



CHAPTER
3
PUBLIC FINANCE

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Introduction

On the 2nd of June 2014, the state of Andhra Pradesh was bifurcated through enactment of the Andhra Pradesh Reorganisation Act (No.6 of 2014). This hasty and reckless bifurcation of the state pushed the residuary State of Andhra Pradesh into inexorable financial situation. Due to the variance in methodology adopted for allocation of revenue receipts and expenditure during bifurcation, the newly formed divided Andhra Pradesh ended up facing tremendous fiscal challenges.

Though the Central taxes devolution, grants and market borrowings are of similar magnitude for both Andhra Pradesh and Telangana, Andhra Pradesh lost significant portion of her resource base after division and is therefore ill-equipped to compete with the revenue surplus neighbouring states. Also, on the expenditure side, due to the allocation of debt, salaries, pensions and subsidies based on population ratio, the percentage of expenditure accounted to salaries and pensions in the new State of Andhra Pradesh accounted for 73% of its own revenues, which stood at only about 58% for the combined State.

This left little scope for developmental expenditure in the state. Ultimately, this has resulted in an unprecedented situation, where the state faces a high revenue deficit as well as fiscal deficit situation. It needs to be emphasized that there had never been any situation of revenue deficit for the combined State for the decade prior to bifurcation and fiscal deficit had never crossed 3% of GSDP.

Despite of all these difficulties and unfavourable conditions, the Government of Andhra Pradesh has been committed towards the state’s development and is working on improving the health of her public finance. The Government through its visionary leadership and efficient management by its executives has been striving continually with a focussed vision of transforming the state into Swarna Andhra - which will be attained through inclusive, equitable and sustainable development.

The State’s Revenue

The revenue for the state in FY 2015-16 stood at Rs 44423 Crores from Own Tax sources, Rs 5341 Crores from Own Non Tax sources and Rs 40104 Crores of Central Transfer. The details of the State’s Own Tax Revenue, Own Non Tax Revenues and Resource flow from the Centre for the FY 2015-16 with the FY 2014-15 (2nd June 2014-Mar 2015)

is given in Chart 3.1. The details of the same are given as Annexure 3.1, Annexure 3.2 and Annexure 3.3 respectively.

Comparison of State’s Revenue

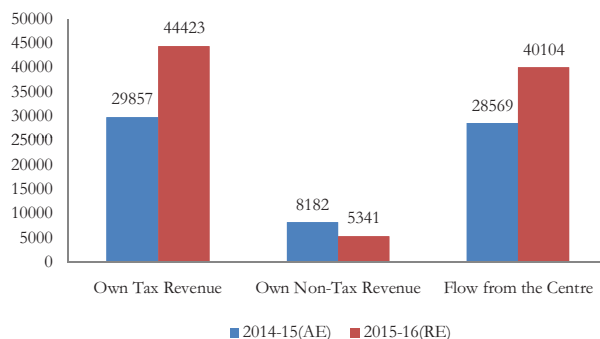


Chart 3.1 State’s Revenues for FY 2014-15# and FY 2015-16

Note: #FY 2014-15 (Accounts) stands of the period post division i.e. from 2nd June 2014- Mar 2015

State’s Own Tax Revenue

Similar to the situation for the state post division in the FY 2014-15 (June 2nd 14- Mar 15) Sales Tax, State Excise, Tax on Motor Vehicles and Stamps & Registrations constituted the bulk of her Own Tax revenue in FY 2015-16 as well. The total Own Tax Revenue was Rs 29857 Crores in FY 2014-15 (2nd June 2014 – Mar 2015) and Rs 44423 Crores in FY 2015-16. The composition of individual components of Own Tax Revenue for FY 2015-16 is shown as Chart 3.2. It is to note that Sales Tax accounted for 74 percent of the State’s Own Tax Revenue for FY 2015-16. The same have been detailed in Annexure 3.1.

Composition of States Own Tax Revenue 2015-16 (RE)

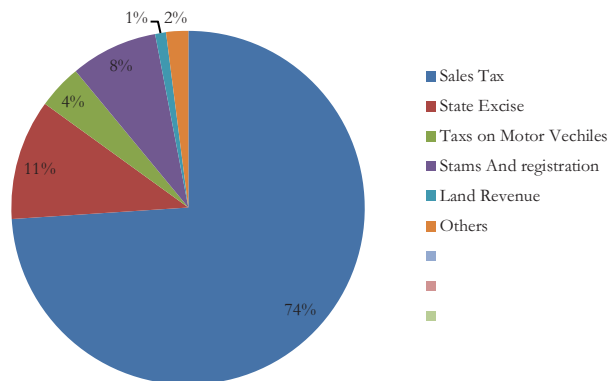


Chart 3.2 Composition of State’s Own Tax Revenue – FY 2015-16 (RE)

State's Own Non Tax Revenue

State's Own Non Tax Revenue was Rs 3955 Crores in the FY 2014-15 (2nd June 2014 – Mar 2015) and was Rs 5341 Crores in FY 2015-16. The main contribution towards the State's Own Non Tax Revenue included the Mines and Mineral, Forests, Education and Other revenue sources.

The composition of these revenue sources are given in Chart 3.3. Mines and Minerals, Forests and Education sector contributed 25%, 20% and 21% respectively towards the State's Own Non Tax Revenue in the FY 2015-16. The details of the same for the two years are given in Annexure 3.2.

Composition of State Own Non-Tax Revenue 2015-16 (RE)

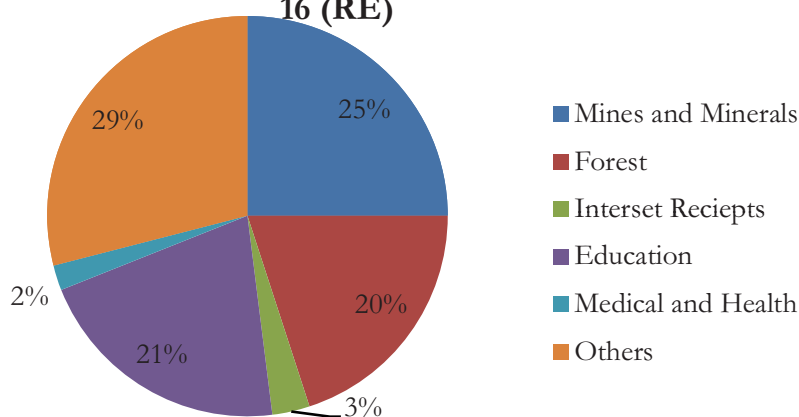


Chart 3.2 Composition of State's Own Non Tax Revenue – FY 2015-16 (RE)

Central Transfers

Resource flow from the Centre was Rs 28569 Crores in the FY 2014-15 (2nd June 2014 – Mar 2015) and was Rs 40104 Crores in FY 2015-16. Finance Commission allocation constituted a major portion of this Central

Transfers, which was Rs 15517 Crores in the FY 2014-15 (2nd June 2014 – Mar 2015) and Rs 30116 Crores in FY 2015-16. The central transfers for the two financial years are elaborated in Chart 3.4. The details of the same are given in Annexure 3.3.

Comparison of Central Transfers

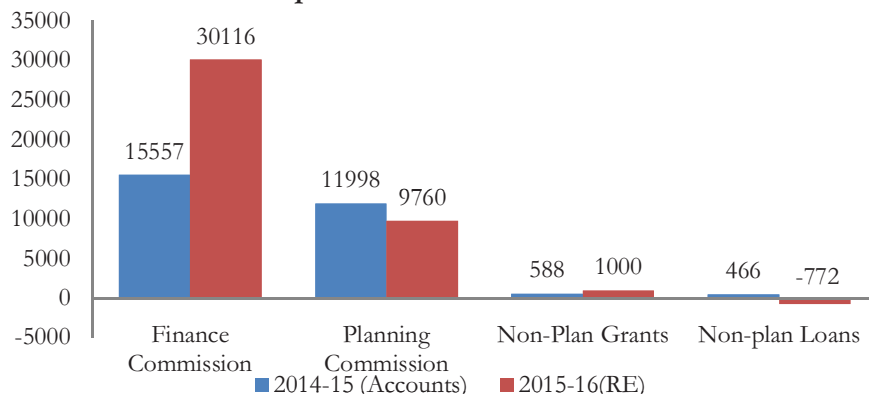


Chart 3.3 Central Transfers for FY 2014-15# and FY 2015-16

Note: #FY 2014-15 (Accounts) stands of the period post division i.e. from 2nd June 2014- Mar 2015

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The State's Expenditure

The Total Expenditure by the State was Rs 86906 Crores in the FY 2014-15 (2nd June 2014 – Mar 2015) and was Rs 106425 Crores in FY 2015-16. The revenue expenditure was Rs 75246 Crores in the FY 2014-15 (2nd June 2014 – Mar 2015) and was Rs 93521 Crores in FY 2015-16. It is important to mention that in its strive to built a developed Andhra Pradesh, the state spent Rs 12559 Crores on its Capital Outlay in FY 2015-16, which stood at Rs 6520 Crores in FY 2014-15 (2nd June 2014 – Mar 2015). This was mainly spent on capital expenditures like irrigation, roads, infrastructure and revenue expenditures through welfare schemes like subsidy rice, power subsidy, pavalu vaddi, old age pensions, housing programs etc. The state expenditures for the two financial years are compared in Chart 3.5. The details of the same are given in Annexure 3.4.

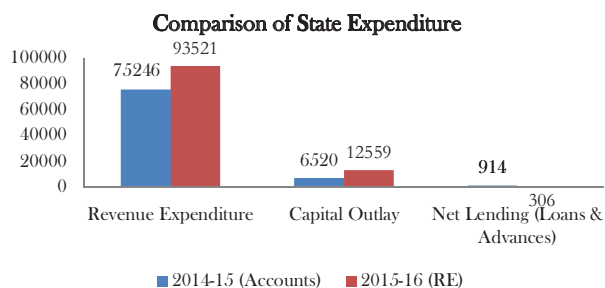


Chart 3.4 State Expenditure for FY 2014-15# and FY 2015-16

Note: #FY 2014-15 (Accounts) stands of the period post division i.e. from 2nd June 2014- Mar 2015

Debts and Interest payments

The Total Debt by the State was Rs 156472 Crores in the FY 2014-15 (2nd June 2014 – Mar 2015) and was Rs 170115 Crores in FY 2015-16. The percentage composition of debt sources like Central Loans, Small Saving Loans, PF and other sources remained almost similar in these two years.

The Market burrowing outstood at Rs 78440 Crores in the FY 2014-15 (2nd June 2014 – Mar 2015) and at Rs 95453 Crores in FY 2015-16. The state paid Rs 9478 as interest towards its debts in the FY 2015-16 wherein it had paid Rs 7902.82 Crores towards interest payments in the FY 2014-15 (2nd June 2014 – Mar 2015). The Debt outstanding as percentage of GSDP was 29.36 percent in FY 2014-15 (2nd June 2014 – Mar 2015) which came down to 28.19 in FY 2015-16. This is because of the greater GSDP growth in the state during this period. Chart 3.5 shows the composition of outstanding debt in the state for the FY 2015-16. The details of the same are given in Annexure 3.5 and Annexure 3.6.

Composition of State Debts 2015-16 (RE)

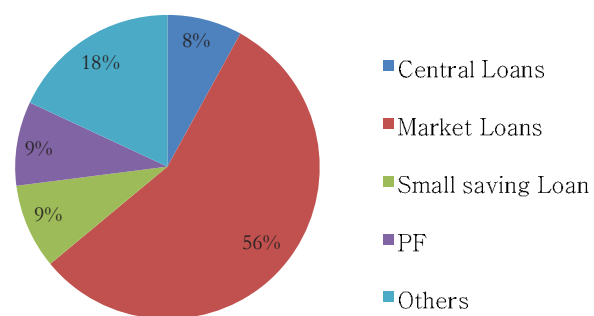


Chart 3.5 Composition of State's Debts – FY 2015-16 (RE)

Revenue and Fiscal Deficits

In the FY 2014-15 (2nd June 2014 – Mar 2015), owing to the aftershock of bifurcation on its public finances, divided Andhra Pradesh faced a Revenue Deficit of Rs 13777 Crores and a Fiscal Deficit of Rs 20746 Crores. Due to focused and planned management of the state's finances, these deficit numbers could be brought down to Rs 4140 crores and Rs 17005 crores for the Revenue deficits and Fiscal deficits respectively for the FY 2015-16. The details are given in Annexure 3.6.