

# **An Economic Analysis of Public Debt in Andhra Pradesh: From 2014-15 to 2020-21**

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## **ABSTRACT**

Andhra Pradesh, one of India's major states, is richly endowed with natural resources and holds significant potential for economic growth and development. The state's finances are influenced by a combination of economic and political factors. Notably, the bifurcation of the state in 2014 and the implementation of the Goods and Services Tax (GST) in 2017 have brought substantial changes to Andhra Pradesh's financial landscape. In recent years, public debt, along with revenue and fiscal deficits, has shown a consistent upward trend. Against this backdrop, this paper aims to analyze the public debt and fiscal performance of Andhra Pradesh.

## **INTRODUCTION**

The Andhra Pradesh Reorganisation Bill, 2014, was introduced in the Lok Sabha on February 18, 2014, received the President's assent, and was subsequently published in the official Gazette. Under the provisions of this Act, the erstwhile state of Andhra Pradesh was bifurcated into two separate entities: the Residuary State of Andhra Pradesh and Telangana. This bifurcation significantly impacted the revenue mobilization, expenditure patterns, and debt management policies of the state of Andhra Pradesh. Public expenditure and debt management are critical for fostering public welfare and human development. Andhra Pradesh's fiscal policy aims to strike a balance by increasing revenue expenditure while simultaneously mobilizing sufficient resources. This dual approach is designed to facilitate investments in productive capital assets and social sectors, thereby promoting sustainable and equitable economic growth. This paper seeks to evaluate the fiscal performance of Andhra Pradesh with the following objectives.

## **OBJECTIVES:**

1. To examine the size and growth of public debt in Andhra Pradesh from 2014-15 to 2020-21.
2. To examine the public debt-GSDP Ratio in Andhra Pradesh from 2014-15 to 202-21.

3. To study the composition of public debt across sources in Andhra Pradesh from 2014-15 to 2020-21.

## **METHODOLOGY**

This paper is based on secondary data only. The main data sources are Economic Survey (various years) and Budget Documents (various years) published by Government of Andhra Pradesh.

## **REVIEW OF LITERATURE**

Public debt has long been a key component in shaping the fiscal and economic framework of states in India, including Andhra Pradesh. It serves as a critical tool for financing developmental projects, but when mismanaged, it can lead to fiscal imbalances and constraints on economic growth. Chowdhury (2001) conducted an empirical analysis of public debt and economic growth in India, emphasizing the potential risks associated with excessive borrowing. The study noted that high public debt could crowd out private investment by raising borrowing costs, thereby slowing down economic growth. The findings underline the importance of implementing sound debt management policies to ensure fiscal sustainability while fostering long-term development.

Babu and Devraj (2016) delved into the fiscal challenges faced by Indian states, particularly under the framework of the Fiscal Responsibility and Budget Management (FRBM) Act. Their study focused on Andhra Pradesh and highlighted the significant fiscal stress the state experienced after its bifurcation in 2014. The separation resulted in changes to revenue mobilization and expenditure structures, creating difficulties in managing fiscal deficits and public debt. They argued that adherence to fiscal discipline and efficient resource utilization are imperative for achieving sustainable development.

Mishra and Rao (2015) specifically examined the impact of rising public debt on welfare spending in Andhra Pradesh. Their research revealed that post-bifurcation, the state's public debt surged, limiting its ability to allocate sufficient funds toward human development and welfare programs. The study emphasized the need for strategic debt management to balance infrastructure investments with social sector spending, ensuring inclusive growth and improved living standards for the population.

Rangarajan and Srivastava (2005) provided a comprehensive analysis of fiscal sustainability at the state level across India. They observed that states like Andhra Pradesh, which face significant debt burdens, require careful planning to avoid unsustainable borrowing practices. Their research outlined benchmarks for fiscal and debt management, stressing the importance of maintaining a balance between fiscal deficits and public debt. The study's framework is particularly relevant in the context of Andhra Pradesh's fiscal strategy, offering guidance for improving debt management practices while ensuring fiscal stability and economic growth.

### **GROWTH OF PUBLIC DEBT IN ANDHRA PRADESH**

Public debt is the accumulated stock of government financial liabilities. It is measured by summing the face value of that stock. A large accumulation of public debt may create problem for the state government in terms of repayment of the principal and interest payments. It also raises the issue of sustainability of the current stock of debt of the state. Generally, low debt-GSDP ratio is desirable.

After state bifurcation, the total outstanding liabilities of the Andhra Pradesh state government have increased from 148742 crore in 2014-15 to 348998 crore by 2020-21 (Table 1). The growth of public debt in Andhra Pradesh can be observed in the ratio to GSDP. The total outstanding debt as a percentage of GSDP increased from 28.25 percent to 34.55 percent during the same period. Any state bifurcation unleashes a series of dynamic adjustments in resource allocation and revenue flows. The bifurcation of the state will have significant implications on public debt in Andhra Pradesh. After bi-furcation of the state, the government of Andhra Pradesh took huge amount of borrowings. The total debt outstanding in the United Andhra Pradesh in 2013-14 is only 1.89 lakh crores. After bifurcation, the total public Debt in Andhra Pradesh is 1.29 lakh crores in 2014-15 and it increased to 3.48 crores in 2020-21. CAG's latest accounts revealed that Andhra Pradesh government's gross debt burden has increased to Rs 3,73,140 crore by the end of November 2020. Huge amount of loans for developmental purposes, non-plan loans from the Centre, debt financing of large number of welfare schemes, pay revisions and huge pension commitments, increasing interest payments are the reasons for continuous increase of public debt in Andhra Pradesh. The growing debt burden was evident from the increase in per capita

outstanding debt. Consequently the government experienced severe resource crunch after bifurcation, so that it had to rely on overdrafts on a number of days to maintain the cash balance. The state government faced the problem of fiscal instability during this period. This is due to the fact that along with the high debt-GSDP ratio, the fiscal indicators of the state were found to deteriorate during that period. But, in spite of high debt-GSDP ratio, the state government was unable to maintain a stable fiscal position during the time period mainly due to the revenue and primary deficit attained by the state during that period.

**Table. 1 Total Public Debt and Debt – GSDP Ratio in Andhra Pradesh**

Year	Public Debt (Crores)	Public Debt as %in GSDP
2014-15	148742	28.25
2015-16	173851	28.50
2016-17	201312	28.89
2017-18	223706	27.83
2018-19	252508	28.02
2019-20	302202	27.97
2020-21	348998	34.55

Source: Government of AP, Budget Documents (Various years)

## **PUBLIC DEBT – GSDP RATIO IN ANDHRA PRADESH**

A large accumulation of public debt may create problem for the state government in terms of repayment of the principal and interest payments. It also raises the issue of sustainability of the current stock of debt of the state. Sustainability is the capacity to endure without breaking down. In the context of public debt, sustainability embodies concern about the ability of the government to service its debt. A government which does not generate enough current revenues for debt service must either default on its obligations or borrow more to service its past debt as well as to cover ongoing imbalances. Continual borrowings of this kind are known as ponzi game which is reflected in the time path of debt-GSDP ratio. Usually, sustainability is measured in terms of debt-GSDP ratio. It is very difficult to set a debt-GSDP ratio which is likely to be sustainable. The Twelfth Finance Commission of Government of India recommended 28 percent and 15 percent as acceptable level of the debt-GSDP ratio and the ratio of interest payments to total

revenue receipts respectively. The NK Singh Committee on FRBM had envisaged a debt-to-GDP ratio of 40 per cent for the central government and 20 per cent for states aiming for a total of 60 percent general government debt-to GSDP ratio.

The debt-GSDP ratio of the state was found to increase from 28.25 percent in 2014-15 to 34.55 percent in 2020-21 (Table 1). It can be said that the state government faced the problem of fiscal instability. The Debt-GSDP ratio of Andhra Pradesh is an indication of mounting debt on the state finances of A.P. This is due to the fact that along with the high debt-GSDP ratio, the fiscal indicators of the state were found to deteriorate during this period. If a particular government fails to meet the repayment obligations of the public debt, it will lose its credibility in the debt market.

### **PUBLIC DEBT BY SOURCES IN ANDHRA PRADESH**

The state government public debt consists of open market loans, loans from central government, loans from other institutions like financial institutions, small saving funds, provident funds, deposits and reserves, etc. Andhra Pradesh is in a precarious situation owing to mounting debt on the state finances. The government also borrowed more funds from the Central Government to meet the fiscal needs and the state is treading a rough path until and unless the Central Government will provide a helping hand to the disadvantaged state. On the other side the total debt of Andhra Pradesh is also increasing owing to debt servicing, interest payments, committed expenditure on development and welfare programmes as promised to the people. It is clearly drawn from the table that the state is under huge pressure to borrow funds from various sources to fulfill their needs and meet their commitments. Significant amount of funds is also borrowed from small savings and Provident fund. Both the states need to make course correction to reduce the burden of increasing debt on the state finances to keep it sustainable.

The total liabilities of the state has increased considerably over the years from 1.48 crores to 3.48 crores between 2014-15 and 2020-21. Open market loans has accounted for a major proportion of these liabilities. Open market loans stood at 78441 crores in 2014-15. It rose to 232659 crores in 2020-21. As is clear from the table, loans raised from open market have increased considerably in the recent years. The loans are raised from other institutions was 6317 crores and increased to 16484 crores in 2020-21. As far as small savings and provident funds are concerned, they fell down from 15166 crores and 22142 crores in 2014-15 to 10119 crores and

18744 crores by 2020-21 respectively. Deposits and Reserves have consistently increased in volume over the years. They rose to 59282 crores from 17176 crores during the period between 2014-15 and 2020-21 (Table 2).

Open market borrowings have increasingly become the major source of funds for public debt. It alone provides two thirds of the borrowings. The share of open market loans increased from 52.7 percent in 2014-15 to 66.7 percent by 2020-21. The share of Central government loans in the total debt of the state government has been steadily declining- from 6.4 percent in 2014-15 to 3.4 percent by 2020-21. The share of loans from other institutions stood at 4.2 percent in 2014-15 and 4.7 percent in 2020-21. The proportion of loans from other institutions stood at 4.2 percent in 2014-15 and 4.7 percent in 2020-21. The share of small savings and provident funds were 10.2 and 14.9 percent in 2014-15 and they declined to 2.9 percent and 5.4 percent by 2020-21 respectively. On the contrary, the share of deposits and reserves has consistently increased from 11.5 percent to 17 percent during the period between 2014-15 and 2020-21 (Table 3).

**Table: 2 Public Debt by Sources in Andhra Pradesh : 2014 to 2020-21 (Crores)**

Year	Open Market Loans	Loans from Central	Loans from Other Institutions	Small Savings	Provide nt Fund	Deposits and Reserves	Total
2014-15	78441	9500	6317	15166	22142	17176	<b>148742</b>
2015-16	94925	8957	4854	15924	16075	33116	<b>173851</b>
2016-17	112630	9025	13360	14792	13567	37938	<b>201312</b>
2017-18	131553	8977	14602	13659	13509	41406	<b>223706</b>
2018-19	155376	10223	15393	12504	11583	47429	<b>252508</b>
2019-20	188820	10533	15465	11331	16501	59552	<b>302202</b>
2020-21	232659	11710	16484	10119	18744	59282	<b>348998</b>

Source: Government of AP, Budget Documents (Various years)

**Table: 3 Public Debt by Sources in Andhra Pradesh : 2014 to 2020-21 (%)**

Year	Open Market Loans	Loans from Central	Loans from Other Institutions	Small Savings	Provide nt Fund	Deposits and Reserves	Total
2014-15	52.7	6.4	4.2	10.2	14.9	11.5	100.0
2015-16	54.6	5.2	2.8	9.2	9.2	19.0	100.0
2016-17	55.9	4.5	6.6	7.3	6.7	18.8	100.0
2017-18	58.8	4.0	6.5	6.1	6.0	18.5	100.0
2018-19	61.5	4.0	6.1	5.0	4.6	18.8	100.0
2019-20	62.5	3.5	5.1	3.7	5.5	19.7	100.0
2020-21	66.7	3.4	4.7	2.9	5.4	17.0	100.0

Source: Calculated from Table 2.

## CONCLUSION

In conclusion, the fiscal dynamics of Andhra Pradesh underscore the pressing need for strategic debt management and fiscal prudence. Since its bifurcation in 2014, the state has faced significant financial challenges, including a sharp rise in public debt, an escalating debt-to-GSDP ratio, and fiscal instability. These trends have constrained the state's ability to allocate resources effectively for both infrastructure development and welfare initiatives. Open market loans have emerged as the dominant source of funding, highlighting the state's growing reliance on external borrowings to meet its commitments. To ensure long-term fiscal sustainability and equitable growth, Andhra Pradesh must adopt policies that balance debt servicing with revenue generation, while enhancing fiscal discipline and leveraging its natural resource potential for economic development.

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