



## STATE GOVERNMENT FINANCES

Gross SGS issuance projected at Rs.  
10.5-11.0 trillion in FY2025

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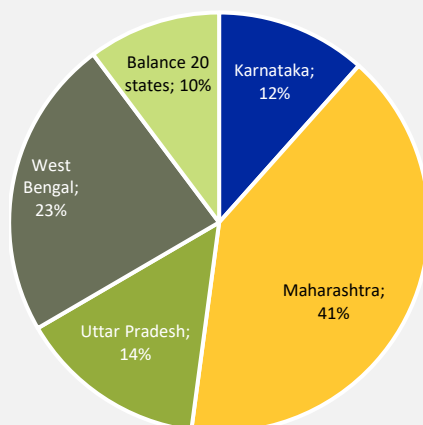


## SUMMARY



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**Exhibit: State-wise share in incremental Q1 FY2025 indicative SGS issuance of Rs. 863 billion**



Source: RBI; ICRA Research

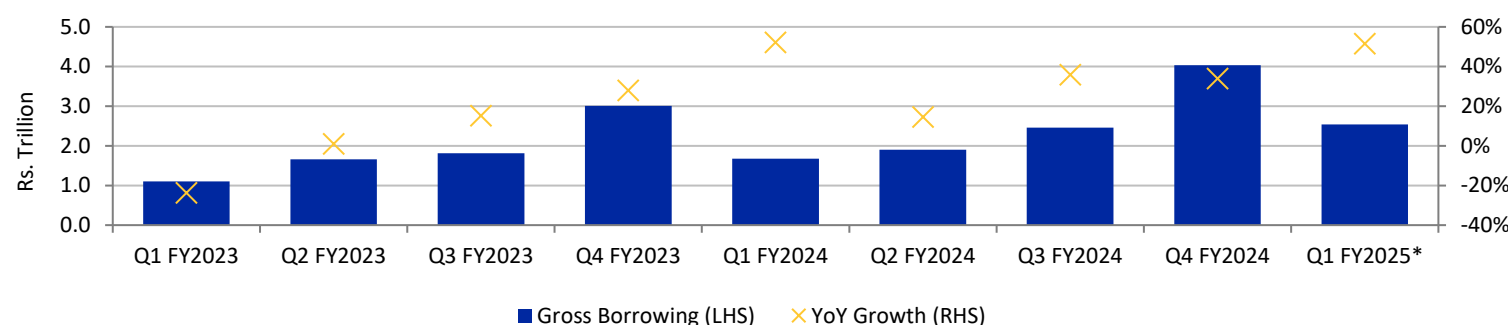
The Reserve Bank of India (RBI) has pegged the gross issuance of State Government Securities (SGS) at Rs. 2.5 trillion for Q1 FY2025, a massive year-on-year (YoY) expansion of 51.5%. This comes on the back of a similar YoY growth (~52%) in the gross issuance in Q1 FY2024. Maharashtra, West Bengal (WB), Uttar Pradesh (UP) and Karnataka account for a substantial ~90% of the incremental indicated amount of Rs. 863 billion for Q1 FY2025 from the year-ago level. In our view, certain factors including timing of receipt of borrowing permission for FY2025 by individual states from the Government of India (GoI) and the publication of guidelines by the GoI under the 'Special Assistance as Loan to States for Capital Expenditure' scheme or capex loan scheme for FY2025, could lead to recalibration of borrowing requirement by the states in the coming weeks, amid the Model Code of Conduct and the Parliamentary Elections.

- SGS issuance for Q1 FY2025 indicated at Rs. 2.5 trillion:** Twenty-two state governments and two Union Territories (UTs) have indicated borrowings of Rs. 2.5 trillion for Q1 FY2025, 51.5% higher on a YoY basis. The incremental borrowing of Rs. 863 billion in Q1 FY2025 from the year ago-level is led by Maharashtra (by Rs. 350 billion), WB (by Rs. 200 billion), UP (by Rs. 125 billion) and Karnataka (by Rs. 100 billion). The expected cash-flow position of Maharashtra at the beginning of FY2025 and key fiscal indicators of the state government in the first 11 months of FY2024, as well the borrowing pattern of Karnataka and UP in the recent fiscals, casts some uncertainty over the extent of actual borrowing by these states relative to the indicated amount for Q1 FY2025.
- Timing of receipt of borrowing permission and release of guidelines for capex loan scheme for FY2025, could impact states' borrowings:** The size of the actual SGS issuance in Q1 FY2023 and Q1 FY2024 had trailed the indicated amount, partly reflecting varying timing of receipt of borrowing permission by individual states from the GoI due to technical reasons. Additionally, the timing of release of the final guidelines for capex loan scheme for FY2025 could also impact the borrowing requirement of the states. Moreover, with the approved amount under the capex loan scheme in FY2024 having surpassed the amount indicated in FY2024 RE, it would be interesting to see if the Rs. 1.3 trillion included for capex loan in the FY2025 Interim Budget is changed in the FY2025 Union Budget to be presented after the Parliamentary Elections, the timing of which is yet to be announced.
- ICRA estimates gross SGS issuance in FY2025 at Rs. 10.5-11.0 trillion:** Based on the net borrowing limit of 3.0% of GSDP for FY2025 and our assumption that the states will fund 75-80% of their fiscal deficit through SGS, we estimate the net issuance between Rs. 7.3-7.8 trillion in FY2025, compared to Rs. 7.2 trillion in FY2024. With the increase in the SGS redemptions to Rs. 3.2 trillion in FY2025 from Rs. 2.9 trillion in FY2024, we project the gross SGS issuance to rise to Rs. 10.5-11.0 trillion in FY2025.

## GROSS SGS ISSUANCE IN Q1 FY2025 INDICATED AT RS. 2.5 TRILLION, ~52% HIGHER ON A YOY BASIS

The auction calendar of market borrowings by 22 state governments (except Arunachal Pradesh, Bihar, Jharkhand, Madhya Pradesh, Manipur, and Odisha) and two UTs for Q1 FY2024 released by the RBI on March 28, 2024, has placed the total market borrowing at Rs. 2.5 trillion. This implies a YoY growth of 51.5% on the back of a similar expansion in in Q1 FY2024 (gross issuance of Rs. 1.7 trillion; refer Exhibit 1). Notably, the actual issuance in Q1 FY2024 had trailed the indicative amount of Rs. 2.0 trillion by ~16%.

**Exhibit 1: Gross SGS issuance by all state governments/UTs and their YoY growth**



Note: \* FY2025 based on Q1 indicative borrowing and YoY growth is over actual SGS issued in Q1 FY2024

Source: RBI; ICRA Research

We estimate the SGS redemptions to increase to Rs. 646 billion in Q1 FY2025 from Rs. 492 billion in Q1 FY2024. Accordingly, the net SGS issuance in Q1 FY2025 is assessed at Rs. 1.9 trillion, 59.8% higher than the actual net issuance of Rs. 1.2 trillion in Q1 FY2024.

The Q1 FY2025 auction calendar has pegged the SGS issuance in April 2024 at Rs. 981 billion or 39% of the indicated Rs. 2.5 trillion. The size of the five SGS auctions in April 2024 will vary between Rs. 161 billion and Rs. 254 billion. Subsequently, Rs. 867 billion SGS is proposed to be issued in May 2024 (34% of the total), in four weekly auctions, with the size of the auctions ranging widely between Rs. 148 billion and Rs. 331 billion. The balance Rs. 693 billion (27% of the total) SGS indicated for Q1 FY2025 is expected to be issued in June 2024, with a weekly size ranging from Rs. 122 billion and Rs. 223 billion. The SGS auction dated Apr 8, 2024, is scheduled on a Monday with all the remaining 12 auctions to be held on Tuesdays.

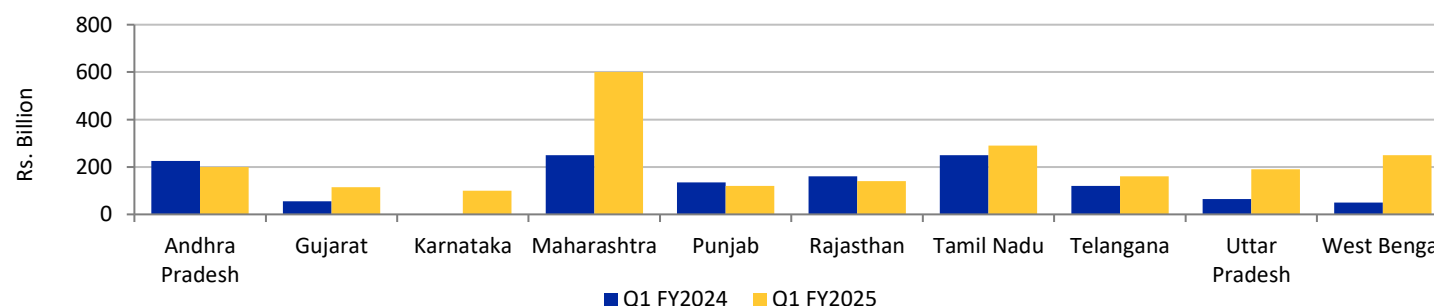
22 states and 2 UTs have indicated borrowings of Rs. 2.5 trillion for Q1 FY2025, 51.5% higher on a YoY basis

## KARNATAKA, MAHARASHTRA, UP AND WB ACCOUNT FOR 90% OF THE INCREMENTAL ISSUANCE IN Q1 FY2025

In the Q1 FY2025 auction calendar, Maharashtra has indicated the highest amount of gross issuance of Rs. 600 billion (refer Exhibit 2). This is Rs. 350 billion higher than the amount borrowed in Q1 FY2024 (Rs. 250 billion). The incremental borrowing of WB, UP and Karnataka in Q1 FY2025 is indicated at Rs. 200 billion, Rs. 125 billion and Rs. 100 billion, respectively. The combined incremental borrowing of Karnataka, Maharashtra, WB and UP is indicated at Rs. 775 billion, comprising nearly 90% of the total increase of Rs. 863 billion from Q1 FY2024.

While the actual borrowing by Maharashtra in Q1 FY2024 was in line with the indicated amount, there was combined downward deviation of Rs. 70 billion in Q2 and Q3 FY2024 and excess borrowing of Rs. 270 billion in Q4 FY2024. Overall, Maharashtra's borrowing (Rs. 1.1 trillion) was 22% higher than the indicated amount of Rs. 900 billion in FY2024. Additionally, the Government of Maharashtra's (GoM's) provisional actuals for Apr-Feb FY2024 reveal a large revenue surplus of Rs. 381 billion compared to Rs. 195 billion revenue deficit indicated in FY2024 revised estimates (RE; up from Rs. 161 revenue deficit in FY2024 budget estimates or BE). Moreover, the GoM's capital spending at Rs. 462 billion was a modest 50% of the Rs. 924 billion indicated in the FY2024 RE (up from Rs. 794 billion in FY2024 BE). **In this context, it is unclear why the GoM chose to undertake such substantial borrowings in March 2024. Unless spending ramped up sharply in that month, the state government's cash-flow position at the commencement of FY2025 may well be comfortable. This may reduce Maharashtra's need for borrowing to the full extent indicated by it for Q1 FY2025.**

**Exhibit 2: State-wise actual issuance in Q1 FY2024 and indicated issuance in Q1 FY2025 (top 10 states)**



Source: RBI; ICRA Research

UP's SGS issuance (Rs. 977 billion) exceeded the indicated amount by Rs. 57 billion in FY2024, after a gap of three years. However, UP reported a revenue surplus of Rs. 492 billion during Apr-Feb FY2024 (70% of the revenue surplus in FY2024 RE) and capital spending of Rs. 920 billion (60% of the FY2024 RE). Similar to Maharashtra, these data points suggest a possibility that the Government of UP may have a comfortable cash-flow position at the start of FY2025, unless there was a sharp rise in spending in March 2024. Additionally, UP's actual borrowing during Q1 of FY2019-

Combined incremental borrowing of Maharashtra, WB, UP and Karnataka is indicated at Rs. 775 billion for Q1 FY2025, comprising ~90% of the total increase of Rs. 863 billion from the year-ago level

*Timing of receipt of borrowing permission for FY2025 from the GoI, the publication of guidelines for the capex loan scheme for FY2025, could lead to recalibration of borrowing requirement by the states in the coming weeks amidst the Model Code of Conduct and upcoming Parliamentary Elections*

24 (excluding FY2021) was between 0-50% of the indicated amount for these quarters. **The consistent pattern of borrowing less than the indicated amount in the first quarter of the recent fiscals by UP and its highly back-ended borrowing trend in recent years, casts some doubts over whether UP may raise the entire Rs. 190 billion indicated for Q1 FY2025.**

WB's actual issuance in FY2024 was a considerable 58% lower than indicated (Rs. 699 billion vs Rs. 1.2 trillion), nearly half of which was on account of lower borrowing in H2 FY2024. In Q1 FY2022 and Q1 FY2023, WB's actual borrowing stood at 75% of the indicated amount for those quarters, which reduced to 40% in Q1 FY2024. **These trends suggest that in Q1 FY2025, WB may borrow 50-75% of the indicated Rs. 250 billion for that quarter.**

In FY2024, Karnataka borrowed Rs. 810 billion, which was lower than the indicated amount by Rs. 260 billion mainly because it did not raise the Rs. 190 billion that it had indicated for Q2 FY2024. During FY2019-24 (excluding the pandemic affected FY2021), Karnataka had on a few occasions indicated borrowing in H1 of those fiscals and borrowed only once in the first half (Q2 FY2020). **Based on these trends, we remain unsure whether Karnataka would raise the entire Rs. 100 billion indicated for Q1 FY2025.**

### **TIMING OF RECEIPT OF BORROWING PERMISSION FROM THE GOI AND GUIDELINES FOR CAPEX LOAN TO IMPACT QUANTUM OF SGS ISSUANCES IN Q1 FY2025**

**Aside from the individual borrowing trends of states, the timing of receipt of the borrowing permission from the GoI could also impact the quantum of borrowing in Q1 relative to the planned issuance.** The actual SGS issuance in the first quarter of FY2023 and FY2024 was lower than the indicated amount by 42% and 16%, respectively. The downward deviation in Q1 FY2023 was led by delays in finalisation of the off-budget debt of the states and the procedure to be followed for its adjustment from the borrowings of the state governments. At the start of FY2024, it appears that some states took time in providing certain additional information to the GoI, which partly contributed to curtailed borrowing by some states in Q1 FY2024.

#### **Exhibit 3: Trends in progressive approvals and releases under capex loans**

Amount in Rs. Billion		Q1	Q2	Q3	Q4	Total
<b>FY2023</b>	Approval	0	511	260	180	951
	Releases	-	-	411	401	813
<b>FY2024</b>	Approval	633	306	72	310*	1,320
	Releases	268	268	80	337*	952

*Note: \* Data available for Q4 FY2024 available till February 2024*

*Source: Ministry of Finance, India; Press Information Bureau (PIB) release; ICRA Research*

Additionally, in the Interim Budget presented by the Union Government on February 1, 2024, while the GoI had enhanced the amount for the "Special Assistance as Loan to States for Capital Expenditure" scheme (capex loans) to Rs. 1.3 trillion from Rs. 1.1 trillion in FY2024 RE (approvals

ICRA estimates gross SGS issuance at Rs. 10.5-11 trillion for FY2025

till Feb 2024 stood at Rs. 1.3 trillion, higher than the RE; refer Exhibit 3), the guidelines related to which are yet to be finalised, as per information available in the public domain. This is unlike in FY2023 and FY2024, wherein the capex loan details were available to the states prior to the beginning of these fiscal, which could have helped them in determining their borrowing requirement. Accordingly, **the timing of release of the final guidelines for capex loan for FY2025 could also impact the borrowing requirement of the states. Moreover, with the actual approved amount under the capex loan scheme in FY2024 having surpassed the amount indicated in FY2024 RE, it would be interesting to see if the Rs. 1.3 trillion included for capex loan in the FY2025 Interim Budget is changed in the FY2025 Union Budget to be presented after the Parliamentary Elections, the timing of which is yet to be announced.**

### ICRA ESTIMATES GROSS SGS ISSUANCE OF Rs. 10.5-11.0 TRILLION IN FY2025

We expect the SGS issuance to remain back-ended in FY2025, in line with the past trends. However, the all-time high issuance of Rs. 4.0 trillion in Q4 FY2024 appeared to be an aberration and a similar or higher borrowing in Q4 FY2025 may not materialise.

Based on ICRA's estimate of FY2025 GDP, we have forecast the aggregate net borrowing limit of the state governments at Rs. 9.7 trillion for FY2025. If 75% of this limit is utilised by the states for funding their deficits through SGSs (Scenario I), the net issuance would be Rs. 7.3 trillion in FY2025, a modest 1.5% higher on a YoY basis (Rs. 7.2 trillion in FY2024; refer Exhibit 4). ICRA estimates the SGS redemptions to rise to Rs. 3.2 trillion in FY2025 from Rs. 2.9 trillion in FY2024. This implies that the gross SGS issuance at Rs. 10.5 trillion, 4.0% higher from FY2024 (Rs. 10.1 trillion).

Alternatively, if 80% of the estimated aggregate net borrowing limit (Rs. 9.7 trillion) is utilised by the states for funding their deficits through SGSs (Scenario II), the net issuance would increase by 8.3% on a YoY basis to Rs. 7.8 trillion in FY2025 from Rs. 7.2 trillion in FY2024. This implies that the gross SGS issuance would step up by 8.8% to Rs. 11.0 trillion from Rs. 10.1 trillion in the same period.

**Exhibit 4: Net and gross SGS issuance estimate in FY2025 and YoY growth**

Amount in Rs. Trillion	FY2024	FY2025		YoY Growth	
		Scenario I	Scenario II	Scenario I	Scenario II
Net Borrowing	7.2	7.3	7.8	1.5%	8.3%
Redemption	2.9	3.2	3.2	10.3%	10.3%
Gross Borrowing	10.1	10.5	11.0	4.0%	8.8%

Source: RBI; ICRA Research



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