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A.P STATE FINANCE ISSUES AND PERSPECTIVES

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Abstract

An attempt has been made in this paper to analyse the issues pertaining to Andhra Pradesh state finance. The paper mainly highlighting on states own revenue and non-revenue, revenue expenditure and capital expenditure .It also analyses about debt position, interest payments of the state. Further it discusses the main cause for increase in expenditure and economic downturn at various stages. Finally, it concentrates on state bifurcation, the present economic condition of the state. The AP government has to concentrate much more on mobilisation of revenue in different sources without any burden on the people. It has to increase it non tax revenue sources than that of tax revenue. The government must tap every resources of the central government.

Keywords: A.P State Finances, Revenue resources, funds centre to state, Revenue Expenditure

INTRODUCTION:

State Finances have been under stress for well over a decade on account of various factors such as increase in the establishment costs (salaries and pensions), rising interest payments, welfare commitments, power sector expenditure, etc.This fiscal stress is the result of expenditure commitments rising faster than revenue receipts, less than anticipated returns from major projects in irrigation, power,etc. and the increasing debt burden of the government. The structure of state receipts under the broad categories of revenue and capital with figures for the last decade. An attempt has been made in this paper to analyse the issues pertaining to Andhra Pradesh state finance. The paper mainly highlighting on states own revenue and non-revenue, revenue expenditure and capital expenditure .It also analyses about debt position, interest payments of the state. Further it discusses the main cause for increase in expenditure and economic downturn at various stages. Finally, it concentrates on state bifurcation, the present economic condition of the state.

DATA SOURCES AND METHODOLOGY:

The analysis is largely based on information and findings of earlier studies on the subject pertaining to the state. The year 1995-96 has been chosen as the beginning of fiscal reforms while 2013-14 is the last year for which least revised estimates are available. The data are obtained from the Reserve Bank of India Bulletins, Budget Documents, Economic Surveys, Annual Fiscal Framework 1996 to 2014, budget speeches, Government of Andhra Pradesh, Reports of the CMIE besides other documents of the Government of India and World Bank. Simple analytical tools have been used to analyse the information obtained from these sources.

MOBILIZATION OF REVENUE RESOURCES:

A detailed study of the revenue trends shows that the slower growth more clearly. During the period 1985-86 to 1995-96 the total tax revenue grew at hardly 13.5 percent per annum. In total the total revenue receipts of the state as a proportion of GSDP increased from 15.44 percent in

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1980-81 to 16.90 percent in 1984-85. But this proportion subsequently declined from 16.04 percent in 1990-91 to 12.75 percent in 1994-95 and further to 12.37 percent in 1995-96. In the next years Revenue mobilization is improved in the state at significant levels.

STATE'S OWN REVENUE

TABLE-1 State's Own tax revenue

	Sales tax	**State excise**	**Taxes on motor vehicles**	**Stamp and registration**	**Land revenue**	**Professional Tax**	**Electric duty**	**Other taxes and duties**
2001-02	7303	1652	938	805	20	152	110	126
2002-03	7741	1856	929	1000	86	158	110	128
2003-04	8322	1915	1068	1112	35	168	139	149
2004-05	9187	2093	1169	1388	34	180	138	179
2005-06	11041	2685	1356	2013	69	227	152	210
2006-07	12946	3437	1365	2865	114	312	151	160
2007-08	15467	4041	1604	3086	144	356	195	189
2008-09	21852	5753	1801	2931	130	374	219	218
2009-10	23640	5849	1995	2639	222	430	159	179
2010-11	29145	8265	2627	3834	171	490	286	215
2011-12	34910	9612	2986	4385	141	540	305	247
2012-13	40715	9129	3357	5115	62	580	309	336
2013-14	52500	7500	4352	6414	50	711	335	391

The own tax revenue consists of sales Tax, State Excise, Taxes an motor vehicles, Stamp and registration, Land revenue, Professional Tax, Electricity Duty, and other taxes and duties. During the period 2000-01 to 2009-10 own tax revenue steadily increased. It went up from Rs. 10,551 crores to Rs 40,664 crores. In the year 2013-14 the total own tax revenue stood at Rs.230315 crores. Sales tax excise tax motor vechile tax and stamps, registration contribution to the bulk of the tax revenue. The tax collections drastically reduced as compared to the last five years.due to agitations bunds and division of the state of Andhra Pradesh have effected the collection of tax revenue in the year 2013-14. The average rate of growth of tax revenue stands at 19 percent last three years.

NON – TAX REVENUE:

The Non – tax Revenue covers mines and minerals, forest, interest receipts, Education, Medical and health, contraintrest and others. During the period 2000 -01 to 2009 – 10 the non – tax

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revenue Increased from Rs 2918 crores to 14106 crores. Among the non – tax revenue resources mines and minerals Interest receipts occupying major share.

TABLE-2 STATE OWN NON REVENUE RESOURCES

	MINES AND MINERALS	FOREST	INTEREST RECEIPTS	EDUCATION	MEDICAL AND HEALTH	CONTRA Interest	OTHERS
2001-02	599	46	312	92	49	1226	593
2002-03	780	312	304	148	38	1414	776
2003-04	772	304	325	71	29	1494	821
2004-05	874	122	131	69	29	1579	952
2005-06	1063	138	102	69	41	1938	1340
2006-07	1321	87	217	140	34	2014	2675
2007-08	1598	91	231	61	67	3294	1722
2008-09	1685	93	186	112	48	3301	4258
2009-10	1887	103	203	55	71	4649	835
2010-11	2065	139	191	238	68	5583	2436
2011-12	2337	149	341	675	109	5938	2145
2012-13	2771	169	1766	1196	284	7860	1953
2013-14	3083	165	312	1219	121	8344	2150

The percentage of revenue expenditure that can be financed from the total revenue of the State increased from 88 % in 2002-03 to 99.8% in 2005-06. A buoyant own tax revenue complemented by thehigh devolution of central transfers based on the recommendations of the Twelfth Finance Commissionand lower growth rates of revenue expenditure contributed to this trend. In 2006-07, the state achievedvenue surplus situation of nearly 7% for the first time in a decade.However, the situation has changed in the subsequent years. The revenue surplus, which was nearly 1 % of GSDP in 2006-07, declined by 0.04 %to 0.24 % in the subsequent years. Similarly, the primary deficit that achieved a surplus in 2006-07, turned negative in the subsequent years. The fiscaldeficit, which was 1.87% in 2006-07, increased to 2.41 percent and 2.91 percent respectively insubsequent years. The state experienced turbulence in the fiscal situation, which was also attributable tothe overall economic slowdown period in 2008-09.

In the accounts of 2010-11 and 2011-12, the proportion of revenue surplus in GSDP was 0.42percent and 0.46 percent and that of fiscal deficit was 2 percent and 2.3 percent respectively. The DebtSwap Scheme (DSS) and stoppage of plan loans from the centre reduced the interest payment burdencontributing to a change in the debt pattern. The savings in interest payments on outstanding centralloans under the Debt Consolidation and Relief Facility (DCRF) as recommended by the TwelfthFinance Commission, contributed towards the declining trend in interest payments.

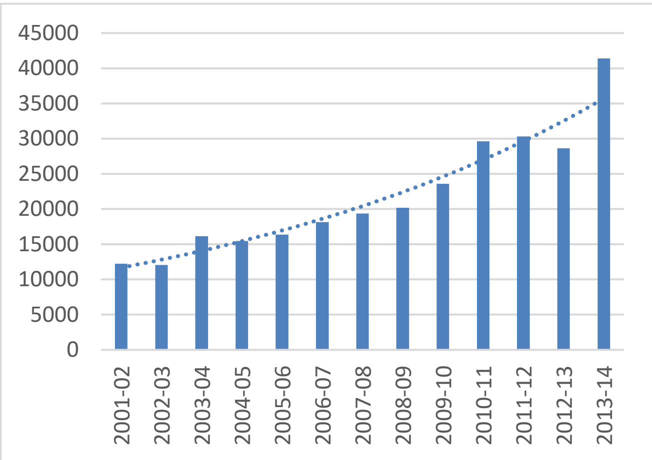
The tax and non-tax revenue receipts of the State exhibited different trends during 2002-14 – an upward movement in the revenue receipts during the first half of this period and fluctuating trends during the latter half of the period. This differentiation is important since the underlying economic drivers – both at the national as well as international level have been different in these period(s)

FLOW OF FUNDS CENTRE TO STATE:

The central assistance to state government is steadily increasing in general and it is very high in lost decade in particular. In 2001-02 around Rs12239 crores given by the central government to AP government. The flow of funds from central government assistance became doubled figure in the year 2009-10. In 2013-14 the funds touched Nearly Rs 41397 during the study period.

Digram-1

Central Government assistant to AP State



The proportion of revenue receipts and total budgetary receipts as percentage of GSDP increasedbetween 2002 and 2007on account of the following factors:

- The higher growth rate of state's own tax and own non-tax revenue.
- Higher economic growth rate.
- Benefits of fiscal reform measures initiated during the late 90s specifically in improving expenditure management, which included:
- The better maintenance of existing assets in preference to starting new projects;
- Completion of on-going projects through critical balancing investments;
- Launching new projects and schemes on strict cost-benefit criteria
- Performing a zero-based evaluation of every scheme and phase out ineffective ones;
- Base budgeting on a realistic estimate of resources to avoid over-stretched commitments
- Emphasizing quality of expenditure and evaluation of programmes on physical

Performance indicators in addition to financial ones.

It also included inviting private sector participation in the infrastructure sector and framing growth-enhancing policies.

- Higher growth rate of share in central taxes
- Simultaneously, empowerment of the States, augmentation of tax (VAT), non-tax
- revenues and reforms of State PSUs helped revenue growth
- Fiscal deficit and revenue deficit have considerably improved
- AP's debt / GSDP ratio was well within the set limits

REVENUE EXPENDITURE:

Naturally, the main heads of revenue, expenditure are being shown in the budget of the state govt. The revenues expenditures are met out of the revenue receipts of the government like tax revenues and other revenues. The revenue account expenditure of state govt since 2001 -02. It is clear from the data the revenue expenditure varying around 86.55 percent to 77.69 percent It is also clear from the data the revenue expenditure occupies line share in the total expenditure. The revenue expenditure was Rs 12876 Cr excluding public debt repayments. The proportion of revenue expenditure constitutes 85.72 percent of total expenditure. Among the different components the fastest growing items are the interest payments, salaries andpensions despite the overall number of employees in Government & Public Sector dropping

TABLE-3

YEAR	Revenue Expenditure	Capital outlay	Net lending(Loans
2001-	86.55	10.82	2.63
2002-	85.07	12.39	2.53
2003-	86.92	12.39	0.69
2004-	84.75	14.66	0.60
2005-	80.91	17.76	1.33
2006-	80.03	19.13	0.84
2007-	77.69	18.38	3.93
2008-	82.18	13.77	4.04
2009-	80.63	17.53	1.84
2010-	84.63	11.99	3.39
2011-	82.98	12.59	4.42
2012-	84.64	12.48	2.87
2013-	83.25	13.97	2.78

CAPITAL EXPENDITURE

Capital expenditure includes market borrowings mainly for Irrigation sector, Roads and Bridges, Housing and capital works for welfare sectors like Education, Health etc. Prudent fiscalmanagement demands asurplus on revenue account to finance a part of the capital expenditure. Thecapital expenditure,especially in our case is mostly financed by borrowings from open market andexternally Aided Projects. Unfortunately, the expenditure efficiency on irrigation, roads and bridges has been questionable and most of the assets haven't taken shape to give back results. The state is continuously implementing the schemes like subsidy rice

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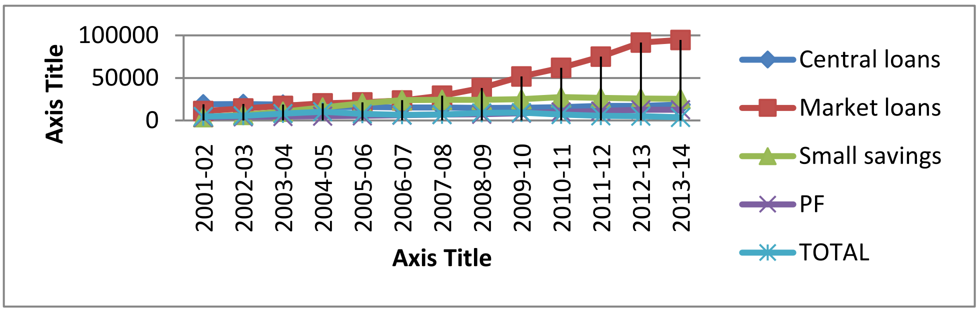
power subsidy old age pensions, old age pensions pavalavadi to SHGs and housing programmes.

DEBT POSITION

Debt inherited by the State in 1995-06 was Rs 19,000 Cr. The total public debt in 2003-04 was Rs58,770 Crore, indicating a total borrowing of only Rs 39,000 Crore in nine years. Whereas debt increased from Rs 66,393 Crores in 2004-05 to Rs 1,73,849 Crores by 2013-14, which meant 1,07,456Crores were borrowed over nine years. While the per capita debt in 2003-04 was around Rs 7,712, it hasincreased three fold to Rs 20,573 in 2013-14. The main sources of debt comprises of central loans, small savings and provident fund. Among the above components markets loans occupies major, it followed by central loans small savings and provident funds. The total outstanding debt by the end of March 2014 was Rs 189741 cr which comes to 22 percent of GSDP.

Diagram-2



The outstanding debts include the net balance of reserve funds and deposits in public account. The state within the limits of the outstanding debt of 28.2 percent fixed in the FRBA act. The outstanding central loans as a proportion of the total debt comprises of 9.17 percent and market borrowings consists of another 58.70 percent.

INTEREST PAYMENTS

With the growing debt, interest payments have increased in both absolute terms as well as

percentage to GSDP. As the debt is being deployed for current consumption and to build low yielding assets the burden of interest is growing much faster than revenue augmentation. In other words, debt servicing costs are eating into an increasingly larger share of new debt raised each year. The interest payments on government debt had gone up from up from Rs.5158 Cr in 2001-02 to Rs 14519 in 2013-14. The interest payments during 2013-14 increased by 10.71 percent over previous year.

TABLE-4

years	Interest payments (Cr)	REVENUE DEFICT SURPLUS (Cr)	FISCAL DEFICTC (Cr)
2001-02	5158	-	6723
2002-03	6131	-	7625
2003-04	6856	-	7450
2004-05	7091	-2558	8192

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2005-06	7008	-64	8300
2006-07	7280	2807	5643
2007-08	7589	159	8787
2008-09	8057	1004	12406
2009-10	8914	1230	14010
2010-11	9675	2462	11803
2011-12	10561	3138	15402
2012-13	11662	1128	17508
2013-14	14519	1023	24487

SALIENT FEATURES ON EXPENDITURE FRONT

Some of the key issues relating to expenditure trends include the following:

- Capital expenditure dropped in the last five years from 3.5% to 1.79%
- The expenditure on pensions showed an increasing trend from 2002 onwards
- Increase in establishment costs (salaries & pensions), rising interest payments, welfare commitments, power expenditure characterises recent performance
- Fiscal stress is the result of expenditure commitment rising faster than revenue receipts, less thananticipated returns from major projects in irrigation, power etc., and the increasing debt burdenon the Government
- Power subsidy went up from Rs.1696.92 crores during 2005-06 to Rs.6617.36 crores by 2013-14 without any improvement in quality of power supplied or in meeting the demand
- Share of expenditure on education, health & family welfareindustry& minerals has not improved.

The expenditure, which used to be around 10% on irrigation and flood control, has doubled inthe last decade without any visible results. Most of the assets are non-performing despite huge expenditure on this sector.

ECONOMIC DOWNTURN 2008-14

It is clear from the data that the growth of State's own tax revenues have declined in the first three years of the eleventh plan period. The overall economic downturn cycle also led to the following:

- Components of own tax revenue showed declining growth rates during 2008-10.
- Fluctuations in the growth rates of grants-in-aid
- Substantial increase in debt and non-debt components of capital receipts in 2007-08.
- Fall in growth rate of non-tax revenue and also share in central taxes.
- Relatively lower economic growth rate
- Revenue receipts as percentage of total receipts started declining from 14.84% during 2007-08 to 12.95% in 2013-14
- Increased dependence on borrowings for the plan

GSDP growth fell precipitously from 2008-09 onwards

IMPLICATIONS OF STATE DIVISION

The total receipts of revenue including State's own revenue, Central taxes devolution, grants andmarket borrowings are going to be the same for both Telangana and residuary state of

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Andhra Pradesh -with the entire Hyderabad revenue going to Telangana. However, on the expenditure side, due to theallocation of debt, salaries, pensions and subsidies based on population ratio, the residuary State of APwill have more i.e., 58% share, while Telangana will have only 42%.

The result is very high revenue deficit and fiscal deficit for the residuary state of Andhra Pradesh – unprecedented and like never before. There has not been any revenue deficit for the State in the last decade and fiscal deficit has never crossed 3% of GSDP so far. The residuary State of AP, unfortunately will have a revenue deficit of 4.84% and a fiscal deficit of 7.18%.The percentage of expenditure on salaries and pensions in the new State of Andhra Pradesh will reach 73% of its own revenues from 58% in the combined State, leaving little scope for developmentalexpenditure.

Andhra Pradesh is at a significant disadvantage vis-à-vis Telangana State. First, the GSDP of the AP State is only 55.7 per cent of the combined State's GSDP, and the per capita income of the residuary AP State is much below the Telangana State. More significantly, the AP State's own revenues are far lower than that of Telangana; Andhra Pradesh State with 58.32 per cent of the population earns only 46.6 per cent of the total revenues of the combinedState. Further, Andhra Pradesh has much higher debt burden compared to Telangana, as population ratio was the sole criterion for apportionment of debt between the two States.The resource gap for the current year is estimated at Rs 18,236 crores, which translates to about4.84 per cent revenue deficit and 7.18 fiscal deficits. The resource gap for the ten-month period of thecurrent fiscal year is around Rs 15,691 crores, compared to Rs 3,555 crores surplus of Telangana. Thecurrent context has positioned Andhra Pradesh in a fiscally precarious position.

It is observed that the available resources of Rs.8416 crores in respect of Residuary Andhra Pradesh available for Plan Budget is not even sufficient to meet the central assisted schemes including matching State Share of Rs.10740 crores. Against the requirement of more than Rs.32,000 crores for the plan, available resource are only Rs.5,791 crores. It means approximately Rs.26,000 crores are required additionally over and above the limits approved by Government of India for the current year borrowing. This would require relaxation from the limits imposed by FRBM Act. A continuation of this trend may lead to fiscal imbalances, which may cause irreparable damage to the economy and adversely affect growth and development of the State. Immediate corrective action is required and the Government has to decide on an appropriate program to ensure that the fiscal objectives of the state are achieved in a reasonably short period. Hence the AP government has to concentrate much more on mobilisation of revenue in different sources without any burden on the people. It has to increase it non tax revenue sources than that of tax revenue. The government must tap every resources of the central government.

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