

1.1 Profile of the State

Andhra Pradesh is the eighth largest State in the country in terms of geographical area (1,62,968 sq. kms). The State has a long coastline, spanning 974 kms. In terms of population, the State accounts for 4.08 *per cent* (4.94 crore) of the total population of the country, as per Census 2011. General data relating to the State is given in *Appendix 1.1*.

1.1.1 Gross State Domestic Product of the State

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time whereas Gross State Value Added (GSVA) is calculated by excluding taxes on the goods and services and adding subsidies to GSDP. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time.

Changes in sectoral contribution to the GSDP is also important to understand the changing structure of economy. The economic activity is generally divided into Primary, Secondary and Tertiary sectors, which correspond to the Agriculture, Industry and Services sectors.

Trends in GSDP compared to Gross Domestic Product (GDP) of India at Current Prices (Base Year 2011-12) are shown in **Table 1.1**; and trends in growth rate of GSDP *vis-à-vis* GSVA and sectoral growth in GSDP during the period 2018-19 to 2022-23 are depicted in *Charts 1.1* and *1.2* respectively.

Table 1.1: Trends in GSDP compared to the GDP (at current prices)

Year	2018-19	2019-20 (TRE)	2020-21 (SRE)	2021-22 (FRE)	2022-23 (SAE)/(PE)
India					
GDP (2011-12 Series) (₹ in crore)	1,88,99,668	2,01,03,593	1,98,29,927	2,34,71,012	2,72,40,712
Gross Value Added (GVA) (₹ in crore)	1,71,75,128	1,83,81,117	1,81,88,780	2,14,38,883	2,47,42,871
Growth rate of GDP over previous year (in <i>per cent</i>)	10.59	6.37	-1.36	18.36	16.06
Growth rate of GVA over previous year (in <i>per cent</i>)	10.77	7.02	-1.05	17.87	15.41
Per Capita GDP (in ₹)	1,42,424	1,49,915	1,46,301	1,71,498	1,96,983
Andhra Pradesh					
GSDP (2011-12 Series) (₹ in crore)	8,73,721	9,25,839	9,56,788	11,33,837	13,17,728
Gross State Value Added (₹ in crore)	7,98,176	8,62,848	8,85,575	10,40,187	12,14,961
Growth rate of GSDP over previous year (in <i>per cent</i>)	11.14	5.97	3.34	18.50	16.22

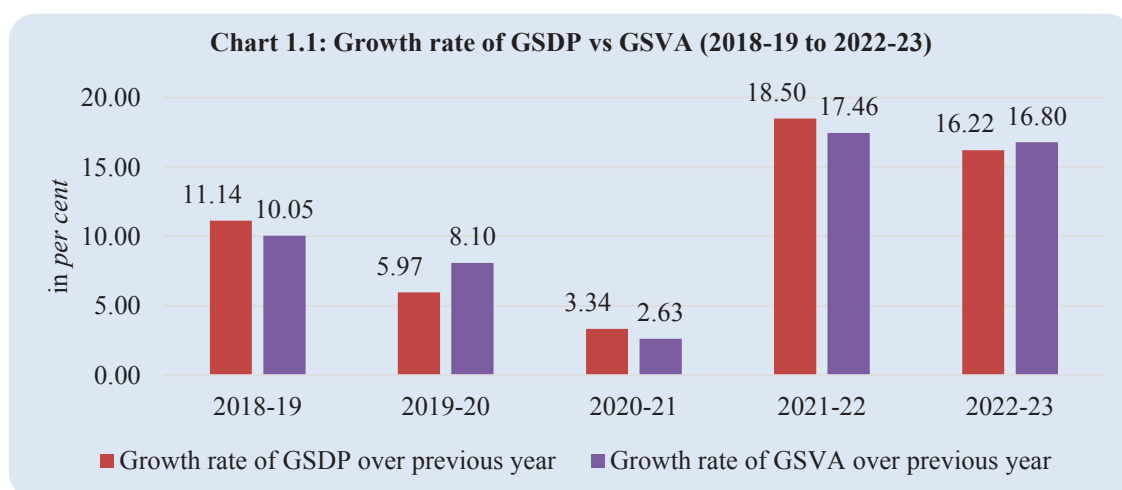
Year	2018-19	2019-20 (TRE)	2020-21 (SRE)	2021-22 (FRE)	2022-23 (SAE)/(PE)
Growth rate of GSVA over previous year (in per cent)	10.05	8.10	2.63	17.46	16.80
Per Capita GSDP (in ₹)	1,70,180	1,79,280	1,84,189	2,16,998	2,48,258

Source: Ministry of Statistics and Programme Implementation, Government of India (MoSPI); TRE: Third Revised Estimates; SRE: Second Revised Estimates; FRE: First Revised Estimates; SAE: Second Advanced Estimates; PE: Provisional Estimates

The Gross State Domestic Product (GSDP) in 2022-23 at current prices was ₹ 13,17,728 crore and the GDP in 2022-23 at current prices was ₹ 2,72,40,712 crore. Further, the per capita GSDP of the State for the year 2022-23 was ₹ 2,48,258 while the per capita GDP was ₹ 1,96,983. The CAGR in per capita GSDP of the State (9.90 per cent) during the period 2018-19 to 2022-23 was more when compared with CAGR of per capita GDP (8.45 per cent) during the same period. This is evidenced from the fact that the percentage of per capita GSDP which was 19.49 per cent more than the per capita GDP in 2018-19 had increased to 26.03 per cent more than the per capita GDP as at the end of 2022-23.

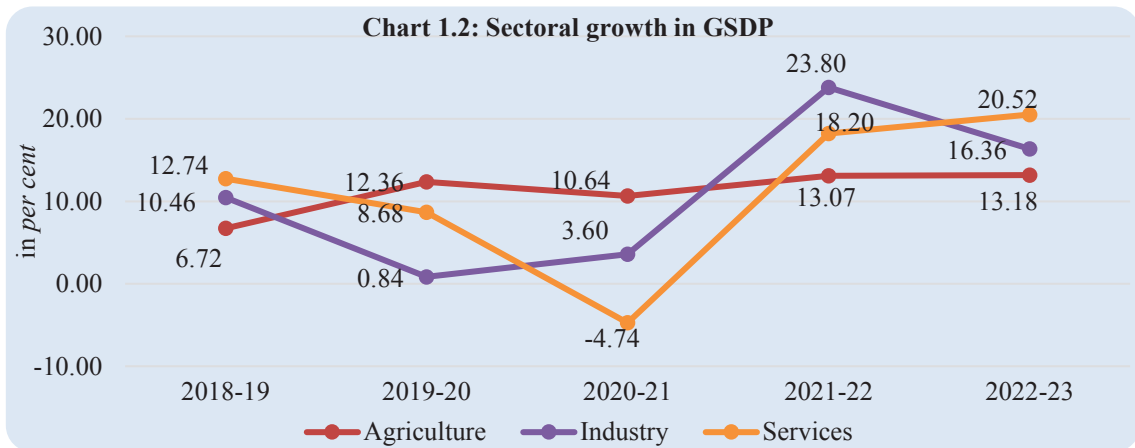
Gross Value Added (GVA) is being used for economic analysis by GoI and international organisations like IMF and World Bank. GVA is considered a better indicator of economic growth compared to GDP, as it ignores the impact of taxes and subsidies. While GDP can be and is also computed as the sum total of the various expenditures incurred in the economy including private consumption spending, government consumption spending and gross fixed capital formation or investment spending, reflecting essentially on the demand conditions in the economy. Both measures have difference in treatment of net taxes as a result of which the inclusion of taxes in GDP may differ from the real output situation. From a policymaker's perspective it is therefore vital to have a comparison of the GVA and GSVA data for better analysis and making policy interventions.

The trends of GSDP and GSVA for the period from 2018-19 to 2022-23 is indicated in **Chart 1.1:**



Source: Ministry of Statistics and Programme Implementation (MoSPI)

The Sector wise growth rate of GSDP is depicted in **Chart 1.2**:



Source: Ministry of Statistics and Programme Implementation (MoSPI)

During 2022-23, Andhra Pradesh witnessed GSDP growth rate of 16.22 *per cent* mainly due to increase in growth rate of Services sector, which is due to increase in activities under Trade, Hotels, Transport and Real Estate. Agricultural & Allied sector growth rate increased marginally, and the increase was due to increased activities under Agriculture, Fisheries, Horticulture and Livestock. Though, Industrial sector registered growth due to increased activities under Electricity, gas, water supply & other utility services *etc.*, after Covid-19, the growth rate of Construction, Mining & Quarrying and Manufacturing decreased substantially when compared to the previous year.

1.2 Basis and approach to State Finances Audit report

In terms of Article 151 (2) of the Constitution of India, the Reports of the Comptroller and Auditor General of India (CAG) relating to the Accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) is prepared and submitted under Article 151 (2) of the Constitution of India.

Principal Accountant General (Accounts & Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the compiled accounts and initial and subsidiary accounts rendered by the treasuries, the State Government offices and departments responsible for keeping of such accounts and statements received from the Reserve Bank of India. These accounts are audited independently by the Principal Accountant General (Audit) and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State constitute the core data for this Report. Other sources include the following:

- Budget of the State: for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- Results of audit carried out by the Office of the Accountant General (Audit);
- Other data (accounting as well as MIS) with Departmental Authorities and Treasuries and

- GSDP data and other State related statistics from Ministry of Statistics and Programme Implementation.

The analysis is also carried out in the context of recommendations of the XIV and XV Finance Commissions (FC), Andhra Pradesh Fiscal Responsibility and Budget Management (APFRBM) Act, as amended from time to time and best practices and guidelines of the Government of India. An entry conference was held in August 2023 with the Special Chief Secretary to Government of Andhra Pradesh, Finance Department, wherein the audit approach followed in the preparation of SFAR was explained. Draft Audit findings were discussed with the Special Chief Secretary to Government of Andhra Pradesh, Finance Department in February 2024 and the responses of the Government have been incorporated in the Report accordingly.

1.3 Overview of Government Accounts structure

The Accounts of the Government are kept in three parts:

1. Consolidated Fund of the State (Article 266(1) of the Constitution of India)

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from Financial Institutions, Special Securities issued to National Small Savings Fund, *etc.*), Ways and Means advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (*e.g.*, salaries of Constitutional authorities, loan repayments *etc.*), constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

2. Contingency Fund of the State (Article 267(2) of the Constitution of India)

This Fund is in the nature of an imprest which is established by the State Legislature by law and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. The Fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State.

3. Public Account of the State (Article 266(2) of the Constitution of India)

Apart from the above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes items like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

Budget Document: There is a constitutional requirement in India (Article 202) to present before the House or Houses of the Legislature of the State, a statement of estimated receipts and expenditures of the Government in respect of every financial year. This ‘Annual Financial Statement’ constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

Revenue receipts consists of tax revenue, non-tax revenue, share of Union Taxes/Duties and grants from Government of India.

Revenue expenditure consists of all the expenditure of the Government which does not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the Government departments and various services, interest payments on debt incurred by the Government and grants given to various institutions (even though some of the grants may be meant for creation of assets).

Capital receipts consist of:

Debt receipts: Market Loans, Bonds, Loans from financial institutions, Net transactions under Ways and Means Advances, Loans and Advances from Central Government, *etc.*;

Non-debt receipts: Proceeds from disinvestment, Recoveries of loans and advances;

Capital Expenditure includes expenditure on the acquisition of land, buildings, machinery, equipment, investment by the Government in Public Sector Undertakings (PSUs) and loans and advances by the Government.

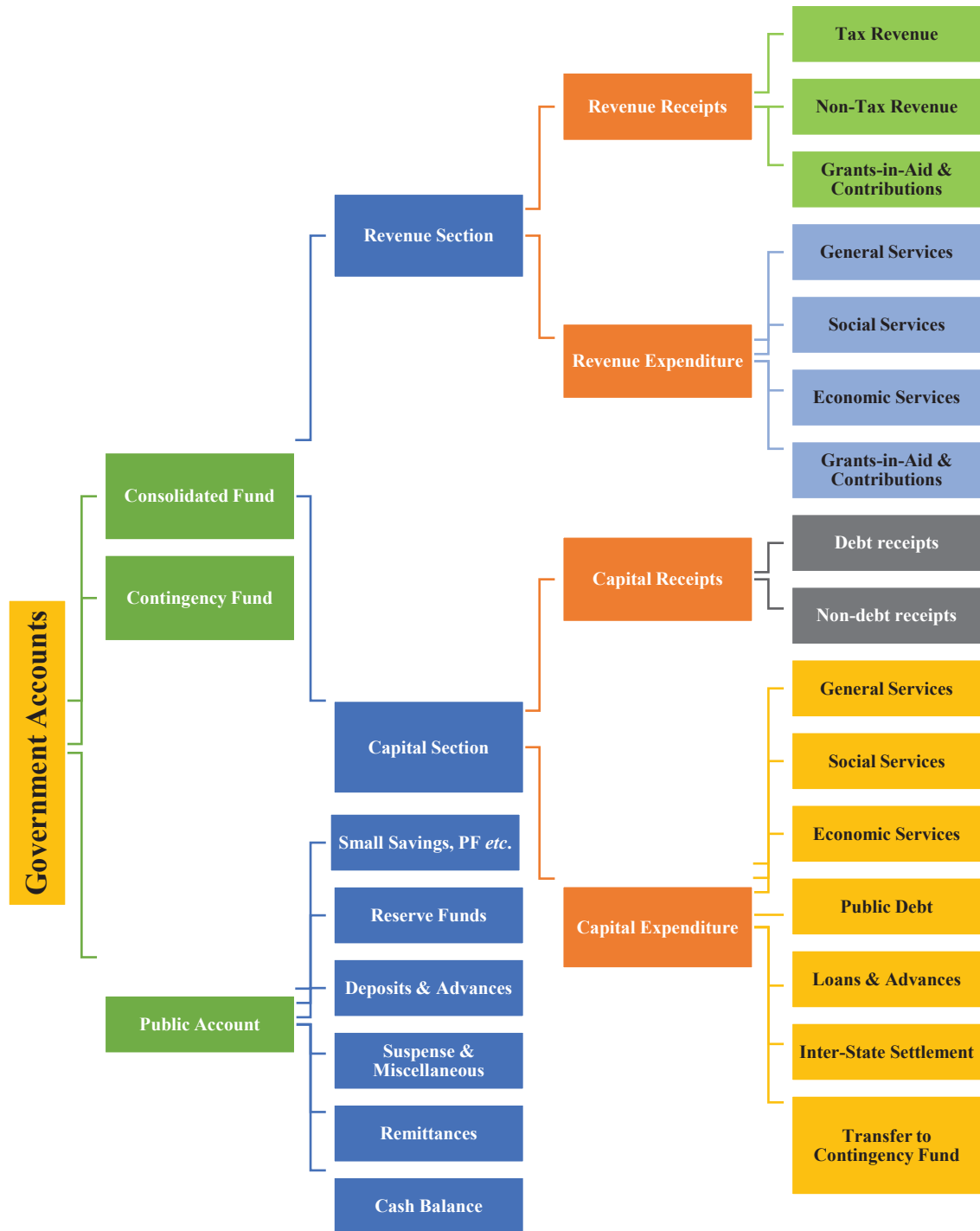
The accounts classification system in Government is both functional and economic as explained below:

	Attribute of transaction	Classification
Standardised in List of Major and Minor Heads of Account of Union and States by Controller General of Accounts	Function - Education, Health, <i>etc.</i> / Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub scheme	Detailed Head (3-digit)-
	Economic nature/Activity	Object Head- salary, minor works, <i>etc.</i> (3-digit)

The functional classification gives information about the department, function, scheme or programme, and object of the expenditure. Economic classification helps organise these payments as revenue, capital, debt, *etc.* Economic classification is achieved by the numbering logic embedded in the first digit of 4-digit Major Heads. For instance, 0 and 1 is for revenue receipts, 2 and 3 for revenue expenditure, and 4 and 5 for capital expenditure, *etc.* Economic classification is also achieved by an inherent definition and distribution of some object heads. For instance, generally “salary” object head is revenue expenditure, “construction” object head is capital expenditure. Object head is the primary unit of appropriation in the budget documents.

A pictorial depiction of the structure of Government Accounts is given in **Chart 1.3:**

Chart 1.3: Pictorial depiction of the structure of Government Accounts



Public Debt and Public Liability: In this Report, 'Public Debt' has been taken to comprise market borrowings, institutional loans, special securities issued to National Small Savings Fund (NSSF), Loans given by Central Government, *etc.* For this purpose, the major heads 6003 and 6004 - Public Debt have been taken into consideration.

Further, the transactions relating to 'Small Savings, Provident Fund, *etc.*', 'Reserve Funds' and 'Deposit and Advances' under Public Account are such that the Government incurs a liability to repay the moneys received or has a claim to recover the amounts paid. The transactions relating to 'Remittances' and 'Suspense' under Public Account, includes merely adjusting heads such as transactions as remittances of cash between treasuries and currency chests and transfer between different accounting circles.

In this Report, 'Public Liability' has been taken to include the transactions under major heads 8001 to 8554 relating to 'Small Savings, Provident Fund, *etc.*', 'Reserve Funds' and 'Deposit and Advances' along with the transactions under major heads 6003 and 6004.

Budgetary Process

In terms of Article 202 of the Constitution of India, the Governor of Andhra Pradesh caused to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State for the year 2022-23, in the form of an **Annual Financial Statement (AFS)**.

In terms of Article 203, the State Government submitted AFS (March 2022) to the State Legislature in the form of 40 Demands for Grants/Appropriations and after approval of these, the Appropriation Bill was passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund.

1.4 Snapshot of Finances of the State

Table 1.2 shows the details of actual financial position *vis-à-vis* Budget Estimates and GSDP for the year 2022-23 and actuals of 2021-22. The time series data of Finances of the State is given in **Appendix 1.2**.

Table 1.2: Snapshot of Finances of the State

Sl. No	Components	2021-22			2022-23	
		Actual	BE	Actual	Actual (Percentage of Actual to B.E.)	Percentage of Actual to GSDP (in per cent)
1	Tax Revenue	1,06,365	1,24,100	1,16,202 (93.64)	8.82	
	a. Own Tax Revenue	70,979	91,050	78,026 (85.70)	5.92	
	b. Share of Union taxes/duties	35,386	33,050	38,177 (115.51)	2.90	
2	Non-Tax Revenue	5,017	11,092	5,417 (48.83)	0.41	
3	Grants-in-Aid from GoI	39,170	56,033	36,149 (64.51)	2.74	
4	Revenue Receipts (1+2+3)	1,50,552	1,91,225	1,57,768 (82.50)	11.97	
5	Recovery of Loans and Advances	2,110	37	-4 (-10.81)	0	
6	Other Receipts	(-1)	0	0	0	
7	Borrowings and other Liabilities (#)	25,013	48,724	52,508 (107.77)	3.98	
8	Capital Receipts (5+6+7)	27,122	48,761	52,504 (107.68)	3.98	
9	Total Receipts (4+8)	1,77,674	2,39,986	2,10,272 (87.62)	15.96	
10	Revenue Expenditure of which -	1,59,163	2,08,261	2,01,255 (96.64)	15.27	
11	Interest payments	22,165	21,340	25,492 (119.46)	1.93	
12	Capital Expenditure of which -	18,511	31,725	9,017 (28.42)	0.68	
13	Capital Outlay	16,373	30,680	7,244 (23.61)	0.55	
14	Loans and Advances	2,138	1,045	1,773 (169.67)	0.13	
15	Inter State Settlement	0	0	0	0	

Sl. No	Components	2021-22		2022-23		Percentage of Actual to GSDP (in per cent)
		Actual	BE	Actual	(Percentage of Actual to B.E.)	
16	Total Expenditure (10+12+15)	1,77,674	2,39,986	2,10,272 (87.62)		15.96
17	Revenue Deficit (4-10)	(-)8,611	(-)17,036	(-)43,487 (255.27)		3.30
18	Fiscal Deficit {(4+5+6)-16}	(-)25,013	(-)48,724	(-)52,508 (107.77)		3.98
19	Primary Deficit (11-18)	(-)2,848	(-)27,384	(-)27,016 (98.66)		2.05

Borrowings and other Liabilities: Net (Receipts-Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts - Disbursements) of Public Account + Net of Opening and Closing Cash Balance.

1.5 Snapshot of Assets and Liabilities of the Government

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. The liabilities consist mainly of internal debt, loans and advances from Government of India, receipts from public account and reserve funds and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

Summarised position of Assets and Liabilities of the Government is depicted in **Table 1.3**.

Table 1.3: Summarised position of Assets and Liabilities of the State

Liabilities					Assets				
	2021-22 (₹ in crore)	2022-23 (₹ in crore)	Increase /Decrease (in per cent)		2021-22 (₹ in crore)	2022-23 (₹ in crore)	Increase /Decrease (in per cent)		
Consolidated Fund									
A	Internal Debt	2,91,951	3,37,530	15.61	a	Gross Outlay	2,68,242	2,75,486	2.70
B	Loans and Advances from GoI ¹	17,672	24,508	38.68	b	Loans and Advances	33,449	35,226	5.31
	Contingency Fund	49	50	2.04		Contingency Fund	0	0	0
Public Account									
A	Small Savings, Provident Fund etc.,	26,990	28,277	4.77	a	Advances	31	31	0
B	Deposits	36,856	32,763	(-)11.11	b	Remittances	623	643	3.21
C	Reserve Funds	15,198	17,852	17.46	c	Suspense and Miscellaneous	236	236	0
D	Suspense and Miscellaneous	1,048	1,311	25.10					
						Cash Balance (including investment in Earmarked Funds)	12,326	12,325	(-)0.01
						Total	3,14,907	3,23,947	2.87
						Deficit in Revenue Account	74,857	1,18,344	58.09
TOTAL	3,89,764	4,42,291	13.48		TOTAL	3,89,764	4,42,291	13.48	

Source: Finance Accounts of respective years

¹ Includes an amount of ₹ 5,583.19 crore received towards back-to-back loan in lieu of GST compensation shortfall which is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources.

1.6 Fiscal Balance: Achievement of Deficit and total debt targets

When a Government spends more than it collects by way of revenue, it incurs a deficit. There are various measures that capture Government deficit.

Deficits are financed by borrowing, giving rise to Government debt. The concepts of deficits and debt are closely related. Deficits can be thought of as a flow which add to the stock of debt. If the Government continues to borrow year after year, it leads to the accumulation of debt and the Government has to pay more and more by way of interest. These interest payments themselves contribute to the debt.

By borrowing, the Government entails the burden of reduced consumption on future generations. This is because it borrows by issuing bonds to the people living at present but may decide to pay off the bonds some twenty years later by raising taxes or reducing expenditure. Also, Government borrowing from the people reduces the savings available to the private sector. To that extent it reduces capital formation and growth, debt acts as a 'burden' on future generations.

However, if Government deficits succeed in their goal of raising production, there will be more income and, therefore, more saving. In this case, both Government and industry can borrow more. Also, if the Government invests in infrastructure, future generations may be better off, provided the return on such investments is greater than the rate of interest. The actual debt could be paid off by the growth in output. The debt should not then be considered burdensome. The growth in debt will have to be judged by the growth of the economy (State GDP) as a whole.

Government deficit can be reduced by an increase in taxes or reduction in expenditure. However, the major thrust has been towards reduction in Government expenditure. This could be achieved through making Government activities more efficient through better planning of programmes and better administration.

The Central and Andhra Pradesh State Governments have passed Fiscal Responsibility and Budget Management (FRBM) Act with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit and overall/outstanding debt to acceptable level, establishing improved debt management and improving transparency in a medium-term framework. In this context, the Act provides quantitative targets to be adhered by the State with regard to deficit measures and debt level.

1.6.1 Amendment of AP FRBM Act

Government of Andhra Pradesh enacted FRBM Act in October 2005. The FRBM Act was amended, and the targets of fiscal parameters were revised from time to time. The State Government amended the FRBM Act lastly in December 2021 and revised the fiscal targets/projections for the years 2021-22 to 2025-26.

1.6.2 AP FRBM targets on key Fiscal Parameters

Section 2(l) of APFRBM Act clearly defines total liabilities as “the liabilities under the Consolidated Fund of the State and the Public Account of the State and shall also include borrowings by the public sector undertakings and the special purpose vehicles and other equivalent instruments including guarantees where the principal and/ or interest are to be serviced out of the State budgets”. However, the State Government fixed the target of the outstanding total liabilities as a *per cent* of GSDP by excluding Government Guarantees in contradiction to the definition of the term “total liabilities”.

The compliance of major fiscal parameters prescribed under APFRBM Act 2021 are shown in **Table 1.4**.

Table 1.4: Compliance with provisions of APFRBM Act

Fiscal Parameters	Fiscal projections set in revised APFRBM Act	Achievement (₹ in crore)				
		2018-19	2019-20	2020-21	2021-22	2022-23
Revenue Deficit (-) / Surplus (+) (as percentage of GSDP)	2.5 per cent of GSDP for 2018-19 and 2019-20; 4.5 per cent for 2020-21; 3.6 per cent for 2021-22 and 3.3 per cent for 2022-23	-13,899 (-1.59)	-26,441 (-2.86)	-35,541 (-3.71)	-8,611 (-0.76)	-43,487 (-3.30)
		✓	✗	✓	✓	✓
Fiscal Deficit (-) / Surplus (+) (as percentage of GSDP)	5 per cent of GSDP for the years 2018-19 to 2021-22 and 4.5 per cent for 2022-23	-35,467 (-4.06)	-39,687 (-4.29)	-55,168 (-5.77)	-25,013 (-2.21)	-52,508 (-3.98)
		✓	✓	✗	✓	✓
Ratio of total outstanding liabilities excluding Government Guarantees to GSDP (in per cent)	35 per cent of GSDP for the years 2018-19 to 2020-21; 35.6 per cent of GSDP for the year 2021-22 and 36.3 per cent of GSDP for the year 2022-23	29.47	32.60	36.40	32.85	32.17
		✓	✓	✗	✓	✓
Ratio of total outstanding liabilities to GSDP (in per cent) after taking into account the off – Budget borrowings		NA	40.98	48.12	43.30	41.89

Source: Finance Accounts, Information provided by State Government; APFRBM Act 2021;

Note: Outstanding Liabilities excludes an amount of ₹ 5,583.19 crore (2020-21: ₹ 2,311 crore and 2021-22: ₹ 3,272.19 crore) received towards back-to-back loan in lieu of GST compensation as it is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources; NA: Not Available.

A comparison of the major fiscal variables of the State with the targets set under State’s Medium Term Fiscal Policy Statement (MTFPS) is given in **Table 1.5**.

Table 1.5: Actuals vis-à-vis projection in MTFP for 2022-23

Sl. No.	Fiscal Variables	Projection as per MTFPS	Actuals (2022-23)	Variation (in per cent)
1	Own Tax Revenue	84,389	78,026	(-)7.54
2	Non-Tax Revenue	6,511	5,417	(-)16.80
3	Share of Central Taxes	38,177	38,177	0.00
4	Grants -in-aid from GoI	47,371	36,149	(-)23.69
5	Revenue Receipts (1+2+3+4)	1,76,448	1,57,768	(-)10.59
6	Revenue Expenditure	2,05,556	2,01,255	(-)2.09
7	Revenue Deficit (-) / Surplus (+) (5-6)	(-)29,108	(-)43,487	49.40
8	Fiscal Deficit (-) / Surplus (+)	(-)47,717	(-)52,508	10.04

Sl. No.	Fiscal Variables	Projection as per MTFPS	Actuals (2022-23)	Variation (in per cent)
9	Fiscal Deficit to GSDP ratio (<i>Per cent</i>)	3.62	3.98	9.94
10	Total Outstanding Liabilities-GSDP ratio (<i>per cent</i>) [^]	32.35	32.17	(-)0.56
11	GSDP growth rate at current prices (<i>per cent</i>)	16.22	16.22	0.00

Source: Finance Accounts and MTFPS of the Government of Andhra Pradesh 2022-23; Note: MTFPS for 2022-23 was placed in legislature during the budget session of 2023-24 based on the Revised Estimates of 2022-23

The MTFPS was prepared based on the Revised Estimates of 2022-23. Therefore, the actuals of the above parameters were close to the projections made in the MTFPS (Except Non-Tax Revenue, Grants-in-Aid from GoI and Revenue Deficit). However, as shown in **Table 1.2**, there were huge variations between actuals *vis-à-vis* Budget Estimates.

State Government replied that it had disclosed to GoI the liabilities arising out of guarantees where the principal and/ or interest are serviced out of the State budgets. The GoI has determined the Net Borrowing Ceiling of the State of Andhra Pradesh for the year 2022-23 and accorded consent for Open Market Borrowings under Article 293 (3) of the Constitution after taking into account such liabilities. There was no contradiction to the definition of “total liabilities”.

The reply is not tenable due to the fact that the State Government has amended the APFRBM Act in December 2021 wherein the targets for Outstanding liabilities to GSDP ratio were fixed after excluding the liabilities arising out of guarantees.

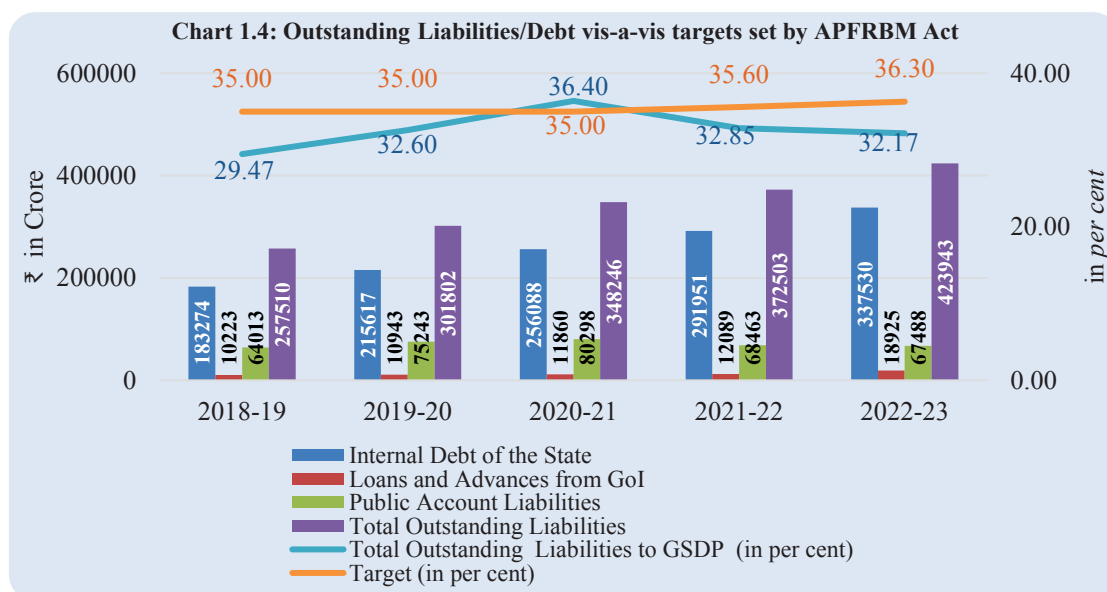
Further, State Government accepted that Net Borrowing Ceiling was fixed by considering the liabilities arising out of guarantees where the principal and/ or interest are serviced out of the State budgets. In this scenario the amendment of APFRBM Act in excluding liabilities arising out of guarantees where the principal and/ or interest are serviced out of the State budgets in fixing targets of Outstanding Liability to GSDP of the State results in underreporting of the Outstanding liabilities of the State and escapes Legislative oversight on State Finances.

As per Section 2(1) of APFRBM Act total liabilities are the liabilities under the Consolidated Fund of the State and the Public Account of the State and shall also include borrowings by the public sector undertakings and the special purpose vehicles and other equivalent instruments including guarantees where the principal and/ or interest are to be serviced out of the State budget. Considering these liabilities into account, the ratio of Outstanding liabilities to GSDP were over and above the ceiling fixed under APFRBM Act. Further, as per Section 10(3) of APFRBM Act (Measures for fiscal transparency) whenever the State Government undertakes to unconditionally and substantially repay the principal amount and/or pay the interest of any separate legal entity, it has to reflect such liability as the borrowings of the State.

Hence, it is recommended to amend the targets of Outstanding liabilities to GSDP ratio in APFRBM Act by considering the liabilities arising out of guarantees where the principal and or interest are serviced out of the State budgets so as to make the targets in consonance with the definition of “liabilities” as defined in section 2(1) of APFRBM act as well as Section 10(3) (Measures for Fiscal Transparency) of the FRBM Act.

1.6.2.1 Outstanding liabilities of State Government

The details of outstanding liabilities and their ratio to GSDP *vis-à-vis* the revised APFRBM targets are depicted in **Chart 1.4**.



Source: Finance Accounts; **Note:** Outstanding Liabilities excludes an amount of ₹ 5,583.19 crore (2020-21: ₹ 2,311 crore and 2021-22: ₹ 3,272.19 crore) received towards back-to-back loan from GoI in lieu of GST compensation as it is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources

The total outstanding liabilities of the State increased by 64.63 per cent from ₹ 2,57,510 crore in 2018-19 to ₹ 4,23,943 crore in 2022-23.

Public Debt (Internal Debt and Loans and Advances from GoI) of the composite State of Andhra Pradesh was ₹ 1,66,522 crore as of 01 June 2014. Post bifurcation of the State with effect from 02 June 2014, the residual State of Andhra Pradesh was allocated a debt of ₹ 97,124 crore on population basis (58.32:41.68 ratio between Andhra Pradesh and Telangana). The Public Debt increased by 267 per cent from 2014-15 and stood at ₹ 3,56,455 crore to the end of March 2023.

During the year 2022-23, the outstanding liabilities of the State to GSDP (32.17 per cent) was within the target of 36.30 per cent. However, after considering the Off Budget Borrowings of the State (₹ 1,28,048 crore), total outstanding liabilities as percentage to GSDP (41.89 per cent) exceeded the target.

The State Government has disclosed (April 2023)² Off budget borrowings to the tune of ₹ 35,114 crore to Government of India to the end of the year 2022-23. However, it was noticed that the data furnished by the State differs from the actual OBB by ₹ 92,934 crore.

State Government replied that the ratio of total outstanding liabilities to GSDP excluding Corporations borrowings with Government Guarantees works out to 32.17 per cent. This was well within the APFRBM target of 36.30 per cent. Loans availed by some of the Corporations with Government Guarantee were being serviced by the

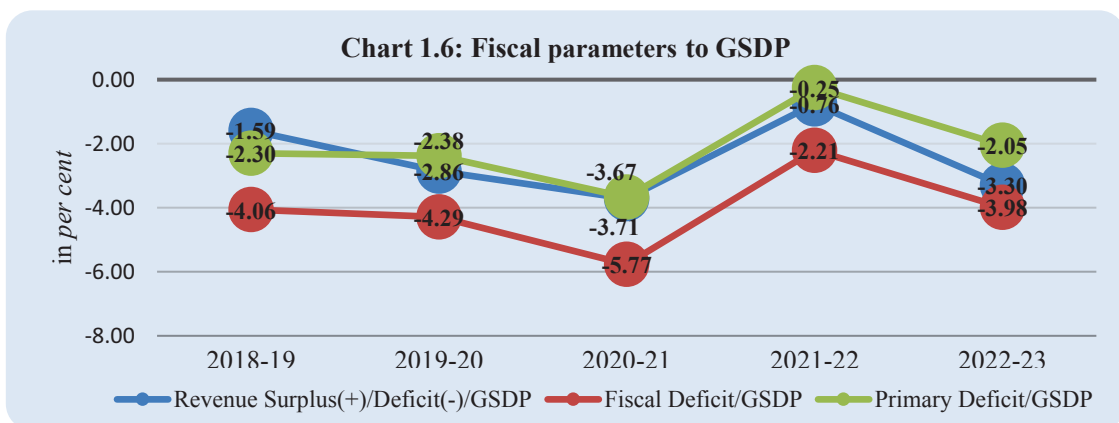
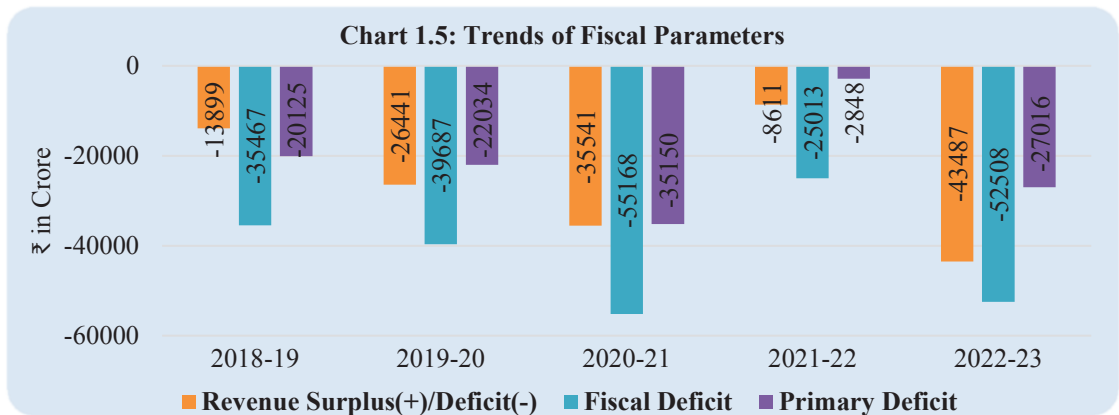
² Vide letter No.FIN01-BUGT0DSM/2/2023-CDM (C.NO.2035604) dated 17 April 2023

Corporations with their own resources. Therefore, these loans shall not be considered as the liabilities of the State Government. If the liabilities of such Corporations were excluded, the ratio of total outstanding liabilities to GSDP including the loans of PSUs where total repayment is being made by State Government would be well within the APFRBM target of 36.30 per cent.

The reply is not acceptable because as per Section 2(1) of APFRBM Act total liabilities are the liabilities under the Consolidated Fund of the State and the Public Account of the State and shall also include borrowings by the public sector undertakings and the special purpose vehicles and other equivalent instruments including guarantees where the principal and/ or interest are to be serviced out of the State budget. It was observed from the CFMS vouchers data, annual accounts, information furnished by the PSUs, Budget Documents, Government Orders issued from time to time and Guarantee Deeds executed by the Government that the liabilities on account of Off Budget Borrowings works out to ₹ 1,28,048 crore as of 31 March 2023. After considering the Off Budget Borrowings (OBBs) of the State (₹ 1,28,048 crore) and liabilities arising out of pending payments, the total outstanding liabilities of the State were ₹ 5,79,621 crore which constituted 43.99 per cent of GSDP and 7.69 per cent more than the target prescribed in APFRBM Act to the end of 31 March 2023.

1.6.3 Trends of Surplus/Deficit

The trends of Surplus/Deficit and its percentage in GSDP of the State for the years 2018-19 to 2022-23 are shown in **Charts 1.5** and **1.6**.



Source: Finance Accounts of respective years.

The Revenue Deficit of the State increased drastically by 405.02 *per cent* over previous year and registered five year high for the period 2018-19 to 2022-23. The increase was mainly due to increase in committed expenditure by ₹ 15,451 crore, financial assistance to local bodies and other institutions by ₹ 14,208 crore and subsidies by ₹ 8,315 crore when compared to previous year.

Similarly, the Fiscal and Primary deficits were also increased during the year 2022-23 by 109.92 *per cent* and 848.60 *per cent* respectively, when compared to the previous year.

It can be seen from the charts 1.5 and 1.6 that during the year 2022-23, all the deficits were higher compared to previous year which indicated that the gap between resources of the State and expenditure has widened.

State Government replied that, though the Revenue Deficit and Fiscal Deficit were higher compared to previous year, they are within the limits of APFRBM Act in 2022-23.

State Government has understated the Revenue Deficit and Fiscal Deficit by ₹ 3,118.38 crore and ₹ 2,405.21 crore by non-provisioning of interest towards Reserve funds and deposits, short release of contribution towards its share of NPS, short release of GoI share received and matching State Share to SNA and short release of Road Development Cess to APRDC as mentioned in Para 1.6.5.

If the above said amounts have been transferred to respective accounts/funds, the revenue deficit would have exceeded the ceiling fixed under APFRBM Act by 0.24 *per cent*.

Audit observations with regard to the deficits indicated in **Chart 1.5** are as follows:

1.6.3.1 Revenue Deficit

Finance Commission (FC) assessed the Receipts and Expenditure of the State based on the forecast (estimates) made by the State and accorded the Post Devolution Revenue Deficit Grant (PDRDG) taking into consideration the differences among the States in fiscal capacity and expenditure need, including cost disabilities.

The XIV FC assessed the Post-Devolution Revenue Deficit and sanctioned an amount of ₹ 22,112 crore as Revenue Deficit grant for the period 2015-20. XV FC also sanctioned ₹ 5,897 crore for the year 2020-21 and ₹ 30,497 crore of Revenue Deficit grant for the period 2021-26 to eliminate the projected Revenue Deficit.

The details of PDRDG received and Revenue Deficit for the years 2015-16 to 2022-23 are given in **Table 1.6**.

Table 1.6: Revenue Deficit - Actuals *vis-à-vis* Targets for the years 2015-23

(₹ in crore)

Year	Projections of Revenue Deficit made in Macro Economic Framework Statement	Revenue Deficit projected by XIV / XV FC	PDRDG received as per the recommendations of XIV / XV FC	Revenue Deficit (Before receipt of Post-devolution Grant)	Revenue Deficit (After receipt of Post- devolution Grant)
XIV FC PERIOD					
2015-16	4,140	6,609	6,609	13,911	7,302
2016-17	4,598	4,930	4,930	22,161	17,231*
2017-18	4,018	4,430	4,430	20,582	16,152
2018-19	11,654	3,644	3,644	17,543	13,899
2019-20	26,647	2,499	2,499	28,940	26,441
XV FC PERIOD					
2020-21	34,927	5,897	5,897	41,438	35,541
2021-22	19,546	17,257	17,257	25,868	8,611
2022-23	29,108	10,549	10,549	54,036	43,487

Source: Finance Accounts of respective years, XIV and XV FC reports; Macro Economic Framework Statement (MEFS) *Includes an amount of ₹ 8,256 crore expended towards implementation of UDAY scheme during 2016-17.

Table 1.6 indicates that the State Government could not contain the Revenue Deficit during 2015-23 despite receipt of PDRDG from Government of India.

Revenue Deficit as a percentage of Total Revenue Receipts (TRR)³ increased from 5.72 per cent in 2021-22 to 27.56 per cent during 2022-23 and the revenue deficit of the State was higher when compared to Budget Estimates (₹ 17,036 crore) for the year 2022-23.

State Government replied that, the FC XIV could not properly assess the fiscal impact of state bifurcation. Similarly, the fiscal impact of Covid-19 could not be foreseen by FC-XV. Hence the projection of deficits by FC XIV and FC XV were at variance from the actual. As a result, despite receipt of post devolution revenue deficit grant, the State of Andhra Pradesh was revenue deficit during 2015 to 2023. Nevertheless, the State has adhered to the fiscal deficit targets set under APFRBM Act.

Finance Commission generally recommends the PDRDG based on the estimates provided by the State Government to FC for these years. The revenue expenditure was increasing at an average rate of 10.67 per cent during the last five years mainly due to increase in Committed expenditure and expenditure towards new welfare schemes such as YSR Asara, Amma Vodi, YSR Cheyutha etc. whereas the Revenue Receipts were increasing at an average rate of 8.47 per cent which is creating the Revenue gap. Further, for the year 2022-23, the actual revenue (Own tax and Non-Tax) of the State was 6.46 per cent less than the FC projections whereas it was less by 18.31 per cent from Budget Estimates showing that the FC projections were closer to the actuals than the State Budget Estimates. Hence, the reply of the State in this regard is not acceptable and is recommended to control the Revenue Expenditure to avoid higher stress on

³ Revenue Deficit to Total Revenue Receipts during 2021-22= (₹ 8611 crore / ₹ 150552 crore)*100 = 5.72 per cent

Revenue Deficit to Total Revenue Receipts during 2022-23=(₹ 43487 crore / ₹ 157768 crore)*100 = 27.56 per cent

Public Debt as the majority of the debt is being utilised for financing revenue expenditure.

1.6.4 Components of Fiscal Deficit and its financing pattern

The components and financing patterns of fiscal deficit are shown in Table 1.7.

Table 1.7: Components of fiscal deficit and its financing pattern

(₹ in crore)

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23		
					Receipts	Disbursements	Net
Components of Fiscal Deficit (1 to 4)	(-)35,467	(-)39,687	(-)55,168	(-)25,013	1,57,764	2,10,272	(-)52,508
1. Revenue deficit	(-)13,899	(-)26,441	(-)35,541	(-)8,611	1,57,768	2,01,255	(-)43,487
2. Net Capital Expenditure	(-)19,976	(-)12,242	(-)18,975	(-)16,374	0	7,244	(-)7,244
3. Net Loans and Advances	(-)1,566	(-)1,001	(-)652	(-)28	(-)4	1,773	(-)1,777
4. Net Inter-State settlement	(-)26	(-)3	0	0	0	0	0
Financing Pattern of Fiscal Deficit							
a. Net Public Debt[#]	24,706	33,062	43,700	39,364	1,86,023	1,33,609	52,414
b. Net Public Account	12,628	12,929	7,268	(-)12,515	95,046	94,954	92
Small Savings, PF etc.	2,221	1,015	6,531	3,714	5,946	4,659	1,287
Reserve Funds	2,181	1,957	497	1,699	3,308	653	2,655
Deposits and Advances	10,160	8,970	(-)1,235	(-)16,478	85,508	89,600	(-)4,092
Suspense and Misc.	(-)69	1,043	1,484	(-)1,446	280	18	262
Remittances	(-)1,865	(-)57	(-)9	(-)4	4	24	(-)20
c. Contingency Fund	0	0	0	(-)1	1	0	1
d. Increase (+)/Decrease (-) in Cash Balance	(-)1,867	(-)6,304	4,200	(-)1,835	12,326	12,325	1
Total (a to d)	35,467	39,687	55,168	25,013	-	-	52,508

Source: Finance Accounts of respective years. [#] Includes market borrowings and borrowings from LIC, GIC, NABARD, NCDC, NSSF and Ways and Means Advances.

Borrowed funds financed for meeting revenue expenditure create a liability for future years without creating any assets. In the year 2022-23, 83 per cent of borrowed funds were applied to finance deficit on revenue account.

State Government replied that on account of the structural deficit suffered by the State of Andhra Pradesh due to unjust, unfair and unscientific state bifurcation, the State Government of Andhra Pradesh is forced to use a part of borrowed funds for deficit financing and clearing other accumulated liabilities. The GoAP is pursuing with GoI to fulfill all the assurances given to the State at the time of bifurcation like, according Special Category Status, industrial incentives, etc. to correct the historical injustice. State Government further stated that, till such time that the assurances are realised, there is bound to be pressure on balancing the borrowed funds with deficit financing on revenue account.

It is, however, pertinent to mention the fact that the State Government could not contain the revenue deficit despite receipt of ₹ 55,815 crore from 2015-16 to 2022-23 as Post Devolution Revenue Deficit grant and ₹ 3,615 crore⁴ as Revenue Deficit grant for the year 2014-15.

There was an average increase of revenue expenditure at the rate of 10.67 per cent

⁴ ₹ 1,976.50 crore received in the year 2016-17 and ₹ 1,638.39 crore received in the year 2021-22

during the last five years due to increase in Committed expenditure and expenditure towards welfare schemes such as YSR Asara, Amma Vodi, YSR Cheyutha *etc.* Further, during the year 2022-23, the gap between the revenue receipts and the revenue expenditure was higher due to which there was an exponential increase of 405 *per cent* in Revenue Deficit over the previous year.

In addition to the above, State Government transferred implementation of State sponsored welfare schemes such as YSR Aasara, AMMA Vodi, YSR Cheyutha and YSR pensions (partly) to AP State Beverages Corporation limited. Had the expenditure also been taken into account the Revenue Deficit would be more by ₹ 18,596 crore. Hence, State Government cannot attribute the issues relating to bifurcation alone as it could not contain huge revenue expenditure and increased committed expenditure.

1.6.5 Impact on Revenue and Fiscal Deficits due to misclassifications and other factors

As per the FRBM Act, the State Government must ensure compliance to the targets fixed for the fiscal indicators such as deficits' ceiling on debt and on guarantees, *etc.* The Revenue Deficit and the Fiscal deficit as worked out for the State gets impacted due to various circumstances such as misclassification of revenue expenditure as capital and off budget fiscal operations. To arrive at actual deficit figures, the effect of misclassification of revenue expenditure/ capital outlay and/ or any such misclassification needs to be included and the impact of such irregularities needs to be reversed. During the year 2022-23, due to misclassification of revenue expenditure under capital section, non-provisioning for interest payment, short contribution of NPS and short transfer of cess led to an overall understatement of Revenue Deficit by ₹ 3,118.38 crore and understatement of Fiscal Deficit by ₹ 2,405.21 crore as detailed in **Table 1.8.**

Table 1.8: Understatement of Revenue Deficit and Fiscal Deficit

Particulars	₹ in crore)	
	Impact on Revenue Deficit (Understated (+) / overstated (-))	Impact on Fiscal Deficit (Understated (+) / overstated (-))
Classification of Revenue Expenditure as Capital	(+) 713.14	---
Non provision of interest under Reserve Funds and Deposits	(+) 151.51	(+) 151.51
Short Contribution of Government towards NPS	(+) 539.94	(+) 539.94
Short release of Road Development Cess to AP Road Development Corporation (APRDC)	(+) 27.59	(+) 27.59
Short release of GoI share received by the State and matching State share to SNA in respect of CSS	(+)1,686.17	(+)1,686.17
Total	(+) 3,118.35	(+) 2,405.21

Source: Finance Accounts 2022-23 and VLC data of Office of the PAG (A&E).

After taking into account the above understatements, Revenue Deficit and Fiscal Deficits works out to ₹ 46,605.84 crore (₹ 43,487.49 crore plus ₹ 3,118.35 crore) and ₹ 54,913.55 crore (₹ 52,508.34 crore plus ₹ 2,405.21 crore) respectively. The Revenue

and Fiscal Deficits as a percentage of GSDP were increased to 3.54 *per cent* from 3.30 *per cent* and 4.17 *per cent* from 3.98 *per cent* respectively.

1.7 Post Audit – Total Outstanding Debt/Liabilities

As per Section 2 (l) of AP FRBM Act, 2012, "total liabilities" means the liabilities under the Consolidated Fund of the State and the Public Account of the State and shall also include borrowings by the public sector undertakings and the special purpose vehicles and other equivalent instruments including guarantees where the principal and/ or interest are to be serviced out of the State budgets.

The FRBM Act was amended in December 2021 and the State Government fixed the target of the total outstanding liabilities as a percentage of GSDP to 36.30 for the year ended 31 March 2023. However, while fixing the targets of the outstanding total liabilities-GSDP ratio in FRBM Act, the State Government excluded Government Guarantees.

The various components of Outstanding Debt/liabilities are depicted in **Table 1.9**.

Table 1.9: Components of Outstanding Debt/liabilities as on 31 March 2023

Borrowings and other liabilities as per Finance Accounts	Amount (₹ in crore)
Internal Debt (A)	3,37,530
Market Loan bearing interest	3,11,235
Compensation and other bonds	9,756
Loans from other institutions	8,727
Special Securities issued to the National Small savings fund of the Central Government	7,812
Loans and Advances from central Government (B)	18,925
Non-Plan Loans	13
Loans for State Plan Schemes	1,646
Others	17,266 ⁵
Liabilities upon Public Account (C)	67,488
Small Savings, provident Funds, <i>etc</i>	28,277
Deposits	32,764
Reserve Funds	6,447
Off-Budget Borrowings (D)	1,28,048
Loans of PSUs which does not have its own revenue resources and entire repayment is being made by State Government	63,718
Loans of PSUs which have its own revenue resources but repayment is being made by State Government	64,330
Total (A+B+C+D)	5,51,991

The Off-Budget borrowings of the State Government to the end of March 2023 were ₹ 1,28,048 crore (9.72 *per cent* of GSDP).

Further, as per Section 6(i) of AP FRBM Rules 2006 the liabilities in respect of major works and contracts, committed liabilities in respect of land acquisition charges and claims on the State Government in respect of unpaid bills on works and supplies *etc.*, are to be disclosed in the Budget vide Form D-9 of Macro Economic Framework

⁵ Excludes an amount of ₹ 5,583.19 crore received towards back-to-back loan in lieu of GST compensation shortfall which is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources

Statement. Audit observed that, State Government did not disclose the committed liabilities on account of pending payments of ₹ 27,630 crore to DISCOMs (towards electricity and subsidy dues), irrigation projects and water supply schemes to the end of the year 2022-23. (Refer para 4.3 of this Report).

The outstanding liabilities of the State to GSDP during the year 2022-23 was 32.17 per cent and was within the target of 36.30 per cent. After considering the Off Budget Borrowings (OBBs) of the State (₹ 1,28,048 crore) and liabilities arising out of pending payments, the total outstanding liabilities of the State were ₹ 5,79,621 crore which constituted 43.99 per cent of GSDP and 7.69 per cent more than the target prescribed in APFRBM Act.

1.8 Conclusion

During 2022-23, Andhra Pradesh registered GSDP growth rate of 16.22 per cent.

While enacting the targets/ ceiling of fiscal parameters of the State for the years 2021-22 to 2025-26, the Government guarantees, which were defined as liabilities in the APFRBM Act, were excluded while calculating the targets/ ceiling of Outstanding total liabilities of the State to GSDP. This resulted in underreporting of actual liability position of the State.

The fiscal parameters of the State as reflected in its Revenue, Fiscal and Primary Deficits were negative throughout the five-year period 2018-23.

There were instances of misclassification of revenue transactions under capital section and non-accountal of other liabilities, which would have pushed up the Deficits to a further extent, as brought out in this Report as well as in the State Finances Audit Report of the CAG over the last few years.

The outstanding liabilities though were within the targets prescribed in the revised APFRBM Act, these would be way more, if the liabilities of the State Government with regard to its off-budget borrowings and liabilities arising out of pending payments are taken into account.

The liabilities of the State have been increasing over the years and majority of the borrowings during the year 2022-23 were utilised to balance Revenue Account of the State affecting creation of capital assets in the State.