	-
Incremental decline in FY2021 over FY2020				No change in FY2021 from FY2020							Incremental increase in FY2021 from FY2020						Did not avail in FY2020 and FY2021				

Exhibit: Number of days the facilities were availed by states/UTs during April-May FY2022

	AP	AR	CT	GA	HR	HP	JK	JH	KL	MH	MN	ML	MZ	NL	PY	PB	RJ	TS	TR	UK	WB
SDF	53			-	-	1			17		-	3	-	57	-	-		43			-
WMA	43				4	-	60		16		55		18	31				36			
OD	34						52		2		30		4	19				18			
Incremental decline during Apr-May FY2022 over Apr-May FY2021				No change in Apr-May FY2022 over Apr-May FY2021							Incremental increase during Apr-May FY2022 over Apr-May FY2021						Did not avail during Apr-May FY2021 and Apr-May FY2022				

- Nine states, namely, Assam, Bihar, Gujarat, Karnataka, Madhya Pradesh (MP), Odisha, Sikkim, Tamil Nadu (TN) and Uttar Pradesh (UP), did not avail any liquidity facilities from the RBI during FY2020-22 (till May 2021).

Note: AP-Andhra Pradesh; AR-Arunachal 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 Source: RBI; ICRA research

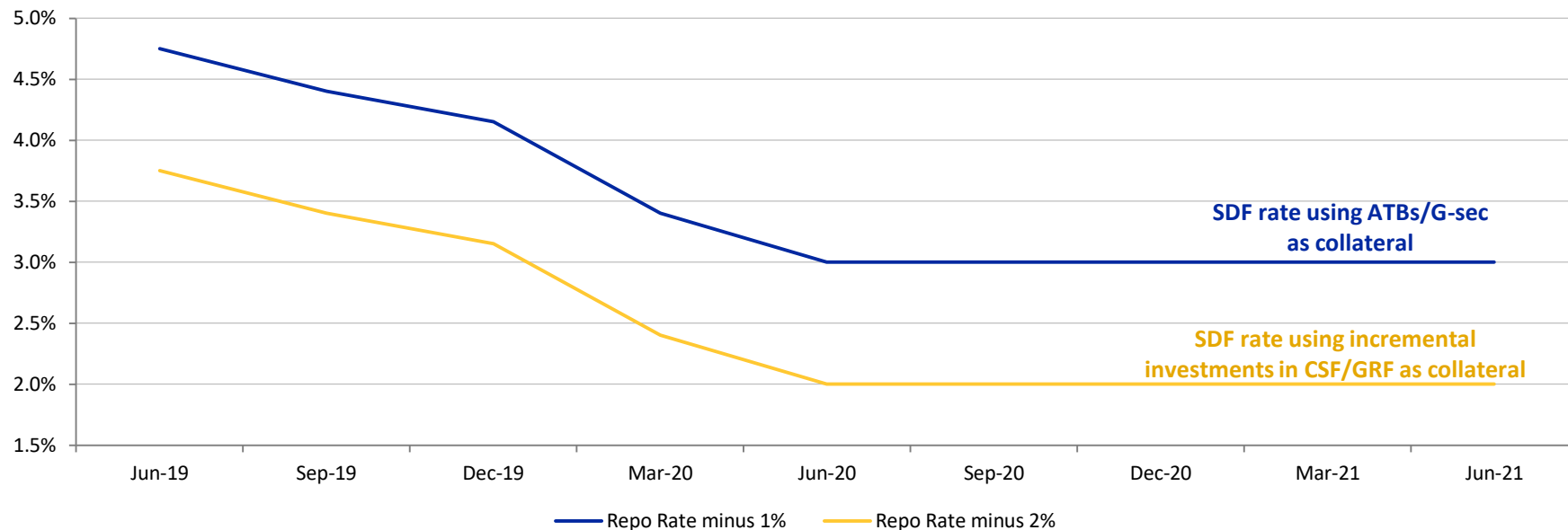
RBI's financial accommodation for states/UTs linked to the Repo rate

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 states/UTs in the form of SDF, WMA and OD for overcoming temporary mismatches in their receipts and payments.
- SDF is a collateralised borrowing option wherein the eligible collateral comprises ATBs, G-secs and net annual incremental investments in states'/UTs' CSF and GRF.
- 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.
- To help the states/UTs in alleviating the liquidity tightness arising out of the Covid-19 pandemic, 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. These enhanced WMA limits have been extended till September 2021.
- An OD facility is extended by the RBI when the advances to the state/UT exceed their SDF and WMA limits. In April 2020, the RBI had 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 have now been extended till September 2021.

Lower repo rate since April 2020 increased attractiveness of SDF, boosting usage

Exhibit: Repo rate during FY2020-21



- Maharashtra's average investment in Treasury-bills was a sizable Rs. 188 billion in FY2021 and it tapped the SDF for 67 days in that fiscal compared to only five days in FY2020.

Five of the six states have tapped SDF more frequently in FY2022 so far

Exhibit: Number of days in which SDF was availed by states/UT during April 2019-May 2021

Number of Days	FY2020	FY2021	FY2021 (Till May 2020)	FY2022 (Till May 2021)
Total number of states	15	18	11	6
Andhra Pradesh	206	291	30	53
Arunachal Pradesh	6	-	-	-
Chhattisgarh	36	30	-	-
Goa	79	167	15	-
Haryana	-	41	1	-
Himachal Pradesh	-	1	-	1
Kerala	234	195	46	17
Maharashtra	5	67	-	-
Manipur	190	171	23	-
Meghalaya	-	4	-	3
Mizoram	2	23	2	-
Nagaland	227	333	42	57
Puducherry	-	14	2	-
Punjab	226	128	1	-
Rajasthan	4	99	-	-
Telangana	209	308	19	43
Tripura	5	5	-	-
Uttarakhand	128	88	-	-
West Bengal	78	42	11	-

- During FY2021, 18 states/UT accessed SDF for 2,007 days from the RBI, higher than 15 states for 1,635 days in FY2020.
- Of these 18 states/UT, Andhra Pradesh, Goa, Haryana, Maharashtra, Mizoram, Nagaland, Puducherry, Rajasthan, Telangana, and to a certain extent, HP and Meghalaya availed SDF more frequently in FY2021 from FY2020.
- For FY2022, data is available till May 2021; a fewer six states have availed SDF for 174 days, compared to 11 states/UT for 192 days during April-May FY2021.
- The frequency of accessing SDF increased during FY2022 (till May 2021) for five of these six states, namely, AP, HP, Meghalaya, Nagaland and Telangana, relative to the same period last year.
- Assam, Bihar, Gujarat, J&K, Jharkhand, Karnataka, MP, Odisha, Sikkim, TN and Uttar Pradesh did not avail SDF during FY2020-22 (till May 2021).

Only a few states have large investments in eligible collateral for the SDF facility

Exhibit: Investments in ATBs in FY2021-FY2022 (till May 2021)

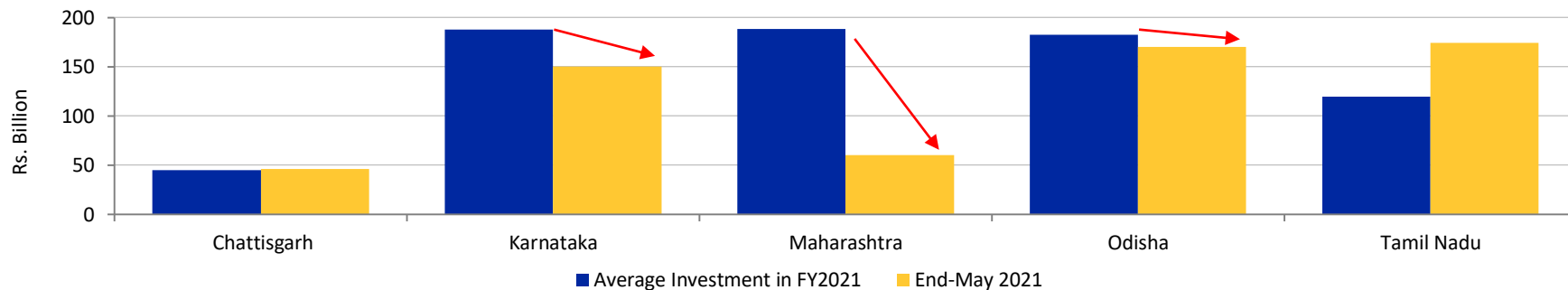
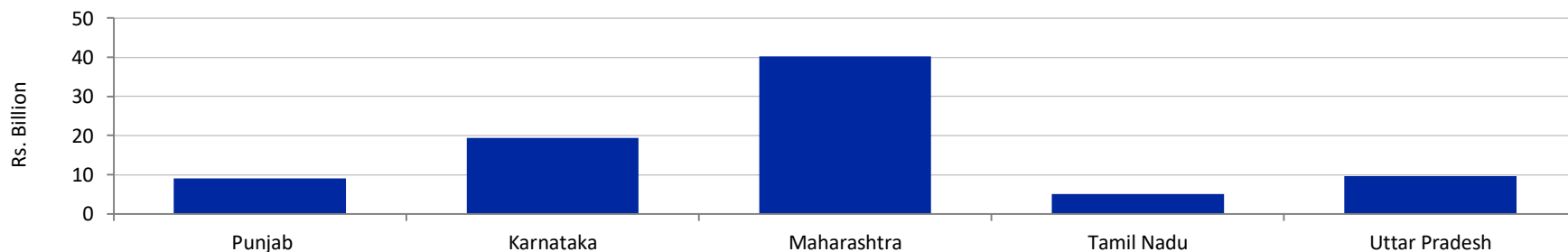


Exhibit: Incremental investments in CSF in FY2021



Eight states have utilised WMA in April-May FY2022, up from six in year-ago period

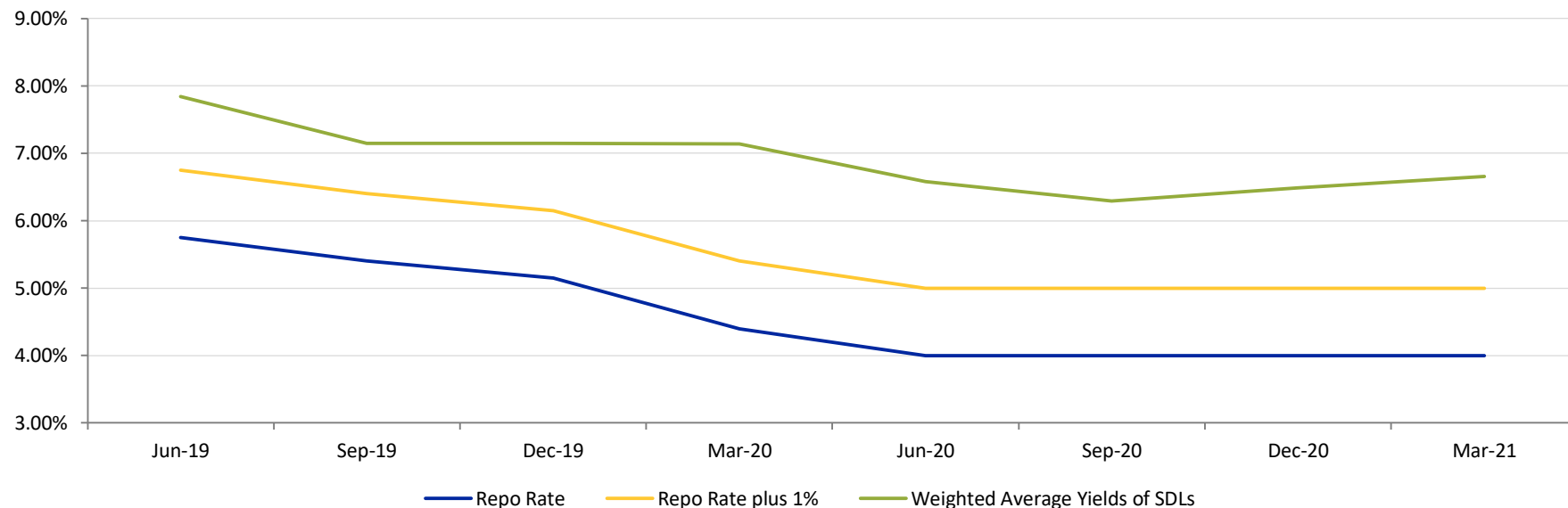
Exhibit: Number of days in which WMA was availed by states during April 2019-May 2021

Number of Days	FY2020	FY2021	FY2021 (Till May 2020)	FY2022 (Till May 2021)
Total number of states	13	15	6	8
Andhra Pradesh	163	273	9	43
Goa	17	88	-	-
Haryana	11	23	-	4
Himachal Pradesh	52	104	3	-
Jammu & Kashmir	294	318	48	60
Jharkhand	30	-	-	-
Kerala	202	162	44	16
Manipur	136	206	8	55
Mizoram	-	69	-	18
Nagaland	43	187	-	31
Punjab	196	67	-	-
Rajasthan	-	168	-	-
Telangana	54	255	5	36
Tripura	-	1	-	-
Uttarakhand	34	39	-	-
West Bengal	23	14	-	-

- 15 states/UT accessed WMA for 1,974 days from the RBI in FY2021 compared to 13 states/UT for 1,255 days in FY2020.
- 12 of these 15 states/UT increased their frequency of availing WMA in FY2021, relative to FY2020.
- In April-May FY2022, eight states/UT have availed WMA for a total of 263 days, higher than six states/UT for 117 days during the same period last year.
- Of these eight states, the frequency of availing WMA from the RBI in FY2022 (till May 2021), reduced only for Kerala.
- Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Karnataka, MP, Maharashtra, Meghalaya, Odisha, Puducherry, Sikkim, TN and UP did not access WMA during FY2020-22 (till May 2021).

Spread between weighted average cut-off of SDLs, WMA rate widened in FY2021

Exhibit: Rate of interest on WMA and weighted average yield of SDLs during FY2020-21



- The Repo rate declined to 4.0% in May 2020, from the 5.15-6.0% that prevailed during FY2020.
- The average spread between the weighted average cut-off SDLs and repo rate increased to 250 bps during FY2021 from 215 bps in FY2020, making borrowing through WMA relatively attractive.

Source: RBI; ICRA research

Seven states resorted to OD in April-May FY2022, sharply higher than April-May FY2021

Exhibit: State-wise number of days in OD during April 2019-May 2021

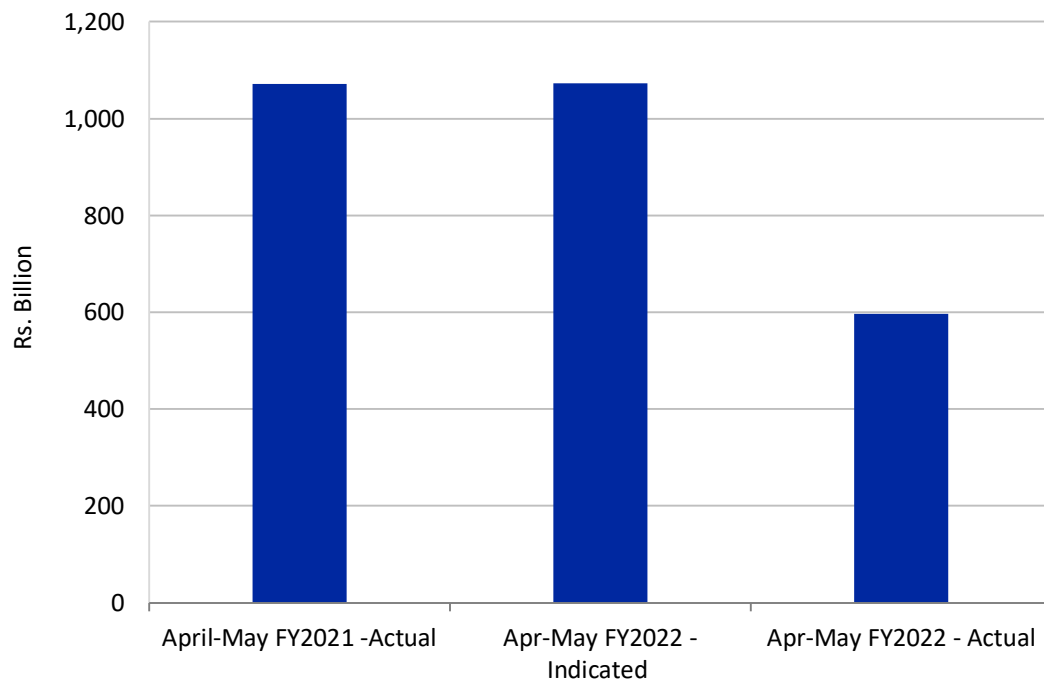
Number of Days	FY2020	FY2021	FY2021 (Till May 2020)	FY2022 (Till May 2021)
Total number of states	10	8	2	7
Andhra Pradesh	46	84	-	34
Himachal Pradesh	22	19	-	-
Jammu & Kashmir	68	59	16	52
Kerala	57	35	2	2
Manipur	89	53	-	30
Mizoram	-	-	-	4
Nagaland	7	58	-	19
Punjab	44	-	-	-
Telangana	15	132	-	18
Uttarakhand	1	3	-	-
West Bengal	6	-	-	-

Source: RBI; ICRA research

- While the total number of states/UT, which utilised the OD facility decreased to eight in FY2021 from 10 in FY2020, the total number of days for which these states availed the OD increased by 25% to 443 days in FY2021 from 355 days in FY2020.
- Andhra Pradesh, Nagaland and Telangana witnessed a considerable rise in the number of days for which they were running an OD with the RBI in FY2021 relative to FY2020.
- After being in OD for 44 days in FY2020, Punjab did not go into overdraft in FY2021, indicating an improved cash flow position.
- In April-May FY2022, seven states/UT have utilised the OD facility for 159 days compared to only two state/UT for 18 days during the same period last year, highlighting a step up in cash flow tightness for these states during the second wave of Covid-19.
- Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Jharkhand, Karnataka, MP, Maharashtra, Meghalaya, Odisha, Puducherry, Rajasthan, Sikkim, TN, Tripura and UP have not utilised the OD facility during FY2020-22 (till May 2021).

Even as usage of liquidity facilities rose, SDL issuance declined in April-May FY2022

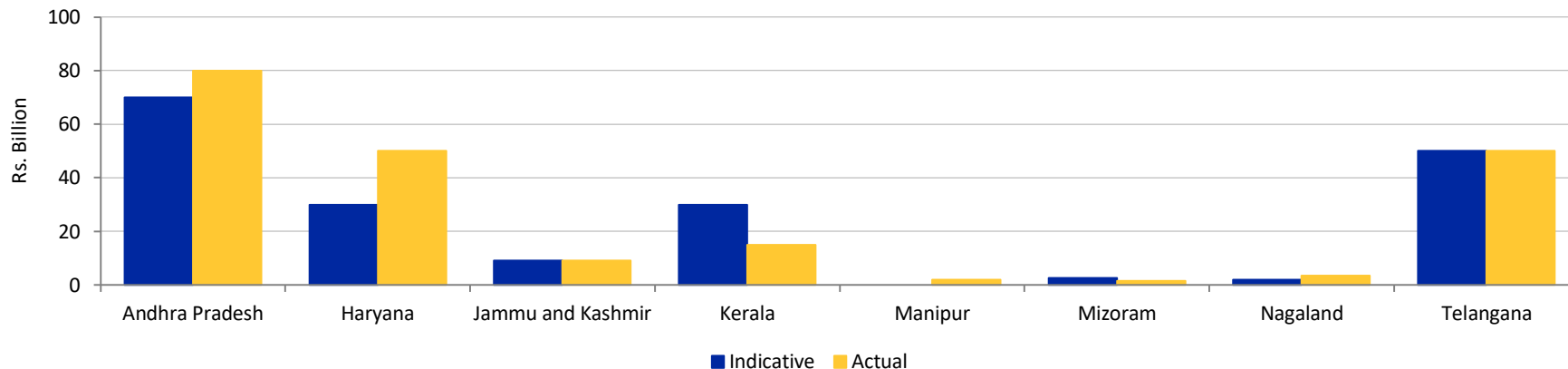
Exhibit: Actual SDL issuance during Apr-May FY2021 and FY2022 and indicated for Apr-May FY2022



- More states utilised WMA and OD in April-May FY2022 compared to April-May FY2021, with AP, J&K, Kerala, Manipur, Mizoram, Nagaland and Telangana availing both WMA and OD and Haryana availing only WMA in this period.
- At the same time, the aggregate SDL issuance by the state governments during Apr-May FY2022 was nearly 44% lower than the year-ago level and the amount that had been initially indicated for that period.
- The GoI had pegged the combined tax devolution for all the state governments at Rs. 5.5 trillion in the Revised Estimates for FY2021. However, it released an additional Rs. 0.5 trillion devolution to the states in end-March 2021. This unexpected devolution of taxes is likely to have eased the cash flow situation of the state governments in aggregate in the first two months of FY2022.
- Additionally, front-loading of Finance Commission grants in the first two months of the ongoing fiscal and record-high GST collections in April 2021 may have led to lower than indicated SDL issuance in those months.

Liquidity tightness seems limited to a few states in April-May FY2022

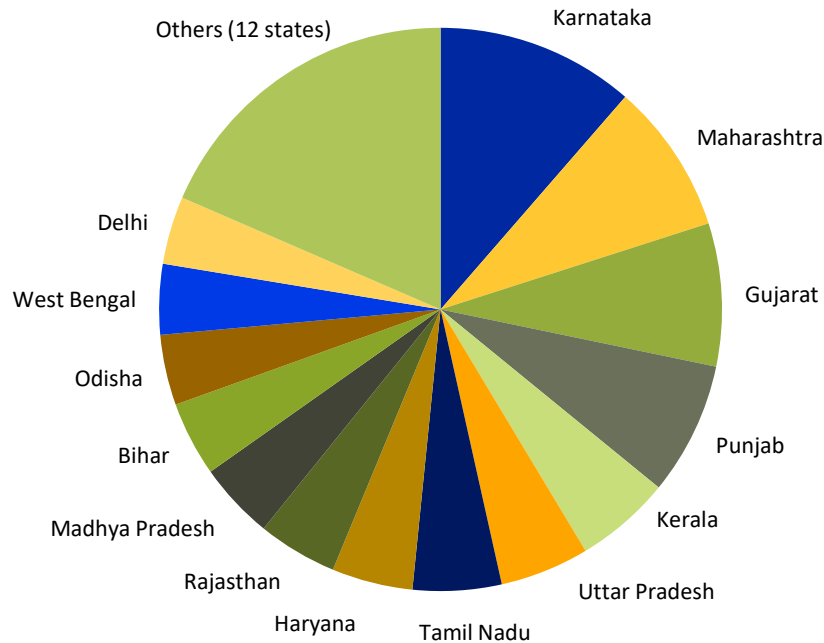
Exhibit: Indicative and actual SDL issuance during Apr-May FY2022



- However, in the first two months of FY2022, AP, Manipur and Nagaland not only continued to avail WMA facilities from the RBI but also borrowed more SDLs compared to what they had initially indicated.
- The SDLs raised by Telangana were in line with the amount indicated for April-May FY2022.
- In contrast, Kerala and Mizoram borrowed less SDLs than initially indicated and possibly relied on WMA for their temporary cash flow mismatches.
- Taken together, these trends suggest that liquidity tightness was limited to a few states during the second wave of Covid-19.

Release of GST compensation back-to-back loan in July 2021 expected to ease the cash-flow position of the states in aggregate in Q2 FY2022

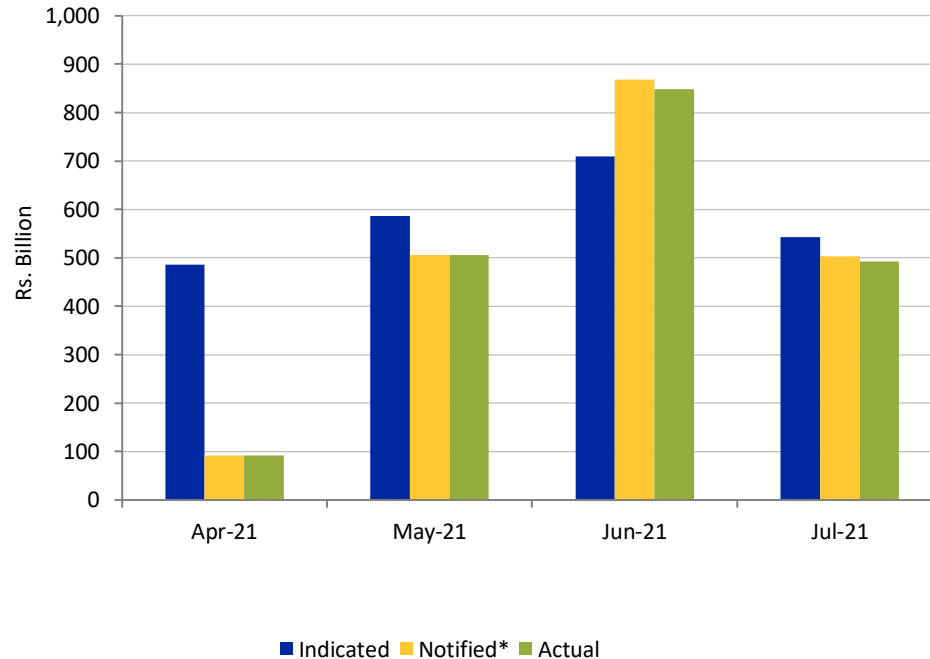
Exhibit: State-wise share of Rs. 750 billion back-to-back GST compensation loan



- On May 28, 2021, the GoI had announced that it would borrow Rs. 1.59 trillion in FY2022 and lend it to the state governments/UTs on a back-to-back basis as GST compensation loan (as it did in FY2021).
- On July 15, 2021, it released Rs. 750 billion in a single instalment to the states/UTs, with the aim of helping states for planning their expenditure priorities.
- The unexpected block release of GST compensation shortfall of Rs. 750 billion is expected to be positive for the states'/UTs' cash flows in the immediate term.

States that have not received a large share in the back-to-back loan, may continue to avail of the liquidity facilities

Exhibit: Indicated, notified and actual SDL issuances



- Since the release of the back-to-back loan, SDL issuance has been lower than indicated for two consecutive weeks (July 19 and July 27, 2021) in July 2021.
- Overall, SDL issuance has been ~9% lower than indicated for the month of July 2021.
- We expect the release of Rs. 750 billion of the GST compensation back-to-back loan in July 2021, to ease the liquidity situation of the state governments in aggregate in Q2 FY2022.
- However, those states that have not received a large share in this back-to-back loan, may continue to avail of the RBI's liquidity facilities in the ongoing quarter. The pace of economic recovery and trends in revenue collections and expenditure outgo will crucially determine the cash flow situation, pace of borrowing and usage of liquidity facilities of these states in the near term.

Note: *Including green shoe

Source: Press Information Bureau releases; RBI; ICRA research



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