

# Icra: Centre’s fund releases may lead to divergence in borrowing by states in Q2

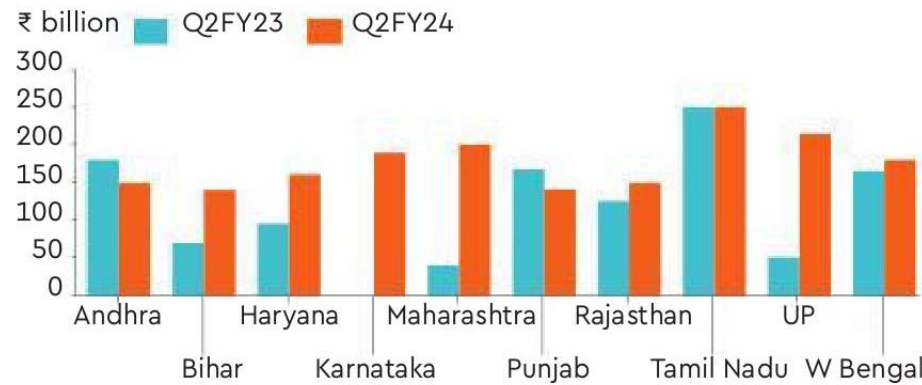
FE BUREAU  
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**TIMING OF THE** release of recently approved capex loans and other transfers such as tax devolution by the Centre could lead to divergence in the actual issuance of state government securities (SGS) in Q2 FY24 as against the estimate of ₹2.4 trillion, rating agency Icra said on Monday.

The Reserve Bank of India (RBI) has pegged the gross issuance of SGS at ₹2.4 trillion for Q2FY24, a year-on-year (YoY) expansion of 43%. The incremental SGS issuance in Q2FY24 over Q2FY23 is mainly led by Karnataka, Maharashtra, and Uttar Pradesh (UP).

An Icra analysis of borrowing trends by these three states during FY19-23 reveals that Karnataka displayed the lowest gap between the actual and indicated borrowing. However, Maharashtra consistently reported sizeable downside

SGS issuance in Q2FY23 and indicative issuance in Q2FY24 by top 10 state governments



Source: RBI; ICRA Research

deviations and UP exhibited wide downside and upside divergences. A continuation of these trends would lead to a gap between the actual and indicated borrowing in Q2 FY2024, Icra said.

“Moreover, the pace of approvals and timing of the release of the budgeted interest-

free capex loan of ₹1.3 trillion by the Government of India to the states in FY24 could influence their borrowing requirement,” it said.

The release of the recently approved ₹564 billion capex loans to 16 state governments and any fresh disbursements in the coming weeks could lead to

actual issuances in Q2 FY24 differing from the planned borrowing, it said.

Additionally, the release of another double tranche of tax devolution by the Centre to the states could impact the borrowing requirements of the states in Q2FY24.

“At present, we retain our estimate of the gross and net SGS issuance in FY24 at ₹9.5 trillion and ₹6.7 trillion, respectively, up from ₹7.6 trillion and ₹5.2 trillion, respectively, in FY23,” Icra said.

To augment resources for the states to accelerate capital expenditure, the Centre has further advanced tax devolution to the first quarter of FY24 compared with such advance releases in the second quarter of the previous year.

On June 12, the Centre released two instalments of tax devolution totalling ₹1.18 trillion for June instead of the normal monthly devolution of ₹59,140 crore.