



GOVERNMENT OF ANDHRA PRADESH

Statement of Fiscal Policy to be laid on the table of the A.P. State Legislature in August, 2009

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

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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	
		2007-08 Actuals	2008-09 RE	2007-08 Actuals	2008-09 RE
1	2	3	4	5	6
	Real Sector				
1	GSDP at factor cost				
(a)	at Current Price	328405	371229	18.44	13.04
(b)	at Constant Price (1999-2000)	239102	252318	10.62	5.53
2	Agriculture Production (Primary Sector)	81730	91433	23.62	11.87
3	Industrial Production (Secondary Sector)	89126	95900	17.22	7.60
4	Tertiary Sector Prod. (Service Sector)	157550	183896	16.58	16.72
	Government Finances				
1	Revenue Receipts (2 +3)	54142.55	69685.95	22.37	28.71
2	Tax Revenue (2.1+2.2)	39977.69	48908.41	21.91	22.34
2.1	Own Tax Revenue	28794.05	35739.95	20.35	24.12
2.2	State's Share in Central Taxes	11183.64	13168.46	26.14	17.75
3	Non-Tax Revenue (3.1 + 3.2)	14164.86	20777.54	23.68	46.68
3.1	State's Own Non Tax revenue	7064.13	8398.16	8.88	18.88
3.2	Central Transfers	7100.73	12379.38	43.00	74.34
4	Capital Receipts (5+6+7)	15610.60	15723.08	99.84	0.72
5	Recovery of loans	190.95	250.00	-59.49	30.92
6	Other Receipts	6557.71	5000.00	247.09	-23.75
7	Borrowing and other liabilities(Net)	8861.94	10473.08	62.57	18.18
8	Total Receipts (1+ 4)	69753.15	85409.03	33.99	22.44
9	Non-Plan Expenditure (10+12)	40690.78	43824.43	24.67	7.70
10	Revenue Account (Non-Plan)	40082.98	43687.75	25.57	8.99
	<i>Of which:</i>				
11	(a) Interest payments	7588.72	8334.97	4.24	9.83
	(b) Subsidies	7827.12	6306.35	92.47	-19.43
	(c) Wages & Salaries	12171.08	14566.63	11.61	19.68
	(d) Pension Payments	5092.13	5618.97	22.69	10.35
12	Capital Account (Non-Plan)	607.80	136.68	-15.38	-77.51
13	Plan Expenditure (14+15)	28987.43	41539.04	47.81	43.30
14	Revenue Account (Plan)	13900.58	23931.29	46.03	72.16
15	Capital Account (Plan)	15086.85	17607.75	49.49	16.71
16	Total Expenditure (9+13)	69678.21	85363.47	33.36	22.51
17	Revenue Expenditure (10+14)	53983.56	67619.04	30.27	25.26
18	Capital Expenditure (12+15)	15694.65	17744.43	45.18	13.06
19	Revenue Deficit/Surplus (1-17)	158.99	2066.91	-94.34	1200.03
20	Fiscal Deficit/Surplus {(1+5+6)-16}	-8787.00	-10427.52	55.72	18.67
21	Primary Deficit/Surplus (20-11a)	-1198.28	-2092.55	-173.18	74.63

MACRO - ECONOMIC FRAMEWORK STATEMENT

As part of the Andhra Pradesh Fiscal Responsibility and Budget Management (APFRBM) 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:

The GSDP at constant (1999-2000) Prices for the year 2008-09 (Updated Advance) is estimated at Rs.2,52,318 crores as against Rs.2,39,102 crores for 2007-08 (Quick Estimates) reflecting a growth of 5.53%. During last Five Years, the GSDP of A.P on the average recorded 9.14%, and higher than the Annual Average Growth of GDP (All India) which is 8.49% only. Further, during last three years, the GSDP of AP was consistently more than 10%, which itself is a record. With more than 10% Growth for the past 3 years and due to this high Base effect, further Growth Rate in during 2008-09 is only 5.53%. In spite of Global recession and negative growth trends in the major world economies, our State is able to continue the growth path along with the Nation.

The sectoral composition of GSDP growth for 2008-09 in Service sector with 10.06% has maintained the same growth tempo, while the Agriculture sector with 2.27% and industry sector with 0.12% have recorded little lesser growth rate. At All India level (GDP), the Sectoral Growth rate in Service sector is 9.67%, while in Agriculture Sector, it is 1.60%. In these both sectors, our State's Growth rate is higher than All India level. The relative decline in Agriculture growth during 2008-09 is due to a very high base effect during the previous years especially last year i.e. 14.85%. However, the foodgrain production has reached a peak of 204.04 lakh tones during the year 2008-09.

The Per Capita Income figure gives a better idea of the standard of living of the people. The Per Capita Income of Andhra Pradesh at current prices is estimated at Rs.39,597 in 2008-09 as against Rs.35,864 in 2007-08. At current prices, the Per Capita Income has increased by 10.41%, while at constant (1999-2000) prices, it has gone up from Rs.26,195 in 2007-08 to Rs.26,983 in 2008-09 registering a growth rate of 3.01 per cent.

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 23.69% during 2006-07 and as the percentage of GSDP it works out to 28.96%.

Interest: During the year 2008-09 Reserve Bank of India has decreased CRR to 5% in its Monetary policy to give fillip to the economy. The Bank rate, Repo rate and reverse Repo rate are also decreased to 4.75% and 3.25% respectively. These decreases have made Market Borrowings for the State little bit cheaper. The State is able to raise resources at competitive rates from the market due to the confidence it enjoys in the financial markets and good ratings by rating agencies. 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 extended this Pavala-Vaddi Scheme to farmers, small entrepreneurs, Weavers.

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.69,685 crores in 2008-09 (RE) of which the State's own revenue is Rs.44,138 crores. The revenue receipts under State's own taxes during the year 2008-09 (RE) stood at Rs.35,739 crores as against Rs.28,794 crores in the previous year registering a growth rate of 24.12 %. Total expenditure (revenue + capital) stood at Rs.85,363 crores for the year 2008-09 (RE). The capital expenditure constituted 20.78% of the total expenditure (revenue + capital). Revenue Surplus for 2008-09 (RE) is Rs.2,066 crores. The Fiscal Deficit is Rs.10,427 crores which 2.81% of GSDP.

PROSPECTS

The global economy slow down in the recent past is beginning to show its adverse impact on our State also. In order to counter this recession effect and to augment employment potential, increasing the investments is essential. The Government is trying to attract private investment wherever possible, particularly in infrastructure sectors. Government is trying to attract investment through Public Private Partnership (PPP) mode. The State Government is also spending considerable funds, on various programmes like Jalayagnam, Housing, Employment Guarantee Scheme and in the social sectors like Welfare Pensions, Pavala Vaddi etc., which is expected to have substantial impact on economic growth in both demand and supply sides by improving production 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)

		Penultimate Year (Y-2) (Actuals) 2007-08	Previous Year (Y-1) 2008-09 (BE)	Previous Year (Y-1) 2008-09 (RE)	Current Year (Y) 2009-10 (BE)	Targets for next Two Years #		
						Y + 1	Y + 2	
1	Revenue Deficit / Surplus as percentage of Total Revenue Receipts (TRR)	0.29	1.00	2.97	3.05			
2	Fiscal Deficit as percentage of GSDP	Target	-3.12	-3.00	-3.00	-4.00		
		Achievement	-2.68	-2.82	-2.81	-3.96		
3	Total outstanding Liabilities as percentage of GSDP	Target	35.00	35.00	35.00	35.00		
		Achievement	25.12	27.29	24.91	26.96		
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 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 2.04% of GSDP from 3.87% in 2004-05. By continuing the same trend a revenue surplus of Rs.158.99 crores has been achieved in 2007-08 and Fiscal Deficit also maintained at 2.68% of GSDP.

The State Government's fiscal discipline yielded an amount of Rs.2022 crores as interest relief and Rs.2592 crores as debt relief from Government of India so far. The State Government is confident in continuing the fiscal discipline in future.

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.35858.18 crore in 2007-08 to Rs.44138.11 crore in 2008-09 (RE) and is budgeted to increase to Rs.53610 crore in 2009-10.

During the preceding three years, tax collection has increased by 21% on average every year due to the robust growth of state's economy and reforms in tax administration. However, considering the affect of global economic slow down on State economy, growth rate in tax revenue for B.E. 2009-10 has been estimated at 13.78% over R.E. 2008-09.

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.

Government have reduced the stamp duty by 1% payable in respect of Registration of sale deeds in favour of women under Article 47-A of Schedule I-A to the Indian Stamp Act, 1899 with effect from 27-10-2008.

Government have exempted the Stamp duty of 5% payable as per Article 47-A(d) of Schedule I-A to the Indian Stamp Act, on the sale deeds in respect of residential flats/apartments including semi finished structures. The exemption is applicable to flats/apartments measuring upto 1200 sq. ft or below including common area excluding parking area with effect from 1-1-2009 to 30-12-2010.

Excise Department, which earns revenue by way of excise Duty, license fee etc. realized revenue of Rs.5038 crores up to February 2009 recording a growth of 43.52% over corresponding period in the previous year. There are about 6500 retail vends (A4 shops) and about 1200 restaurants licensed to sell liquor in the State. This number is kept constant over last 5 years and there is no proposal to increase the number. During 2008-09 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 2008-09, Government has fixed a target of Rs.2290 crores for realization. The Government collected an amount of Rs.1658 crores upto February, 2009 with a growth rate of 12.56% over the corresponding period of previous year. The Government is expecting to collect an amount of Rs.2315 crores in 2009-10.

Non-Tax Revenue:

The State's own Non-tax Revenue is estimated at Rs.8398 crores in R.E 2008-09 which includes the revenue from mines & minerals Rs.1917 crores and Debt Relief Rs.703 crores. State's own Non-tax Revenue is estimated at Rs.12,946 crores in B.E. 2009-10 which includes Rs.3,000 crores under Sale of Land, Rs.2,450 crores under mines & minerals and Rs.923 crores towards Debt Relief.

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 29.41% in 2008-09 (RE). Expenditure on debt services is reduced to 12.95% in 2008-09 (RE). Development expenditure under revenue account gradually increased from 56.46% of total revenue expenditure in 2004-05 to 70.59% in RE 2008-09.

The Government is of the view that the subsidies are not a drain on State Finances as they are the 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 increase quantity of rice from 4 Kg. per head to 6 Kg per head under Rs.2/- per Kg rice scheme in the current financial year. The food subsidy is estimated to cost Rs.3,500 crores to the State exchequer during 2009-10. The State Government believes that, it is its responsibility to ensure food security to the poor people living below poverty line. The Government is continuing free power to agriculture sector for the 6th consecutive year and also decided to increase supply time from 7 hours to 9 hours per day for which an amount of Rs.6,040 crores provided in the BE 2009-10.

The Government gives utmost importance to expenditure in sectors which would create further assets. 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.17,744 in 2008-09 (RE) and to Rs.18,843 crores in BE 2009-10. The capital expenditure and GSDP ratio is increased from 3.32 % in 2004-05 to 4.78% in 2008-09 (RE) and to 4.61% in B.E. 2009-10.

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 the 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 to 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 31.35% of GSDP in 2004-05, declined to 25.12% in the year 2007-08 and is expected to be 24.91% in the year 2008-09 (RE).

Guarantees Assessment:

The stock of contingent liabilities in the form of guarantees given by the Government has declined from 8.36% of GSDP at the end of 2004-05 to 5.14% of GSDP in 2007-08 and is expected further decline to 4.51% of GSDP in 2008-09 (RE). The guarantees outstanding are within the prudential limits. The Government is also committed to transparent reporting of contingent liabilities.

FORM D-1*[See rule 6]***SELECT FISCAL INDICATORS**

	Item	2007-08 (Actuals)	2008-09 (R.E)
1	Gross Fiscal Deficit as Percentage of GSDP	-2.68	-2.81
2	Revenue Deficit/Surplus as Percentage of Gross Fiscal Deficit	-1.81	-19.82
3	Revenue Deficit/Surplus as Percentage of GSDP	0.05	0.56
4	Revenue Deficit/Surplus as Percentage of TRR	0.29	2.97
5	Total Liabilities -GSDP Ratio (%)	25.12	24.91
6	Total Liabilities - Total Revenue Receipts (%)	152.34	132.69
7	Total Liabilities –State’s Own Revenue Receipts (%)	230.01	209.49
8	State’s Own Revenue Receipts to Revenue Expenditure (%)	66.42	65.27
9	Capital Outlay as Percentage of Gross Fiscal Deficit	145.37	131.36
10	Interest Payment as Percentage of Revenue Receipts	14.02	11.96
11	Salary Expenditure as Percentage of Revenue Receipts	24.01	22.79
12	Pension Expenditure as Percentage of Revenue Receipts	9.41	8.06
13	Non-developmental Expenditure as Percentage of aggregate disbursements	34.40	29.41
14	Gross Transfers from the Centre as Percentage of Aggregate Disbursements	33.87	37.78
15	Non-tax Revenue as Percentage of TRR	13.05	12.05

FORM D-2*[See rule 6]***A. Components of State Government Liabilities**

						(Rs. crore)
Category	Raised during the Fiscal Year		Repayment/Redemption during the Fiscal Year		Outstanding Amount	
					(End-March)	
	2007-08 (Actuals)	2008-09 (RE)	2007-08 (Actuals)	2008-09 (RE)	2007-08 (Actuals)	2008-09 (RE)
Market Borrowings	6650.00	9344.15	1007.90	1783.38	29186.36	36747.13
Loans from Centre	908.99	1169.85	952.43	788.42	15125.69	15507.12
Special Securities issued to the NSSF	387.44	1000.00	203.68	336.73	24195.91	24859.18
Borrowings from Financial Institutions/ Banks	3573.45	2466.69	3033.17	1955.82	7082.84	7593.71
WMA/OD from RBI	0.00	1000.00	0.00	1000.00	0.00	0.00
Provident Funds, Insurance Funds etc	1981.99	2204.56	1225.42	1334.55	6888.16	7758.18
Total	13501.87	17185.25	6422.60	7198.90	82478.96	92465.32

FORM D-3

[See rule 6]

Consolidated Sinking Fund (CSF)*(Amount in Rs. Crore)*

Outstanding balance in CSF at the beginning of the 2007-08	Additions to CSF during the 2007-08	Withdrawals from CSF during the 2007-08	Outstanding balance in CSF at the end of the 2007-08 / beginning of 2008-09	(4)/ Outstanding Stock of SLR Borrowings (%)	Additions to CSF during the 2008-09(RE)	Withdraw- also from CSF during the 2008-09	Outstanding at the end of 2008-09 / beginning of 2009-10	(8)/ Stock of SLR Borrowings (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1456.74	498.34	8.38	1946.70	0.05	419.50	0.00	2366.20	0.06

FORM D - 4*[See rule 6]***Guarantees given by the Government**

Category (No. of Guarantees within bracket)	Maximum Amount Guaranteed during the 2007-08	Outstanding at the beginning of the 2007-08	Additions during the 2007-08	Reductions during the 2007-08 (other than invoked during the 2007-08)	
	(Rs. crore)	(Rs. crore)	(Rs. crore)	(Rs. crore)	
1	2	3	4	5	
	554.24	17458.00	554.24	1142.24	
Invoked during the 2007-08		Outstanding at the end of the 2007-08	Guarantee Commission or Fee during 2007-08		Remarks
(Rs. crore)		(Rs. crore)	(Rs. crore)		
Discharged	Not discharged		Receivable	Received	
6	7	8	9	10	11
0.00	0.00	16870.00	4.47	4.47	

FORM D-5*[See rule 6]***Outstanding Risk -weighted Guarantees**

(Amount in Rs. Crores)

Default Probability	Risk weights	Amount outstanding as in the Previous Year and the Current Year		Risk weighted outstanding Guarantee in the Previous Year and the Current Year	
		2007-08	2008-09	2007-08	2008-09
Direct Liabilities	100	3697.34	3655.16	3697.34	3655.16
High Risk	75				
Medium Risk	50				
Low Risk	25				
Very Low Risk	5	13172.66	13098.84	658.63	654.94
Total Outstanding		16870.00	16754.00	4355.97	4310.10

FORM D-6*[See rule 6]***Guarantee Redemption Fund (GRF)**

(Amount in Rs. Crore)

Outstanding invoked guarantees at the end of the 2007-08	Outstanding Amount in GRF at the end of the 2007-08	Amount of Guarantees	Addition to GRF during the 2008-09	Withdrawal from the GRF during the 2008-09	Outstanding Amount in GRF at the end of the 2008-09
		Likely to be Invoked during the 2008-09			
(1)	(2)	(3)	(4)	(5)	(6)
0.00	466.99	0.00	38.61	0.00	505.60

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

Sl. No.	Sector Name	Total Employees as on 31.12.2008	Related Expenditure during 2007-08 (Rs. in crores)	
			On Salary	On Pension
1.	State Government	6,52,243	11,459.76	4,875.32
2.	Judiciary	13,356	237.37	4.16
3.	Aided Educational Institutions	27,887	359.84	123.11
4.	Zilla Praja Parishads	19,599	155.95	20.78
5.	Mandal Praja Parishads	27,183	194.70	61.20
6.	Gram Panchayats	11,845	159.67	0.37
7.	Municipal Corporations	14,007	- -	- -
8.	Municipalities	18,445	164.74	10.19
9.	Urban Development Authority	1,407	- -	- -
10.	Agricultural Market Committees	3,627	- -	- -
11.	Zilla Grandhalaya Samsthas	1,948	32.66	- -
12.	State Public Sector Undertakings	1,90,892	- -	- -
13.	Universities	17,505	478.75	
14.	Co-operative Institutions & Other Govt. Bodies	6,345	- -	- -
15.	Temples & T.T.D.	17,035	- -	- -
	TOTAL	10,23,324	13,243.44	5,092.13