



# **GOVERNMENT OF ANDHRA PRADESH**

## **Statement of Fiscal Policy to be laid on the table of the A.P. State Legislature in March, 2008**

**(As required under section 5 of the Andhra Pradesh  
Fiscal Responsibility and Budget Management Act, 2005)**

**K. ROSAIAH**  
**MINISTER FOR FINANCE**

Form F-1					
MACRO ECONOMIC FRAMEWORK STATEMENT					
Economic Performance at a Glance					
Trends in Select Macroeconomic and Fiscal Indicators					
		Absolute Value (Rs. Crore)		Percentage Changes	
		2006-07 Actuals	2007-08 RE	2006-07 Actuals	2007-08 RE
1	2	3	4	5	6
	<b>Real Sector</b>				
1	GSDP at factor cost				
(a)	at Current Price	269173	311752	14.04	15.82
(b)	at Constant Price (1999-2000)	207904	229461	8.87	10.37
2	Agriculture Production (Primary Sector)	75811	89563	10.94	18.14
3	Industrial Production (Secondary Sector)	58555	66683	15.94	13.88
4	Tertiary Sector Prod. (Service Sector)	134807	155506	15.03	15.35
	<b>Government Finances</b>				
1	Revenue Receipts (2 +3)	44245.47	56126.60	26.96	26.85
2	Tax Revenue (2.1+2.2)	32792.20	41899.50	23.45	27.77
2.1	Own Tax Revenue	23926.20	31401.63	22.00	31.24
2.2	State's Share in Central Taxes	8866.00	10497.87	27.55	18.41
3	Non-Tax Revenue (3.1 + 3.2)	11453.27	14227.10	38.18	24.22
3.1	State's Own Non Tax revenue	6487.83	6872.13	38.29	5.92
3.2	Central Transfers	4965.44	7354.97	38.03	48.12
4	Capital Receipts (5+6+7)	12256.34	23472.35	-11.04	91.51
5	Recovery of loans	471.34	275.80	158.37	-41.49
6	Other Receipts	1889.32	8200.00		334.02
7	Borrowing and other liabilities	9895.68	14996.55	-27.21	51.55
8	Total Receipts (1+ 4)	56501.81	79598.95	16.19	40.88
<b>9</b>	<b>Non-Plan Expenditure (10+12)</b>	<b>32637.94</b>	<b>40864.48</b>	<b>13.21</b>	<b>25.21</b>
10	Revenue Account (Non-Plan)	31919.68	39909.77	12.27	25.03
	<i>Of which:</i>				
11	(a) Interest payments	7280.29	8628.63	3.88	18.52
	(b) Subsidies	4066.57	5501.84	-2.91	35.29
	(c) Wages & Salaries	10904.88	13266.41	16.73	21.66
	(d) Pension Payments	4150.49	4724.13	29.83	13.82
12	Capital Account (Non-Plan)	718.26	954.71	80.44	32.92
<b>13</b>	<b>Plan Expenditure (14+15)</b>	<b>19611.15</b>	<b>32975.05</b>	<b>35.22</b>	<b>68.14</b>
14	Revenue Account (Plan)	9518.72	15766.04	46.83	65.63
15	Capital Account (Plan)	10092.43	17209.01	25.84	70.51
16	Total Expenditure (9+13)	52249.09	73839.53	20.57	41.32
17	Revenue Expenditure (10+14)	41438.40	55675.81	18.68	34.36
18	Capital Expenditure (12+15)	10810.69	18163.72	28.42	68.02
19	Revenue Deficit/Surplus (1-17)	2807.07	450.79	-4478.52	-83.94
20	Fiscal Deficit/Surplus {(1+5+6)-16}	-5642.96	-9237.13	-32.01	63.69
21	Primary Deficit/Surplus (20-11a)	1637.33	-608.50	-226.75	-137.16

## **MACRO - ECONOMIC FRAMEWORK STATEMENT**

As part of the FRBM Act – 2005, the State Government has to prepare a Macro-Economic Framework Statement to be laid down before the Legislature. Accordingly, the Macro-Economic Framework Statement detailing macro-economic picture of the state is presented below:

Robust growth and strong macroeconomic fundamentals characterized developments in the Andhra Pradesh economy in 2007-08. In the last four years the State economy is growing constantly registering an average growth rate of 8.73%. This growth rate was attained despite up-and-down pattern in agriculture production. But volatility in agriculture production remains to be a major concern as it is the only source of livelihood to the major part of population in the state. To address this concern the Government is making concerted efforts to rejuvenate agriculture sector through huge public investment in agriculture and irrigation, which started yielding results.

During Eighties the GSDP growth averaged 6.03% higher than National GDP average of 5.68%. Relative slippage commenced during mid Nineties and became too glaring thereafter. Our GSDP growth during 1995-02 averaged 5.67% significantly lower than National GDP average of 6.13%. However, due to bold policy initiatives during its mid course in several major areas, the growth during 10<sup>th</sup> Plan in Andhra Pradesh is 7.42% just a notch below 7.65% for the country. It is by far the highest growth achieved during any Five Year Plan in Andhra Pradesh since its formation.

Going by the trend of Economic Growth in 10<sup>th</sup> Plan, the State has confidently targeted for 9.5% in its overall economy during Eleventh Plan period (2007-12). The sectoral targets are 5% for agriculture and livestock, 10% for industrial sectors, 11% for service sector.

As beginning year of Eleventh Plan, 2007-08 started with good results. The GSDP of the State at current prices in 2007-08 as per advance estimates is Rs.3,11,752 crores as against the quick estimate for 2006-07 at Rs.2,69,173 crores thus registering a growth of 15.82%. The sectoral composition of the GSDP of Rs. 3,11,752 during 2007-08 in Andhra Pradesh is - the primary sector accounted for Rs.89,563 (28.73%), the secondary sector contributed Rs.66,683 crores (21.39%) and the tertiary sector contributed Rs.1, 55,506 crores (49.88%). The State income at constant prices show that the real trend of the economic growth. The GSDP at constant (1999-2000) prices as per the advance estimates during 2007-08 is likely to be Rs.2,29,461 crore, which is an increase 10.37% over previous year's quick estimate.

The per capita income of the State is estimated to be Rs.33,970 in 2007-08 as against Rs.29,582 in 2006-07 at current prices. At constant prices, the per capita income is likely to be Rs.24,969 in 2007-08 as per advance estimates against Rs.22, 835 in 2006-07 quick estimates thereby registering a growth of 9.35%.

The growth of the economy of the State also depends on its rate of capital formation. The gross fixed capital formation in Andhra Pradesh has shown a growth of 22.28% during 2005-06 and as the percentage of GSDP it works out to 26 %.

**Inflation:** The Wholesale Price Index (WPI) Numbers of agriculture commodities increased 4.42% over previous year. To control price rise of essential commodities in the open market and also to make them available to the consumers at affordable rates Government have undertaken Market Intervention operations. During 2007-08 under the Market Intervention operations Onions (Rs.7.00 per K.G) Red gram Dal (Rs.31.00 per K.G) and pamolian Oil (Rs.46.50 per litre) are supplied through Fair Price Shops and Rythu Bazar at high times.

Study of changes in consumer prices are of concern to Government as they are likely to affect a large section of vulnerable population. Consumer Price Index is of great relevance for this purpose and is used as a tool for measuring changes in the level of retail prices of goods and services paid by concerned population segments. The Consumer Price Index (CPI) for industrial workers has increased 5% during April – Nov 2007 compared to the corresponding period of 2006. During April-Nov 2007 CPI-UNME (Urban Non-Manual Employees) increased by 6.8 % and 6.7 % respectively in the State and All India in comparison to previous year. During April - Oct 2007 CPI – AL (Agriculture Labors) increased by 8.1% in the State and 8.0 % at All India when compared to the corresponding period of previous year.

**Interest:** During the year 2007-08 Reserve Bank of India has increased CRR to 7.5% in its Monetary policy to control inflation. The Bank rate, Repo rate and reverse Repo rate are kept unchanged. The State is implementing interest subsidy programmes (Pavala Vaddi) to needy sections in the State to increase economic activities and to make poor and downtrodden active participants in the growth process. The State Government has decided to extend this Pavala-Vaddi Scheme to farmers, small entrepreneurs from the next financial year.

**Public Finance:** The finances of Government of Andhra Pradesh are robust due to efficient public finance management. The State is well in advance in eliminating revenue deficit and achieving other fiscal targets enacted in APFRBM Act,2005. The State revenue receipts stood at Rs.56126 crores in 2007-08 (RE) of which States own revenue is Rs.38273 crores. The revenue receipts under States own taxes during the year 2007-08 (RE) stood at Rs.31401 crores as against Rs.23926 crores in the previous year registering a growth rate of 31.24 %. Total expenditure (revenue + capital) stood at Rs.73839 crores for the year 2007-08 (RE). The capital expenditure constituted 24.60% of the total expenditure (revenue + capital).

## **PROSPECTS**

The economy appears to have decidedly 'taken off' and moved from a phase of high growth. Higher growth with robust tertiary sector to drive growth is likely to lead to a rise in the savings rate to finance more and more investment and hence reinforce growth itself. Government huge spendings on various programmes like Irrigation, Housing, Employment Guarantee and on Social Sector like Pensions, PavalaVaddi has also made substantial impact on economic growth activity in both demand and supply sides by improving productions of the State and increasing Purchasing power of public.

Form F-2

(See rules 4 and 5)

MEDIUM TERM FISCAL POLICY STATEMENT

A. Fiscal Indicators - Rolling Targets

(in percentages)

	Previous Year (Y-2) (Actuals) 2006-07	Current Year (Y-1) 2007-08 (BE)	Current Year (Y-1) 2007-08 (RE)	Next Year (Y-1) 2008-09 (BE)	Targets for next Two Years #	
					Y + 1	Y + 2
1 Revenue Deficit / Surplus as percentage of Total Revenue Receipts (TRR)	6.34	-0.07	0.80	1.00		
2 Fiscal Deficit as percentage of GSDP	-2.10	-3.01	-2.96	-2.82		
3 Total outstanding Liabilities as percentage of GSDP	28.02	30.15	26.91	27.29		
4 [Any additional target(s)]	Nil	Nil	Nil	Nil		

# As per the targets set by AP FRBM Act, 2005.

## FORM - F 3

### FISCAL POLICY STRATEGY STATEMENT

As part of Fiscal Responsibility and Budget Management Act, 2005 the State Government is required to prepare a medium term Fiscal Policy Strategy Statement to be laid before the Legislature. Accordingly the Government have designed a Fiscal Policy Strategy Statement based on which a fiscal correction path is drawn.

Adoption of rule-bound fiscal policy by enactment of Fiscal Responsibility Legislation has provided impetus to Government of Andhra Pradesh in process of attaining fiscal sustainability. Though the state has embarked on fiscal correction path the transition does not adversely impact capital outlay and social sector expenditure. In order to make the process of fiscal consolidation durable and sustainable adequate investment in economic infrastructure and spending on social services is essential.

The Government of Andhra Pradesh is one of the most successful State in fine tuning the State Finances with FRBM indicators. The State Government has achieved fiscal targets stipulated in FRBM Act, 2005 well in advance to the targeted year of 2008-09. As mandated in the above Act, the State Government has to eliminate Revenue Deficit by 2008-09 by reducing 0.32 percentage points in GSDP every year and the same time fiscal deficit has to be brought down to 3% of GSDP by reducing 0.25 percent points every year. The State has eliminated revenue deficit by 2006-07 itself and got a revenue surplus of Rs.2,807 crores and the fiscal deficit has also been brought down to 2.13% of GSDP from 4.04% in 2004-05.

The State Government's fiscal discipline yielded an amount of Rs.1574 crores as interest relief and Rs.1889 crores as debt relief from Government of India so far. The State Government is confident in continuing the fiscal discipline and securing these incentives till 2008-09.

The State Fiscal Policy strategy is to control revenue expenditure by cutting administrative costs with the use of available modern technology on the one hand and mobilize enough resources by plugging loopholes on the other hand, so as to enhance investment in productive capital assets and social sectors in order to attain sustainable economic growth.

#### **Tax Revenue:**

The taxation policy of Government of Andhra Pradesh is aimed at moderate levels of taxation with emphasis on efficient and effective tax administration. The desirable path to fiscal correction lies through financial empowerment i.e., by expanding the scope and size of revenue flows into the budget. Our strategy for revenue augmentation is by improvement of tax administration, facilitation of revenue buoyancy, minimizing of transaction costs and rationalization of tax structure. Hence, the focus is on streamlining and

strengthening existing tax and non-tax collection, mechanism and plugging of revenue leakages.

State's own revenue grew from Rs. 30,414 crore in 2006-07 to Rs.38,274 crore in 2007-08 (RE) and is budgeted to increase to Rs.46,739 crore in 2008-09.

The preceding three years, tax collection has increased by 20.13% every year due to the robust growth of state's economy and reforms in tax administration. High growth rate economy keeps tax revenue buoyant despite rationalization of rates. The tax revenue is estimated to be Rs.31,402 crores in 2007-08 as against Rs.23,926 crores in 2006-07. The estimated tax revenue for 2008-09 is Rs.37,866 crores which is 20.6% increase over current year Budget Estimates.

Introduction of Value Added Tax (VAT) with effect from April 1<sup>st</sup> 2005 has resulted in revenue buoyancy, as VAT is consumption oriented and levied on value added at every stage. During the year 2006-07, the Government has realized a Tax of Rs.15,467 crores on VAT & CST recording a growth rate of 19.5% over previous year 2005-06. This indicates the healthy trends in the pattern of growth of Revenue. A target of Rs.20,568 crores was set for the year 2007-08 against which an amount of Rs.16,596 crores has been realized during the year 2007-08 (up to February 2008) recording a growth of 13.19%.

The Government is taking all measures to make the VAT system more user-friendly and at the same time proposes to strengthen audit and enforcement to check the evasion of Taxes and mobilize additional revenue. As an administrative measure to check the liability of the dealers of registration, payment of taxes and the claim of input tax credit additional quarterly returns are prescribed by way of an amendment to be filed by both the VAT and TOT registered dealers furnishing the information of purchases and sales made during quarter.

The Government have already reduced Stamp duty and Registration fees from 13.5% to 12.5% and further to 9.5%. The Government has decided to bring down the present rate of 9.5% to 5% in the coming years. During the year 2006-07 revenues from Stamp Duty, Registration Fee and Transfer Duty realized a sum of Rs.2865 crore and recorded a robust growth rate of 42% over the previous year. The estimated revenue from Stamps and registration for 2008-09 is Rs.4537 crores with an increase of 21% over the current year estimates of Rs.3750 crores.

Excise Department, which earns revenue by way of excise Duty, license fee etc. realized revenue of Rs.3776 crores up to February 2008 recording a growth of 21% over corresponding period in the previous year. During 2007-08 no changes were made in the tax structure of prohibition and excise department. The Government strategy to augment revenue from excise is plugging the loopholes by controlling illicit distillations and smuggling of arrack from across the borders.



The Government collects tax from Motor Vehicles under the provisions of Andhra Pradesh Motor Vehicles Taxation Act 1963 and Andhra Pradesh Motor Vehicles Rules 1963 and notifications issued there under. For the year 2007-08, Government has fixed a target of Rs.1.892 crores for realization. The Government collected an amount of Rs.1,465.16 crores upto February, 2008 with a growth rate of 16.09% over the corresponding period of previous year.

In pursuit of the objective of reducing traffic congestion, A.P. Motor Vehicles Taxation Act 1963 has been amended by way of promulgation of an Ordinance 1/2008 to levy tax at 12% on invoice price in respect of non-transport two wheelers and four wheelers owned by institutions, organizations, societies and companies and also an additional non-transport two wheelers or four wheelers owned by individual. Similarly, new motor cabs and motor registered in other states but entering into the state of A.P are also subjected to one time tax.

### **Non-Tax Revenue:**

There is substantial increase in revenue from mines and minerals. The mineral revenue collection for the financial year 2006-07 is Rs.1321 crores and the revenue realized during the period April 2007- February 2008 is Rs. 1280 crores. The growth rate of revenue from mines & minerals sector in Andhra Pradesh is highest amongst all the States. Non-tax revenue is estimated to be Rs.8873 crores during 2008-09 registering a growth of 17% over previous year.

### **Expenditure:**

The strategy of Government's expenditure management is to redirect government expenditure away from less productive schemes towards investments in improvement of quality of life of people and strengthen their social and economic assets through improved health, education and other social services and to strengthen operation & maintenance expenditure to maintain productivity levels of existing public infrastructure. The policy emphasizes increased spending on social sectors, including rural employment, education and health. Thus the focus of the government is to moderate increases in non-plan revenue expenditure and augment capital outlays. Further, resource mobilization for taking up developmental projects for economic and social sectors assumes paramount importance.

The Government Strategy in revenue expenditure is to control non-development expenditure mostly administrative services and debt services expenditure so as to enhance development expenditure on social sectors. During 2004-05 non-development expenditure under revenue account is 43.54% of total revenue expenditure where in the administrative expenditure is 6.25% and debt services expenditure is 22.65%. Non-development expenditure was gradually reduced to 34.90% in 2007-08 (RE). Expenditure on debt services is reduced to 16.18% in 2007-08 (RE). Estimated non-

development expenditure for 2008-09 is 29.49% of total revenue expenditure. Development expenditure under revenue account gradually increased from 56.46% of total revenue expenditure in 2004-05 to 65.10% in 2007-08 RE and to 70.51% in 2008-09 Budget Estimates.

The Government is not thinking that the subsidies are drain on State Finances as they are need of hour to provide food, shelter and wage employment to all poor and vulnerable sections in the society. The State Government is spending sufficient amount on both social subsidies like rice subsidy and economic subsidies like power, agriculture inputs, housing etc. The Government has decided to implement Rs. 2 per Kg rice scheme from the next financial year. This scheme will cost an amount of Rs.1,980 crores on State exchequer. The State Government believes it is inevitable to ensure food security to the poor people living below poverty line. The Government is continuing free power to agriculture sector for 5<sup>th</sup> consecutive year for which an amount of Rs. 2,385 crores provided in the BE 2008-09.

The Government's utmost importance in spending is to create more and more assets which will give returns. Every year the State Government is increasing Capital share in total expenditure. During 2004-05 capital expenditure was Rs.7007 crores . This is increased to Rs.18,163 in 2007-08 (RE) and to Rs.22,722 crores in BE 2008-09. The capital expenditure and GSDP ratio is increased from 3.32 % in 2004-05 to 5.82% in 2007-08 (RE) and to 6.62% in B.E. 2008-09.

### **Debt Management:**

Effective debt management is vital for fiscal management. A pro-active approach to debt management is essential for better budget formulation that is consistent with the medium term fiscal policy. The main objective of debt management in the State is to ensure the financing of the budget and refinancing of the debt is done at a lowest possible cost in medium- to long-term consistent with a prudent degree of risk. Thus the strategy is geared to reduce not only the cost of funds borrowed effectively, but also reduce significantly the debt service costs over the medium term period. Over the past three years Government had swapped high cost loans and exercised call option wherever possible to save considerably on interest costs.

The debt, which stood at 31.55% of GSDP in 2004-05, declined to 28.02% in the year 2006-07 and is expected to be 26.9% in the year 2007-08 (RE).

### **Guarantees Assessment:**

The stock of contingent liabilities in the form of guarantees given by the Government has declined from 8.74% of GSDP at the end of 2004-05 to 6.70% of GSDP in 2006-07 and is expected further decline to 5.02% of GSDP in 2007-08 (RE). The guarantees outstanding are within the prudential limits. The Government is also committed to transparent reporting of contingent liabilities.

**NUMBER OF EMPLOYEES IN PUBLIC SECTOR UNDERTAKINGS &  
AIDED INSTITUTIONS AND EXPENDITURE OF STATE GOVERNMENT**

Sl. No.	Sector Name	Total Employees as on 31.12.2007	Related Expenditure during 2006-07 (Rs. in crores)	
			On Salary	On Pension
1.	State Government	7,14,805	10442.34	3900.28
2.	Judiciary	12,869	228.10	8.82
3.	Aided Educational Institutions	30,246	527.35	148.63
4.	Zilla Praja Parishads	24,918	117.12	21.67
5.	Mandal Praja Parishads	18,630	115.35	63.89
6.	Gram Panchayats	16,696	45.41	0.25
7.	Municipal Corporations	14,583		- -
8.	Municipalities	21,635	199.21	6.95
9.	Urban Development Authority	1,407		- -
10.	Agricultural Market Committees	4,348		- -
11.	Zilla Grandhalaya Samsthas	2,417	29.68	- -
12.	State Public Sector Undertakings	2,10,281		- -
13.	Universities	20,330	450.73	- -
14.	Co-operative Institutions & Other Govt. Bodies	6,676		- -
15.	Temples & T.T.D.	17,466		- -
	<b>TOTAL</b>	<b>11,17,307</b>	<b>12155.29</b>	<b>4150.49</b>