

Andhra Pradesh Budget Analysis 2017-18

The Finance Minister of Andhra Pradesh, Mr. Yanamala Ramakrishnu, presented the Budget for Andhra Pradesh for financial year 2017-18 on March 15, 2017.

Budget Highlights

- **Total expenditure** for 2017-18 is estimated to be Rs 1,56,999 crore, a 18.3% increase over the revised estimate of 2016-17. In 2016-17, there was a *decrease* of Rs 2,925 crore (2.2%) in the revised estimate over the budget estimate.
- **Total receipts (excluding borrowings)** for 2017-18 are estimated to be Rs 1,26,968 crore, an increase of 17.9% over the revised estimates of 2016-17. In 2016-17, total receipts fell short of the budgeted target by Rs 2,859 crore.
- **Revenue deficit** for the next financial year is targeted at Rs 416 crore. **Fiscal deficit** is targeted at Rs 23,054 crore. **Primary deficit** is targeted at Rs 8,272 crore.
- Departments of Water Resources (57%), Rural Development (27%), and Health, Medical and Family Welfare (22%) saw increases in allocations for the year 2017-18. On the other hand, allocation to the Department of Municipal Administration and Urban Development witnessed a 22% decrease in allocation in 2017-18.

Policy Highlights

- **Agriculture Debt Waiver:** Rs 3,600 crore has been allocated for the Agriculture Debt Redemption Scheme. In 2016-17, Rs 3,512 crore was allocated to this scheme.
- **Power:** Rs 3,300 crore has been allocated to subsidise the provision of electricity supply to the poor.
- **Energy:** Four solar parks with a capacity of 1,000 MW each are to be completed by 2018-19. In addition, a wind energy capacity of 5,000 MW will be achieved by 2018-19.
- **Irrigation:** Phase II of the Andhra Pradesh Irrigation Livelihood Improvement Project has been proposed. It will cover the modernization of 20 Major and Medium Irrigation projects, and the restoration of 445 minor irrigation tanks.
- **Housing:** 1,10,000 houses are proposed to be undertaken in 2017-18 under the Affordable Housing Projects. Rs 1,457 crore has been allocated for housing under the Pradhan Mantri Awas Yojana (PMAY) and NTR Rural Housing schemes.

Andhra Pradesh: State of Economy

Economy

Between 2011-12 and 2015-16, the state's GSDP grew at an average annual rate of 6.8% (at constant prices). Over this period, per capita GSDP increased from Rs 76,962 to Rs 97,855, an average increase of 6.2%.

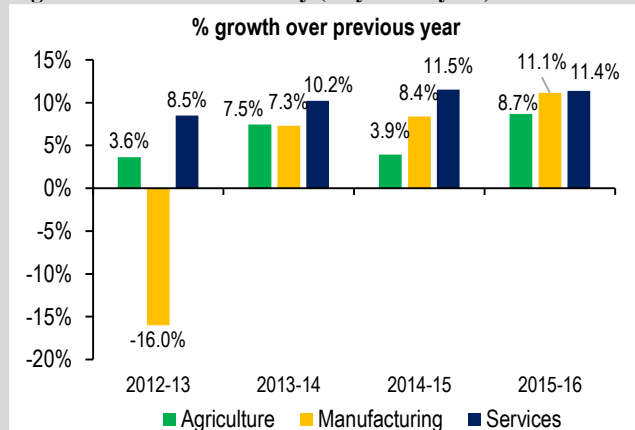
In 2015-16, the state's GDP grew at 11%, at constant prices. The agriculture sector grew at 8.7% (at constant prices) as compared to 2014-15, while the manufacturing sector grew at 11%. The services sector grew at 11.4%, compared to 11.5% in 2014-15. The primary sector (agriculture and mining) contributed to 30% of GSDP in 2015-16, while the manufacturing (including electricity and construction) and services sectors contributed to 23% and 46% of the GSDP respectively.

Worker Population

Worker Population Ratio is the proportion of workers to the total population aged 15 years and above. The Ratio for Andhra Pradesh (2015-16) was 61.6%, lower than 64.8% in 2013-14. Note that in 2015-16, the national average stood at 50.5%.

Source: Lok Sabha Unstarred Question No. 682, Answered on February 6, 2017.

Figure 1: Growth in economy (% year on year)



Note: Agriculture includes mining, and manufacturing includes construction and electricity. Data for 2015-16 is as of July 2016. Sources: Central Statistics Office; PRS.

Budget Estimates for 2017-18

- The total expenditure in 2017-18 is targeted at Rs 1,56,999 crore. The revised estimate for the total expenditure in 2016-17 was Rs 1,32,764 crore, which is Rs 2,925 crore lower than the budgeted target of 2016-17.
- The expenditure in 2017-18 is proposed to be met through receipts (other than borrowings) of Rs 1,26,968 crore and borrowings of Rs 30,020 crore. Total receipts for 2017-18 (other than borrowings) are expected to be Rs 2,859 crore lower than the revised estimates of 2016-17.

Table 1: Budget 2017-18 - Key figures (in Rs crore)

Items	2015-16 Actuals	2016-17 Budgeted	2016-17 Revised	% change from BE 2016-17 to RE 2016-17	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18
Total Expenditure	1,49,435	1,35,689	1,32,764	-2.2%	1,56,999	18.3%
A. Borrowings (Public Debt)	53,682	25,012	25,012	0.0%	30,020	20.0%
B. Receipts (except borrowings)	95,919	1,10,578	1,07,719	-2.6%	1,26,968	17.9%
Total Receipts (A+B)	1,49,601	1,35,590	1,32,731	-2.1%	1,56,988	18.3%
Revenue Deficit (-)/Surplus(+)	-7,302	-4,868	-4,597		-416	
Fiscal Deficit (-)/Surplus(+)	-21,863	-20,497	-19,163		-23,054	
Primary Deficit (-)/Surplus(+)	-12,014	-8,239	-6,955		-8,272	

Notes: BE is Budget Estimate; RE is Revised Estimate. Total expenditure includes loan repayments.

Sources: State Budget Documents 2017-18; PRS.

Expenditure in 2017-18

- 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 31,088 crore (including loans and advances), which is an increase of 52% over the revised estimates of 2016-17. This includes expenditure which leads to creation of assets, and repayment of loans, among others.
- Total revenue expenditure for 2017-18 is proposed to be Rs 1,25,912 crore, which is an increase of 12% over revised estimates of 2016-17. This expenditure includes payment of salaries, administration of government programs, etc.

Expenditure in 2016-17

In 2016-17, the state's spending on revenue and capital expenditure both fell short of the budgeted targets. Revenue expenditure was revised down by 1.6% (Rs 1,862 crore), while capital expenditure was revised down by 4.9% (Rs 1,063 crore). In 2017-18, revenue and capital expenditure has been estimated to increase by 12% and 52% respectively, over the revised estimate of 2016-17.

14.5% of the total expenditure (Rs 22,792 crore) in 2017-18 is estimated to be spent on repaying loans and paying interest.

Expenditure on debt repayment is estimated to increase by 44%, while that on interest payments is estimated to increase by 21%.

Note that expenditure on these accounts fell short of the budgeted target in 2016-17.

Table 2: Expenditure budget 2017-18 (in Rs crore)

Items	2015-16 Actuals	2016-17 Budgeted	2016-17 Revised	% change from BE 2016-17 to RE 2016-17	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18
Revenue Expenditure	95,950	1,14,168	1,12,306	-1.6%	1,25,912	12.1%
Capital Expenditure	53,485	21,521	20,458	-4.9%	31,088	52.0%
Total Expenditure	1,49,435	1,35,689	1,32,764	-2.2%	1,56,999	18.3%
A. Debt Repayment	38,640	5,554	5,555	0.0%	8,009	44.2%
B. Interest Payments	9,848	12,258	12,208	-0.4%	14,783	21.1%
Debt Servicing (A + B)	48,488	17,813	17,763	-0.3%	22,792	28.3%

Note: Capital expenditure also includes repayment of loans.

Sources: State Budget Documents 2017-18; PRS.

Departmental expenditure in 2017-18

The departments listed below account for 54% of the total budgeted expenditure of Andhra Pradesh in 2017-18.

Table 3: Department-wise expenditure for Andhra Pradesh Budget 2017-18 (in Rs crore)

Departments	Revised 2016-17	Budgeted 2017-18	% change from RE 2016-17 to BE 2017-18	Budget Proposals for 2017-18
Education (includes School, Higher and Technical Education)	19,655	21,108	7.4%	<ul style="list-style-type: none"> Rs 1,807 crore allocated for Sarva Siksha Abhiyan, which is a 39% increase as compared to revised estimates in 2016-17.
Rural Development	11,472	14,531	26.7%	<ul style="list-style-type: none"> Under National RURBAN Mission, six clusters (Alur, Nandalur, Cheepurupalli, Sompet, Nujendla and Chendarlapadu) have been selected. Rs 502 crore has been allocated under Pradhan Mantri Gram Sadak Yojana.
Water Resources (Major, Medium and Minor Irrigation)	8,120	12,770	57.3%	<ul style="list-style-type: none"> Polavaram project is estimated to receive Rs 7,251 crore. This is more than a 100% increase as compared to the revised estimates in 2016-17. Under the scheme NTR Jala Sri, 1.2 lakh new bore wells have been sanctioned. Rs 44 crore has been allocated in this regard.
Agriculture	6,669	7,168	7.5%	<ul style="list-style-type: none"> Rashtriya Krishi Vikas Yojana has been allocated Rs 232 crore. Pradhan Mantri Fasal Bima Yojana has been allocated Rs 268 crore. Rs 2,800 crore has been allocated to the Public Distribution Scheme under the Department of Civil Supplies.
Health, Medical and Family Welfare	5,764	7,021	21.8%	<ul style="list-style-type: none"> Dr. Nandamuri Taraka Ramarao Arogya Seva have been allocated Rs 1,000 crore. The government aims to end all preventable maternal and infant deaths, reduce IMR to less than 16 per thousand live births and make the state malnutrition free.
Panchayat Raj	5,696	6,610	16.0%	<ul style="list-style-type: none"> Rs 6,562 crore has been allocated for MGNREGS.
Home	4,847	5,221	7.7%	<ul style="list-style-type: none"> Rs 3,176 crore have been allocated for District Police Force.
Municipal Administration and Urban Development	6,661	5,207	-21.8%	<ul style="list-style-type: none"> Rs 1,061 crore has been allocated for capital development operations.
Backward Classes Welfare	4,246	5,014	18.1%	<ul style="list-style-type: none"> Rs 1,316 crore has been allocated for the purpose of fee reimbursements and scholarships. Rs 79 crore has been allocated under NTR Videse Vidyadarana to support students from Backward Classes, who are pursuing higher studies abroad.
% of total expenditure	55.1%	53.9%		
Other departments	59,634	72,349		
Total Expenditure	1,32,764	1,56,999		

Note: All amounts are net numbers.

Sources: Department-wise of Demands of Grants, Andhra Pradesh Budget Documents 2017-18; PRS.

Other announcements

- Industry:** An Andhra Pradesh Industrial Corridor Development Authority is proposed to be established. The Authority will manage industrial infrastructure development under a single umbrella entity. In 2017-18, Rs 369 crore has been allocated for the development of the Vizag-Chennai industrial corridor.
- Food processing parks:** Eight mega food processing parks are proposed to be created by private firms in Srikakulam, Vizianagaram, Visakapatnam, East Godavari, Chittoor, Kurnool and Anantapuram. Rs 250 crore has been allocated for incentives to food processing industries for the same.
- MSMEs:** An MSME authority is planned to be set up which shall focus improving MSMEs, revive sick industries and support credit needs. Rs 125 crore has been allocated for the rejuvenation of MSMEs.

Receipts in 2017-18

- The total revenue receipts for 2017-18 are estimated to be Rs 1,25,496 crore, an increase of 16.5% over the revised estimates of 2016-17. The tax to GSDP ratio is targeted at 7% in 2016-17, compared to 6.4% in the revised estimates in 2016-17. This implies that growth in collection of taxes is expected to be higher than the growth in the economy.
- Grants from the centre are set to increase by 35.7%, from Rs 27,663 crore in 2016-17 (Revised Estimate), to Rs 37,548 crore in 2017-18. The other component of transfers from the centre, which is the state's share in central taxes, is estimated to increase by 10.9%, to Rs 29,139 crore in 2017-18.

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

Item	2015-16 Actuals	2016-17 Budgeted	2016-17 Revised	% change from BE 2016-17 to RE 2016-17	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18
State's Own Tax	39,922	52,318	49,282	-5.8%	53,717	9.0%
State's Own Non Tax	4,920	5,495	4,500	-18.1%	5,092	13.2%
State's share in Central Taxes	21,879	24,637	26,264	6.6%	29,139	10.9%
Grants-in-aid from Centre	21,927	26,849	27,663	3.0%	37,548	35.7%
Total Revenue Receipts	88,648	1,09,300	1,07,709	-1.5%	1,25,496	16.5%
Recovery of Loans and Advances and others	7,271	1,278	10	-99.2%	1,472	14097.3%
Borrowings (Public Debt)	53,682	25,012	25,012	0.0%	30,020	20.0%
Total Capital Receipts	60,953	26,290	25,022	-4.8%	31,492	25.9%
Total Receipts	1,49,601	1,35,590	1,32,731	-2.1%	1,56,988	18.3%

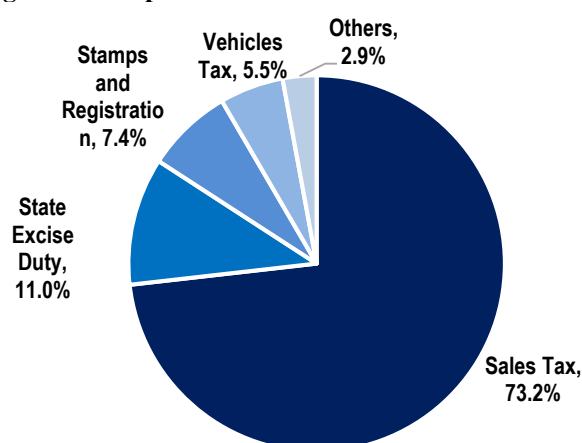
Sources: State Budget Documents 2017-18; PRS.

- State's own tax revenue is expected to increase by 9% (Rs 4,435 crore) in 2017-18 over the revised estimates of 2016-17. However, no new tax proposals were presented in the Budget. Note that the Finance Minister, in his budget speech mentioned that GST is expected to be introduced in 2017-18. It will subsume indirect taxes such as Sales Tax, Entertainment Tax, Rural Development Tax, etc. Depending on what the applicable tax rate will be, tax revenues of the state may be affected.

Tax revenue in 2016-17

The tax revenue of Andhra Pradesh is estimated to be Rs 53,717 crore in 2017-18. In 2016-17, tax revenue collection fell short of the budgeted target by 5.8% (Rs 3,036 crore). This was mainly on account of decreased collections from stamps and registration fees (Rs 1,680 crore), sales tax (Rs 1,335 crore), and state excise duty (Rs 456 crore). The composition of the state's tax revenue in 2017-18 is shown in Figure 2.

Figure 2: Composition of Tax Revenue in 2017-18



Source: State Budget Documents 2017-18; PRS.

- **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 39,321 crore (73% of tax revenue) in 2017-18.
- Further, the state is expected to generate Rs 5,886 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 5,092 crore through non-tax sources in the year. Mining is the largest non-tax revenue source, which is expected to generate Rs 2,200 crore, an increase of 29% over 2016-17 (RE).
- Another major non-tax source of revenue is from forestry, which is expected to generate Rs 920 crore, an increase of 130% over 2016-17 (RE). Note that in 2016-17, Rs 922 crore was estimated to be generated from forestry, but the estimate was revised down to Rs 400 crore.

Deficits, Debts and FRBM Targets for 2017-18

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 416 crore in 2017-18.

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 2017-18, fiscal deficit is estimated to be Rs 23,054 crore.

Outstanding Liabilities: It is the accumulation of borrowings over the years. In 2017-18, the outstanding liabilities are expected at 28.1% of state GDP.

Note that the GSDP estimate for 2017-18 has not been provided in the budget. In order to provide estimates of the revenue deficit and fiscal deficit as a % of GSDP, we have calculated the GSDPs from the public debt as a % of GSDP, as provided in the Budget in Brief document.

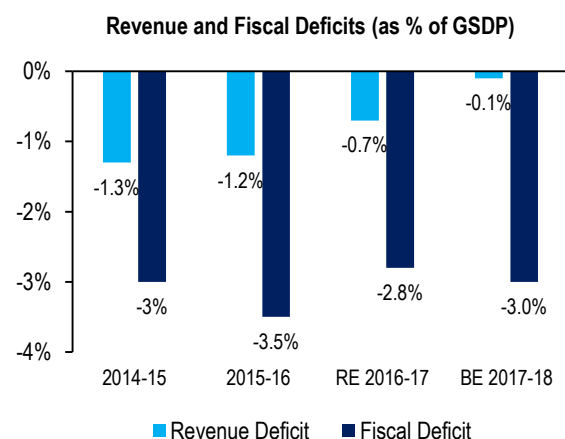
Table 5: Budget targets for deficits for the state of Andhra Pradesh in 2017-18 (% of GSDP)

Year	Revenue Deficit (-)/Surplus (+)	Fiscal Deficit (-)/Surplus (+)	Outstanding Liabilities
2015-16	-1.2%	-3.5%	28.5%
RE 2016-17	-0.7%	-2.8%	27.6%
BE 2017-18	-0.1%	-3.0%	28.1%

Sources: Andhra Pradesh 2017-18 Budget in Brief; PRS.

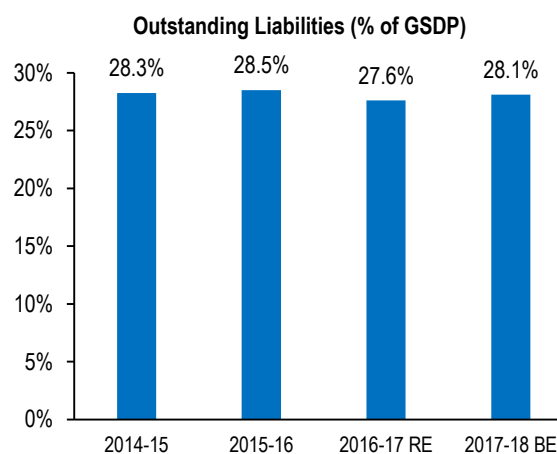
Figures 3 and 4 show the trend in deficits and outstanding liabilities from 2014-15 to 2017-18:

Figure 3: Fiscal & Revenue Deficits



Sources: Andhra Pradesh State Budget Documents; PRS.

Figure 4: Outstanding liabilities



Sources: Andhra Pradesh State Budget Documents; PRS.

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