



GOVERNMENT OF ANDHRA PRADESH

Statement of Fiscal Policy to be laid on the table of the A.P. State Legislature in March, 2010

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

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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	
		2008-09 Actuals	2009-10 RE	2008-09 Actuals	2009-10 RE
1	2	3	4	5	6
	Real Sector				
1	GSDP at factor cost				
(a)	at Current Price	377346	406641	15.56	7.76
(b)	at Constant Price (1999-2000)	251431	263773	5.04	4.91
2	Agriculture Production (Primary Sector)	99412	104025	19.59	4.64
3	Industrial Production (Secondary Sector)	97517	103860	9.26	6.50
4	Tertiary Sector Prod. (Service Sector)	180418	198756	17.02	10.16
	Government Finances				
1	Revenue Receipts (2 +3)	62858.45	78406.05	16.10	24.73
2	Tax Revenue (2.1+2.2)	45159.79	52773.30	12.96	16.86
2.1	Own Tax Revenue	33358.29	40664.00	15.85	21.90
2.2	State's Share in Central Taxes	11801.50	12109.30	5.52	2.61
3	Non-Tax Revenue (3.1 + 3.2)	17698.66	25632.75	24.95	44.83
3.1	State's Own Non Tax revenue	9683.40	14106.40	37.08	45.68
3.2	Central Transfers	8015.26	11526.35	12.88	43.81
4	Capital Receipts (5+6+7)	12695.55	14585.97	-18.67	14.89
5	Recovery of loans	369.77	275.00	93.65	-25.63
6	Other Receipts	0.00	0.00	-100.00	
7	Borrowing and other liabilities etc (Net)	12325.78	14310.97	39.09	16.11
8	Total Receipts (1+ 4)	75554.00	92992.02	8.32	23.08
9	Non-Plan Expenditure (10+12)	42933.41	56466.99	5.51	31.52
10	Revenue Account (Non-Plan)	42862.00	56343.71	6.93	31.45
	<i>Of which:</i>				
11	(a) Interest payments	8057.12	9103.56	6.17	12.99
	(b) Subsidies	8513.62	12653.59	8.77	48.63
	(c) Wages & Salaries	12882.88	17424.01	5.85	35.25
	(d) Pension Payments	5518.46	6842.76	8.37	24.00
12	Capital Account (Non-Plan)	71.41	123.28	-88.25	72.64
13	Plan Expenditure (14+15)	32700.64	36496.17	12.81	11.61
14	Revenue Account (Plan)	18992.22	19119.89	36.63	0.67
15	Capital Account (Plan)	13708.42	17376.28	-9.14	26.76
16	Total Expenditure (9+13)	75634.05	92963.16	8.55	22.91
17	Revenue Expenditure (10+14)	61854.22	75463.60	14.58	22.00
18	Capital Expenditure (12+15)	13779.83	17499.56	-12.20	26.99
19	Revenue Deficit/Surplus (1-17)	1004.23	2942.45	531.63	193.01
20	Fiscal Deficit/Surplus {(1+5+6)-16}	-12405.83	-14282.11	41.18	15.12
21	Primary Deficit/Surplus (20-11a)	-4348.71	-5178.55	262.91	19.08

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 2009-10 (Updated Advance) is estimated at Rs.2,63,773 crores as against Rs.2,51,431 crores for 2008-09 (Quick Estimates) reflecting a growth of 4.91%. During the three years period (2005-08), the GSDP of AP was consistently more than 10%, which itself is a record. With more than 10% growth for the continuous 3 years and due to this high Base effect, further growth rate during 2008-09 is only 5.53%. The State has faced complex situations during 2009-10, State economy was severely affected by drought on one hand and by unprecedented floods on the other. The global economic slow down effect on State economy is more than what was expected earlier. Agitations or bandhs through out the State for separate Statehood and united State also affected the economic activities. As a result, the economic growth rate has reduced to below 5% at 4.91% for 2009-10.

The sectoral composition of GSDP growth for 2009-10 is highest in Service sector with 9.02 percent followed by Industry sector with 5.86 percent and Agriculture sector with a negative growth of 4.75 percent. At All India level (GDP) (in New Base -2004-05), the Sectoral Growth rate in service sector is 8.72 percent, Industry sector 8.16 and Agriculture sector with a negative growth of 0.17. The relative decline in Agriculture growth during 2009-10 is due to bad seasonal conditions as there are no inflows in the project areas, due to which the area and productivity of paddy, maize, sugarcane and groundnut have drastically come down when compared to previous year.

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.43556 in 2009-10 as against Rs.40902 in 2008-09. The Per Capita Income has increased by 6.49 percent, while, at constant (1999-2000) prices, it has gone up from Rs.27362 in 2008-09 to Rs.28384 in 2009-10 registering a growth rate of 3.74 percent.

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 21.28 percent during 2007-08 and it works out to 27.69 percent of GSDP.

Interest Rates: Recently in March 2010, the Reserve Bank of India has increased CRR to 5.75% in its monetary policy to control inflation. The Repo rate and reverse Repo rate are also increased to 5% and 3.5% respectively for the same reason. These increases are likely to make Market Borrowings for the State slightly costlier. 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 the poor and the 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 ahead of schedule in eliminating revenue deficit and achieving other fiscal targets enacted in APFRBM Act, 2005. The State revenue receipts estimated at Rs.78,406 crores in 2009-10 (RE) of which the State's own revenue is Rs.54,770 crores. The revenue receipts under State's own taxes during the year 2009-10 (RE) estimated at Rs.40,664 crores as against Rs.33,358 crores in the previous year registering a growth rate of 21.9 %. Total expenditure estimated at Rs.99,047 crores for the year 2009-10 (RE). Out of this, the Revenue expenditure is Rs.78,463 crores, Capital expenditure is Rs.17,500 crores and the remaining is in loan account. Revenue Surplus for 2009-10 (RE) is Rs.2,942 crores. The Fiscal Deficit is Rs.14,282 crores which is 3.6% of GSDP.

PROSPECTS

Recent trends show that the economies across the world have begun to recover from the global economic slow down. The Indian economy is also on the recovery path. Reserve Bank of India has revised GDP growth rate as 7.17% as against earlier estimates of 6.1%. Given its excellent track record, inbuilt strength and efficient administrative machinery, the State economy will recover soon and tread high growth path.

The State Government is continuing its strategy to spend considerable funds on various programmes like Jalayagnam, Housing, Employment Guarantee Scheme and in the social sectors like welfare pensions, scholarships and tuition fees etc. The Government is actively pursuing the implementation of Annual credit plan so that timely bank credit is available to the targeted groups like farmers, weavers, entrepreneurs, self help groups etc. This is expected to have a substantial impact on economic growth on both, demand and supply sides by improving production of the State and increasing purchasing power of the people.

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) 2008-09	Current Year (Y-1) 2009-10 (Budget Estimate)	Current Year (Y-1) 2009-10 (Revised Estimate)	Ensuing Year (Y) 2010-11 (Budget Estimate)	Targets for next Two Years #		
						Y + 1	Y + 2	
1	Revenue Deficit / Surplus as percentage of Total Revenue Receipts (TRR)	1.60	3.05	3.75	3.91			
2	Fiscal Deficit as percentage of GSDP	Target	-3.5	-4.00	-4.00	-3.00		
		Achievement	-3.29	-3.96	-3.51	-2.97		
3	Total outstanding Liabilities as percentage of GSDP	Target	35.00	35.00	35.00	35.00		
		Achievement	24.80	26.96	26.99	28.11		
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 ahead of the targeted year of 2008-09. As mandated in the above Act, the State Government had to eliminate Revenue Deficit by 2008-09 by reducing 0.32 percentage points in GSDP every year and at the same time fiscal deficit had 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 2.69% of GSDP. To counter global economic slowdown effect, Government of India has increased fiscal deficit limits of the States for 2008-09 and 2009-10 to 3.5% and 4% of GSDP respectively. Accordingly State Government has maintained the fiscal deficit within the limits allowed by Government of India at 3.29% of GSDP for 2008-09 and 3.51% of GSDP for 2009-10 (R.E).

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 and equitable 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.43041 crore in 2008-09 to Rs.54770 crore in 2009-10 (RE) and is budgeted to increase to Rs.62702 crore in 2010-11.

During the five year period from 2004-08, tax collection has increased by 20.18% on an average every year due to the robust growth of the State's economy and reforms in tax administration. Despite the global economic slow down, tax revenue of the State has registered a growth rate of 15.85% during 2008-09. Growth rate in tax revenue for B.E. 2010-11 has been estimated at 15.58% over R.E. 2009-10.

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.

Certain changes have been made in the Act and Rules based on experience so far, as well as, requests from trade and industry. Tax was exempted on Textile made-ups during 2009-10. Tax rate for diesel power generators, clean air ventilation systems / air handling systems and others has been reduced to 4%.

Tax rate for hotels is revised. Three star and above status hotels and the hotels whose annual turnover is more than Rs.1.5 crores and above shall pay tax at the rate of 12.5% of the taxable turnover of the sale or supply of goods. Below three stars status hotels and hotels whose annual turnover is below Rs.1.5 crores shall pay tax at the rate of 4% of the taxable turnover.

Rate of tax is enhanced from 12.5% to 14.5% on the residuary entries under schedule 5 of the A.P. VAT Act 2005 with effect from 15.1.2010.

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 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, licence fee etc. realized revenue of Rs.5038 crores during 2008-09 recording a growth of 41.77% over the previous year. There are about 6596 retail vends (A4 shops) and about 1428 restaurants licensed to sell liquor in the State. To maintain transparency the privilege to sell from retail shops is given away by way of auction for a block period of 2 years and the bars are licensed every year. During 2009-10 no changes were made in the tax structure of Prohibition and Excise department. The Government strategy to augment revenue from excise is by plugging the loopholes by controlling illicit distillations and

smuggling of arrack from across the borders. The estimated revenue from excise for 2010-11 is Rs.7512 crores with a growth of 20% over 2009-10 R.E.

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 2009-10, Government has fixed a target of Rs.2315 crores for realization. The Government collected an amount of Rs.1807 crores upto February, 2009 with a growth rate of 9% over the corresponding period of previous year. The Government is expecting to collect an amount of Rs.2778 crores in 2010-11.

Non-Tax Revenue:

The State's own Non-tax Revenue is estimated at Rs.14106 crores in R.E 2009-10 which includes the revenue from mines & minerals Rs.2450 crores and Debt Relief Rs.703 crores. State's own Non-tax Revenue is estimated at Rs.15703 crores in B.E. 2010-11 which includes Rs.3,500 crores under sale of land, Rs.2,695 crores under mines & minerals and Rs.219 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 allow 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 31.51% in 2009-10 (RE). Expenditure on debt services is reduced to 12.62% in 2009-10 (RE). Development expenditure under revenue account gradually increased from 56.46% of total revenue expenditure in 2004-05 to 68.49% in RE 2009-10.

The Government is of the view that subsidies are not a drain on State Finances as they are the need of the hour to provide food, shelter and wage employment to all poor and vulnerable sections of 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 food subsidy is estimated to cost Rs.3,000 crores to the State exchequer during 2010-11. 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 seventh consecutive year for which an amount of Rs.4,500 crores is provided in the BE 2010-11.

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 2008-09 there is slight decrease in capital expenditure compared to previous year. The reason for this is, mainly implementation of Interim Relief to Government employees and implementation of fees reimbursement on saturation mode to all needy sections including Economically Backward Classes. The estimated Capital expenditure for Rs.2009-10 (RE) is Rs.17,500 crores as against Rs.13,780 crores in 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 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 last five years Government has been swapping high cost loans and have 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 24.80% in the year 2008-09 and is expected to be 26.99% in the year 2009-10 (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 4.44% of GSDP in 2008-09 and is expected to further decline to 3.36% of GSDP in 2009-10 (RE). The guarantees outstanding are well within prudential limits. The Government is also committed to a transparent reporting of contingent liabilities.

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

	Item	2008-09 (Actuals)	2009-10 (R.E)
1	Gross Fiscal Deficit as Percentage of GSDP	-3.29	-3.51
2	Revenue Deficit / Surplus as Percentage of Gross Fiscal Deficit	8.09	20.60
3	Revenue Deficit / Surplus as Percentage of GSDP	0.27	0.72
4	Revenue Deficit / Surplus as Percentage of TRR	1.60	3.75
5	Total Liabilities -GSDP Ratio (%)	24.80	26.99
6	Total Liabilities - Total Revenue Receipts (%)	148.86	139.99
7	Total Liabilities –State’s Own Revenue Receipts (%)	217.39	200.39
8	State’s Own Revenue Receipts to Revenue Expenditure (%)	69.59	72.58
9	Capital Outlay as Percentage of Gross Fiscal Deficit	111.08	122.53
10	Interest Payment as Percentage of Revenue Receipts	12.82	11.61
11	Salary Expenditure as Percentage of Revenue Receipts	22.71	24.23
12	Pension Expenditure as Percentage of Revenue Receipts	8.78	8.73
13	Non-developmental Expenditure as Percentage of aggregate disbursements	31.17	31.51
14	Gross Transfers from the Centre as Percentage of Aggregate Disbursements	32.04	31.32
15	Non-tax Revenue as Percentage of TRR	15.41	17.99

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)	
	2008-09 (Actuals)	2009-10 (RE)	2008-09 (Actuals)	2009-10 (RE)	2008-09 (Actuals)	2009-10 (RE)
Market Borrowings	10933.59	16351.44	1782.69	2098.02	38337.24	52590.66
Loans from Centre	396.90	850.01	788.37	819.18	14734.22	14765.05
Special Securities issued to the NSSF	323.20	1260.00	336.73	515.61	24182.38	24926.77
Borrowings from Financial Institutions/ Banks	4022.16	1033.50	2262.06	2167.27	8842.96	9046.19
WMA/OD from RBI	0.00	1000.00	0.00	1000.00	0.00	0.00
Provident Funds, Insurance Funds etc	2027.45	2425.01	1444.17	1468.00	7471.44	8428.45
Total	17703.30	22919.96	6614.02	8068.08	93568.24	109757.12

FORM D-3

[See rule 6]

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

Outstanding balance in CSF at the beginning of the 2008-09	Additions to CSF during the 2008-09	Withdrawals from CSF during the 2008-09	Outstanding balance in CSF at the end of the 2008-09 / beginning of 2009-10	(4)/ Outstanding Stock of SLR Borrowings (%)	Additions to CSF during the 2009-10(RE)	Withdraw- also from CSF during the 2009-10	Outstanding at the end of 2009-10/ beginning of 2010-11	(8)/ Stock of SLR Borrowings (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1946.70	581.00	26.63	2527.70	0.05	582.48	12.13	3110.18	0.06

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

Category (No. of Guarantees within bracket)	Maximum Amount Guaranteed during the 2008-09	Outstanding at the beginning of the 2008-09	Additions during the 2008-09	Reductions during the 2008-09 (other than invoked during the 2008-09)	
	(Rs. crore)	(Rs. crore)	(Rs. crore)	(Rs. crore)	
1	2	3	4	5	
	402.58	16870.00	402.58	3616.58	
Invoked during the 2008-09		Outstanding at the end of the 2008-09	Guarantee Commission or Fee during 2008-09		Remarks
(Rs. crore)		(Rs. crore)	(Rs. crore)		
Discharged	Not discharged		Receivable	Received	
6	7	8	9	10	11
		13656.00	5.50	5.06	

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	
		2008-09	2009-10	2008-09	2009-10
Direct Liabilities	100	3655.16	2719.25	3655.16	2719.25
High Risk	75				
Medium Risk	50				
Low Risk	25				
Very Low Risk	5	13098.84	10936.75	654.94	546.84
Total Outstanding		16754.00	13656.00	4310.10	3266.09

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

(Amount in Rs. Crore)

Outstanding invoked guarantees at the end of the 2008-09	Outstanding Amount in GRF at the end of the 2008-09	Amount of Guarantees	Addition to GRF during the 2009-10	Withdrawal from the GRF during the 2009-10	Outstanding Amount in GRF at the end of the 2009-10
		Likely to be Invoked during the 2009-10			
(1)	(2)	(3)	(4)	(5)	(6)
	505.60		38.61		544.21

Form – D.10

**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 31.12.2009	Related Expenditure during 2008-09 (Rs. in crores)	
			On Salary	On Pension
1.	State Government	7,94,454	12,821.56	5,254.12
2.	Judiciary	9,988	279.02	0.26
3.	Aided Educational Institutions	27,776	379.62	133.41
4.	Zilla Praja Parishads	16,380	157.45	54.14
5.	Mandal Praja Parishads	18,894	207.86	64.36
6.	Gram Panchayats	11,309	162.97	0.45
7.	Municipal Corporations	13,945	- -	- -
8.	Municipalities	17,783	158.87	11.72
9.	Urban Development Authority	590	- -	- -
10.	Agricultural Market Committees	3,183	- -	- -
11.	Zilla Grandhalaya Samsthas	1,879	24.88	- -
12.	State Public Sector Undertakings	2,03,270	- -	- -
13.	Universities	17,469	347.04	
14.	Co-operative Institutions & Other Govt. Bodies	6,220	- -	- -
15.	Temples & T.T.D.	17,348	- -	- -
	TOTAL	11,60,488	14,539.27	5,518.46