<u>Press note on State finances</u>

11th May, 2023

In the light of the misinformation propaganda, particularly articles being written in opposition affiliated media by so-called financial experts, who are making irresponsible and illogical statements on State finances, exposing their lack of basic understanding of public finances, purely to mislead the people and create a panic amongst the people that the State is on the brink of financial collapse, Clarifications are sought to be placed before the public to dispel rumors.

The so-called expert did not present even a single figure to substantiate his claims. He has passed disparaging remarks not only against the State but also against institutions like RBI CAG etc. The intent of the opposition affiliated media and the extent to which they can stoop is quite apparent.

The questions that emerge from the interview are as follows,

1. Is the State of Andhra Pradesh really in deep debt trap and has the situation deteriorated under the period of the present Government?

   The Reserve Bank of India releases a report on State finances every year titled, 'State Finances - A study of Budgets'. This report contains the State wise details of outstanding liabilities for the past 15 years. In fact, the RBI has taken into consideration the audited numbers released by the CAG and after making some minor adjustments to better reflect the actual position and arrives at the figures for State wise outstanding liabilities. This year's report was released by RBI in the month of January. As per this report the total outstanding liabilities of government of Andhra Pradesh at the end of March 2023 are estimated at Rs 4,42,442.00 Crs.

An assessment on the basis of the figures provided by this report would convey the following:

- The outstanding liabilities of the combined State of Andhra Pradesh on 31st March 2014 is Rs. 1,96,202.40 cores. To this, Rs. 7,333 crores would be added as this is the fiscal deficit for the first two months of 2014-15 financial year. Of this, as per the State Reorganization Act, 58% is devolved to the successor State of Andhra Pradesh. Therefore, we can say that the liability of the State of AP at the time of formation of the TDP Government in June 2014 is Rs. 1,18,051 crores and the same has increased to Rs. 2,64,451 crores as of 31st March 2019.

- However, the TDP Government was in existence till almost the end of May 2019 and during the first two months of the financial year 2019-20, the government had borrowed another Rs. 7,346.56 crores. Therefore, by the time of dissolution of the TDP Government, the liabilities have swollen to Rs. 2,71,797.56. Going by this, the increase in liabilities during the period of the TDP Government (2014-19) is as shown in the table. The table conveys the details of various liabilities of the State Government.

- State PSUs that are able to secure debt without the strength of a Government guarantee possess assets that can be securitized and a credible revenue model. Therefore, for giving a loan to those entities, no Government guarantee is sought. Further, majority of the PSUs are limited liability companies under the companies act and there is no recourse to the Government in the absence of a guarantee. With respect to AP State Government, only corporations pertaining to power sector have been historically securing debt without Government guarantee. Though, by no stretch of imagination can these debts be regarded as Government debts, owing to the constant allegations by the opposition affiliated media that the Government is deliberately avoiding disclosure of this information, the position of the same is included in the liabilities of the Government is also now conveyed in the below table.

Overall liabilities Statement of the State Government			
Particulars	**As on date of State bifurcation**	**As of May 2019 (end of TDP regime)**	**As of March 2023 (after 4 yrs of present Govt.)**
State Government liabilities (direct and contingent)			
Public Debt and Public Account	1,18,050.93	2,71,797.56	4,42,442.00
Government guaranteed debt of public sector undertakings	14,028.23	59,257.31	1,44,875.00
Total State Government liabilities (current & contingent)	**1,32,079.16**	**3,31,054.87**	**5,87,317.00**
CAGR of liabilities of the Government over different periods		**20.17%**	**16.13%**
Non - Govt guaranteed debt of State PSUs (only power sector would majorly contain this debt)			
Non - Govt. guaranteed debt of power sector corporations	18,374.41	59,692.17	56,017.07
payables to power generators account of power purchase (Discom liability)	2,893.23	21,540.96	8,455.00
Power sector liabilities	**21,267.64**	**81,233.13**	**64,472.07**
CAGR of Increase in power sector liabilities		**30.74%**	**-5.85%**
Total State Government liabilities and non-guaranteed PSU liabilities			
Grand total liabilities even if non - guaranteed liabilities included	**1,53,346.80**	**4,12,288.00**	**6,51,789.07**
CAGR of liabilities over different periods		**21.87%**	**12.69%**

- The outstanding liabilities have increased by 169% during the 5 year TDP period. This translates to a compounded annual growth rate of the liabilities of 21.87% during 2014-19. As against that, the outstanding liabilities have increased by only 58% during the five year YSRCP rule from 2019-23, translating to a compounded annual growth rate of only 12.69% during the period 2019-23.

With respect to off budget borrowings, all kinds of rumors are being circulated.

- In accordance with Article 293(1), the State Government has provided guarantees within the limits stipulated by the State Legislature. The Andhra Pradesh Fiscal Responsibility and Budget Management Act, 2005 stipulates the limits within which the State Government can provide guarantees. Further, in accordance with the power conferred under Section 15 of the Act, the Andhra Pradesh Fiscal Responsibility and Budget Management Rules, 2006 have been issued. As per rule 6 of said rules, the State Government is required to disclose the details of guarantees it provided in FORM D-4, at the time of presenting the budget. In absolute adherence to this rule, every year, the State Government has been providing the details of the guarantees given and utilized, as part of the budget documents. Apart from this, as part of a regular practice, the entity wise debt availed on the strength of the Government guarantee, the nature of debt availed etc. are also being provided in a very comprehensive fashion in Volume-V of the Budget document, which includes Statement of Government guarantees, Debt position and Securities lent to companies and other undertakings. When the State Government is presenting all these details in the same manner as what was being done before under earlier dispensations, to say that the State is concealing information is grossly wrong.

Further, a PSU can conceivably take debt either as a loan from public sector banks or from Financial institutions or by NCDs (Non convertible debentures) issued on private placement basis. There are no other means for PSUs to borrow. In response to a query made by Sri Kanamedala Ravindra Kumar as to the borrowings by AP State Government owned PSUs. The Hon'ble Minister of State for Finance, has obtained the information from various Public sector banks and Financial institutions as to the lending to AP Government owned PSUs. The aggregate of this amount is slightly lower than what is declared by AP Government. This is because of the liabilities on account of NCD issuances under SEBI guidelines. Therefore, to say that there is some hidden borrowing somewhere which is not visible to any authorities such as RBI or CAG or Union Ministry of Finance or other Union Ministries or SEBI is baseless and is a statement that can only be made by an ignorant man.

Therefore, what can be surmised from the above is that, the debt increase during the period of the present Government is not higher than what was accumulated during the period of the TDP Government, both in terms of absolute numbers as well as in terms of CAG numbers. The outbreak of the Covid-19 pandemic, has resulted in an estimated revenue loss to the tune of the Rs. 66,116 crores, the pandemic related expenditure was significant, important programmes with various crucial sectors were not compromised and further, the quantum of capital expenditure also was not less when compared to the earlier period, in the light of all this, how can one say that the fiscal management is bad? In the light of all this, how can one irresponsibly say that the prospect of electing back the same Government would be detrimental to the interests of the people of the State?

2. Is the entire debt being made by the present Government going towards wasteful expenditure?

   Without due regard to the objectives of some of the Government programmes, they are being referred to as freebies. No doubt, programmes devoid of any true purpose and are implemented only for the purpose of luring the voters should necessarily be termed as freebies. However, painting the programmes of vast socio-economic importance that are being implemented to alleviate the prevailing distress with the same brush is, to say the least, an insult to the Constitutional mandate.

   In fact, there have been instances in the past wherein, political parties in power caused the Government to hurriedly disburse scheme related benefits just days before the election to lure the voters to vote in favor of that political party. The intent of that political party to hoodwink the voters by making a mockery of democracy is quite apparent. In this manner, the TDP Government has raised a whopping Rs. 5,000 crores through SDL auction on a single day on 9th April, 2019, just two days before election.

   The present Government is incurring expenditure on crucial sectors such as Education, Health, Agriculture and so forth. For instance, with respect to education, situation was very undesirable during the period of the TDP Government. The Gross Enrolment Ratio (GER) with respect to primary education was amongst the lowest in the Country at 84.48 as against the National average of 99. Owing to proactive policies of the present Government, the GER with respect to primary education has increased to 101.6. This has been made possible because of better administration and implementation of programmes such as Mana Badi Nadu Nedu, Amma Vodi Vidya Kanuka and Gorumudda. Can such expenditure that has got such good outcomes be described as a wasteful expenditure, just because a majority of such expenditure is revenue in nature? For instance, the amount spent by the Government on education sector is as described in the table below.

Expenditure of School Education (Rs Crs)						
Financial year	**Total Expenditure (Including Amma Vodi)**	**Salary Expenditure**	**Expenditure excluding Salary Expenditure**	**Nominal GSDP**	**Education Exp as a % of GSDP**	**Average**
2015-16	14,347.25	10,198.25	4,149.00	6,04,228.62	**0.69%**	**0.51%**
2016-17	14,995.37	11,923.06	3,072.31	6,84,415.87	**0.45%**	
2017-18	16,939.61	12,710.72	4,228.90	7,86,135.42	**0.54%**	
2018-19	17,196.70	13,928.90	3,267.79	8,73,721.11	**0.37%**	
2019-20	24,313.21	14,164.80	10,148.41	9,25,839.12	**1.10%**	**1.07%**
2020-21	21,921.23	14,618.20	7,303.03	9,56,787.70	**0.76%**	
2021-22	29,853.66	15,571.66	14,282.00	11,33,836.50	**1.26%**	
2022-23 (RE)	31,971.52	16,709.75	15,261.77	13,17,728.15	**1.16%**	

This substantial additional expenditure has enabled the State to achieve good outcomes. Can this be called wasteful expenditure?

3. The so-called expert was trying to say that the present Government was borrowing even for salaries and pensions.

   No Government can borrow for a specific purpose. The entire amount borrowed would form part of the Consolidated Fund of the Sate and it will finance Government expenditure. Whether it finances revenue expenditure or capital expenditure, would only be known. If the claims as contained in the Eenadu article were to be believed, then the entire borrowings done by the earlier Government was only for capital expenditure. If it were true, every year there should have been revenue surplus during the period TDP Government. However, such was not the case. During none of the years of the TDP Government has there been any revenue surplus. During 2018-19, the revenue deficit was 13,889 crores which is 1.59% of the GSDP. The average of Revenue deficit to GSDP during the five year TDP rule was 2.00%. Why did the so-called expert stay silent during that period. During 2019-20 and 2020-21 due to global economic slowdown and Covid-19 pandemic, globally, the borrowings to fund revenue expenditure has gone up substantially due to significant increase in the need for revenue expenditure and the fall in revenues. Despite this, the present Government has managed to bring down the revenue deficit to 8,370.51 crores in 2021-22.

Revenue Deficit to GSDP during 2014-19				
FY	**GSDP***	**RD**	**RD as % of GSDP**	**Avg. RD as a % to GSDP**
2014-15	5,24,975.64	13,776.00	**2.62**	**2.00**
2015-16	6,04,228.62	7,302.00	**1.21**	
2016-17	6,84,415.87	17,231.00	**2.52**	
2017-18	7,86,135.42	16,151.00	**2.05**	
2018-19	8,73,721.11	13,899.00	**1.59**	

4. Is the Government levying too much tax burden on the people of the State.

    There is also a frequent allegation that, the present Government is imposing too much tax burden on the public. The allegation is unsubstantiated. To illustrate this, I will take two examples

    Mr. Chandrababu Naidu says that Government is giving support to auto drivers on one hand and on the other hand is collecting huge penalties from them. If such was the case, then the revenues to the Government on account of penalties levied under motor vehicles act should have been very high. However, the reality as per the annual accounts is as follows,

Penalties for traffic violations under motor vehicles act		
Financial year	**Total collection**	**Average during different periods**
2015-16	237.71	270.39
2016-17	277.29	
2017-18	274.05	
2018-19	292.52	
2019-20	235.77	183.94
2020-21	121.44	
2021-22	194.60	
Source - Annual Accounts		

As can be seen above the penalties collected during the current regime are lower. So, who is deemed to have overburdened people.

Further, there was also an allegation that owing to the increase in tariff for consumers for consumption above 500 units, the burden imposed is Rs.

1,300 crores. To begin with, the no. of consumers who fall in this bracket is only 1,05,000 and further, the increase in tariff is only Rs. 0.90 (90 paisa) per unit consumed. Therefore, the amount accrued to DISCOMs because of this is only Rs. 31.5 crores as against the alleged Rs. 1,300 crores. This would give an indication as to the extent to which the exaggerations are being made to deceive the people of the State.

5. Is the per capita debt of the State in the increasing trend compared to the earlier periods.

   The per capita debt as per the CAG report placed before the Legislature in March, 2023, is Rs. 70,416 as of 31st March, 2022. The per capita debt at the time of bifurcation of the State was Rs. 23,326. The same has over the 5 year TDP rule increased to Rs. 50,157. Therefore, it has more than doubled during the TDP regime. In such a case, why were the experts silent then. Today, even though the increase is not comparably as high, the expert says that even the unborn child has a debt burden on his head. In such case, according to the expert, on whom was the debt burden then?

6. Is it possible for the Government to divert its monies without depositing it in the consolidated fund of the State?

   This allegation as contained in the article speaks volumes about the lack of the understanding of so-called financial expert about public finances. As per article 266 of the Constitution, the entire revenues of the Government would form part of the Consolidated Fund of the State and there is no means by which State revenues can be diverted by anyone. The allegations made in the article not only cast aspersions on the State Government, but also on Constitutional and legal framework, the RBI, CAG entire the Government accounting itself. Irresponsible statements like this, would wrongly create doubts in the minds of the people and seriously injure the integrity of the system as a whole.

7. Would a longer loan tenor imply that State borrowing is more damaging?

   The said expert is also alleging that in order to postpone the debt repayment burden, the State Government issuing SDLs of tenors longer than the usual 7-8 years.

To begin with, no Government faces any rollover risk. The repayment of debt is added to the borrowing ceiling as permitted by the Central Government and the State Government is allowed to borrow. Therefore, even if there is a higher debt repayment requirement in a particular year, It would not have any implication whatsoever on the fiscal deficit for that year. Because fiscal deficit is only net debt borrowed and not gross debt borrowed. Therefore, the allegation is silly. Further, finance department of any State Government would take into consideration parameters such as the yield achievable in the auction and decide on the tenor.

Further, as per the RBI reports, the pattern of the Government of India security issuances is as follows,

Government of India debt issuances		
Residual maturity	**% of issuances during 2013-14**	**% of issuances during 2019-20**
Less than 5 years	2	20.6
5-10 years	40.9	25.2
10 to 15 years	23.8	19.3
above 15 years	33.4	34.9
Source - Reserve Bank of India		

Both in 2013-14 and in 2019-20, the issuances for tenors more than 15years is more than one third of the total issuances. And issuances for tenors more than 10 years is more than half of the issuances. Therefore, to say the average issue tenor is only 7-8 years is incorrect and exposes the so-called expert’s absolute lack of expertise.

Further, during the TDP period, the maturity profile of the debt issuances done is as follows,

AP state debt as per CAG	
Maturity profile	**% of outstanding debt**
0 to 1	4.1
1 to 3	13.38
3 to 5	14.8
5 to 7	18.9
Above 7 years	48.82

As seen, almost half of the debt burden has residual maturity of more than 7 years. Why did this financial wizard not find reason to raise alarm then.

8. Is the present Government incurring adequate capital expenditure?

   There is a widespread campaign that the previous Government had utmost regard for capital expenditure and that the present Government is not spending enough for the creation of wealth. The facts are as follows,

   Owing to the outbreak of the Covid-19 pandemic that has adversely impacted economies across the globe for more than two financial years. The capital formation in an economy is measured by the Gross Fixed Capital Formation, which is a part of the GDP estimation. A declining trend with respect to it was witnessed with one year witnessed a contraction to the tune of 7.34%. Despite this, the capital expenditure under the present Government is not discouraging when compared with the performance of the previous Government. The table below, conveys the details. As per CAG reports, the figures are as follows

During 2014-19 under TDP regime	
Year	**Capital Exp (Rs Crs)**
2014-15	7,265.00
2015-16	15,042.00
2016-17	15,707.00
2017-18	16,280.00
2018-19	21,845.00
Total	**76,139.00**
Avg	**15,227.80**
During 2019-23 under the regime of the present Govt.	
Year	**Capital Exp (Rs Crs)**
2019-20	17,601.00
2020-21	20,690.00
2021-22	18,511.00
2022-23 (RE)	18,609.19
Total	**75,411.19**
Avg	**18,852.80**

Therefore, there is no real reduction in capital expenditure as being alleged.

In the light of all the above facts, it is requested that the opposition affiliated media exercise restraint and not spread rumors for sake of the political interests. Misinformation can have disastrous consequences on the future and overall development of an economy and welfare of the State.