

# Andhra Pradesh Budget Analysis 2016-17

The Finance Minister of Andhra Pradesh, Mr. Yanamala Ramakrishnu, presented the Budget for Andhra Pradesh for financial year 2016-17 on March 10, 2016.

## Budget Highlights

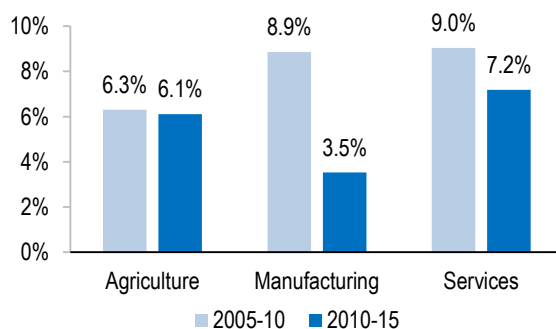
- The **Gross State Domestic Product** of Andhra Pradesh for 2016-17 is estimated to be Rs 6,83,233 crore. This is 13.2% higher than the estimates for 2015-16.
- **Total expenditure** for 2016-17 is estimated to be Rs 1,35,689 crore, a 20.9% increase over the revised estimate of 2015-16. In 2015-16, there was a *decrease* of Rs 833 crore (0.8%) in the revised estimate over the budget estimate.
- **Total receipts (excluding borrowings)** for 2016-17 are estimated to be Rs 1,10,578 crore, an increase of 22.4% over the revised estimates of 2015-16. In 2015-16, total receipts fell short of the budgeted target by Rs 745 crore.
- **Revenue deficit** for the next financial year is targeted at Rs 4,868 crore, or 0.7% of the Gross State Domestic Product (GSDP). **Fiscal deficit** is targeted at Rs 20,497 crore (3% of GSDP). **Primary deficit** is targeted at Rs 8,239 crore (1.2% of GSDP).
- Departments of School Education, Rural Development, Major and Medium Irrigation, and Medicine and Health Medicine saw increases in allocations for the year 2016-17. On the other hand, the Department of Agriculture witnessed an 8.8% decrease in allocation in 2016-17.

## Policy Highlights

- **Agricultural debt redemption:** Rs 3,512 crore is proposed to be allocated in 2016-17 for repayment of farmers' debt.
- **Irrigation:** Allocation to the Department of Major and Minor Irrigation has increased by 57.6% in 2016-17, over the budgeted estimate of 2015-16. The Polavaram Right Main Canal is proposed to be completed in 2016-17. The Left Main Canal is proposed to be completed in 2017-18.
- **Investments and job creation:** The government is targeting industrial and job growth through investments worth Rs 11,500 crore, in 2016-17. Further, in the food processing sector, it is targeting an investment of Rs 1,552 crore and the creation of 15,000 new jobs in 2016-17. The government also plans to develop the Machilipatnam and Bhavanapadu Ports from investments through public-private participation in 2016-17.
- **Ease of doing business** The approval time for businesses is proposed to be brought to an average of 14 days in 2016-17, as compared to an average of 21 days in 2015-16.

## Background: Andhra Pradesh Economy

**Figure 1: Growth rate of sectors in Andhra Pradesh**



Note: The above numbers are only for the state of Andhra Pradesh, not including Telangana.

Sources: Central Statistics Office; PRS.

Average growth in Andhra Pradesh's economy at constant prices (adjusting for inflation) witnessed a decline from 6.6% in 2005-10 to 4.9% in 2010-15.

Figure 1 shows the growth rate of individual sectors in the period between 2005-10 and 2010-15.

Over 2005-15, growth rate in all three sectors of the economy, i.e. agriculture, manufacturing and services saw a decline.

- The growth in the manufacturing sector has slowed down from 8.9% to 3.5%.
- The growth in the services sector has also slowed down, from 9% to 7.2%.
- Agriculture growth rate declined marginally from 6.3% in 2005-10 to 6.1% in 2010-15.

Services sector is the largest component of the state's economy, constituting 56% of the GSDP, followed by agriculture and manufacturing constituting 24% and 20% of the economy respectively. The agriculture sector employs 55% of the state's population, followed by the services (35%) and manufacturing (10%) sectors.<sup>1</sup>

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## Budget Estimates for 2016-17

- The total expenditure in 2016-17 is targeted at Rs 1,35,689 crore. The revised estimate for the total expenditure in 2015-16 was Rs 1,12,216 crore, which is Rs 833 crore lower than the budgeted target of 2015-16.
- The expenditure in 2016-17 is proposed to be met through receipts (other than borrowings) of Rs 1,10,578 crore and borrowings of Rs 25,012 crore. Total receipts for 2016-17 (other than borrowings) are expected to be Rs 745 crore lower than the revised estimates of 2015-16.

**Table 1: Budget 2016-17 - Key figures (in Rs crore)**

Items	2015-16 Budgeted	2015-16 Revised	% change from BE 2015-16 to RE of 2015-16	2016-17 Budgeted	% change from RE 2015-16 to BE 2016-17
<b>Total Expenditure</b>	<b>1,13,049</b>	<b>1,12,216</b>	<b>-0.7%</b>	<b>1,35,689</b>	<b>20.9%</b>
A. Borrowings (Public Debt)	21,726	21,726	0.0%	25,012	15.1%
B. Receipts (except borrowings)	91,126	90,381	-0.8%	1,10,578	22.4%
<b>Total Receipts (A+B)</b>	<b>1,12,852</b>	<b>1,12,108</b>	<b>-0.7%</b>	<b>1,35,590</b>	<b>20.9%</b>
<b>Revenue Deficit</b>					
(-)/Surplus(+)	<b>-7,300</b>	<b>-4,140</b>		<b>-4,868</b>	
As % of state GDP	-1.25%	-0.69%		-0.71%	
<b>Fiscal Deficit</b>					
(-)/Surplus(+)	<b>-17,584</b>	<b>-17,005</b>		<b>-20,497</b>	
As % of state GDP	-3.00%	-2.82%		-3.00%	
<b>Primary Deficit</b>					
(-)/Surplus(+)	<b>-6,386</b>	<b>-7,527</b>		<b>-8,239</b>	
As % of state GDP	-1.09%	-1.25%		-1.21%	

Notes: BE is Budget Estimate; RE is Revised Estimate. Total receipts include borrowings and hence, total expenditure includes loan repayments. GSDP calculated on the basis of Public Debt estimates as presented in Budget at a Glance document.

Sources: State Budget Documents 2016-17; PRS.

## Expenditure in 2016-17

- Government expenditures can be divided into (a) capital expenditure, which affects the assets and liabilities of the state, and (b) revenue expenditure, which includes the rest of the expenses.
- Total capital expenditure is proposed to be Rs 21,521 crore, which is an increase of 15% over the revised estimates of 2015-16. This includes expenditure which leads to creation of assets, and repayment of loans, among others.
- Total revenue expenditure for 2016-17 is proposed to be Rs 1,14,168 crore, which is an increase of 22% over revised estimates of 2015-16. This expenditure includes payment of salaries, administration of government programs, etc.

**Table 2: Expenditure budget 2016-17 (in Rs crore)**

Item	2015-16 Budgeted	2015-16 Revised	% change from BE 2015-16 to RE 2015-16	2016-17 Budgeted	% change from RE 2015-16 to BE 2016-17
Revenue Expenditure	97,424	93,521	-4.0%	1,14,168	22.1%
Capital Expenditure	15,625	18,695	19.6%	21,521	15.1%
<b>Total Expenditure</b>	<b>1,13,049</b>	<b>1,12,216</b>	<b>-0.7%</b>	<b>1,35,689</b>	<b>20.9%</b>
A. Debt Repayment	5,087	5,578	9.7%	5,554	-0.4%
B. Interest Payments	11,198	9,478	-15.4%	12,258	29.3%
Debt Servicing (A + B)	16,285	15,056	-7.5%	17,812	18.3%

Note: Capital expenditure also includes repayment of loans.

Sources: State Budget Documents 2016-17; PRS.

## Departmental expenditure in 2016-17

The departments listed below account for 46% of the total budgeted expenditure of Andhra Pradesh in 2016-17.

**Table 3: Department-wise expenditure for Andhra Pradesh Budget 2016-17 (in Rs crore)**

Departments	Budgeted 2015-16	Budgeted 2016-17	% change from BE 2015-16 to BE 2016-17	Budget proposals for 2016-17
School Education	14,962	17,503	17.0%	<ul style="list-style-type: none"> <li>Rs 1,299 crore has been allocated for Sarva Shiksha Abhiyan (SSA) in 2016-17 a 28% <i>decrease</i> over its allocation in 2015-16.</li> <li>High School drop-out rate is to be brought to 21.5% in 2016-17, from 23.8% in 2015-16.</li> </ul>
Rural Development	8,213	10,435	27.1%	<ul style="list-style-type: none"> <li>Rs 4,765 crore has been allocated to the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) in 2016-17, a 75% <i>increase</i> over its allocation in 2015-16.</li> </ul>
Major and Medium Irrigation	4,554	7,180	57.6%	<ul style="list-style-type: none"> <li>The Thotapully Barrage, Polavaram Right Main Canal and Galeru-Nagari Sujala Sravanthi, among others are proposed to be completed in 2016-17.</li> <li>The Polavaram Left Main Canal and the Polavaram Phase-I, among others, are proposed to be completed by 2017-18.</li> </ul>
Agriculture	7,308	6,661	-8.8%	<ul style="list-style-type: none"> <li>Rs 5,839 crore has been allocated for agricultural development in 2016-17.</li> <li>Rs 344 crore has been allocated for the Pradhan Mantri Fasal Bima Yojana, which was launched in January 2016.</li> <li>Rs 232 crore has been allocated to the Rashtriya Krishi Vikas Yojana in 2016-17, a 32% <i>increase</i> over its allocation in 2015-16.</li> </ul>
Medical and Health	5,728	6,104	6.6%	<ul style="list-style-type: none"> <li>Rs 482 crore has been allocated to the National Health Mission for 2016-17. This is a 64% <i>decrease</i> over its allocation in 2015-16.</li> </ul>
Panchayat Raj	4,186	5,681	35.7%	<ul style="list-style-type: none"> <li>Based on the recommendations of the 14th Finance Commission, Rs 1,463 crore has been allocated to Gram Panchayats.</li> <li>Rs 4,468 crore has been allocated to support Panchayat Raj Institutions.</li> </ul>
Municipal Administration and Urban Development	3,169	4,729	49.2%	<ul style="list-style-type: none"> <li>Rs 1,500 crore has been allocated in 2016-17 for the development of the new capital city, Amravati.</li> </ul>
Backward Classes Welfare	3,231	4,430	37.1%	<ul style="list-style-type: none"> <li>Rs 3,047 crore has been allocated in 2016-17 for the 'Backward Caste Welfare Department of Andhra Pradesh'.</li> </ul>
% of total expenditure	45.8%	46.2%		
Other departments	60,864	72,967	19.9%	
<b>Total Expenditure</b>	<b>1,12,216</b>	<b>1,35,689</b>	<b>20.9%</b>	

Note: All amounts are net numbers.

Sources: Statement of Demand for Grants, Andhra Pradesh Budget Documents 2015-16 and 2016-17; PRS.

### Other announcements

- Energy, Infrastructure and Investments:** The energy, infrastructure and investments department has been given an allocation of Rs 4,020 crore in 2016-17. The state government aims to complete the electrification of 4.6 lakh households by June 2016, and to replace one lakh agricultural pumps with energy efficient pumps in 2016-17.
- Industry:** The National Investment Manufacturing Zone (NIMZ) is proposed to be set up in Prakasam district. The NIMZ will be an integrated township with industrial and social infrastructures. It is estimated to bring in Rs 30,000 crore of investment and create about three lakh jobs over the next decade.
- Rural Water Supply:** A drinking water grid is proposed to be set up to ensure sustainable delivery of potable water to clusters of villages. Rural water supply has been allocated Rs 1,196 crore in 2016-17.

## Receipts in 2016-17

- The total revenue receipts for 2016-17 are estimated to be Rs 1,09,300 crore, an increase of 22.2% over the revised estimates of 2015-16. The tax to GSDP ratio is targeted at 7.6% in 2016-17, which is an increase of 7.3% from the revised estimates in 2015-16. This implies that growth in collection of taxes has been higher than the growth in the economy.
- State's own tax revenue is expected to increase by 17.8% (Rs 7,895 crore) in 2016-17 over the revised estimates of 2015-16. Non-tax revenue is estimated to increase by 2.8% (Rs 154 crore).
- Grants from the centre are set to increase by 51.5%, from Rs 17,722 crore in 2015-16 (RE), to Rs 26,849 crore in 2016-17. The other component of transfers from the centre, which is the state's share in central taxes, is estimated to increase by 12.5%, to Rs 24,637 crore in 2016-17.

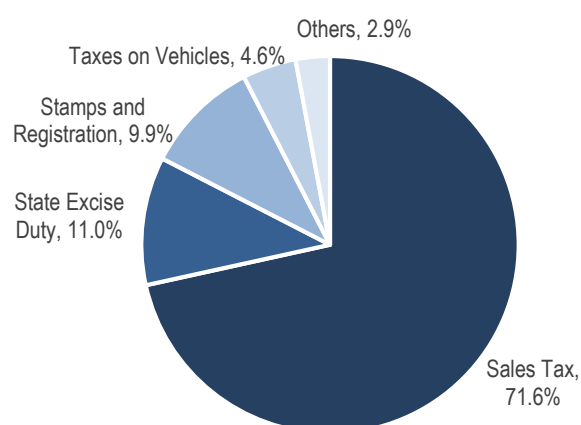
**Table 4: Break up of state government receipts (in Rs crore)**

Item	2015-2016 Budgeted	2015-2016 Revised	% change from BE 2015-16 to RE 2015-16	2016-2017 Budgeted	% change from RE 2015-16 to BE 2016-17
State's Own Tax	44,423	44,423	0.0%	52,318	17.8%
State's Own Non Tax	5,341	5,341	0.0%	5,495	2.9%
State's share in Central Taxes	22,638	21,894	-3.3%	24,637	12.5%
Grants-in-aid from Centre	17,722	17,722	0.0%	26,849	51.5%
<b>Total Revenue Receipts</b>	<b>90,125</b>	<b>89,381</b>	<b>-0.8%</b>	<b>1,09,300</b>	<b>22.3%</b>
Recovery of Loans and Advances and others	1,001	1,001	0.0%	1,278	27.7%
Borrowings (Public Debt)	21,726	21,726	0.0%	25,012	15.1%
<b>Total Capital Receipts</b>	<b>22,727</b>	<b>22,727</b>	<b>0.0%</b>	<b>26,290</b>	<b>15.7%</b>
<b>Total Receipts</b>	<b>1,12,852</b>	<b>1,12,108</b>	<b>-0.7%</b>	<b>1,35,590</b>	<b>20.9%</b>

Sources: State Budget Documents 2016-17; PRS.

- Total tax revenue of Andhra Pradesh is estimated to be Rs 52,318 crore in 2016-17. The composition of the state's tax revenue is shown in Figure 2.

**Figure 2: Composition of Tax Revenue in 2016-17 (BE)**



- **Tax Revenue:** Sales tax is the largest component of various tax sources of the state. Sales tax levied on the sale of goods in the state is expected to generate Rs 37,435 crore (72% of tax revenue) in 2016-17.
- Further, the state is expected to generate Rs 5,756 crore (11%) through excise duty on the production of various forms of alcohol.
- In addition, revenue will be generated through levy of stamp duties, registration charges on real estate transactions, taxes on vehicles, among others.
- **Non Tax Revenue:** Andhra Pradesh has expected to generate Rs 5,495 crore through non-tax sources in the year. Mining is the largest non-tax revenue source, which is expected to generate Rs 1,705 crore, an increase of 25% over 2015-16 (RE).
- Another major non-tax source of revenue is from forestry, which is expected to generate Rs 922 crore, a decrease of 14% over 2015-16 (RE).
- Others sources of non-tax revenue include education (licensing fees, etc.), and interest receipts on loans given by the government.

## Deficits, Debts and FRBM Targets for 2016-17

The Andhra Pradesh Fiscal Responsibility and Budget Management (FRBM) Act, 2005 provides annual targets to progressively reduce the outstanding liabilities, revenue deficit and fiscal deficit of the state government.

**Revenue deficit:** It is the excess of revenue expenditure over revenue receipts. A revenue deficit implies that the government needs to borrow to finance its expenses which do not create capital assets. The Budget estimates a revenue deficit of Rs 4,868 crore (or 0.71% of state GDP) in 2016-17. This estimate does not meet the target of eliminating revenue deficit, prescribed by the state's FRBM Act and by the 14<sup>th</sup> Finance Commission.

**Fiscal deficit:** It is the excess of total expenditure over total receipts. This gap is filled by borrowings by the government, and leads to an increase in total liabilities of the government. In 2016-17, fiscal deficit is estimated to be Rs 20,497 crore, which is 3% of the state GDP. The estimate meets the 3% limit set under the state's FRBM Act and by the 14<sup>th</sup> Finance Commission.

**Outstanding Liabilities:** It is the accumulation of borrowings over the years. In 2016-17, the outstanding liabilities are expected at 27.9% of state GDP.

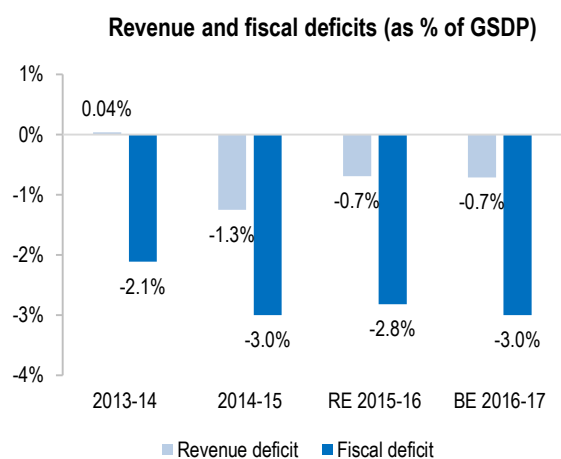
**Table 5: Budget targets for deficits for the state of Andhra Pradesh in 2016-17 (% of GSDP)**

Year	Revenue Deficit (-)/Surplus (+)	Fiscal Deficit (-)/Surplus (+)	Outstanding Liabilities
2014-15	-1.3	-3.0	29.4
RE 2015-16	-0.7	-2.8	28.2
BE 2016-17	-0.7	-3.0	27.9

Sources: Andhra Pradesh 2016-17 Budget in Brief; PRS.

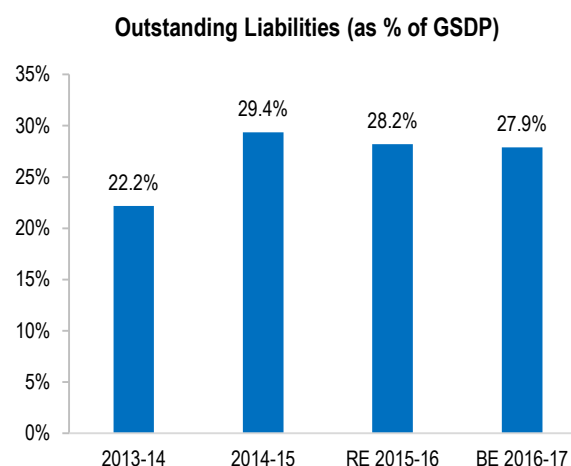
Figures 3 and 4 show the trend in deficits and outstanding liabilities from 2013-14 to 2016-17:

**Figure 3: Revenue and Fiscal Deficit (as % of state GDP)**



Note: 2013-14 numbers are inclusive of the State of Telangana.  
Sources: Andhra Pradesh State Budget Documents; PRS.

**Figure 4: Outstanding liabilities (as % of state GDP)**



Note: 2013-14 numbers are inclusive of the State of Telangana.  
Sources: Andhra Pradesh State Budget Documents; PRS.

<sup>1</sup> Fourth Annual Employment-Unemployment Survey, Labour Bureau, Government of India.

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