



STATE GOVERNMENT FINANCES

Upward revision in tax devolution and capex loan in Union Budget could lead to lower SGS issuance in Q2 FY2025 relative to indicated Rs. 2.6 trillion

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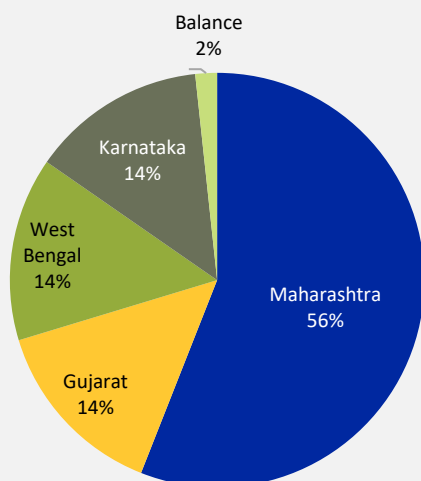


SUMMARY



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Exhibit: State-wise share in incremental Q2 FY2025 indicative SGS issuance of Rs. 732 billion



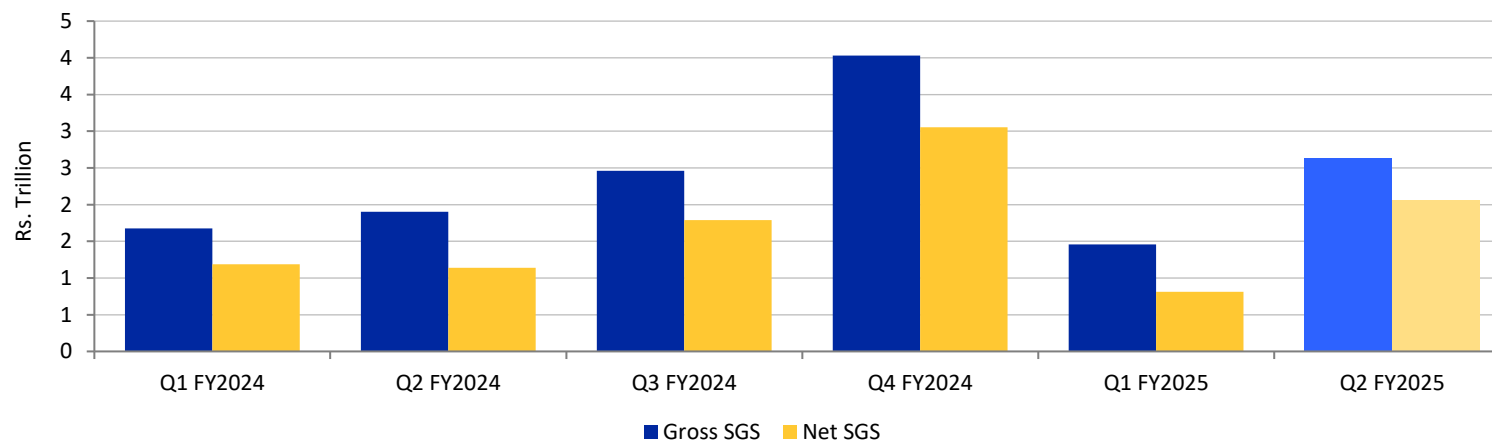
Source: RBI; ICRA Research

The Reserve Bank of India (RBI) has pegged the gross issuance of State Government Securities (SGS) at Rs. 2.6 trillion for Q2 FY2025, implying a year-on-year (YoY) expansion of 38.5%. Maharashtra, West Bengal (WB), Gujarat and Karnataka account for nearly the entire incremental indicated amount of Rs. 732 billion for Q2 FY2025 relative to the year-ago level.

An upward revision in the tax devolution amount for FY2025 by the Government of India (GoI) in the upcoming FY2025 Union Budget from the levels indicated in the Interim Budget could contribute to a step-up in the monthly tax devolution in the coming months compared to Rs. 699 billion released in Apr-May 2024. This may improve the states' cash-flow position. Additionally, higher allocation and disbursements under the capex loan scheme for FY2025 in the Union Budget from the initially budgeted levels could improve the liquidity position of the states. These flows from the GoI may pare the states' borrowings below the amount indicated in the Q2 FY2025 auction calendar.

At present, we have retained our full-year estimate of SGS issuance for FY2025 at Rs. 10.5-11 trillion. If the actual issuance in Q2 FY2025 is in line with the indicative amount, ICRA pegs the gross SGS issuance for H2 FY2025 at Rs. 6.4-6.9 trillion. With the increase in the SGS redemptions to Rs. 2.0 trillion in H2 FY2025 from Rs. 1.7 trillion in H2 FY2024, we expect the net SGS issuance at Rs. 4.4-4.9 trillion in H2 FY2025.

Exhibit: Net and Gross SGS by all state governments/UTs

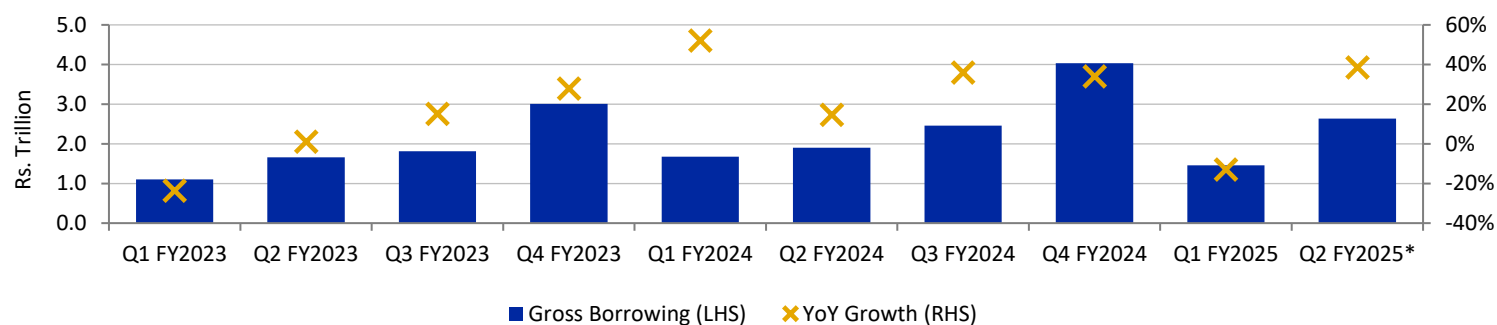


Source: RBI; ICRA Research

GROSS SGS ISSUANCE IN Q2 FY2025 INDICATED AT Rs. 2.6 TRILLION, ~38% HIGHER ON A YOY BASIS

The auction calendar of market borrowings by 27 state governments (except Arunachal Pradesh) and two UTs for Q2 FY2025 released by the RBI on June 28, 2024, has placed the total market borrowing at Rs. 2.6 trillion. This implies a five-quarter high YoY growth of 38.5% on the gross issuance of Rs. 1.9 trillion in Q2 FY2024 back (+14.6%; refer Exhibit 1). Notably, the actual issuance in Q2 FY2024 had trailed the indicated amount of Rs. 2.4 trillion by ~20%.

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



Note: * FY2025 based on Q2 indicative borrowing and YoY growth is over actual SGS issued in Q2 FY2024

Source: RBI; ICRA Research

We estimate the SGS redemptions to decline to Rs. 578 billion in Q2 FY2025 from Rs. 763 billion in Q2 FY2024. Accordingly, the net SGS issuance in Q2 FY2025 is assessed at Rs. 2.1 trillion, a massive 80.5% higher than the actual net issuance of Rs. 1.1 trillion in Q2 FY2024.

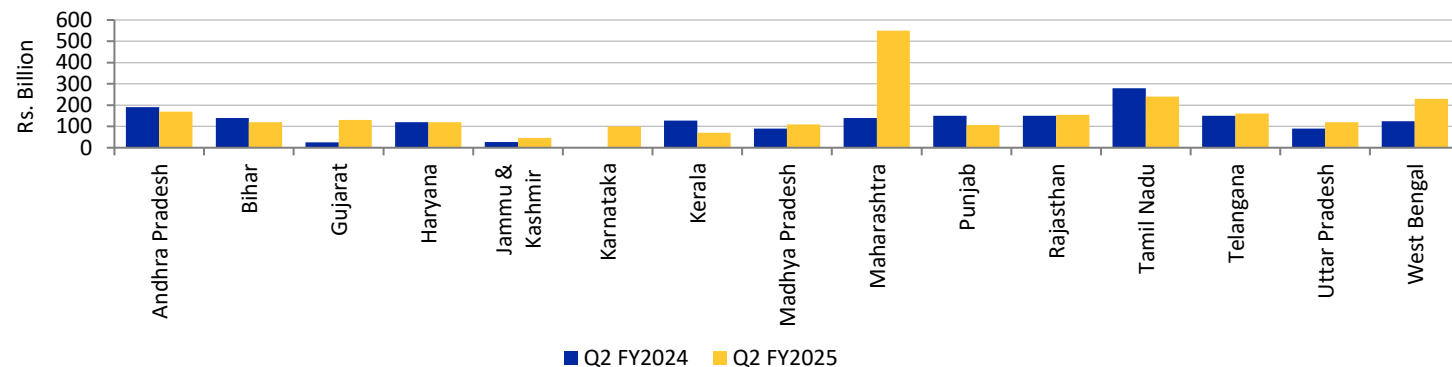
The Q2 FY2025 auction calendar has pegged the SGS issuance in July 2024 at Rs. 795 billion or 30% of the indicated Rs. 2.6 trillion. The size of the five SGS auctions in July 2024 will vary between Rs. 102 billion and Rs. 261 billion. Subsequently, Rs. 887 billion SGS is proposed to be issued in August 2024 (34% of the total), in four weekly auctions, with the size of the auctions ranging widely between Rs. 105 billion and Rs. 294 billion. The balance Rs. 953 billion (36% of the total) SGS indicated for Q2 FY2025 is expected to be issued in September 2024, with a weekly size ranging from Rs. 125 billion and Rs. 283 billion.

In line with Q1 FY2025 auction calendar, Maharashtra has indicated the highest amount of gross issuance of Rs. 550 billion in the Q2 FY2025 (refer Exhibit 2). This is Rs. 410 billion higher than the amount borrowed in Q2 FY2024 (Rs. 140 billion). WB, Gujarat, and Karnataka have indicated a borrowing of Rs. 230 billion, Rs. 130 billion and Rs. 100 billion, respectively, in the Q2 auction calendar. This implies that incremental borrowings in Q2 FY2025 compared to Q2 FY2024 will stand at Rs. 105 billion each for WB and Gujarat and at Rs. 100 billion for Karnataka. The combined

27 states and 2 UTs have indicated borrowings of Rs. 2.6 trillion for Q2 FY2025, 38.5% higher on a YoY basis

incremental borrowing of Maharashtra, WB, Gujarat, and Karnataka is indicated at Rs. 720 billion, comprising nearly 98% of the total increase of Rs. 732 billion from Q2 FY2025.

Exhibit 2: State-wise actual issuance in Q2 FY2024 and indicated issuance in Q2 FY2025 (top 15 states)



Source: RBI; ICRA Research

In Q1 FY2025, Maharashtra accessed the market only twice to raise Rs. 100 billion compared to Rs. 600 billion that it had planned to raise across 13 weeks as per the auction calendar for that quarter. The additional borrowing of Rs. 270 billion in Q4 FY2024 (Rs. 500 billion actual vs. Rs. 230 billion indicated) and receipt of two tranches of tax devolution in June 2024 seem to have reduced the need for borrowing to the full extent indicated by Maharashtra for Q1 FY2025. Notably, the Gol released Rs. 1.4 trillion as tax devolution to the state governments on June 10, 2024. This was twice as large as the Rs. 699 billion each released in April and May 2024.

The capital spending in Maharashtra in Apr-May 2024 was quite dull at less than 1% of the budget estimate of Rs. 896 billion for FY2025, albeit 17% higher on a YoY basis, as per data released by Comptroller and Auditor General of India. If the state government decides to hasten its spending on capital projects ahead of the Assembly Elections in Maharashtra that are expected in October 2024, it could borrow a sizeable proportion of the Rs. 600 billion indicated in the Q2 FY2025 auction calendar. However, during FY2020-24, capital spending in Maharashtra has been highly back-ended partly because of monsoon rainfall during Jun-Sep. In particular, in FY2020, the year when last Assembly Elections were held in Maharashtra, as much as 53% of the total capital spending of the year happened in Q4 FY2020. **The actual borrowing in Q2 FY2025 by Maharashtra will partly depend upon the capex execution schedule ahead of the Assembly Elections. Additionally, a step-up in the tax devolution amount by the Gol during Jul-Sep 2024 and/or release of double tranche of devolution in any of these months could reduce the borrowings raised by Maharashtra below the indicated Rs. 600 billion in Q2 FY2025.**

Combined incremental borrowing of Maharashtra, WB, Gujarat, and Karnataka is indicated at Rs. 720 billion for Q2 FY2025, comprising ~98% of the total increase of Rs. 732 billion from the year-ago level

The GoI could revise the tax devolution for FY2025 upwards from FY2025 BE (as per the Feb 2024 Union Budget), which may lead to a higher monthly tax devolution to the states in the coming months compared to Rs. 699 billion that was devolved to them in Apr-May 2024 and accordingly reduce their borrowing requirement to a certain extent.

Gujarat's actual borrowing was between 60-112% of indicated amount in Q2 FY2020-23, which dipped to a low 21% in Q2 FY2024. More recently, in Q1 FY2025, Gujarat borrowed a modest Rs. 20 billion in Q1 FY2025 compared to the indicated Rs. 115 billion for that quarter. The past trends of borrowing in Q2 by Gujarat and sharply lower than indicated borrowing in Q1 FY2025 suggests that Gujarat may step-up its borrowing in Q2 FY2025. **We expect Gujarat's actual issuance in Q2 FY2025 to be similar to the indicated Rs. 130 billion for that quarter.**

Similar to Gujarat, WB raised just Rs. 55 billion in Q1 FY2025 compared to the indicated Rs. 250 billion for that quarter. In the recent years, WB's borrowing was around 70-106% of the indicated amount in Q2 FY2020-24. However, in FY2024, WB borrowed three-fourths of its borrowing in H2, sharply higher than 55-67% in H2 of FY2020-23. If WB continues to follow a highly back-ended borrowing pattern in FY2025 as well, it could limit its borrowing to around half of the indicated Rs. 230 billion in Q2 FY2025.

During FY2019-24 (excluding the pandemic affected FY2021), Karnataka had on a few occasions indicated borrowing in Q1 and Q2 of those fiscals and borrowed only once in the first half (Q2 FY2020). Karnataka did not borrow in Q1 FY2025, even though it had indicated a borrowing of Rs. 100 billion. **Based on these trends, we are unsure whether Karnataka would raise the entire Rs. 100 billion indicated for Q2 FY2025.**

UPWARD REVISION IN TAX DEVOLUTION AND CAPEX LOAN AMOUNT IN FINAL FY2025 UNION BUDGET TO IMPACT QUANTUM OF SGS ISSUANCES IN Q2 FY2025

The provisional fiscal data of the GoI for FY2024 that was released by the Controller General of Accounts (CAG) in May 2024 revealed that the tax devolution to all states in FY2024 stood at Rs. 11.3 trillion. This higher than the Rs. 11.0 trillion indicated in the revised estimates (RE) for FY2024 that was published in the Interim Union Budget on Feb 1, 2024. In that budget, the GoI had pegged the tax devolution to all states for FY2025 at Rs. 12.2 trillion, indicating a ~10% growth relative to the tax devolution in FY2024 RE. However, with the actual devolution to states in FY2024 exceeding the FY2024 RE levels, the implicit growth rate for FY2025 has moderated to 8% (Rs. 12.2 trillion over Rs. 11.3 trillion). Accordingly, **we anticipate that in the FY2025 final Union Budget that is expected to be presented in July 2024, the GoI could revise the tax devolution for FY2025 upwards from FY2025 BE (as per the Feb 2024 Union Budget). This would lead to a higher monthly tax devolution to the states in the coming months compared to Rs. 699 billion that was devolved to them in Apr-May 2024 and accordingly reduce their borrowing requirement to a certain extent.**

Additionally, in the FY2025 Interim Union Budget, 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. However, until the end of February 2024, the approved amount under the GoI's interest-free capex loan scheme stood at Rs. 1.3 trillion, exceeding the Rs. 1.1 trillion included in FY2024 RE. **If the GoI revises upwards the allocation of the capex loan in the upcoming final FY2025 Union budget from the Rs. 1.3 trillion included in the Interim budget it would boost the resource availability of state governments for capital spending. This may lead states to substitute a part of their planned market borrowing with interest-free capex loans in FY2025, provided they are able to meet the necessary conditions.**

ICRA RETAINS ESTIMATE OF GROSS SGS ISSUANCE AT Rs. 10.5-11.0 TRILLION IN FY2025

In April 2024, we had forecast gross SGS issuance in FY2025 at Rs. 10.5-11 trillion (refer Exhibit 3). Based on ICRA's estimate of FY2025 GSDP, we had projected the aggregate net borrowing limit of the state governments at Rs. 9.7 trillion for FY2025. ¹

Exhibit 3: 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

Accounting for the actual Rs. 1.5 trillion raised in Q1 FY2025 and presuming that the gross SGS issuances in Q2 FY2025 are in line with the indicated amount, the total borrowing in H1 FY2025 would be Rs. 4.1 trillion, ~14% higher than Rs. 3.6 trillion in H1 FY2024. After adjusting for the estimated redemptions of Rs. 1.2 trillion in H1 FY2025, the net SGS issuance is projected at Rs. 2.9 trillion in H1 FY2025, ~23% higher than Rs. 2.3 trillion in H1 FY2024.

Exhibit 4: Net and gross SGS issuance estimate in H2 FY2025 and YoY growth

Amount in Rs. Trillion	Q1 FY2025	Q2 FY2025	H2 FY2025		YoY Growth	
			Scenario I	Scenario II	Scenario I	Scenario II
Net Borrowing	0.8	2.1	4.4	4.9	-9.0%	1.0%
Redemption	0.6	0.6	2.0	2.0	19.5%	19.5%
Gross Borrowing	1.5	2.6	6.4	6.9	-1.7%	5.8%

Source: RBI; ICRA Research

At present, we have retained our full-year estimate of SGS issuance for FY2025 at Rs. 10.5-11 trillion. After adjusting for the expected issuance in H1 FY2025, ICRA pegs the gross SGS issuance for H2 FY2025 at Rs. 6.4 trillion (under Scenario I; refer Exhibit 4) and Rs. 6.9 trillion (under Scenario II). Accordingly, the projected gross SGS issuance in H2 FY2025 is a mild ~2% lower than the Rs. 6.5 trillion raised in H2 FY2024 under Scenario I, and 5.8% higher under Scenario II. With the increase in the SGS redemptions to Rs. 2.0 trillion in H2 FY2025 from Rs. 1.7 trillion in H2 FY2024, we expect the net SGS issuance at Rs. 4.4 trillion and Rs. 4.9 trillion, under Scenario I and II, respectively.

ICRA retains estimate of gross SGS issuance at Rs. 10.5-11.0 trillion in FY2025 and net SGS issuance at Rs. 7.3-7.8 trillion

¹ Refer to ICRA's publication, '[Gross SGS issuance projected at Rs. 10.5-11.0 trillion in FY2025](#)' published in April 2024.



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