Press note on State finances

15th February, 2022

A series of news items are being released in recent times support a misinformation campaign that the State's finances are dangerously impaired and that the State is on the verge of bankruptcy. The objective behind this campaign of the opposition parties, particularly the principal opposition party and their affiliated media houses is amply clear. Their hope is that, with this misinformation campaign, the State's reputation would be dented and it would become an impossible task for the State to raise finances, leading to stoppage of implementation of the Government programmes and subsequent loss of popularity of the Government. To ensure that the people are not demoralized by this false propaganda, we wish to put forth some facts.

A recent news item reports that the Revenue Deficit of the State of Andhra Pradesh has reached 918.14% of the annual budget amount during the first nine months of the Financial year 2021-22. The news item attempts to convey that this is indicative of the deteriorating position of the State finances. In this regard, it is to be brought to everyone's attention that, the actual achievement as compared to what was budgeted reflects the effectiveness of the budgeting exercise and during turbulent times, there is an impaired ability to effectively budget. In this context, it is pertinent to point out to the performance vis-à-vis budget during the last three years of the erstwhile TDP Government.

Revenue deficit (Budget vs. actual) in crores			
Financial year	**Budgeted Revenue Surplus/-Deficit**	**Actual Revenue Deficit at the end of first three quarters**	**% of actuals to budgeted**
2016-17	-4868.26	-20562.44	422.38%
2017-18	-415.80	-22803.65	5484.28%
2018-19	5235.24	-18824.02	359.56%

it is necessary to point out that during the last three years of the TDP Government, there has been a significant deviation from the deficit figures projected at the time of presentation of the Budget. In the current financial year, the actual performance to the budget was 918%. However, the same source conveys that the actual performance during the corresponding period in the financial year 2017-18 is as high as a whopping 5484%. However, it is quite unfortunate that a news paper of Eenadu's stature did not find reason to report this performance during that year. It is also to be pointed out that these high deficit numbers during the TDP period are not during unstable times.

As compared to that, the current period is quite chaotic, the pandemic necessitated imposition of restrictions in economic activity and this had a huge impact on State finances and therefore one cannot find fault with the State Government not being able to effective project the figures at the time of the presentation of the budget. In fact for the Financial year 2020-21 Central Government budgeted a revenue deficit figure of Rs. 6,09,219 crores, but the actual figure was as high as 11,40,526 crores. Further, these are times of extraordinary pain and suffering when there is a huge increase in public expenditure requirement coupled with the decrease in State revenues. It is owing to this very reason that the Central Government's revenue deficit to GDP ratio increased to 7.34% in Financial year 2020-21. In fact the data in the below table would convey the difficulty.

A.P.'s share in Central Taxes (all figures in INR Crores)						
Particulars	**2017-18 (Actuals)**	**2018-19 (Actuals)**	**2019-20 (Actuals)**	**2020-21 (Actuals)**	**2021-22 (RE)**	**2022-23 (BE)**
Gross Central Tax Revenues	1915494	2078666	2007561	2021282	2509929	2751420
States' share in Central taxes	673005	761454	650677	594997	744785	816649
AP's share in Central taxes	28973	32781	28012	24460	30141	33050

As can be noticed from the above table, State's share in Central taxes is projected to be Rs. 33,050 crores, this is almost the same as the amount received in 2018-19. This translates to a loss of growth for almost 4 years. Even a moderate year on year growth of 8% would have led to a revenue of Rs. 44,600 crores accruing to the State, increasing at that rate going forward. This loss of growth for such a prolonged period would have disastrous consequences on the State finances.

However, despite the impossible odds, the present Government in the State, under the able leadership and guidance of the Hon'be Chief Minister, Sri Y.S.Jagan Mohan Reddy garu, has implemented all its commitments and this has safeguarded the State's economy. The present Government was also confronted by a host of legacy issues.

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 the misgovernance in the State during the period 2014-19, the State had to endure the burden of many more additional liabilities. The outstanding payables as on the date of 31st March, 2019 were to the tune of Rs. 39,000 crores. The off-budget borrowings were to the tune of Rs. 58,000 crores, the same were 14,028 crores at the time of bifurcation. It needs to be particularly mentioned that the TDP Government has hurriedly introduced schemes and disbursed scheme related amounts just days before the date of the 2019 general election to the legislative assembly of Andhra Pradesh, to lure voters to vote in favor of TDP in the elections. In this regard the TDP Government has expended Rs. 6,000 crores during the first 10 days of April 2019. To this end, the 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. This would possibly be the highest amount of debt any State Government would have raised on a single day. Nearly 15% of the annual limit for the financial year 2019-20 has been exhausted on the first day itself. The newspapers today are making an issue whenever Government raises money through issuance of SDL as part of a regular exercise. It is shocking to note that the same media did not find the need to report such a huge debt raise by the TDP Government on a single day. The present Government is not only servicing the liabilities contracted by the previous Government but has also cleared majority of the dues of the previous Government. To mention a few, the arrears pertaining to the fee reimbursement programme of years 2016-17, 2017-18 and 2018-19 aggregating to Rs. 1,880 crores has been cleared by the present Government, Arrears pertaining to Aarogyasri programme to the tune of Rs. 686 crores has been cleared by the present Government. Arrears pertaining to the rythu sunna vaddi (interest subvention) programme to the tune of Rs. 1,100 crores have been cleared by the present Government. Arrears pertaining to the NREGS programme to the tune of Rs. 1,500 crores have been cleared by the present Government.

The present Government is proud to say that even during this time of overwhelming obstacles, with utmost dedication and determination, the Hon’ble Chief Minister, Sri Y.S.Jagan Mohan Reddy garu, has placed monies to the tune of Rs. 1.27 lakh cores in the hands of the poor and the needy in the most transparent and objective manner through DBT approach. Sri. Y.S. Jagan Mohan Reddy garu has laid utmost emphasis on Women Empowerment, Education, Health and Agriculture.

Through programmes such as ***YSR Aasara*** and ***YSR Cheyutha,*** the Government is directly placing money in the hands of the needy women, reducing their indebtedness and providing them financial support. The health of the SHG sector is generally viewed as an indicator of woman empowerment and also partly of the rural economy. The non-implementation by the TDP Government of the promise to waive the debt of the SHGs groups has resulted in 1,85,926 (23% of the SHG accounts) accounts becoming overdue and 84,056 (11% of the SHG accounts) accounts becoming NPAs. More than 17% of the SHGs accounts in rural areas have become NPAs To recover from this position, the groups had to incur further debt, which was put to the unproductive use of curing their existing position of overdues. This is one of the cause for their indebtedness to increase during the 5 year from Rs. 14,204 crores to Rs. 27,451 crores. As against this, owing to the impactful interventions of the present Government, the SHGs have more disposable incomes and they have greater latitude for expenditure towards consumption and investment. The present Government is also providing these groups various investment opportunities to enable them to generate a sustainable source of income for themselves. More importantly because of this the rural spending has not nosedived during these crucial times of loss of livelihoods.

With respect to education, the Gross Enrolment Rate (GER) for AP in primary education was amongst the lowest in the Country at 84.48, as against the national average of 99, during the period of the TDP Government. The GER bring so low is quite worrisome, The problem has resulted from lack of effectiveness in administration. To effectively combat the problem, both supply side and demand side constraints have to be addressed. To address supply side constraints, administrative changes are most critical. Revamp of the existing infrastructure, improving the quality of teachers by providing them necessary training etc. The government is upgrading public school infrastructure through ***Mana Badi Nadu-Nedu*** program with emphasis on ten components, to provide an enabling environment of learning for the children of the State. Under the scheme, 15,715 government schools have been identified in the first phase for taking up works on ten components for improving infrastructural facilities through community participation. The First phase is now complete and the second stage is underway. However another critical issue is to address demand side constraints, . Therefore, the Government through the ***Jagananna Amma Vodi*** programme, is providing financial assistance to every mother who is below poverty line and sending her children to school, irrespective of caste, creed, region or religion to enable her to educate her child from Class I to XII in all recognised Government and private schools and junior colleges. Apart from the above, with respect to education, many more revolutionary changes are being brought about. Under the ***Jagananna* Vidya Kanuka** programme, Every student will be given a kit consisting of Bilingual Text Books, Note Books, Work Books, 3 pairs of Uniform with stitching charges, one pair of Shoes and two pairs of Socks, Belt, School Bag and Oxford English-Telugu dictionary at free of cost on the day of reopening of schools itself. This is in contrast to the miserable conditions under the earlier TDP Government, when text books were not supplied to students for months together after reopening of schools. All these are investment in human resources.

From a socio-economic perspective, the importance of a robust healthcare sector cannot be overemphasized. Adequate public healthcare spending is of paramount importance. The outbreak of the Covid-19 pandemic has exposed several shortcomings of the public health care sector in the Nation. The present Government in the State of Andhra Pradesh has, under the ***Nadu-Nedu –Health*** scheme, taken up upgradation of infrastructure, equipment, and necessary additional human resources in all health facilities from Sub-centres to Teaching Hospitals. Government is undertaking the establishment of over 11,000 Dr. YSR Health Clinics at the village and ward level. In a phased manner, 16 new Medical colleges will be set up across the state. Super Speciality Hospitals including those with focus on cancer care and kidney related ailments will also be executed as part of the Nadu-Nedu scheme. Further the scope of the Aarogyasri programme has been widened significantly during the period of the present Government. The number of procedures covered has been increased by 1,029 and now the total number of procedures are 2,446 procedures. The number of Aarogyasri network hospitals have been increased by the present Government from 1,100 to 1,905. Owing to these changes, the average monthly Aarogyasri expenditure has increased from Rs. 120 crores to Rs. 200 crores. The post operative benefit scheme introduced by the present Government, Aarogya Aasara entails an expenditure of close to Rs. 350 crores per annum. It is pertinent to mention that Aarogyasri bills are cleared within 21 days and Aarogya Aasara bills are cleared on the same day itself.

The present Government as a part of ***"Navaratnalu PedalandarikiIllu"*** has distributed 32 Lakh house site pattas (document of title) to all the eligible beneficiaries @ 1.50 Cents in Rural areas and 1.00 Cent in Urban areas. It is proposed to take up construction 30 lakh Individual Houses in (2) Phases i.e. 15.60 lakh Houses in 1st Phase and 14.40 lakh Houses in 2nd Phase. Construction of these house will give a major boost to economy and will generate massive employment opportunities.

The present Government has taken a path breaking initiatives to support farmers by establishing ***Rythu Bharosa Kendralu*** with an aim to provide a comprehensive solution to all the agricultural products. 10,606 rural RBKs and 125 urban RBKs have been established. Through RBKs certified quality agri. inputs like Seeds, Fertilizers & Pesticides including Animal feed, fish feed are being supplied. Further, suggestions from experts and agricultural scientists are also made available to farmers. In addition, RBKs also monitor and record prices of various crops in market and safeguards the farmers from adverse price fluctuations of products.

The opposition parties and affiliated media organizations are making continuous allegations that there are significant delays with respect to clearing of payments by the present Government. I with to make certain points int this regard. Payments of salaries and honorariums over 3,00,000 personnel rendering services as VOAs, Cook Cum Helpers (MDM), Municipal Sanitary workers, Community health workers in Tribal habitations, ASHA workers, Anganwadi workers and home guards are being done on auto debit basis. Payments for bills on account of Aarogyasri and Aarogya Aasara are now being done on auto debit basis. Pavements on account of Gorumudda and Sampoorna Poshana are now being done on auto debit basis. There has been no instance where any delay of even a day has been witnessed during the period the present Government, with respect to payment of old age and social security pensions. The no. of pensioners up to October 2018, were 46,88,604 and the percentage of disbursement is only 91% (i.e. to nearly 39 lakh beneficiaries) and same has been enhanced by the present Government to 61,46,918, in line with the policy of the present Government to implement every programme on saturation basis. The expenditure made by the TDP Government on account of pensions in 2017-18 is Rs. 5,472.82 crores and the present Government has incurred an expenditure of Rs. 17,669 crores in the year 2020-21.

A news paper article has reported yesterday that for completion of ROB (Rail over bridge) works, a Government entity is approaching lenders. The item seems to suggest that this is indicative of the ailing financial health of the State. It is humbly submitted in this regard that the National Highways, which are regarded as those symbolizing the robustness of the Country's infrastructure are being constructed by the debt secured by NHAI (National Highways Authority of India). The debt in the books of NHAI is reportedly to the tune of over Rs. 3,00,000 crores. Therefore, is it correct to say that securing debt for completion of road works is indicative of a troubled financial health of the State. Further, the construction of the ROBs has been going on for the past several years the requirement to complete the ROBs and bridges sanctioned during the TDP Governments and Governments prior to that, an amount of Rs. 530.34 crores is to be incurred and the expenditure incurred by the previous Government is only Rs. 81.33 crores and bills pending were to the tune of Rs. 13.81 crores. The commitment of the previous Government to completion of ROBs is evident from this.

Borrowing by the present Government

It is however to be borne in mind that the present Government is adhering to the limits stipulated by the Central Government under Article 293(3) of the Constitution of India and the FRBM limits. In fact, it is necessary to mention that the present Government is put to further stress owing to the excess borrowing of the TDP Government during 2016-2019 period. In fact during the period 2014-19, availing borrowing limit was to the tune of 3% of the GSDP, however the table below conveys that during year of the five year period, the TDP Government has breached that limit.

Financial year	Andhra Pradesh GSDP (Cr.)	Fiscal Deficit (Cr.)	Fiscal Deficit to GSDP ratio	Fiscal Deficit to GSDP (Norm)
2014-15	524976	20745	3.95%	3.00%
2015-16	604229	22059	3.65%	3.00%
2016-17	684416	30908	4.52%	3.00%
2017-18	786135	32380	4.12%	3.00%
2018-19	870849	35467	4.07%	3.00%

In fact the present Government is having to bear the burden of the overborrowing during the TDP Government. The Ministry of Finance, Government of India have deducted an amount of **Rs. 16,418.99** crores pertaining to the previous Government from the borrowing limit of the present Government. Therefore, present Government is not only having to service the liabilities emanating from the period of the previous Government, but is also having to endure the problem of an deduction in its borrowing limit to adjust for the over borrowing during the period of the TDP Government.

Further, it is also to be borne in mind that, the rate at which the debt increased during the period of the present Government is at slower pace than the rate at which debt increased during the period of the TDP Government. The figures below, convey the same.

Debt increase during different periods	
Particulars	**Values (in Cr.)**
State Government debt as at 31.03.2014	120556
State Government debt as at 31.03.2019 &	268115
Compounded annual growth rate over the five year period (2014-19)	**17.33%**
State Government debt as at 31.03.2019	268115
State Government debt as at 31.03.2022 (P)	408172
Compounded annual growth rate over the three year period (2019-22)	**14.88%**

& This includes debt of Rs. 2,62,115 crores and Rs. 6,000 crores borrowed by the TDP Government during first 10 days of April before 2019 general elections

The CAGR (Compounded annual growth rate) of debt during the TDP period was 17.33% as against that the CAGR of debt during the period of this Government is only 14.88%. Further, I wish to point out that these are excruciatingly difficult times. One year of economic slowdown and two years severely impacted due to the outbreak of the Covid-19 pandemic. This is period during which the Central Government outstanding debt has increased from 90.83 lakh crores as on 31st March, 2019 to 135.88 lakh crores as on 31st March 2022. During the period 2014-19, the Central Government debt has increased at a CAGR of less than 10% and now the Central Government debt grew at a CAGR of more than 14%. It is a shame that the TDP party which is primarily responsible for the debt increase is blaming the present Government, which has ensured that the debt does not increase that the same rate even during these excruciatingly difficult times.

Power sector

The manner in the which the power sector was managed during 2014-19 is quite disturbing. During 2014, when TDP came to power, the power generation capacity contracted was higher than the demand of the Distribution utilities. In fact, for the first full year after bifurcation, the APERC has approved a demand of 54,225 million units of power and projected the availability at 54,867 million units, indicating that there was no shortage of power. Further, the installed power generation capacity in the Country, at 2,43,028 MW, was significantly higher than the peak demand of 1,35,918 MW. At this juncture, the power availability scenario in the State did not warrant contracting huge renewable energy capacity on long term basis at exorbitant costs, particularly when the renewable power costs were projected to come down significantly in the near future. However, the TDP Government has caused the DISCOMs to hurriedly execute PPAs to the tune of 8,000 MW at exorbitant rates on the upside of Rs. 4.84 per kwh, causing an annual loss to the DISCOMs to the tune of Rs. 3,000 crores for a 25 year period, translating to a **liability of Rs. 35,000 crores, as on date on a present value basis**. One would understand that these are in the nature of long-term liabilities burdening the State. **Apart from this**, if we were to look at the performance of the sector during the TDP rule, the debt in the books of the power sector corporations has increased from Rs. 33,587.98 crores to Rs. 70,254 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. Further, over the five year period, the net worth of the State distribution utilities has eroded from a negative value of -4,315.72 crores to a negative value of -19,926.27 crores. As against this, the present Government has, with the firm resolve to arrive at a sustainable solution to supplying free power to agriculture, contracted with SECI to consume the power to the extent of agricultural requirement at a tariff of Rs. 2.49 per kWh (which is nearly half of the current average power purchase cost or Rs. 5.10 per kWh), leading to a per annum savings of nearly Rs. 3,750 crores. A reason why the liabilities of the sector have swollen during the TDP period is the non-release of subsidies. The total subsidies released during the five year TDP rule is to the tune of **Rs. 13,255 crores** and as against this, the subsidy released during the two and a half year period of the present Government is **Rs. 21,497 crores.**

APSDC issue

Andhra Pradesh State Development Corporation (APSDC) has availed debt in the financial year 2020-21 by following a concrete model, which was formulated by emulating the robust model followed by the Government of India entity, NHAI (National Highways Authority of India). The present Government in the State of AP has given utmost priority to responsible borrowing wherein, the mode of debt servicing is secure. The present Government of Andhra Pradesh has levied a new tax entitled ARET (Additional Retail Excise Tax) on the liquor consumption in the State. The State has assigned this new tax to APSDC to ensure its debt servicing. The ARET is not used for any purpose other than the intended purpose and therefore all the risks are mitigated. In implementing this, the present Government has ensured that all the Constitutional requirements are adhered to. This has ensured that the State Government entity could also secure a AA rating.

Revenues from National Highways such as Toll Revenues are Government Revenues and they form part of the Consolidated Fund of India. The toll revenues are accounted as Non-tax revenues under Major Head 1054 of the Government of India accounts and further the same are transferred to NHAI for its operations, under Demand No. 84 in accordance with the procedure enunciated in Article 110 of Constitution of India.

Further, as per the **outcome budget for the year 2016-17 by the Ministry of Road Transport and Highways, Government of India** provide in Clause 4.11.3, the following,

'For implementation of NHDP, the main source of revenue for NHAI is the fuel cess. The present rate of cess is Rs. 6 per litre on both petrol and diesel. A part of this cess is allocated to NHAI to fund the NHDP. The cess is ***leveraged*** *to borrow from the domestic market'.*

Therefore, model followed by APSDC is similar to that of NHAI. Just as in the case of NHAI, in APSDC as well, the Government revenues are assigned to a Corporation and the Corporation has utilized the same to raise long term debt. Allocation of Government revenues to meet the debt servicing and other requirements of NHAI has ensured adequate comfort to the lenders of NHAI and has led to the issuances of NHAI being accorded a 'AAA' rating. The Government of Andhra Pradesh is also ensuring that all the Constitutional requirements are adhered to. The new tax revenue is also part of the Consolidated Fund of the State and the same is transferred to the Andhra Pradesh State Development Corporation by following the due process. Therefore, all the due norms as prescribed are entirely complied with. Given the robustness of cash flow structure of APSDC, the rating agency, India Ratings & Research (A Fitch group entity) has accorded the corporation a "AA" rating. **An opinion has also been obtained from a Constitutional expert regarding the Constitutional legitimacy of the structure adopted. APSDC has obtained the opinion from Sri Dipak Misra, former Chief Justice of India. The opinion confirms the legality of the model and adherence to the requirements of the Constitution and other applicable regulations.** Further loans were sanctioned to APSDC after its model was considered by the boards of banks consisting of representatives of RBI and Ministry of Finance, Government of India.

Few Members of Parliament and opposition party leaders have, without any understanding about the model, made complaints to the RBI and Ministry of Finance, Government of India that the model is constitutionally flawed. The Ministry has written a letter to the State Government during July 2021 seeking their views on the same, the State Government has made a detailed presentation of the manner in which all the compliances have been made and then on, there have been no questions. It would be worth mentioning that even disbursements have taken place after that. Therefore, the news item today indicating that Ministry of Finance cautioned banks now is incorrect.

SDF WMA and OD facility

It was recently pointed out the Andhra Pradesh is taking substantial borrowings under the facilities SDF (special drawing facility), WMA (Ways and means advances) and OD (overdraft facilities). These are short term facilities provided by RBI to Governments and the maximum rate applicable for that facility, when within limits is Repo plus 2%, which is 6%. This is significantly lower even than rate of 10 year Government of India securities. Therefore, the Finance department has regarded this is a cost effective means of tide over temporary financial requirements. To project that as misgovernance is not appropriate. During the previous Government raising loans by issuing debt at interest as high as 10.32% was also shown as projected as an immense achievement. However the present Government is securing debt at more cost effective rates.

Mortgage

The media reports continuously allege that properties are being mortgaged by the current Government. Mortgage is only in the nature of security and it does not constitute sale of asset. Further, this security is being created owing to a regulatory requirement. The loans are usually guaranteed by Government and therefore there is no possibility of default and the question of seizing the properties will never arise. In fact the TDP Government has mortgaged lands to HUDCO for raising loans for CRDA. Further, there are several instances where Governments are selling Government properties to raise resources. Telangana Government has auctioned Government lands in Kokapet etc. Central Government is seeking to disinvest its stake in a entity of LIC's stature. Talks of privatizing entities like BEML are reportedly going on. In fact the Central Government's disinvestment receipts in 2021-22 are to the tune of Rs. 78,000 crores and they are budgeted at Rs. 65,000 crores in 2022-23.

SDL rate

Another point was reported in a magazine article detailing the manner in which the State Government issued SDLs on 9th November, at rates higher than those at which other States issued SDLs, implying that the higher cost of borrowing indicated a deterioration of the State's fiscal health. It is submitted that this inference is incorrect. The highest rate discovered on that date is with respect to SDLs issued by Tamil Nadu and not by Andhra Pradesh. Conceptually, SDL is in a nature of a bond issued by the State Government and the same is subscribed by the investors. SDL is a Government security issued through RBI platform and also issued within the FRBM framework applicable to every State, with GOI according permission under 293(3) and as such the same is perceived to be a risk-free instrument carrying practically no risk of default by any State. Therefore, these instruments are referred to a risk free gilt edged instruments, regardless of whichever State is issuing them. The quotes of the investors would depend on the parameters of the SDLs issued. Parameters such as tenure of the SDL and size of the SDL in terms of amount would have a bearing on the yield discovered but not the financial health of the State. The SDLs issued by AP on 9th November have the longest tenure of all the SDLs issued by other States on that date, other than the ones issued by Tamil Nadu. To illustrate this further, a 10 year tenure SDL was issued by Karnataka on 30th November, 2021 at a yield of 6.83%, as against a yield of 6.07% discovered in a 5 year tenure SDL issued by Rajasthan on the same day. Going by the logic offered by the article, can we surmise that the finances of Karnataka are perceived to be very fragile when compared with that of Rajasthan?

In the light of all this, I can proudly say that the liabilities contracted by the present Government are only contributing to socio economic progress, be it for construction of hospitals, infrastructure improvement of schools, direct benefit transfers, roads etc.. Surely the previous Government cannot enjoy such as position.

I thank you all for your patience and time and I hope that you will convey to the people objectively, all the facts I have brought to your notice today.