

## Press note on State finances

Date – 21<sup>st</sup> July, 2022

- In the light of the unfortunate occurrence in Sri Lanka leading a Nation wide turmoil, essentially owing to reasons such as sharp cut in taxes, shift to organic farming to reduce fertilizer subsidy leading to exponential rise in food inflation with head line inflation at 29.8% and core inflation at 22% in April, 2022 and the GDP growth being moderated to 3.3% in year 2021. The percentage of foreign debt of Sri Lanka to its GDP was at 56% in Q1 2022. The dependance of the Country on imports has widened the current account deficit and resulting in depletion of forex reserves. Their short term external debt as a percentage of their official reserves was 467% during the first quarter of 2022. With the forex reserves reportedly standing at \$ 1.93 billion and with a \$ 4 billion debt repayment obligation during this year, loan default was imminent.
- This has raised consciousness across the globe to reduce debt burden on economies and that is indeed a very positive sign. In fact even in India, owing to one year of economic slowdown, two years of unprecedented stress in the light of the Covid-19 pandemic, the debt to GDP levels have risen to alarming levels in the year 2020-21 as pointed out below. However, owing to fiscal discipline, the Central Government's debt to GDP has come down in the subsequent year.

<b>Government of India (Debt to GDP) (all figures in INR Crores)</b>			
<b>Financial year</b>	<b>Liabilities as at the end of that year</b>	<b>GDP (Nominal)</b>	<b>Debt to GDP ratio</b>
2013-14	5669128.48	11233521.61	50.47%
2014-15	6242220.92	12467959.29	50.07%
2015-16	6901671.27	13771873.88	50.11%
2016-17	7435761.31	15391669.01	48.31%
2017-18	8234877.19	17090042.36	48.19%
2018-19	9083215.03	18899668.44	48.06%
2019-20	10219067.32	20074855.79	50.90%
2020-21	12079018.19	19800913.82	61.00%
2021-22	13588193.16	23664636.99	57.42%

**Source - Budget documents & MOSPI**

- Even with respect to the State of Andhra Pradesh, the debt situation in FY 22, is quite encouraging. The provisional figures released by the CAG convey that for the financial year 2021-22, the State Government of Andhra Pradesh has managed the State finances in the most fiscally prudent fashion with the revenue deficit being limited to Rs. 8,370.51 crores and fiscal deficit to Rs. 25,194.62 crores. This translates to a fiscal deficit to GSDP ratio of less than 2.10%. In the light of the fact that the 15<sup>th</sup> Finance Commission has recommended a fiscal deficit to GSDP ratio of 4.5% for the financial year 2021-22, the performance of the State can be regarded as being extremely prudent.
- The performance over the last eight years has been as follows,

<b>Andhra Pradesh Fiscal Deficit (all figures in INR Crores)</b>			
<b>Financial year</b>	<b>Fiscal Deficit</b>	<b>GSDP</b>	<b>Fiscal Deficit to GSDP %</b>
2014-15	20745.00	524975.64	3.95%
2015-16	22059.00	604228.62	3.65%
2016-17	30908.00	684415.87	4.52%
2017-18	32380.00	786135.42	4.12%
2018-19	35467.00	873721.11	4.06%
2019-20	39687.00	966099.05	4.11%
2020-21	55168.00	1014373.79	5.44%
2021-22	25194.62	1201735.52	2.10%

**Source - CAG and MOSPI**

- As can be seen, during every year of the TDP period, the deficit to GSDP exceeded the then prevailing limit of 3%. The deficit to GSDP ratio recorded this time is the lowest during the last eight years.
- Despite this admirable performance by the State Government, through a misinformation campaign, attempts are being made to create wide spread concern amongst the RBI, Central Government, Banks & Financial institutions, Parliament and Public. This is essentially to tarnish the image of the State and thereby cripple the State financially to reap political gains. Till recently the TDP people and their affiliated media have been referring to the data from CAG and have been constantly blaming the State Government for borrowing, even when such borrowing is within the limit stipulated by the Ministry of Finance, Government of India. Now, when the data provided by the CAG is so encouraging, the TDP affiliated media are trying to make allegations against the integrity of the AG and CAG as well.

- The misgovernance and expenditure profligacy of the TDP Government has resulted in the undue swelling of the liabilities of the State of Andhra Pradesh. At the time of bifurcation, the debt of combined State assigned to Government of successor State of Andhra Pradesh was 97,123 crores and when public account share is also added to the same, the figure is Rs. 1,20,556 crores, the same has, over the five years increased to Rs. 2,68,225 crores. The story does not end here. In addition to the above, owing to TDP's misgovernance during 2014-19 the State had to endure the burden of many more additional liabilities such as the following. The outstanding payables as of May 2019 were to the tune of Rs. 39,000 crores. The borrowings of the PSUs with the State Government guarantees were to the tune of Rs. 59,257.31 crores as of May 2019, the same were 14,028.23 crores at the time of bifurcation. Further, the debt in the books of the power sector corporations has increased from Rs. 29,703 crores to Rs. 68,596 crores over the five year period 2014- 19. In addition to the above, dues by the DISCOMs to the power generators have increased from Rs. 2,893.23 crores to Rs. 21,540.96 crores during the five year period, 2014-19. The table below conveys the comparison of the manner in which the liabilities of the State have increased during the TDP regime and during the regime of the present Government.

<b>Debt increases during different periods</b>		
<b>Debt increase during the five year TDP regime</b>		
<b>Particulars</b>	<b>At the time of State bifurcation</b>	<b>As of May 2019</b>
State Government debt	120556.00	268115.00
Outstanding debt of PSUs with State Government guarantee	14028.23	59257.31
<b>Total liabilities and contingent liabilities of the State Government</b>	<b>134584.23</b>	<b>327372.31</b>
Growth during the period		143.25%
Compounded Annual Growth Rate during the five year period		<b>19.46%</b>
<b>Debt increases during the regime of the present Government</b>		
<b>Particulars</b>	<b>As of May 2019</b>	<b>As of March 2022</b>
State Government debt	268115.00	381068.92
Outstanding debt of PSUs with State Government guarantee *(this is the figure as of 31 <sup>st</sup> December, 2021, however there has been very minimal increase over the next three months)	59257.31	117730.33*
<b>Total liabilities and contingent liabilities of the State Government</b>	<b>327372.31</b>	<b>498799.25</b>
Growth during the period		52.36%
Compounded Annual Growth Rate during the three year period		<b>15.77%</b>

- It is pertinent to note that, the rate at which debt increased during the TDP period was at a much faster pace when compared with the pace of debt increase during the regime of the present Government. The heavy borrowings in State of Andhra Pradesh during the TDP regime took place at a time when no alarming debt growth was witnessed anywhere in the Country. The table below, conveys the same. Against that, the last three years have been the most excruciatingly difficult times, with one year of economic slowdown and two years of unprecedented difficulties in the light of the outbreak of the Covid – 19 pandemic. There was widespread economic distress with the sudden need to step up public expenditure despite the steep fall in Government revenues. It is because of this reason, precisely that the National Debt to GDP ratio has risen to unprecedented levels in 2021-21, as pointed out above.

<b>Central Government</b>	
Central Government Debt as on 31st March, 2014	5669128.48
Central Government Debt as on 31st March, 2019	9083215.03
Absolute increase in liabilities	60.22%
CAGR of liabilities increase	9.89%
<b>Andhra Pradesh Government</b>	
Andhra Pradesh Debt as on 31st March, 2014	120556
Andhra Pradesh Debt as on 31st March, 2019	262115
Absolute increase in liabilities	117.42%
CAGR of liabilities increase	16.80%

<b>Central Government</b>	
Central Government Debt as on 31st March, 2019	9083215.03
Central Government Debt as on 31st March, 2022	13588193.16
Absolute increase in liabilities	49.60%
CAGR of liabilities increase	14.37%
<b>Andhra Pradesh Government</b>	
Andhra Pradesh Debt as on 31st March, 2019	262115
Andhra Pradesh Debt as on 31st March, 2022	375751
Absolute increase in liabilities	43.35%
CAGR of liabilities increase	12.75%

- In the financial year 2020-21, the whole world has witnessed the outbreak of the Covid-19 pandemic, which is arguably amongst the worst catastrophes. There was loss of economic buoyancy, aggregate demand, livelihoods and most damaging of all, there was a huge loss of lives. The entire world was faced with a scenario of steep fall in

revenues coupled with the urgent need to step up public expenditure. GDP comprises of three major elements, public final consumption expenditure, government final consumption expenditure and gross capital formation. During times like these, when public final consumption expenditure takes a nosedive, it is essential for the Government to step up the Government consumption expenditure, to ensure that the fall in GDP of the Country is addressed, at least to a certain extent. Further public expenditure is imperative to save lives during these excruciatingly difficult times.

- During these unfortune times when the whole world is faced with a series of challenges, despite the limitations on account of fiscal disabilities, the present Government in the State of Andhra Pradesh has not compromised in delivering on its commitments, even in the face of overwhelming odds further exacerbated by a fall in receipt of tax devolutions during the Financial year 2020-21, as provided below. Not only has the Government succeeded in placing money in the hands of the people in an objective and transparent manner through DBT mode and thereby helping people in this hour of crisis, but has also ensured that there are no hiccups in implementation of programmes such Nadu – Nedu Health and Education, which are top priority projects creating benefits of enduring nature for the future of the State. Programmes such as Jagananna Ammavodi, which are described by the RBI report as freebies, deserve to be relook in the light of the situation prevailing in the State. The Gross Enrolment Rate (GER) for elementary education at nearly 83 is amongst the lowest in the Country where the average is close to 99. In this regard, given the disheartening condition of education sector in the State, it is imperative that demand side constraints are addressed in the State and with this objective, the Jagananna Ammavodi programme has been formulated. There it would not be appropriate to classify the programmes of the Government as freebies, without going into their respective merits.

Devolution to States					
Financial year	Gross Tax Revenues	Devolved to States	% of devolution to States	Share of AP	% of AP share in India GTR
2015-16	1449958.11	506192.96	34.91%	21791.61	1.50%
2016-17	1696792.94	608000.31	35.83%	26174.41	1.54%
2017-18	1942459.15	673005.29	34.65%	28972.88	1.49%
2018-19	2078665.31	761454.19	36.63%	32780.60	1.58%
2019-20	2010059.00	650678.00	32.37%	28011.69	1.39%
2020-21	2027104.00	594996.76	29.35%	24460.91	1.21%
2021-22	2708291.00	881779.00	32.56%	35685.60	1.32%

- Despite the severely constrained fiscal space, the present Government has done everything in supporting the people of the State. However, unlike during the times of the previous Government, the pace at which State Government liabilities (contingent and direct) grew was much lower than what was witnessed during the years of the TDP Government. In fact for the year 2021-22, the Fiscal Deficit to GSDP ratio is amongst the lowest in the Country.

<b>State wise comparison (figures in INR Crores)</b>			
<b>State</b>	<b>Fiscal Deficit (2021-22)</b>	<b>GSDP (2021-22)</b>	<b>Fiscal Deficit to GSDP %</b>
Telangana	47690.59	1154859.99	4.13%
Tamil Nadu	76293.44	2179654.66	3.50%
Karnataka	60486.26	2049378.96	2.95%
Kerala	42785.97	901997.83	4.74%
Uttar Pradesh	48730.52	1910216.65	2.55%
Madhya Pradesh	37149.76	1169003.88	3.18%
Andhra Pradesh	25174.62	1201735.52	2.09%
<b>Source - CAG and MOSPI</b>			