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## Fiscal Situation In Andhra Pradesh: A Macro View

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### Part-I:

#### Introduction:

Andhra Pradesh is the eighth-largest State in the country. With a geographical area of 1,62,970 square km, the state has the second longest coastline in the country, with a length of 974 km. In terms of population, Andhra Pradesh is the tenth largest state in the country, accounting for 4.10% of the country's total population as per the 2011 Census. The decadal growth of the population rose from 18.88% during 1961-71 to 21.13% during 1981-91. Subsequently, a significant decline was observed in the population's growth rate, and the decline is even more prominent at 9.21% during 2001-11, lower than the All-India's growth rate of 17.70 percent. The density of the population for Andhra Pradesh is 304 persons per square kilometer, as against 382 persons per square kilometer at all Indian level in 2011(Socio-Economic Survey, 2021)

The finances of the state that precarious until around 2004 and it made dramatic upward turn after the enactment of the Fiscal Responsibility and Budget Management Act (FRBM) in 2005 that mandated elimination of revenue deficit and contained fiscal deficit at 3 per cent of the GSDP; and the introduction of Value Added Tax (VAT). In addition to these measures, the overall buoyancy in the economy and a series of tax reforms contributed to the impressive improvement in the fiscal situation after 2005. The sales tax rates, which were ranging from 4 to 20 per cent until 2005, were replaced with Value Added Tax (VAT) that brought out a sea change in the tax structure. Introduction of VAT resulted in dramatic growth in tax revenues. There was also a marginal improvement in the transfers from the central government. It is from 4.95 percent of GSDP to 5.01 percent of GSDP during the period of 2004-2009(Government of Andhra Pradesh, 2019).

The percentage of revenue expenditure that can be financed from the total revenue of the State increased from 88 percent in 2002-03 to 99.8 percent in 2005-06. Buoyancy in the state's own tax revenues complemented by improved devolution of central transfers based on the recommendations of the Twelfth Finance Commission, coupled with slower growth of revenue expenditure contributed to this trend. In 2006-07, the state achieved a

revenue surplus of nearly 7 percent for the first time in more than a decade. The revenue surplus, which was nearly 1 percent of GSDP in 2006-07, declined by 0.04 percent to 0.24 percent in the subsequent years. Similarly, the primary deficit that achieved a surplus in 2006-07, turned negative in the subsequent years. The fiscal deficit, which was 1.87 percent in 2006-07, increased to 2.41 percent and 2.91 percent respectively in subsequent years, partly on account of overall global and national economic slowdown in 2008-09 and sub-optimal fiscal management efficiency (Government of Andhra Pradesh, 2019). T.Subbha Laxmi (2012) found that the health expenditure in absolute terms increased remarkably in the state of Andhra Pradesh during the study period but as a ratio of total government expenditure and social services expenditure in the states showed declined during the same period. RBI(2022) finds that the high share of committed expenditure and rising subsidy burdens have stretched state government finances already exacerbated by COVID-19. New sources of risks have emerged in the form of rising expenditure on non-merit freebies, expanding contingent liabilities, and the ballooning overdue of DISCOMs. N. Sreedevi (2022) finds that the higher proportion of central transfers in total revenue, when compared with that of own revenue, showed the increased dependency of the state on the central government, more specifically on central grants. Most of the studies are concentrated on the combined state of Andhra Pradesh, but very few studies explained the bifurcated state of Andhra Pradesh.

The state of Andhra Pradesh was bifurcated into Andhra Pradesh and Telangana through the A.P Re-organization Act, 2014, with effects from June 2, 2014. The state's bifurcation has had an impact on the revenues and expenditures of the state and its assets and liabilities. First, due to bifurcation, the state has lost Hyderabad and its neighborhood, a rapidly growing industrial and service sector hub and a huge potential tax base. With Hyderabad going to Telangana, the tax handles available to the state government are significantly reduced. Further, under the Bifurcation Act, refund of taxes has been shared between AP and Telangana on a population basis (58.32: 41.68), whereas deferred tax collections have been allocated on a location basis. It was estimated by Andhra Pradesh that this has caused a huge loss of Rs.3,800 Crore to the new state. Second, developing a new capital city with all infrastructure, including Raj Bhavan, Secretariat, High Court, Legislative Assembly, Legislative Council, all Government Offices, and residential houses for the council of ministers, judges, MLAs, and officers, requires substantial resources. Creating new institutions and systems for the new state is also expenditure-intensive. Third and most important, the distribution of assets between the two states based on location and liabilities based on relative populations has created a larger debt burden on the state (Government of Andhra Pradesh, 2018). The bifurcation of the state has had a big impact on the finance, assets, and growth of the residuary state of Andhra Pradesh. It is in this context that this paper examines the fiscal situation of Andhra Pradesh during 2014-15 to 2019-20.

The paper has five parts. Part one presents brief details about the study and methodology of the study, while Part two examines the structure of state economy, which has important fiscal implications and is briefly analyzed, based on GSDP data, while Part three presents the budgetary transactions of Andhra Pradesh in detail. The debt and other liabilities of the state are assessed in part four. Part five presents a summary and conclusion.

**Methodology of the study:**

It is based on secondary data only. It is obtained from AP state government reports, Audit reports from Comptroller and Auditor General of India, State Finance commission reports from government of Andhra Pradesh and Central Finance commission reports from government of India are used for this study during 2014-15 to 2019-20. The variables are selected for this study are receipts, expenditure and deficits of the government of Andhra Pradesh during 2014-15 to 2019-20 and also assets and liabilities of the state during same period. Simple statistical tools are used for the purpose of analyzing the data.

**Part-II****Structure of State Economy****Trends in GSDP:**

The size, sectoral composition and growth in State Domestic Product (SDP) have important implications for the size and composition of own revenues of the state and its ability to raise additional tax revenues. Bifurcation of the state has resulted in a significant change, in both the size and composition of GSDP of the state along with concomitant changes in the potential tax base. In terms of size, the GSDP at current prices declined from Rs.7,45,787 Crore in 2013-14 in the combined state to Rs.5,24,976 Crore in 2014-15, largely due to the loss of Hyderabad and its neighborhood to Telangana, a major hub of industrial and service activity. The contribution of the service sector which was 53% in the undivided state of Andhra Pradesh in 2013-14 had declined to 44.1% in the residual state of AP in 2014-15. Consequently, the share of primary sector which stood at 23% in 2013-14 in the combined state had risen to 30.4% in 2014-15. The share of industrial sector too has witnessed some changes after bifurcation. It may be noted that the share of industry and service sector in Andhra Pradesh was 22.09% and 43.55% in 2017-18 (AE), while in Telangana, the relative shares were 21.92% and 63.8%, respectively (*Annex Table-1.1*). Agriculture continues to be a significant contributor to GSDP, limiting the scope of additional revenue mobilization. The structure of the state economy has had significant impact on the state's own tax and non-tax revenues as well as their expenditure responsibilities.

**Per Capita Income:**

The level of per capita income of a state is not only an important indicator of the average standard of living of the people, but also an important determinant of the potential tax revenues of the state. Despite the lopsided economic structure, the state has recorded a significant increase in per capita income during the last five years. The per capita income of the state increased from Rs.93,903/- in 2014-15 to Rs.1,64,025/- in 2018-19 (AE) at current prices, registering an average annual growth rate of 10.6%. Even in terms of constant prices (2011-12), the per capita income of the state rose from Rs.79,174/- to Rs.1,17,261/- (AE) during 2014-15 to 2018-19 (AE), growing at an average rate of 9.62% per annum. Notwithstanding the impressive growth, Andhra Pradesh continues to lag behind other southern states in per capita income (*Tables-1 & 2 & Annex Tables-1.2 & 1.3*).

**Table-1**  
**Trends in GSDP in Andhra Pradesh: 2014-15 to 2018-19**

*(Current Prices; in Rs. Crore)*

S. No.	Sector/Item	2013-14	2014-15	2015-16 TRE	2016-17 SRE	2017-18 FRE	2018-19 AE
1.	Agriculture & Allied	23%	30.4%	31.1%	32.9%	34.5%	33.6%
2.	Industry	24%	25.5%	24.1%	23.4%	22.8%	23.4%
3.	Service	53%	44.1%	44.7%	43.7%	42.7%	43.0%
4.	Gross Value Added (GVA)		4,87,709 (100%)	5,56,421 (100%)	6,37,595 (100%)	7,41,588 (100%)	8,55,045 (100%)
5.	GSDP		5,24,976	6,04,229	6,97,508	8,09,548	9,33,402
6.	NSDP		4,70,934	5,44,827	6,31,249	7,34,659	8,47,056
7.	Population (Est.) ('000)		50,151	50,446	50,743	51,041	51,642
8.	Per Capita Income (Rs.)		93,903	1,08,002	1,24,401	1,43,935	1,64,025

**Note:** TRE – Third Revised Estimates; SRE – Second Revised Estimates; FRE – First Revised Estimates; AE – Advanced Estimates

**Source:** Furnished by Directorate of Economics and Statistics, GoAP

**Table-2**  
**Trends in Annual Growth Rate in GSDP of Andhra Pradesh during 2014-15 to 2018-19**

*(Current Prices; Percentages)*

S. No.	Sector/Item	2014-15	2015-16 TRE	2016-17 SRE	2017-18 FRE	2018-19 AE
1.	Agriculture & Allied	14.92	16.85	21.20	21.95	12.40
2.	Industry	15.71	8.06	10.85	13.69	18.10
3.	Service	13.07	15.67	12.01	13.46	16.15
4.	GVA	14.29	14.09	14.59	16.31	15.30
5.	GSDP	13.07	15.10	15.44	16.06	15.30
6.	Per Capita Income	13.31	15.01	15.18	15.70	13.96

**Note:** TRE – Third Revised Estimates; SRE – Second Revised Estimates; FRE – First Revised Estimates; AE – Advanced Estimates

**Source:** Computed from Data furnished by Commissionerate of Economics and Statistics, GoAP.

**Table-3**  
**Per Capita Income (Per Capita NSDP) of Southern States and All India**

*(Current Prices: Rupees)*

S. No.	States	2014-15	2015-16	2016-17	2017-18
1.	Andhra Pradesh	93,903	1,07,276	1,23,664	1,42,054
2.	Telangana	1,24,104	1,40,840	1,59,856	1,81,094
3.	Tamil Nadu	1,28,872	1,40,441	1,50,036	1,66,934
4.	Karnataka	1,30,024	1,48,110	1,61,936	1,81,788
5.	Kerala	1,35,537	1,47,568	1,62,750	1,80,518
6.	<b>All India</b>	<b>86,647</b>	<b>94,731</b>	<b>1,08,870</b>	<b>1,12,835</b>

*Source: Memorandum Submitted by GoAP to XV Finance Commission, P.13*

**Part-III**  
**Budgetary Transactions of Government of Andhra Pradesh**

It can be seen from below table-4 and chart-1 that the Overall Budgetary Transactions of Andhra Pradesh during 2014-15 to 2019-20. The total revenue receipts of the AP, including tax transfers and grants from the GoI increased from Rs.90,672 Crore in 2014-15 to Rs.1,78,697 Crore in 2019-20 (BE), registering an impressive overall growth rate of 97%. As proportion of GSDP, the total revenue receipts varied between 13% and 17% during this period. This is an impressive revenue mobilization effort, for the residual state of AP, which has lost a significant revenue base due to bifurcation. The total revenue expenditure increased at a significantly higher rate during the same period, forming about 15% to 22% of GSDP.

Table - 4

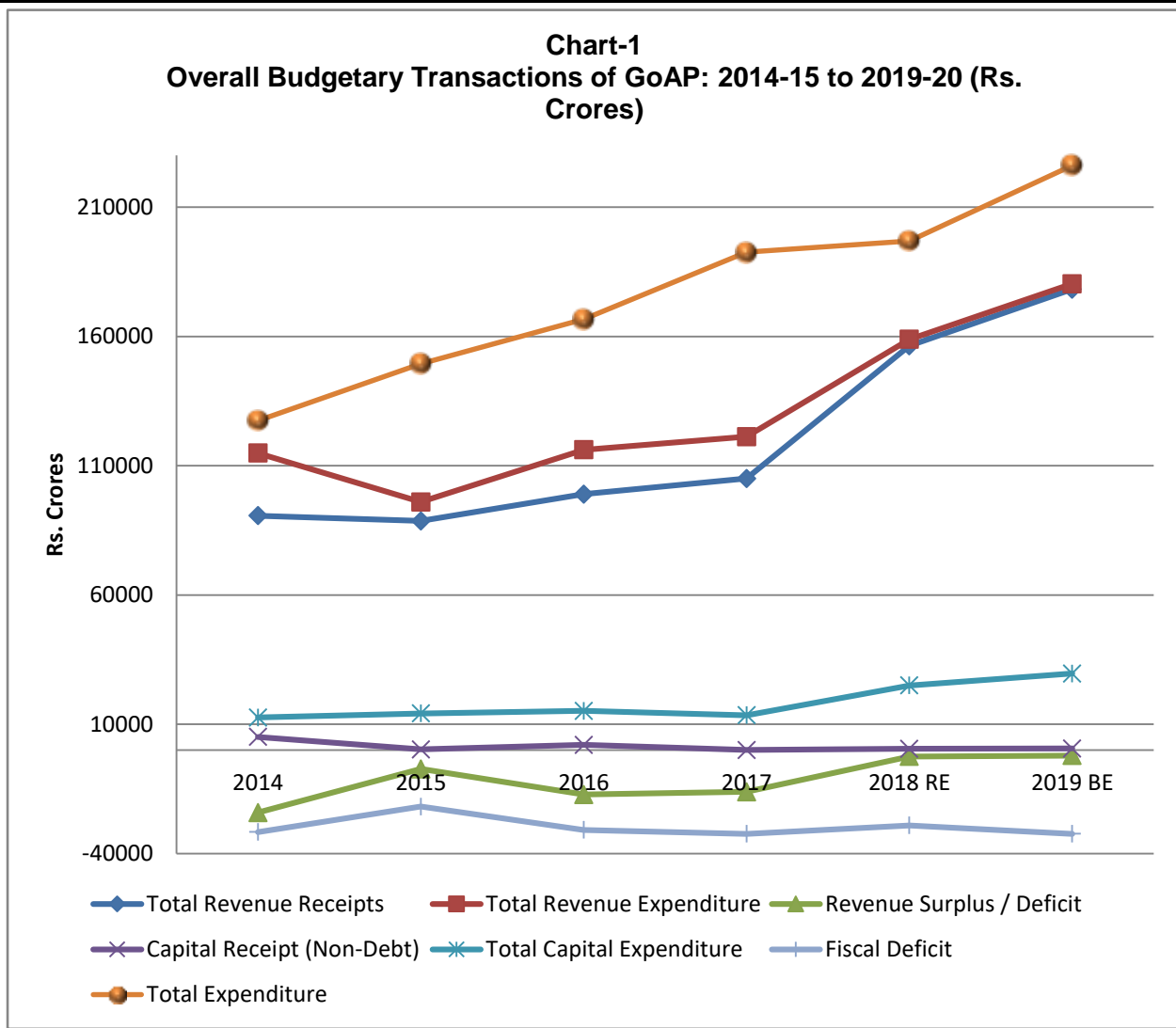
Trends in Overall Budgetary Transactions in AP during 2014-15 to 2019-20

(in Rs. Crore)

S. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)	2019-20 (BE)
1.	Revenue Receipts	90,672	88,648	98,984	1,05,062	1,14,684	1,78,697
2.	Annual Growth Rate(percent)		-2.23	11.66	6.14	9.16	55.82
3.	RR as % of GSDP	17.27	14.67	14.19	12.98	12.29	16.53
4.	Revenue Expenditure	1,14,866	95,950	1,16,178	1,21,214	1,26,339	1,80,476
5.	Annual Growth Rate		-16.47	21.08	4.33	4.23	42.85
6.	RE as % of GSDP	21.88	15.88	16.66	14.97	13.54	16.70
7.	Revenue Surplus / Deficit	-24,193	-7,302	-17,194	-16,152	-11655	-1779
8.	Capital Receipts (Non-Debt)	5,092	285	2,029	50	277	600
9.	Capital Expenditure	12,616	14,171	15,181	13,491	20,398	32,293
10.	Annual Growth Rate		12.33	7.13	-11.13	33.86	58.31
11.	CE as % of GSDP	2.40	2.35	2.18	1.67	2.19	2.98
12.	Overall Expenditure	1,27,481	1,49,435	1,66,699	1,92,574	1,62,134	2,27,975
13.	Annual Growth Rate		17.22	11.55	15.52	-18.77	40.61
14.	OE as % of GSDP	24.28	24.73	23.90	23.79	17.37	21.09
15.	Fiscal Deficit	-31,717	-21,863	-30,909	-32,373	-33,619	-35,261
16.	Fiscal Deficit as % of GSDP	-6.04	-3.62	-4.43	-4.00	-3.60	-3.26
17.	GSDP at Current Prices	5,24,976	6,04,229	697508	809548	9,33,402	10,80,656*
18.	Annual Growth Rate (New Base 2011-12)		15.10	15.44	16.06	15.30	15.78*

Note: \*GSDP estimates assumed by GoAP in budget 2019-20

Source: Computed from Budget Documents of GoAP (Various Years)



The overall expenditure of the state too had risen significantly, constituting about 21% to 25% of the GSDP. The substantial increase in revenue as well as overall expenditure is partly attributable to the disproportionate recurring liabilities imposed on the state, following bifurcation and the rising revenue expenditures on welfare, salaries, pensions and interest payments in particular. The rising expenditure and investments in infrastructure development in the residual state, coupled with meager growth in non-debt capital receipts, the state had to borrow not only to meet capital expenditure but a significant part of revenue expenditures. This has resulted in the state exceeding the fiscal deficit target of 3% (of GSDP), a normative limit set by XIV Finance Commission for all years up to 2018-19 (*Govt, of India, 2019*). The rising fiscal deficit, year after year, has created additional debt repayment and servicing obligations, pushing the state towards a debt-trap. A part of this appears to be due to the under estimation of the likely revenue deficit by XIV Finance Commission, while the actual deficits were much higher. Further, the debt burden is aggravated by the change in state debt structure, caused by a sharp rise in relatively short-term market borrowings and the reduced period of repayment of loans from small saving collections (*Govt, of India, 2019*).

**Composition of Revenue Receipts:**

The state receives its tax revenue from four sources *viz.*, own taxes, own non-taxes, share in central taxes and grants from GoI. The state's own taxes include commercial taxes, state excise, motor vehicle taxes, stamp duty and registration fees and some minor taxes. With the implementation of GST from 01.07.2017, most of the commercial taxes are subsumed under GST (except those exempted such as commercial taxes on HSD, motor spirit, petroleum crude, aviation turbine fuel and natural gas). The taxes subsumed under GST include state value added tax, central sales tax (now IGST), state luxury tax, entry tax, entertainment tax, taxes on advertisement, purchase tax etc. Dividends from state public enterprises, interest receipts on loans, royalty on major and minor minerals etc., constitute the main sources of states' non-tax revenues

Table - 5  
Composition of Revenue Receipts in Andhra Pradesh during 2014-15 to 2019-20

		(in Rs. Crore)					
S. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)	2019-20 (BE)
1.	Own Tax Revenue	42,618 (47)	39,922 (45)	44,181 (45)	49,813 (47)	58,125 (51)	75,438 (42)
2.	Own Non-Tax Revenue	10,975 (12)	4,920 (6)	5,193 (5)	3,813 (4)	4,391 (4)	7,355 (4)
3.	Share of Central Taxes	15,299 (17)	21,879 (25)	26,264 (27)	28,675 (27)	32,710 (29)	34,833 (19)
4.	Grants-in-Aid	21,779 (24)	21,927 (25)	23,346 (24)	22,761 (22)	19,457 (17)	61,072 (34)
5.	Total Revenue Receipts	90,671 (100)	88,648 (100)	98,984 (100)	1,05,062 (100)	1,14,683 (100)	1,78,698 (100)

Note: Figures in parentheses are percentages of the total revenue receipts

Source: Budget Documents of GoAP (Various issues).

It could be seen from table -5 that the state's own tax revenue which accounted for 47% of the total revenue in 2014-15 has gradually declined and is projected to touch 42% during 2019-20 (BE). The relative decline could be attributed to the advent of GST and the consequent shrinkage in the tax handles available to the state. This could also be due to the predominantly agrarian economic structure and the relatively lower degree of urbanization in the state. Notwithstanding these structural limitations, the state has mobilized 6.15% to 8.12% of GSDP through own taxes. However, the declining trend observed up to 2017-18 needs to be arrested.

In terms of non-tax revenue of the state has also declined in its importance, largely due to the transfer of many state level public enterprises (SLPEs) to Telangana state, on the basis of the principle of location of assets, while liabilities of the undivided state are distributed between the two states on the basis of relative populations. The share in central taxes (individual income tax, company tax, union excise duties, custom duties etc.), based on



the recommendations of XIV Finance Commission and the share in CGST and IGST based on the inter-state GST council recommendations, have contributed significantly to the state revenues (17% to 29% of the total revenues). The other important source of revenue is grants from the GoI, made on the recommendations of the Finance Commission as well as other specific purpose grants including grants for implementing centrally sponsored schemes.

On the whole, the share of state's own revenue in the total revenue shows a declining trend. This could be partly due to the introduction of GST. But the gradual decline appears to be a reflection of the state's economic structure and the absence of adequate tax handles to mobilize additional revenues. The declining non-tax revenue is partly due to the performance of SLPEs, not all of which are generating operational surpluses (electricity corporations, APSRTC and others).

### **Capital Receipts:**

The state had to borrow increasing amounts of loans from multiple sources, to meet not only the revenue deficit but also to finance capital expenditure and meet debt repayment obligations. The non-debt capital receipts of the state, accruing primarily from the recovery of loans and advances are not a significant source of financing capital expenditure. As a result, the state government had to borrow from the market, GoI and public account, subject to the limitations imposed by the Constitution (Article-293(3)) and the Finance Commission. Further, certain changes introduced by the GoI as well as the Finance Commission have not only limited the borrowing powers of the state but also aggravated its interest burden. First, the states do not have access to central loans now (except for the externally funded projects). Second, the GoI has reduced the period of repayment of NSSF loans from 25 years to 10 years. Third, the market loans carry higher rates of interest. Fourth and more important, the fiscal deficit ceiling of 3% to 3.5% imposed by the 14<sup>th</sup> Finance Commission under FRBM provisions has constrained the borrowing space available for the state(Gov.t of India).

Despite these limitations, the state has mobilized capital receipts from different sources as indicated in **Table-6** to meet revenue deficit and finance capital expenditure (capital outlay and loans and advances). The share of market loans has been on the increase, while the importance of other sources, notably floating debt has been on the decline. It may be noted that all capital receipts mobilized are not available for financing expenditure. The capital receipts indicated in **Table-6** are gross receipts (except deposit transactions) and only a portion of them are available to the state, after meeting repayment obligations.

Table-6  
Trends in Capital Receipts in AP during 2014-15 to 2018-19

(in Rs. Crore)

S. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)	2019-20 (BE)
1.	Open Market Loans	18,533 (71)	19,168 (31)	20,783 (31)	25,573 (62)	34,757 (72)	41,121 (83)
2.	Floating Debt (Gross)	1,000 (4)	31,307 (51)	29,154 (43)	230 (0.5)	139 (0.29)	1,500 (3)
3.	Loans from the GOI	978 (4)	685 (1)	814 (1)	947 (2)	1,990 (4)	2,500 (5)
4.	Other Loans	2,994 (11)	2,521 (4)	9,171 (14)	1,683 (2)	1,359 (3)	1,800 (4)
5.	Deposits Transactions etc. (Net)	862 (3)	6987 (11)	5,945 (9)	12,774 (4)	9,925 (20)	1,757 (4)
6.	Loans and Advances	1,922 (7)	285 (0.47)	2029 (3)	51 (0.12)	277 (0.57)	600 (1.2)
7.	Total Capital Receipts	26,289 (100)	60,953 (100)	67,896 (100)	41,258 (100)	48448 (100)	49278 (100)
8.	Total Capital Receipts as % of GSDP	5.01	10.09	9.73	10.73	5.19	4.56*

Note: \* Based on GSDP estimate assumed by the GoAP in Budget 2019-20.

Source: GoAP, Budget Documents (various issues).

### Revenue Expenditure:

The revenue expenditure of the state registered a rapid increase from Rs.1,14,865 Crore in 2014-15 to Rs.1,26,339 Crore in 2018-19(RE). It is projected to

Table-7  
Trends in Revenue Expenditure in AP during 2014-15 to 2018-19

(in Rs. Crore)

S. No.	Expenditure Category	2014-15	2015-16	2016-17	2017-18	2018-19 RE	2019-20 BE
1.	General Services	28,590 (25)	28,573 (30)	32,786 (28)	39,075 (32)	39,770 (24)	43,806 (20)
1.1	Interest Payments	10,520 (9)	10,359 (11)	12,292 (11)	15,445 (13)	14,654 (9)	17,754 (8)
1.2	Pensions	9,757 (8)	11,238 (12)	12,873 (11)	14,385 (12)	15,307 (9)	14,385 (6)
1.3	Others	8,316 (7)	6,976 (7)	7,621 (7)	9,245 (8)	9,809 (6)	11,667 (5)
2.	Social Services	42,259 (37)	46,449 (48)	50,228 (43)	59,159 (49)	64,189 (39)	93,093 (42)

3.	Economic Services	43,890 (38)	20,813 (22)	33,071 (28)	22,894 (6)	22,340 (13)	43,542 (19)
4.	Grants-in-aid/ Contributions	126 (0.2)	116 (0.1)	93 (0.08)	86 (0.07)	41 (0.02)	35 (0.01)
5.	Total Revenue Expenditure	1,14,865	95,950	1,16,178	1,21,214	1,26,340	1,80,476
6.	Rev. Exp. as Percentage of GSDP	21.88	15.88	16.66	14.97	17.80	20.75*

Note: Figures in parentheses are percentages to the total revenue expenditure;

\* Based on GSDP as assumed by GoAP Budget FY 2019-20 (BE).

Source: GoAP, Budget Documents (various issues).

increase to Rs.1,80,476 Crore during 2019-20 (BE) (**Table-7**). Expenditure on general services comprising interest payments, pensions and retirement benefits and administrative and fiscal services account for a significant share in the total revenue expenditure, constituting more than a quarter of the total expenditure (25% to 32% up to 2017-18 and thereafter some decline). Interest payments, pensions and retirement benefits, salaries and other establishment costs have been rising rapidly. Expenditure on social services (education, medical and health, housing, water supply, sanitation, SC-ST Welfare etc.) has also been rising rapidly both in absolute and relative terms. However, expenditure on economic services (agriculture, rural development, irrigation, industry, transport etc.) has been on the decline.

Table - 8  
Trends in Capital Account Transactions in AP during 2014-15 to 2019-20

		(in Rs. Crore)					
S. No.	Expenditure Category	2014-15	2015-16	2016-17	2017-18	2018-19 RE	2019-20 BE
1.	Total Capital Expenditure (1 to 4)	11,409 (63)	14,171 (27)	15,181 (30)	13,491 (53)	20,398 (58)	32293 (69)
1.1	General Services	483 (2.68)	180 (0.3)	295 (0.5)	283 (1)	275 (1)	5789 (12)
1.2	Social Services	2,382 (13)	2,415 (5)	2,431 (5)	2890 (11)	2864 (8)	8071 (17)
1.3	Economic Services	8,543 (47)	11,577 (22)	12,455 (25)	10,317 (40)	17,258 (48)	18433 (38)
1.4	Others	11 (0.06)	102 (0.19)	205 (0.4)	387 (1.5)	794 (2.2)	867 (1.8)
2.	Loans and Advances	853 (5)	674 (1)	564 (1)	2,781 (11)	1,843 (5)	1,789 (4)
3.	Capital Disbursements	5,760 (32)	38,640 (72)	34,776 (69)	9,459 (36)	13,554 (26)	13,417 (21)
4.	Total Capital A/c Transactions	18,022 (100)	53,485 (100)	50,521 (100)	25,731 (100)	35,795 (100)	47,499 (100)

5.	Total Capital A/c Transactions as % of GSDP	3.43	8.87	7.27	3.22	3.92	4.39*
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Notes: \* Based on GSDP estimates assumed by the GoAP in budget 2019-20.

Source: GoAP, Budget Documents (various issues).

The total capital account transactions of the state include capital expenditure on general, social and economic services, loans and advances to third parties and capital disbursements. It may be noted that actual capital expenditure in 2015-16, 2016-17 and 2017-18 was less than 30% of the total capital account transactions (**Table-8**). During these years, capital disbursements (largely loan repayments) accounted for about 70% of the total transactions. This is a clear reflection of the growing loan repayment burden on the state, while the state is required to make huge investments for the development of critical infrastructure (irrigation, roads and communications, capital city development, infrastructure for industry etc.,).

### Budgetary Deficits:

Budgetary resource gap is measured through multiple concepts. Revenue deficit denotes the difference between revenue receipts and revenue expenditures. Gross fiscal deficit is the difference between aggregate disbursements (net of debt repayments and recovery of loans) and revenue receipts and non-debt capital receipts. In other words, gross fiscal deficit is equal to revenue deficit plus capital outlay and net lending. Net fiscal deficit on the other hand, is the gross fiscal deficit minus net lending of the state government. Fiscal deficit is usually financed through borrowing from capital market by issuing different instruments like treasury bills and bonds as well as borrowings from the central bank. Further, gross primary deficit is defined as gross fiscal deficit minus interest payments, while net primary deficit is the difference between net fiscal deficit and net interest payments. In the context of the state fiscal situation, the concepts of fiscal deficit, revenue deficit and primary deficit expressed as proportion of GSDP are relevant. The size of these deficits both in absolute terms and as proportion of GSDP are furnished in the following **Tables-9 & 10**.

Table - 9  
Trends in Primary, Revenue and Fiscal Deficits in AP during 2014-15 to 2018-19

(in Rs. Crore)

S. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)	2019-20 BE
1.	Revenue Deficit/ Surplus	-14,243	-7,302	-17,194	-16,152	-11,655	-1,779
2.	Fiscal Deficit	-31,717	-21,863	-30,909	-32,373	-33,619	-35,261
3.	Primary Deficit	-21,710	-12,014	-19,211	-18,526	-19,315	-18,017
4.	GSDP at Current Prices	5,24,976	6,04,229	6,97,508	8,09,548	9,33,402	10,80,656*

Notes: \* Estimate of GSDP as assumed in GoAP Budget 2019-20 (BE).

In the Memorandum submitted to XV Finance Commission, the revenue deficit for 2014-15 is indicated as Rs.10,417 Crore for April and May and Rs.13,776 Crore for June to March.

Source: GoAP, Budget Documents (various issues).

Table-10  
Deficit Indicators of GoAP: 2014-15 to 2018-19

(As Percent of GSDP at Current Prices)

S. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)	2019-20 (BE)
1.	Revenue Deficit/ Surplus	2.36	1.05 (1.23)	2.12 (2.46)	1.73 (2.04)	1.24 (1.28)	0.16
2.	Fiscal Deficit	3.36	3.13 (3.67)	3.82 (4.42)	3.47 (4.08)	3.78 (3.67)	3.26
3.	Primary Deficit	1.76	1.72 (1.97)	2.37 (2.75)	1.98 (2.33)	2.07 (1.90)	1.66

Notes: 1. GSDP estimates for 2018-19 are advanced estimates, first revised estimates for 2017-18, second revised estimates for 2016-17 and third revised estimates for 2015-16. The deficit percentages might undergo some changes with actual data on deficits and final estimates of GSDP; 2. Figures in parentheses are gross fiscal deficit ratios as presented in, GoAP, White paper on State Finances, 10<sup>th</sup> July 2019 p. 27

Source: GoAP Budget Documents (various issues).

#### Section-IV

### Public Debt and Other Liabilities in Andhra Pradesh

#### Public Debt and Other Liabilities:

Borrowing is an important source of financing public expenditure, particularly capital expenditure. But all borrowing entails repayment and servicing obligations. Therefore, public debt and other liabilities should be within the fiscal capacity of the state to meet the debt redemption obligations. Under Article 293(1), the state governments are empowered to borrow from within the country upon the security of the consolidated fund of the state. Under Article 293(2), the GoI can make loans to the states or give guarantees to the loans raised by the states. However, states cannot borrow without the consent of the GoI, if they have outstanding loans payable to the Center. Further, FRBM Acts enacted by the Center and the states have stipulated certain limits on the borrowings of the state in the interests of sound fiscal management(Gov.t of india).

Subject to the Constitutional provisions and the FRBM stipulations, the GoAP has borrowed from four important sources viz., central government, market loans, loans from NSSF and PF and others (public account). These loans carry varied terms and conditions, including rates of interest, repayment period, and period of moratorium.

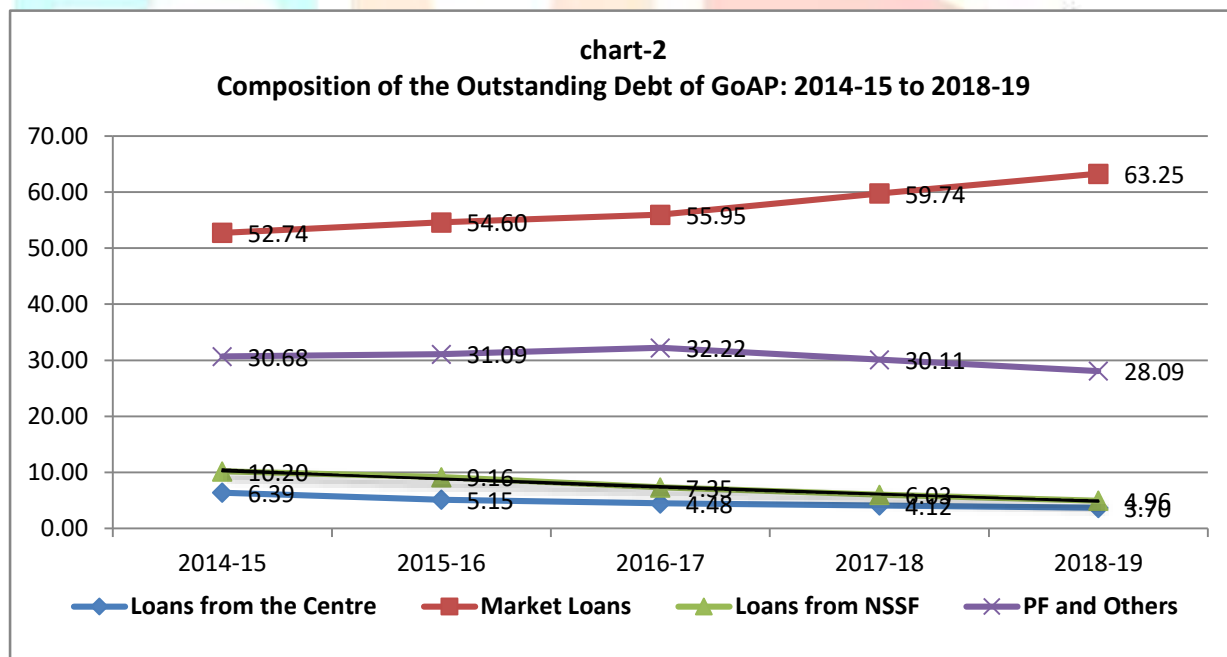
The composition of the outstanding debt of the state is furnished in the following *Table-11*.

**Table-11**  
**Trends in Composition of the Outstanding Debt in AP during 2014-15 to 2018-19**

*(As Percent of Total Outstanding Liabilities; As of March 31<sup>st</sup> each year)*

S. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)
1.	Loans from the Centre	6.39	5.15	4.48	4.12	3.70
2.	Market Loans	52.74	54.60	55.95	59.74	63.25
3.	Loans from NSSF	10.20	9.16	7.35	6.03	4.96
4.	PF and Others	30.68	31.09	32.22	30.11	28.09
5.	Total Outstanding Liabilities (in Rs. Crore)	1,48,744 (100%)	1,73,854 (100%)	2,01,313 (100%)	2,25,234 (100%)	2,49,435 (100%)

*Source: Budget Documents of GoAP (various issues).*



*Source: Budget Documents of GoAP (various issues).*

### Structural Changes in Public Debt

The debt outstanding of the state has been undergoing certain structural changes. The outstanding debt on account of central loans which once constituted 75% of the total debt has virtually become insignificant. Apart from certain specific loans such as loans for externally funded projects, the GoI does not advance loans to the states now. Market loans have therefore emerged as the single largest source of debt finance, followed by public account borrowings. Loans from out of net small savings collections have also dwindled over time. The rising share of market loans with a relatively short maturity period signifies increasing interest payments. Further, the GoAP has indicated that nearly 43% of the outstanding market loans of the state would be due for repayment

during the next 5 to 6 years (2019-20 to 2025-26). Apart from the growing pressure to redeem the market loans in the medium term, the reduction in the repayment period of loans from small saving collections (NSSF) from 25 years to 10 years has aggravated the repayment burden. In fact, net loans from small saving collections have been negative since 2013-14, implying reverse flow (in terms of repayment) of resources from the GoAP to NSSF

### Debt Sustainability:

In order to promote prudent debt management policies, the Finance Commissions have been recommending states to adopt certain limits to their borrowings and the consequent debt liabilities created. These include: (i) debt-GSDP ratio; (ii) ratio of interest payments to revenue receipts; (iii) ratio of state tax revenue to GSDP; and (iv) ratio of interests payments to GSDP. In the combined state, the relatively high buoyancy rates in the revenue receipts led to improvement in various ratios prescribed by the Finance Commission for attaining sustainable debt level. However, bifurcation of the state has imposed a debt burden which is disproportionate to the resource base (tax and non-tax revenues). The growing revenue deficit and the fiscal deficit are visible manifestations of this underlying malady. The mounting debt burden, therefore, calls for a special dispensation to the state in the form of debt relief and higher debt ceiling to enable the new state to cope with the emerging fiscal challenges during the next 5 to 10 years.

**Table-12**  
**Debt Sustainability Indicators of GoAP : 2014-15 to 2018-19**

(in Percentage)

S. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)
1.	Growth in GSDP		15.10	15.44	16.06	15.30
2.	Growth in Public Debt		13.92	20.17	12.72	13.39
3.	Growth in Outstanding Public Account Borrowings		25.11	4.71	11.14	2.78
4.	Growth in Total Liabilities		16.88	15.80	12.32	10.32
5.	Growth in State Tax Revenue		-6.33	10.67	12.75	35.58
6.	Growth in Interest Payments		-0.55	15.47	18.38	13.94
7.	Total Liabilities as % of GSDP	28.33	28.77	28.86	27.93	26.72
8.	State's Own Tax as % of GSDP	8.12	6.61	6.33	6.15	7.24
9.	Interest payments as % of GSDP	1.94	1.68	1.68	1.71	1.69
10.	Interest payments as % of Revenue Receipts	11.60	11.69	12.42	14.70	10.10

*Source: Budget Documents of GoAP (various issues).*

It may be noted that the debt burden indicators furnished above vary with the projections/ stipulations of XIV Finance Commission (**Table-13**). It is important to note that the Finance Commission based its estimates on certain assumptions. As the division of Andhra Pradesh and Telangana took place during the tenure of XIV Finance Commission, the Commission did not have the benefit of any past data for basing its estimates. As such, the stipulations have some inherent limitations. The GSDP of the state actually increased at higher rate compared to the projections of XIV Finance Commission. Total outstanding liabilities as percent of GSDP exceeded the debt-GDP ratio stipulated by the Finance Commission. The own tax revenue as proportion of GSDP stipulated was higher than the actual ratio. This could be due to the introduction of GST from 2017 and the consequent changes in the computation of own tax revenues. Further, interest payments as percent of total revenue receipts exceeded the Finance Commission stipulations only during 2016-17 and 2017-18 by about 1% to 3%.

**Table-13**  
**Debt Sustainability Indicators : Stipulations of XIV Finance Commission**

*(in Percentage)*

S. No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)
1.	Growth in GSDP (%)	13.67	13.24	13.24	13.24	13.24
2.	Debt-GDP Ratio	23.88	24.33	24.74	25.09	25.16
3.	State's Own Tax Revenue as % of GSDP	8.12	7.98	8.26	8.31	8.36
4.	Interest Payments as % of Revenue Receipts	12.18	12.03	11.84	11.64	11.30

**Source:** Finance Commission, Report of XIV Finance Commission,

#### Section-V

#### Summary and conclusion

From the above one can concludes that the Overall Budgetary Transactions of AP during 2014-15 to 2019-20 is that The total revenue receipts of the AP, including tax transfers and grants from the GoI increased from Rs.90,672 Crore in 2014-15 to Rs.1,78,697 Crore in 2019-20 (BE), registering an impressive overall growth of 97%. As proportion of GSDP, the total revenue receipts varied between 13% and 17% during this period. This is an impressive revenue mobilization effort, for the residual state of AP, which has lost a significant revenue base due to bifurcation. The total revenue expenditure increased at a significantly higher rate during the same period, forming about 15% to 22% of GSDP.

The overall expenditure of the state too had risen significantly, constituting about 21% to 25% of the GSDP. The substantial increase in revenue as well as overall expenditure is partly attributable to the disproportionate recurring liabilities imposed on the state, following bifurcation and the rising revenue expenditures on welfare, salaries, pensions and interest payments in particular. The rising expenditure and investments in infrastructure development in the residual state, coupled with meager growth in non-debt capital receipts, the state had to borrow not only to meet capital expenditure but a significant part of revenue expenditures. This has resulted in the state exceeding the fiscal deficit target of 3% (of GSDP), a normative limit set by XIV Finance Commission



for all years up to 2018-19. The rising fiscal deficit, year after year, has created additional debt repayment and servicing obligations, pushing the state towards a debt-trap. A part of this appears to be due to the under estimation of the likely revenue deficit by XIV Finance Commission, while the actual deficits were much higher. Further, the debt burden is aggravated by the change in state debt structure, caused by a sharp rise in relatively short-term market borrowings and the reduced period of repayment of loans from small saving collections.

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### **Annex Table-1.1**

#### **Sectoral Composition of Southern State Economies : 2017-18**

S. No.	State	Agriculture	Industry	Services
1.	Andhra Pradesh	34	22	44
2.	Telangana	14	22	64
3.	Tamil Nadu	13	34	53
4.	Karnataka	11	23	66
5.	<b>India</b>	<b>17</b>	<b>29</b>	<b>54</b>

*Source: Memorandum Submitted by GoAP to XV Finance Commission, P.12*

**Annex Table-1.2**  
**Growth in GSDP of Andhra Pradesh : 2014-15 to 2018-19**

(At 2011-12 Prices)

S. No.	Sector/Item	Unit	2014-15	2015-16 TRE	2016-17 SRE	2017-18 FRE	2018-19 AE
1.	Agriculture & Allied	%	27.6	27.0	28.0	29.5	29.5
2.	Industry	%	27.5	27.5	27.6	27.0	26.9
3.	Service	%	45.0	45.5	44.4	43.5	43.6
4.	GVA	Rs. Crore	4,07,011 (100%)	4,50,453 (100%)	4,97,982 (100%)	5,54,896 (100%)	6,14,665 (100%)
5.	GSDP	Rs. Crore	4,44,564	4,98,607	5,50,467	6,12,793	6,80,332
6.	NSDP	Rs. Crore	3,97,064	4,46,997	4,92,644	5,45,445	6,05,561
7.	Population (Est.)	'000	50,151	50,445	50,743	51,041	51,642
8.	Per Capita Income	Rs.	79,174	88,609	97,086	1,06,864	1,17,261

**Note:** TRE – Third Revised Estimates; SRE – Second Revised Estimates; FRE – First Revised Estimates; AE – Advanced Estimates

**Source:** Computed from Data furnished by Commissionerate of Economics and Statistics, GoAP.

**Annex Table-1.3**  
**Annual Growth Rate in GSDP of Andhra Pradesh : 2014-15 to 2018-19**

(At 2011-12 Prices; Percentage)

S. No.	Sector/Item	2014-15	2015-16 TRE	2016-17 SRE	2017-18 FRE	2018-19 AE	Average Growth Rate
1.	Agriculture & Allied	3.55	8.31	14.71	17.25	10.78	203.66
2.	Industry	12.58	10.74	11.04	9.10	10.24	- 18.60
3.	Service	8.98	12.08	7.79	9.20	11.09	23.50
4.	GVA	8.37	10.67	10.55	11.43	10.77	28.67
5.	GSDP	9.20	12.16	10.40	11.32	11.02	19.78
6.	Per Capita Income	9.58	11.92	9.57	10.07	9.73	1.57

**Note:** TRE – Third Revised Estimates; SRE – Second Revised Estimates; FRE – First Revised Estimates; AE – Advanced Estimates

**Source:** Computed from Data furnished by Commissionerate of Economics and Statistics, GoAP.