

Form F-1

MACRO ECONOMIC FRAMEWORK STATEMENT

Economic Performance at a Glance

Trends in Select Macroeconomic and Fiscal Indicators

		Percentage Changes			
		2004-05 (Accounts)	2005-06 (RE)	2004-05	2005-06
1	2	3	4	5	6
	Real Sector				
1	GSDP at factor cost				
(a)	at current price	202576	225892	9.82	11.51
(b)	at Constant Price (1993-94)	109193	117434	6.39	7.55
2	Agriculture Production	52124	57598	5.04	10.50
3	Industrial Production	51532	57075	11.53	10.76
4	Tertiary Sector Prod. (Service Sector)	98920	111219	11.61	12.43
	Government Finances				
1	Revenue Receipts (2 +3)	28749.50	36270.72	7.00	26.16
2	Tax Revenue (2.1+2.2)	22313.01	27223.64	18.22	22.01
2.1	Own Tax Revenue	16254.50	20233.35	17.74	24.48
2.2	State's Share in Central Taxes	6058.51	6990.29	19.53	15.38
3	Non-Tax Revenue (3.1 + 3.2)	6436.49	9047.08	-19.48	40.56
3.1	State's Own Non Tax revenue	3755.57	4570.72	4.19	21.71
3.2	Central Transfers	2680.92	4476.36	-38.92	66.97
4	Capital Receipts (5+6+7)	8995.90	9297.23	-2.90	-52.62
5	Recovery of loans	1372.98	557.40	9.34	-59.40
6	Other Receipts		600.00		
7	Borrowing and other liabilities (net)	7622.92	8139.83	-12.25	6.78
8	Total Receipts (1+ 4)	37745.40	45567.95	2.54	20.72
9	Non-Plan Expenditure (10+12)	25868.04	29970.31	8.78	15.86
10	Revenue Account	24572.26	29296.47	6.77	19.23
	<i>Of which:</i>				
11	(a) Interest payments	7091.41	7058.04	3.43	-0.47
	(b) Subsidies	2163.68	3703.50	11.46	71.17
	(c) Wages & Salaries	8097.64	10262.51	1.63	26.73
	(d) Pension Payments	3016.77	3707.86	24.39	22.91
12	Capital Account	1295.78	673.84	69.43	-48.00
13	Plan Expenditure (14+15)	12446.67	15647.83	5.53	25.72
14	Revenue Account	6735.08	8092.20	-1.18	20.15
15	Capital Account	5711.59	7555.63	14.70	32.29
16	Total Expenditure (9+13)	38314.71	45618.14	7.70	19.06
17	Revenue Expenditure (10+14)	31307.34	37388.67	4.95	19.42
18	Capital Expenditure (12+15)	7007.37	8229.47	21.98	17.44
19	Revenue Deficit (17-1)	2557.84	1117.95	-13.63	-56.29
20	Fiscal Deficit {16-(1+5+6)}	8192.23	8190.02	9.96	-0.03
21	Primary Deficit (20-11a)	1100.82	1131.98	85.15	2.83
	<i>Memo:</i>				
	Average amount of WMA from RBI ^				
	Average amount of OD from RBI ^				
	Number of days of OD				
	Number of occasions of OD				

Form F-2

MEDIUM TERM FISCAL POLICY STATEMENT

A. Fiscal Indicators - Rolling Targets

(in percentages)

		Previous Year (Y-2) (Actuals) 2004-05	Current Year (Y-1) 2005-06 (BE)	Current Year (Y-1) 2005-06 (RE)	Ensuing Year (Y); Budget Estimates (BE)	Targets for next Two Years *	
						Y + 1	Y + 2
1	Revenue Deficit as percentage of GSDP	-1.26	-0.62	-0.49	-0.40	Reduce by 0.32	Reduce by 0.32
2	Fiscal Deficit as percentage of GSDP	-4.04	-3.71	-3.63	-3.25	Reduce by 0.25	Reduce by 0.25
3	Total outstanding Liabilities as percentage of GSDP	32.77	33.62	32.99	33.00	34.29	33.28
4	[Any additional target(s)]	- Nil -	- Nil -	- Nil -	- Nil -	- Nil -	- Nil -

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

FISCAL POLICY STRATEGY STATEMENT

As part of the FRBM Act – 2005, the state government has to prepare a medium term fiscal policy strategy statement to be laid before the legislature. Accordingly, Government have designed a fiscal policy strategy statement for the medium term based on which a fiscal correction path is drawn.

The need for fiscal strategy arises from the fact that state government's main objective is to keep the fiscal balances sustainable over the medium term. In order to bring in sustainability in the state government's finances over the medium term, fiscal strategy is designed for effectively guiding the fiscal operations of the government over the next four years. Sustainability implies that we have to progressively improve our revenue mobilization while containing non-plan expenditure consisting of salaries, pensions, interest payments and subsidies. With the acceptance of PRC's recommendations during 2005, the non-plan expenditure has increased substantially making it difficult for adequate allocation of resources to other sectors of the economy. Also, rising interest payments take away the scarce resources from productive purposes. Keeping these facts into consideration, the fiscal policy strategy is being revised so as to mobilize enough resources for productive purposes to fuel economic growth of the state.

Tax revenue:

Taxation policy of Government of Andhra Pradesh has assumed importance with the introduction of VAT from 1st April, 2005 in the state. Tax rates are being stabilized at reasonable rates. The rate of growth of VAT revenue in the first year of implementation is likely to be around 14% by the

end of March, 2006. One critical aspect of reform in the commercial taxes is that, the abolition of Central Sales Tax. A decision in this regard is awaited as the Central Empowered Committee (CST) has to submit its report to the Union Government on CST. Government of Andhra Pradesh expects GoI to compensate loss due to abolition of CST by GoI, so as to lesser the impact of the move on resources in initial four to five years. Government of Andhra Pradesh have assumed a growth rate of 19% in VAT in the next financial year, which would yield Rs. 15,665 crores.

With the rationalization of tax rates pertaining to stamps & registration and transport, it is estimated that revenues under these taxes would substantially improve in the coming years. The Government have reduced motor vehicle tax in the urban areas to 5% and in other areas to 7% in respect of APSRTC to give boost to public transport.

Non-Tax revenue:

Non-tax revenue is estimated to increase from a level of Rs.4,560 crores in 2005-06 to Rs.5,544 crores in 2008-09 and further to Rs.6,038 crores in 2009-10. Special focus is being turned on exploiting hitherto untapped resources through PSU Mining Corporation to give fillip to industrialization and to boost employment.

Expenditure:

The total revenue expenditure is anticipated to grow at 10.61% during the period 2006-07 to 2009-10. Of the total revenue expenditure salaries and pension would grow at an average rate of 4.66% per annum. Interest payment

as a proportion of revenue expenditure is expected to decline from 22.65% in 2004-05 to 19.30% in 2009-10. By the differential between the growth rates of revenue and expenditure, it is expected that revenue surplus would be achieved by the end of 2008-09.

Capital Expenditure was of the order of Rs.5,414 crores in 2004-05 which translates to 2.72% of GSDP. This is projected to increase to 4.02% in 2006-07, where substantial amounts would be spent on irrigation, roads, ports etc., as these are some of the priority sectors of the government. Government also spends considerable amounts on social sectors consisting of health, education, SC, ST & BC welfare and other minority sectors.

Debt Management:

The main objective of debt management in the state is to reduce not only the cost of funds borrowed effectively, but also reduce significantly the debt service costs over the medium term period. This strategy would save scarce resources which can be utilized for other important sectors. During the current year government had swapped so far Rs. 1311.26 crores, which entailed an interest relief of Rs. 78.66 crores.

The debt which stood at 32.77% of GSDP in 2004-05 is estimated to stabilize around 33% in the year 2005-06 and 2006-07 and slowly taper down to 32.03% of GSDP by 2009-10.

Effective debt management is vital for fiscal management. A proactive approach to debt management is essential for better budget formulation that is consistent with the medium term fiscal policy. Fiscal liabilities are considered

sustainable if the government is able to service the stock of these liabilities over foreseeable future and debt-GSDP ratio does not grow to unmanageable proportions. Twelfth Finance Commission's recommendation for restructuring of public finances envisages a terminal year target of fiscal deficit – GSDP ratio at 3% for the states. As per the fiscal strategy the state government has drawn a plan to bring down the fiscal deficit to around 2.6% by 2008-09.

Guarantees Assessment:

For an assessment of risk for contingent liabilities a methodology for classifying guarantees into categories having differential fiscal risk would be worked out. At present government guarantees are of the order of Rs.17,487 crores, which turns out to be 8.45% of GSDP. This percentage is estimated to come down to 8% by the end of next year and is slated to decline further to 7.07% in 2008-09 and fall below 7% by the end of 2009-10.

For this a suitable framework for assessment of risk for contingent liabilities, such as government guarantees would be developed which would also lead to transparent reporting of contingent liabilities. Methodology for monitoring the financial performance of entities whose liabilities have been guaranteed by the government will also be looked into.

Form – D.10

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

Sl. No.	Sector Name	Total Employees as on 31.03.05	Related Expenditure during 2004-05 (Rs. in crores)	
			On Salary	On Pension
1	State Government	553274	5712.79	2832.28
2	Judiciary	10609	162.97	3.51
3	Aided Educational Institutions	22351	239.05	106.19
4	Zilla Praja Parishads	80236	763.98	16.40
5	Mandal Praja Parishads	182452	1519.72	52.88
6	Gram Panchayaths	23359	36.46	-
7	Municipal Corporations	24351	-	-
8	Municipalities	29681	131.19*	5.51
9	Urban Development Authorities	1515	-	-
10	Agricultural Market Committees	4245	-	-
11	Zilla Grandhalaya Samasthas	2681	13.63	-
12	State Public Sector Undertakings	263319	-	-
13	Universities	25138	245.45	-
14	Cooperative institutions and other Government Bodies	36075	-	-
15	Temples	16529	-	-
	Total	1275815	8825.24	3016.77

* Only Teaching grants