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STATE GOVERNMENT FINANCES

Gross SGS issuance projected at Rs. 13.4-14.0 trillion in FY2027

APRIL 2026

#35YearsofUnwaveringCredibility

Highlights

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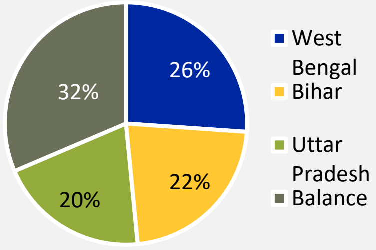
EXHIBIT: State-wise share in incremental Q1 FY2027 indicative SGS issuance of Rs. 537 billion



*Note: * Q1 FY2027 is based on Q1 indicative borrowing and YoY growth is over actual SGS issued in Q1 FY2026*
Source: RBI; ICRA Research

The Reserve Bank of India (RBI) has pegged the gross issuance of State Government Securities (SGS) at Rs. 2.5 trillion for Q1 FY2027, 26.7% higher on a year-on-year (YoY) basis. This includes Rs. 1.5 trillion of borrowing under the Benchmark Issuance Strategy (BIS) introduced by the RBI on a pilot basis for market borrowings of nine states. These states will be issuing securities in benchmark maturity buckets, which would enable the development of SGS yield curve over a period of time and improve liquidity and transparency in state's market borrowings. For this strategy to be successful, it is important that the actual SGS by the nine states are in line with the indicated amount in the benchmark maturity buckets. Notably, the actual SGS issuance in Q1 have lagged the indicated amount by a sizeable margin in recent years. A reduction in the time taken by states in submitting the information sought by the Government of India (GoI) for determining the states' borrowing limit for the year and subsequent vetting, approval and communication of the same by the GoI to the states, could narrow the gap between the actual and indicated SGS issuance in Q1 FY2027, among other factors.

At present, ICRA forecasts the gross SGS issuance in FY2027 in a range of Rs. 13.4-14.0 trillion (5-9% YoY growth), up from Rs. 12.8 trillion in FY2026. Factoring in redemptions of Rs. 4.2 trillion in FY2027, the net SGS issuance is expected to be in a range of Rs. 9.2-9.7 trillion in FY2027 (1-8% YoY growth), up from Rs. 9.0 trillion in FY2026.

EXHIBIT: Trends in gross and net SGS issuance (Rs. Trillion)

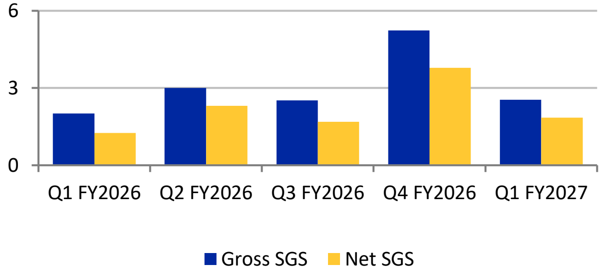
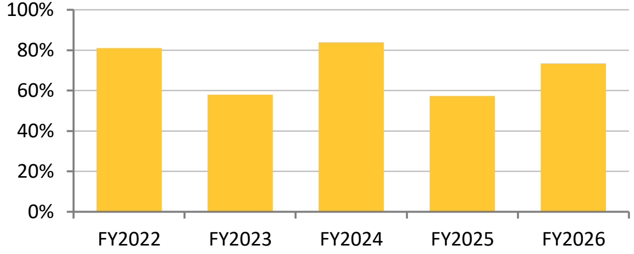


EXHIBIT: Actual issuance as a % of indicated issuance in Q1



26 states/UT indicated a borrowing of Rs. 2.5 trillion in Q1 FY2027, ~27% higher on a YoY basis

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EXHIBIT: Gross SGS issuance by all state governments/UTs and YoY growth

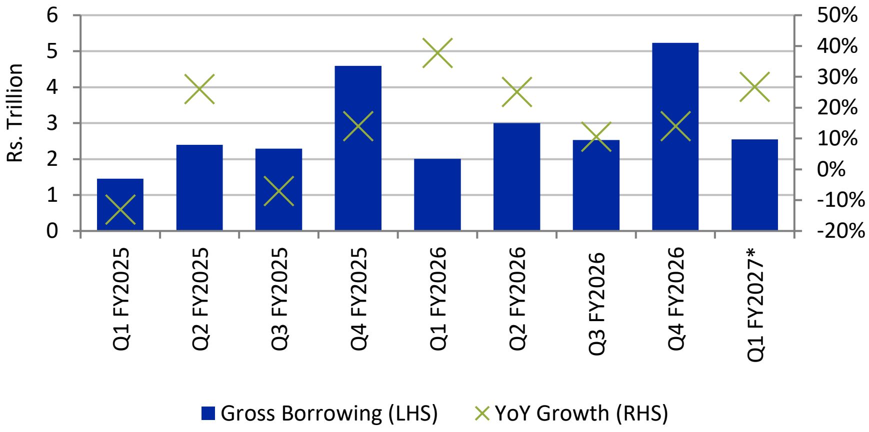
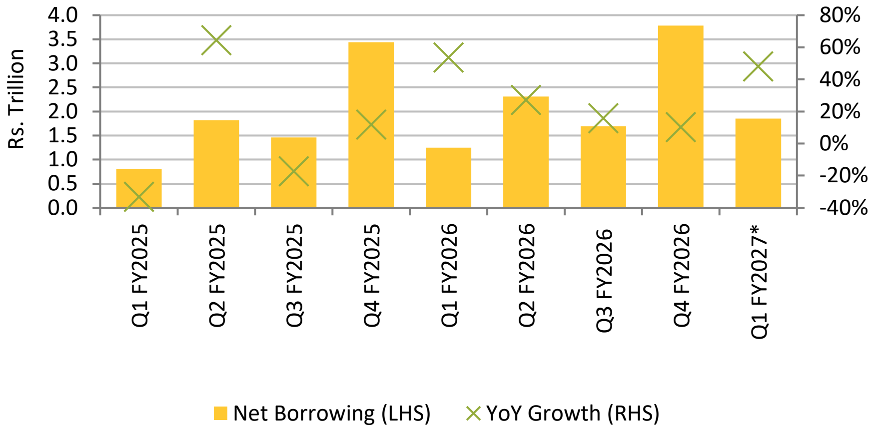


EXHIBIT: Net SGS issuance by all state governments/UTs and YoY growth



- The auction calendar of market borrowings by 25 state governments (excluding Arunachal Pradesh, Jharkhand and Tripura) and one UT (excluding Delhi and Jammu & Kashmir) for Q1 FY2027, released by the RBI on April 2, 2026, has placed the total market borrowing at Rs. 2.5 trillion. This implies a growth of 26.7% relative to the gross issuance of Rs. 2.0 trillion (37.7% YoY growth) in Q1 FY2026.
- ICRA estimates SGS redemptions to decline by 8% to Rs. 696 billion in Q1 FY2027 from Rs. 760 billion in Q1 FY2026. After adjusting for redemptions from the gross SGS issuance, net market borrowings in Q1 FY2027 are assessed at Rs. 1.8 trillion, a steep 48.1% higher than the actual net issuance of Rs. 1.2 trillion in Q1 FY2026.

Note: Q1 FY2027 is based on Q1 indicative borrowing and YoY growth is over actual SGS issued in Q1 FY2026; Source: RBI; ICRA Research*

West Bengal, Bihar and Uttar Pradesh comprise nearly two-thirds of the incremental SGS borrowing of Rs. 537 billion in Q1 FY2027

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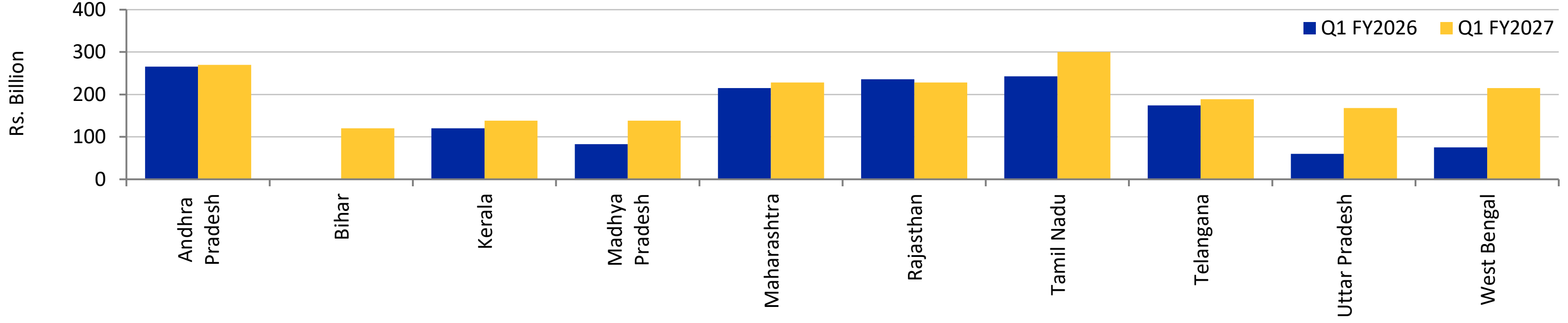
EXHIBIT: SGS issuance in Q1 FY2026 and indicative issuance Q1 FY2027 of top 10 state governments



- The incremental SGS borrowing in Q1 FY2027 is pegged at Rs. 537 billion, mainly led by an increase in issuances by WB (by Rs. 140 billion), Bihar (by Rs. 120 billion) and UP (by Rs. 108 billion). Karnataka, MP, Odisha and Tamil Nadu have indicated incremental SGS issuance between Rs. 50-60 billion, while several other states have indicated incremental SGS issuance of less than Rs. 20 billion in Q1 FY2027 compared to Q1 FY2026.
- Conversely, Haryana, Himachal Pradesh, Punjab, Rajasthan have indicated a step-down in issuances by Rs. 8-63 billion in in Q1 FY2027 compared to Q1 FY2026 While Jammu and Kashmir and Tripura borrowed under Rs. 30 billion in Q1 FY2026, they have not indicated to borrow in the ongoing quarter.
- Notably, Karnataka has indicated borrowings of Rs. 54 billion in Q1 FY2027, against nil issuances in Q1 during FY2022-FY2026, as the state typically concentrates its market borrowings in the second half of the fiscal year. In FY2026, despite indicating Rs. 100 billion SGS issuances in Q1, Karnataka did not borrow in that quarter. Past trends suggest that Karnataka may skip borrowing in Q1 FY2027.
- The increase in gross SGS issuance indicated by Kerala, Tamil Nadu and West Bengal in Q1 FY2027 could be on account of Assembly Elections in these states in April 2026.

Source: RBI; ICRA Research

Gap between actual and indicative issuance in Q1 FY2027 will depend upon the timing of communication of borrowing permission by the GoI to the states

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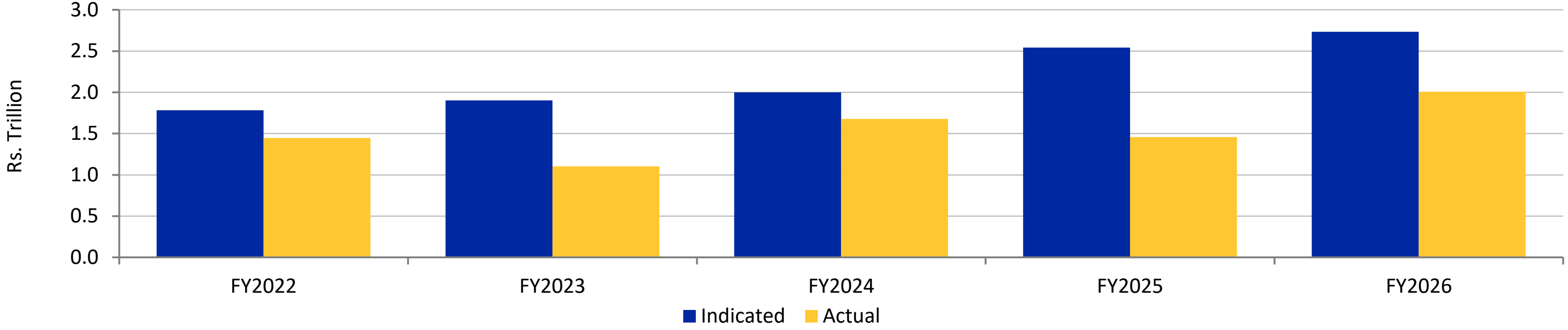
EXHIBIT: Indicated and actual and gross SGS issuance in Q1 during FY2022-FY2026

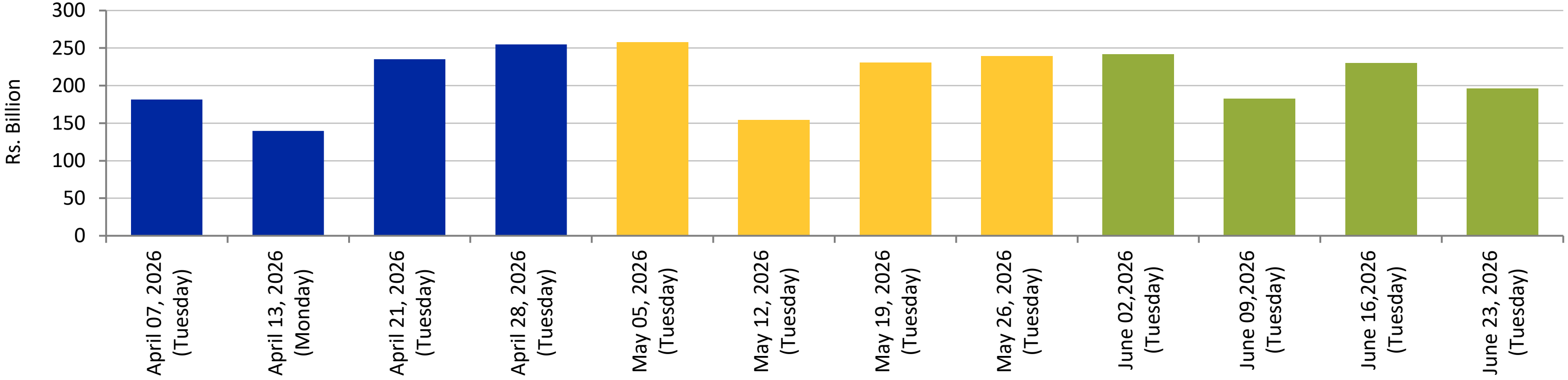


- A key factor responsible for the trend of actual SGS issuances in the first quarter trailing the indicated levels, could be the timing mismatch between the submission of the Q1 indicative auction calendar by the states to the RBI and the receipt of the final borrowing permission for the year from the GoI. In ICRA's understanding, the time taken by each state in submitting the detailed information (repayments for all types of borrowings, pension contributions, incremental off-budget borrowings, unutilised borrowing space of previous years, payment shortfalls to discoms, investment in guarantee redemption funds etc.) sought by the GoI at the start of the fiscal for determining the borrowing limit of the states, could vary. This information is vetted by the GoI and the final borrowing permission for the fiscal is then communicated to each state typically during Q1. This succeeds the release of Q1 indicative auction calendar of states by several weeks. Therefore, the borrowings by states in the initial weeks of Q1 is based on an ad-hoc borrowing permission from the GoI, which may vary from the final borrowing permission that states receive subsequently, as per our understanding.
- Actual SGS issuance in Q1 FY2027 relative to the indicative level will depend upon timing of the communication of the final borrowing permission by the GoI to the states (subject to the time taken by states in submitting the information and the processing of the same by the GoI), pace of spending by states, release of capex loans by the GoI to the states in the initial weeks of Q1, release of two instalments of tax devolution by the GoI in June etc.

Source: RBI; ICRA Research

States plan to raise Rs. 883 billion in May 2026, nearly 35% of the total planned issuance for Q1 FY2027

EXHIBIT: Weekly gross indicated issuance



The Q1 FY2027 indicative calendar has pegged the SGS issuance in April 2026 at Rs. 811 billion (32% of the indicated Rs. 2.5 trillion). The four auctions in this month will vary between Rs. 140 billion and Rs. 255 billion.

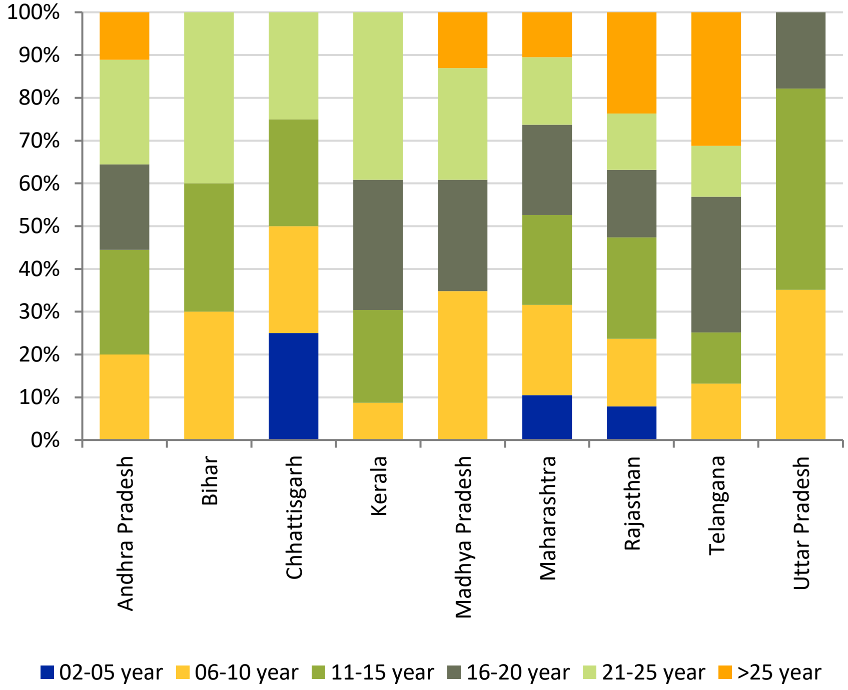
Nearly 35% of the total, or Rs. 883 billion, of SGS is proposed to be issued in May 2026 through four weekly auctions, with auction sizes ranging between Rs. 155 billion and Rs. 258 billion.

The balance Rs. 851 billion (33% of the total) SGS indicated for Q1 FY2027 is expected to be issued in four auctions in June 2026, with weekly size ranging from Rs. 183 billion to Rs. 242 billion.

Source: RBI; ICRA Research

Introduction of BIS by RBI on a pilot basis for SGS issuance of nine states is expected to benefit both issuers and investors

EXHIBIT: Maturity bucket wise gross SGS issuance indicated for Q1 FY2027



- In a positive development, the RBI has introduced the BIS on a pilot basis for market borrowings of states, initially for nine states which gave their concurrence to the RBI. These states are, Andhra Pradesh (AP), Bihar, Chhattisgarh, Kerala, Madhya Pradesh (MP), Maharashtra, Rajasthan, Telangana, and UP. Under this strategy, the nine states would be issuing securities in a specific benchmark tenor bucket as outlined in the quarterly auction calendar.
- On April 2, 2026, the RBI released a separate calendar (aside from the auction calendar by states that have not yet adopted BIS) indicating the amount that the nine states will be issuing SGS under the benchmark maturity buckets. These states have pegged their borrowing at Rs. 1.5 trillion for Q1 FY2027. Around 4% of this amount is expected to be raised through securities in 2-5-year, 22% in 6-10-year, 23% in 11-15-year, 20% each in 16–20 year and 21–25-year segments and balance 12% in greater than 25-year papers.
- The adoption of BIS by states is expected to improve transparency of market borrowings and impart clarity to market participants. In ICRA's view, given the large and increasing number of SGS outstanding in various tenors, the introduction of the BIS is a welcome step. For this strategy to be successful, the actual SGS by the nine states should in line with the indicated amount for the maturity buckets along with a gradual increase in the proportion of papers issued in the benchmark maturity segments going forward. Additionally, the faster adoption of the BIS by remaining states, especially the relatively large borrowers would also be important for the development of benchmark papers and SGS yield curve. Moreover, the BIS will bring state borrowings a step closer to the borrowing framework of the GoI wherein, it specifies maturity wise borrowing in its half yearly borrowing calendar.

Source: Ministry of Finance; FC reports; ICRA Research

For FY2027, fiscal deficit target for states is fixed at 3.0% of GSDP by the GoI; capex loans over and above this limit

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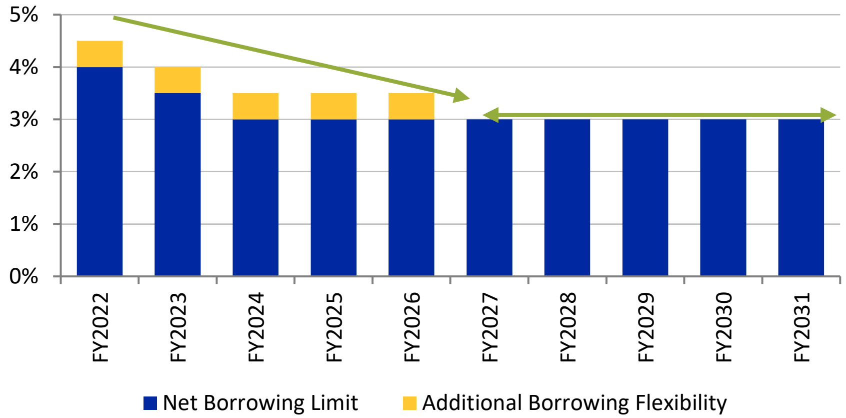
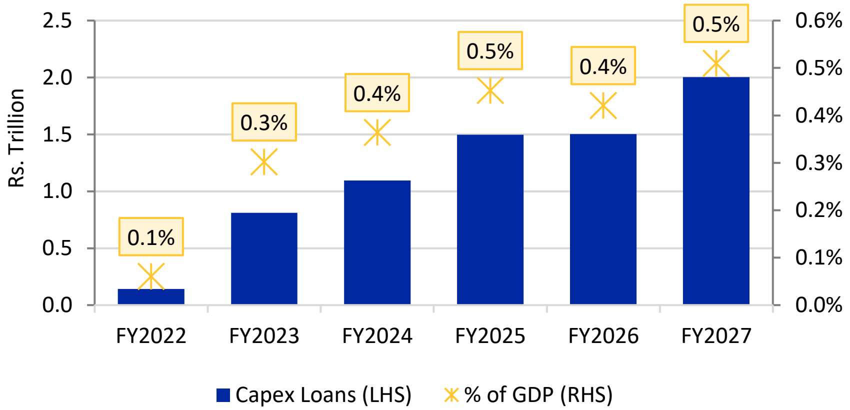
EXHIBIT: Fiscal deficit glide path recommended for state governments by the 16th FC for FY2027-FY2031



Source: FC reports; ICRA Research

EXHIBIT: Trends in interest-free capex loans to all states/UTs



Source: Union Budgets; National Statistics Office; ICRA Research

- The 16th FC has recommended that the normal net borrowing limit for state governments be fixed at 3.0% of GSDP for its award period FY2027–FY2031, which the GoI has accepted. The Commission did not provide for any additional borrowing flexibility beyond this limit, nor did it allow the carry-forward of unutilised borrowing space.
- The GoI in its FY2027 Union Budget has included a provision of Rs. 2.0 trillion (0.5% of GDP) for interest free capex loans, up by ~33% from Rs. 1.5 trillion (0.4% of GDP) in FY2026 RE for all states and two UTs. These loans will be over and above the net borrowing limit of the state governments.

ICRA estimates gross SGS issuance between Rs. 13.4-14.0 trillion for FY2027

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EXHIBIT: Net and gross SGS issuance expected for FY2027

Amount in Rs. Trillion	FY2026	FY2027		YoY Growth	
		Scenario II	Scenario II	Scenario II	Scenario II
Net	9.0	9.2	9.7	1.4%	7.8%
Redemptions	3.7	4.2	4.2	13.3%	13.3%
Gross	12.8	13.4	14.0	4.9%	9.4%

- SGS issuance in recent years have been highly back-ended with 40–41% of the annual borrowings concentrated in Q4 during FY2023–FY2026. In line with these trends displayed in recent years, we expect the SGS issuances in FY2027 to remain back-ended as well.
- Based on ICRA’s estimate of FY2027 GDP, we have forecast the aggregate net borrowing limit of the state governments at Rs. 11.5 trillion for FY2027.
    - **Scenario I:** If 80% of the net borrowing limit of Rs. 11.5 trillion is utilised by the states for funding their deficits through SGS, the net issuance would be Rs. 9.2 trillion in FY2027, a mild 1.4% higher on a YoY basis (Rs. 9.0 trillion in FY2026). ICRA estimates the SGS redemptions to rise by ~13% to Rs. 4.2 trillion in FY2027 from Rs. 3.7 trillion in FY2026. This implies that the gross SGS issuance at Rs. 13.4 trillion, 4.9% higher from FY2026 (Rs. 12.8 trillion).
    - **Scenario II:** Alternatively, if 85% of the estimated aggregate net borrowing limit (Rs. 11.5 trillion) is utilised by the states for funding their deficits through SGSs, the net issuance would increase by 7.8% on a YoY basis to Rs. 9.7 trillion in FY2027 from Rs. 9.2 trillion in FY2026. This implies that the gross SGS issuance would step up by 9.4% to Rs. 14.0 trillion from Rs. 12.8 trillion in the same period.

Source: RBI; ICRA Research

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