

A close-up photograph of a hand stacking several gold coins on a desk. The hand is positioned on the left side of the frame, with the index finger resting on the top of a small stack of coins. To the right, there are two more stacks of coins, one taller than the other. The background is blurred, showing a laptop keyboard and a desk surface. A blue diagonal banner is overlaid on the right side of the image.

**Economic  
Research**

# **Andhra Pradesh State Finances**





# Andhra Pradesh State Budget 2021-22: Optimistic estimates despite raging Covid 2.0

June 2021

***Andhra Pradesh Finance Minister Buggana Rajendranath presented the 2021-22 budget in the midst of the Covid second wave (Covid 2.0) on 20 May 2021. With a budget outlay of Rs 2,29,779 crore, the State has targeted a fiscal deficit at 3.5% of the GSDP for 2021-22 with an optimistic 50% growth (y-o-y) in total revenue receipts. These estimates are made when the second wave hit the economy before it recovered.***

## Impact of Pandemic on 2020-21 Budget Estimates

### Contacts

**Dr M Govinda Rao**  
Chief Economic Advisor

**Anita Shetty**  
Research Officer

**Umang Pardasani**  
Rating Analyst

**Investor and Media Relations**  
91 95133 99706  
1-860-425-2742  
[investordesk@brickworkratings.com](mailto:investordesk@brickworkratings.com)  
[media@brickworkratings.com](mailto:media@brickworkratings.com)

Andhra Pradesh is one of those States that were badly ravaged by the Covid-19 pandemic in the first wave. The number of positive cases in the State rose to 6.8 lakh during the July to September 2020 period, making it the State with the second highest number of infections in the country, following Maharashtra. However, in the second wave, the State has witnessed fewer infections, although it has had to adopt containment measures, including the extended curfew till 10 June as it continues to report new cases. The number of active cases are as many as 1,23,426 as of 6 June 2021, and the total confirmed cases number is 17,58,339 so far.

Like in the rest of the country, in Andhra Pradesh, the Covid-19 pandemic has had a severe adverse impact on growth in the GSDP, which is estimated to have contracted by 2.58% in constant prices (as per advance estimates). The budget for 2021-22 has been formulated on the assumption that the GSDP at current prices will increase by 5.1% over the previous year.

Not surprisingly, the pandemic has caused a serious erosion of revenues and substantial reallocation of expenditures in 2020-21. The revised estimate of the State's own revenue as a ratio of the GSDP was lower by 1.3%, and transfers from the Centre by 2.8% from the budget estimates. The lower-than-budgeted revenues resulted in a severe compression in both revenue and capital expenditures, the former declining by 2.7% of the GSDP, and the latter by 1.2%. Thus, the revised estimate of fiscal deficit in 2020-21 over the budget estimate was 5.4% of the GSDP, a slippage by 0.6% points, and the revised estimate of revenue deficit as a ratio of the GSDP virtually doubled to 3.46% from the budgeted 1.8%. Thus, not only was there a significant slippage in the fiscal deficit, but also the ratio of revenue deficit to fiscal deficit deteriorated from 38.2% in the budget estimate to 64.2% in the revised estimate. This implies that the compression was done predominantly in capital expenditures to contain the fiscal deficit at 5.4% of the GSDP.

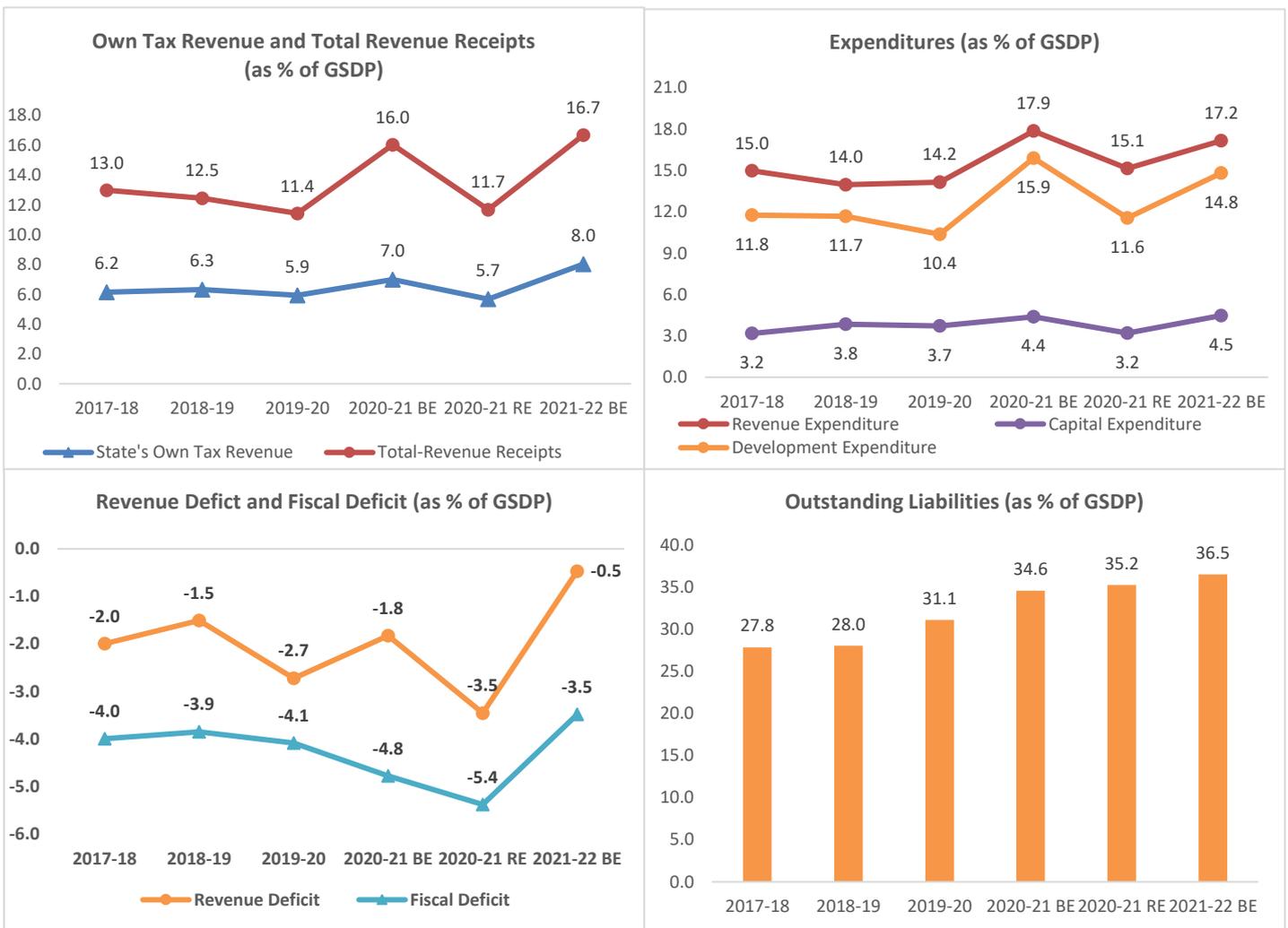
Andhra Pradesh has been having one of the highest fiscal deficits after bifurcation due to heavy expenditure requirements for the new State and a drain in revenues as predominant revenue earning areas such as Hyderabad went to the new State of Telengana. The effect of the pandemic was a further deterioration in the finances. The revised estimate of fiscal deficit for 2020-21 was 5.4%, and 64% of this was claimed by the revenue deficit. However, for 2021-22, the State has targeted the fiscal deficit at 3.5% of the GSDP, well within the limit set by the Fifteenth Finance Commission (FFC). The FFC has recommended 4% of the GSDP as the limit for 2021-22 and an additional 0.50% of the GSDP based on the performance criteria in the power sector. Containing the revenue and fiscal deficits at the budgeted level will be a major challenge for the State.

Below is the snapshot of Andhra Pradesh State's budget details.

<b>Budget at a Glance (Amount in Rs crore)</b>				
	<b>2019-20</b>	<b>2020-21 BE</b>	<b>2020-21 RE</b>	<b>2021-22 BE</b>
<b>Revenue Receipts</b>				
State's Own Tax Revenue	57,618	70,679	57,378	85,281
State's Own Non-tax Revenue	3,315	5,866	3,310	7,050
<b>Total State's Own Revenue</b>	<b>60,916</b>	<b>76,545</b>	<b>60,688</b>	<b>92,331</b>
Tax Devolution	28,225	32,238	24,441	26,935
Grants	21,876	53,175	32,934	57,931
Central Transfers	50,100	85,413	57,376	84,866
<b>Total-Revenue Receipts</b>	<b>111,016</b>	<b>161,959</b>	<b>118,063</b>	<b>177,197</b>
<b>Expenditures</b>				
Revenue Expenditures, of which	137,475	180,393	152,990	182,197
Interest Payments	17,653	20,383	22,026	22,740
Capital Expenditures	36,224	44,397	32,478	47,583
<b>Total Expenditures</b>	<b>173,698</b>	<b>224,789</b>	<b>185,468</b>	<b>229,779</b>
Revenue Deficit	-26,441	-18,434	-34,927	-5,000
Fiscal Deficit	-39,684	-48,296	-54,369	-37,029
Primary Deficit	-22,031	-27,912	-32,343	-14,289
<b>GSDP at current prices</b>	<b>971,224</b>	<b>1,010,125</b>	<b>1,010,148</b>	<b>1,061,781</b>
<b>Debt Outstanding</b>	<b>301,802</b>	<b>348,998</b>	<b>355,875</b>	<b>387,125</b>
<b>Fiscal Position: As % of GSDP</b>				
<b>Revenue Receipts</b>				
State's Own Tax Revenue	5.93	7.00	5.68	8.03
State's Own Non-Tax Revenue	0.34	0.58	0.33	0.66
<b>Total State's Own Revenue</b>	<b>6.27</b>	<b>7.58</b>	<b>6.01</b>	<b>8.70</b>
Tax Devolution	2.91	3.19	2.42	2.54
Grants	2.25	5.26	3.26	5.46
Central Transfers	5.16	8.46	5.68	7.99
<b>Total-Revenue Receipts</b>	<b>11.43</b>	<b>16.03</b>	<b>11.69</b>	<b>16.69</b>
<b>Expenditures</b>				
Revenue Expenditures, of which	14.15	17.86	15.15	17.16
Interest Payments	1.82	2.02	2.18	2.14
Capital Expenditures	3.73	4.40	3.22	4.48
<b>Total Expenditures</b>	<b>17.88</b>	<b>22.25</b>	<b>18.36</b>	<b>21.64</b>
Revenue Deficit	-2.72	-1.82	-3.46	-0.47
Fiscal Deficit	-4.09	-4.78	-5.38	-3.49
Primary Deficit	-2.27	-2.76	-3.20	-1.35
BE: Budget Estimates, RE: Revised Estimates				
Source: Andhra Pradesh Budget Documents 2021-22, GSDP data for 2020-21 derived from the latest budget estimates, BWR Research				

The budgeted expenditure on containing the pandemic and on healthcare facilities, among others, has increased fiscal stress. The Government has spent Rs 2,246 crore on multiple interventions for the prevention, mitigation and management of the Covid-19 pandemic. Even during the first wave of the pandemic, the State government had launched a slew of welfare schemes in line with its poll promise on Navaratnalu. With continuing focus on welfare, health, agriculture and education, the State has had to curtail revenue and capital expenditures. The total debt outstanding, which was at Rs 3,01,802 crore at the end of the FY20, reached to Rs 3,55,875 crore at the end of FY21 (RE). The debt to GSDP ratio also stood higher at 35.23% in FY21 compared to 31.07% in FY20, while this is estimated to inch up further to 36.46% in FY22 as per the latest budget. The FFC has recommended the debt consolidation for the State from 35% of the GSDP in 2020-21 to 32.1% in 2025-26, and the prescription for 2021-2 is 34%, and the budgeted outstanding liabilities are higher by almost 2.5% of the GSDP.

### Loss of revenue due to disrupted economic activities led to higher debt levels and deficits

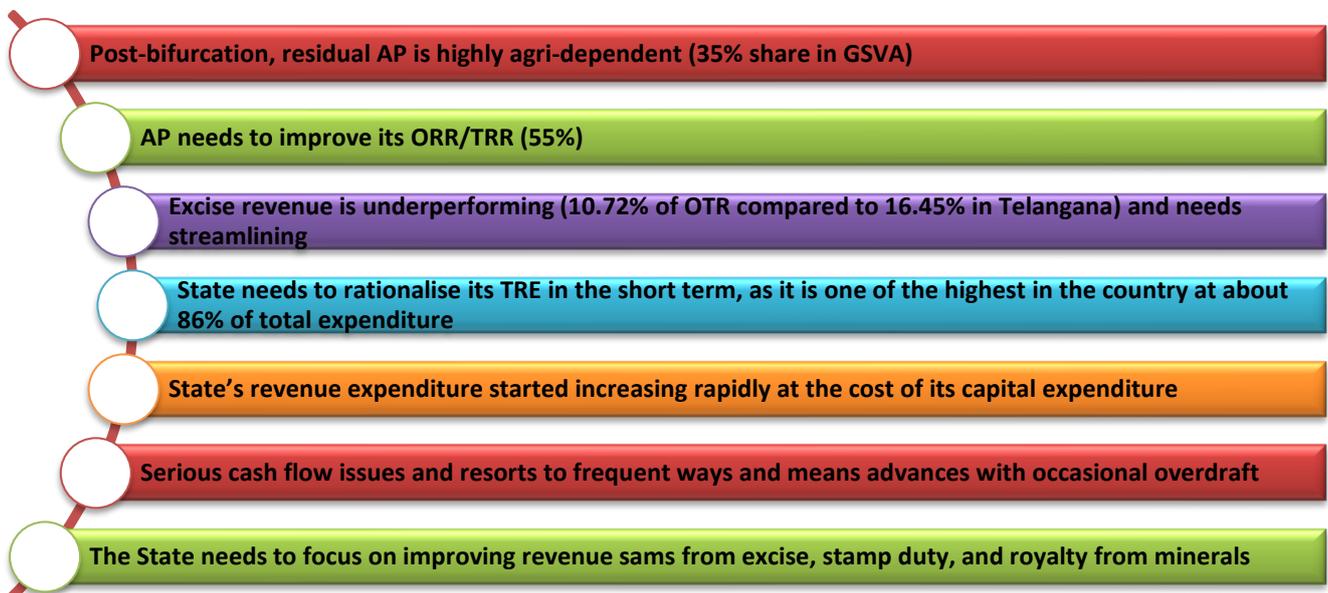


Source: Andhra Pradesh Budget Documents 2021-22 and BWR Research

## Need to bring down deficits and debt levels

The government has continued to run a higher fiscal deficit and high debt levels and there is a need to keep taking steps to generate more revenue from its own sources. For 2021-22, the State is expected to collect Rs 85,281 crore through own tax revenue, which is 48.6% higher than that in FY21. Similarly, non-tax revenue is estimated to be double from that in FY21. On the other hand, the reliance on central transfers continued, and is estimated to be 48% higher than that received in 2020-21. The FFC report highlighted the need to improve Andhra Pradesh's Own revenue receipts to total revenue receipts (ORR/TRR) ratio and to rationalise its total revenue expenditure in the short term as it is one of the highest in the country (at about 82% of the total expenditure in FY21). The State needs to focus on improving revenue streams from excise, stamp duty and royalty from minerals.

## Reform signposts highlighted in the FFC report



## Conclusion

With repeated lockdowns, revenues to the exchequer are likely to reduce from that estimated. Budget estimates for 2021-22 are likely to undergo significant changes during the year due to the prevailing uncertainty regarding the pandemic waves and challenges of vaccinating the population. The State has set ambitious targets for the current fiscal, which looks challenging to achieve if the current pandemic situation prolongs. As mentioned earlier, containing revenue and fiscal deficits at the budgeted level will be a major challenge, particularly as selective containments in the second wave, which could disrupt economic activities and revenue collections from both, own sources and transfers from the Centre.

## ABOUT BRICKWORK RATINGS

Brickwork Ratings is India's home-grown credit rating agency built with superior analytical prowess from industry's most experienced credit analysts, bankers and regulators. Established in 2007, Brickwork Ratings aims to provide reliable credit ratings by creating new standards for assessing risk and by offering accurate and transparent ratings. Brickwork Ratings provides investors and lenders timely and in-depth research across the structured finance, public finance, financial institutions, project finance and corporate sectors. Brickwork Ratings has employed over 350 credit analysts and credit market professionals across 8 offices in India. Our experienced analysts have published over 12,000 ratings across asset classes. Brickwork Ratings is committed to provide the investment community with the products and services needed to make informed investment decisions. Brickwork Ratings is a registered credit rating agency by Securities and Exchange Board of India (SEBI) and a recognised External Credit Assessment Agency (ECAI) by Reserve Bank of India (RBI) to carry out credit ratings in India. Brickwork Ratings is promoted by Canara bank, India's leading public sector bank. More on Canara bank available at [www.canarabank.co.in](http://www.canarabank.co.in)

BWR Rating criteria is available at <https://www.brickworkratings.com/ratingscriteria.aspx>

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

## DISCLAIMER

Copyright © 2021 by Brickwork Ratings India Pvt Ltd., 3rd Floor, Raj Alkaa Park, 29/3 & 32/2, Bannerghatta Main Rd, Kalena Agrahara, Bengaluru, ..... 560076. Telephone: +91 80 4040 9940. Fax: +91 80 4040 9941. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings, Brickwork Ratings relies on factual information it receives from issuers and underwriters and from other sources Brickwork Ratings believes to be credible. Brickwork Ratings conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Brickwork Ratings' factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Brickwork Ratings' ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Brickwork Ratings relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Brickwork Ratings and to the market in offering documents and other reports. In issuing its ratings Brickwork Ratings must rely on the work of experts, including independent auditors with respect to financial Statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

THE INFORMATION IN THIS REPORT IS PROVIDED "AS IS" WITHOUT ANY REPRESENTATION OR WARRANTY OF ANY KIND. A Brickwork Ratings rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Brickwork Ratings is continuously evaluating and updating. Therefore, ratings are the collective work product of Brickwork Ratings and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Brickwork Ratings is not engaged in the offer or sale of any security. All Brickwork Ratings reports have shared authorship. Individuals identified in a Brickwork Ratings report were involved in, but are not solely responsible for, the opinions Stated therein. The individuals are named for contact purposes only. A report providing a Brickwork Ratings rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time, for any reason in the sole discretion of Brickwork Ratings. Brickwork Ratings does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Neither Brickwork Ratings nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, "BWR Reps") guarantee the accuracy, completeness or adequacy of the Report, and no BWR Reps shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of this publication. In no event shall any BWR Reps be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages. Brickwork Ratings receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities.