

An Analysis of Public Finance of Andhra Pradesh and Telangana State Pre-Bifurcation and Post-Bifurcation

The Case Study From 1980-2016

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Abstract: The Public finance of Andhra Pradesh illustrates dynamic changes with reference to economic growth. The paper aims at studying trends in Public Revenue and Expenditure of A.P State Pre-bifurcation and Post-bifurcation. Andhra Pradesh is one of the major states in India endowed with rich natural resources having large potential for economic growth and development. Both economic and political factors influenced the public finance. A.P state witnessed and benefitted from economic reforms which the state initiated. The economy of Andhra Pradesh is evidently demarcated as pre- reform period and post-reform period. Andhra Pradesh has been one of the front-runners in implementing reforms since 1995-96, at a time when several major states were still skeptical about initiating reforms. Bifurcation of united Andhra Pradesh into A.P and Telangana is historical and challenging to economic performance of both bifurcated states. However Telangana state started its journey with Revenue Surplus and A.P state with Revenue Deficit. Both A.P and Telangana has advantages and disadvantages which will uplift the economic growth. This paper makes an analysis on Public Finance of both Telangana and residuary state of A.P

Keywords: Public Finance, Revenue Deficit, Revenue Surplus, Revenue Expenditure, Capital Expenditure, Economic Reforms, Developmental Expenditure, Non-Developmental Expenditure.

Introduction

United A.P despite endowment of abundant natural resources, development is below its potential. The growth of GSDP in Andhra Pradesh in 1980's was marginally higher or nearly the same compared with the GDP of the nation, there has been no improvement in the growth rate of

GSDP during 1990's while the GDP of the nation did record an improvement. The revenue and expenditure policies of successive governments in the state were such that there was surplus on its revenue account in 1980-81, and 1982-83 but subsequently it experienced fiscal and revenue

deficits, affecting capital expenditure and the development of infrastructure, resulting in stifling of economic growth. During the late 1980s and mid-90s the non-plan, non-developmental expenditure has increased phenomenally, which led to huge fiscal and revenue deficits. The frequent changes in the political parties in power since 1983-84 have influenced the revenue mobilization and expenditure policies of the state, resulting in changes in the composition, pattern, direction and growth of both revenue and expenditure. In other words, both economic and political factors over a period of time are responsible for leading the state government to a fiscal crisis. As a response to this situation, the government initiated several fiscal reforms in the state since 1995-96. The state has undertaken a number of measures relating to revenue mobilization, expenditure restructuring, debt and deficits and several sectoral reforms with a view to achieve the set goals. A significant point to be noted is the total GSDP of the Telangana State at the current prices has crossed the Rs. 4 lakh crore mark. This positive growth in GSDP has increased the per capita income in the State during 2014-15 (current prices) to Rs.1, 03,889 compared to Rs. 95,361 recorded during 2013-14. This is

substantially higher than the all India per capita income of Rs. 88,533. As per the advanced estimates, the Gross State Domestic Product (GSDP) growth of the State during 2014-15 is estimated at 5.3%, as compared to the growth rate of 4.8% recorded in 2013-14, at constant prices of 2004-05. The total receipts of revenue including State's own revenue, Central taxes devolution, grants and market borrowings are going to be the same for both Telangana and residuary state of Andhra Pradesh - with the entire Hyderabad revenue going to Telangana. However, on the expenditure side, due to the allocation of debt, salaries, pensions and subsidies based on population ratio, the residuary State of AP will have more i.e., 58% share, while Telangana will have only 42%. The result is very high revenue deficit and fiscal deficit for the residuary state of Andhra Pradesh – unprecedented and like never before. There has not been any revenue deficit for the State in the last decade and fiscal deficit has never crossed 3% of GSDP so far. The residuary State of A.P unfortunately will have a revenue deficit of 4.84% and a fiscal deficit of 7.18% - if the normal Plan voted by the united State of AP Legislature is to be implemented reflecting the challenges ahead.

Public Finance of United Andhra Pradesh- Pre-bifurcation i.e. from 1980-2014

Revenue Performance

Table.1 TRENDS IN REVENUE RECEIPTS [in %]

Particulars	1980-	1985-	1990-	1995-	2000-	2005-	2010-	2011-	2012-	2013-
	81	86	91	96	01	06	11	12	13	14

1.Taxes & Duties	878	2020	3794	6683	14531	26562	60376	71035	80146	86255
% to Total	69	73	71	68	75	76	75	76	77	78
I. Share of Central Taxes & Duties	296	532	1147	2563	3979	6951	15237	17751	20271	22132
11. State taxes	582	1439	2647	4120	10552	19612	45140	53283	59875	64124
% to Total	46	52	50	42	54	55	56	57	58	58
a. Land Revenue	33	21	29	58	116	69	171	141	62	74
b. Sales Tax	279	761	1426	2955	7303	12946	29145	34910	40715	48737
c. State Excise	153	417	728	78	1243	2685	8265	9612	9129	6250
d. others	118	239	465	1031	1890	3913	7559	8621	9969	9062
2.Non-Tax Revenue	223	390	777	1605	2743	4691	10720	11694	15999	15473
% to Total	18	14	15	16	14	14	13	13	15	14
3.Grants-in-aid	164	363	776	1586	2201	3598	9900	10825	7685	8991
% to total	13	13	15	16	11	10	12	12	7	8
Total	1265	2773	5247	9875	19476	34852	80996	93554	103830	110719

Source: A.P STATE BUDGET DOCUMENTS

The revenue receipts of the state witnessed considerable expansion during the period 1980-81 to 1984-85. The total revenue receipts of the state as a proportion of GSDP increased from 15.44 percent in 1980-81 to 16.90 percent in 1984-85. But this proportion subsequently declined from 16.04 percent in 1990-91 to 12.75 percent in 1994-95 and further to 12.37 percent in 1995-96. Similarly, own tax revenues showed an expansionary trend during the period 1980-81 to 1984-85. The ratio of own tax revenue in GSDP increased from 7.11 percent in 1980-81 to 8.64 percent in 1984-85 which then declined to 7.94 percent and 5.16 percent in 1990-91 and 1995-96 respectively, as the proportion of

almost all the state taxes, including sales tax revenue declined substantially mainly because of too many concessions, exemptions and administrative bottlenecks that cropped up in the tax structure since the latter half of 1980's. Moreover, the revenue from share in central taxes declined from 3.44 percent in 1990-91 to 2.73 percent in 1994-95 due to a significant decrease in the revenues from union excise duties consequent upon economic reforms and then recovered a little to 3.21 percent in 1995-96.

Similarly, revenue from non-tax sources as a proportion of GSDP also declined during the same period. For instance, it increased from 4.72 percent

in 1980-81 to 4.95 percent in 1984-85 and declined during the latter years to reach 4.0 percent in 1995-96. The decline may be attributed to the decline in both own non-tax revenue as well as in grants from the centre. It may be observed from above chart that between the period 1990-91 and 1995-96 the

percentage decline is more in the central grants compared to own non-tax revenues. The decline in the revenue from interest receipts and social services is the main reason for the decline in own non-tax revenues during the period.

Growth and Composition of Public Expenditure

Table.2 Total Expenditure of Andhra Pradesh [In %]

Year	Revenue Expenditure	Capital expenditure	Capital Disbursements	Loans and Advances	Total Expenditure
1980-81	60.74	12.96	23.41	2.87	1913 [100%]
1985-86	70.97	9.65	16.16	3.21	3917
1990-91	73.22	6.13	14.31	6.33	7517
1995-96	61.41	14.01	21.33	3.24	17283
2000-01	72.48	7.28	15.86	4.36	31827
2005-06	61.55	13.50	23.60	1.33	56723
2010-11	71.85	10.17	15.69	2.27	109301
2011-12	69.34	10.52	16.31	3.82	130386
2012-13	69.95	12.15	14.95	2.93	154124
2013-14	80.78	11.18	5.33	2.70	136628

Source: AP State Budget Documents

Year	Development Expenditure	Non-Development Expenditure	Total In Crores
1980-81	72	28	987 [100 %]
1985-86	74	26	2754
1990-91	70	30	5504
2000-01	62	38	22755
2005-06	59	41	34915
2010-11	67	33	87100
2011-12	36	64	115881
2012-13	36	64	139934
2013-14	31	69	136629

Source: A.P STATE BUDGET DOCUMENTS

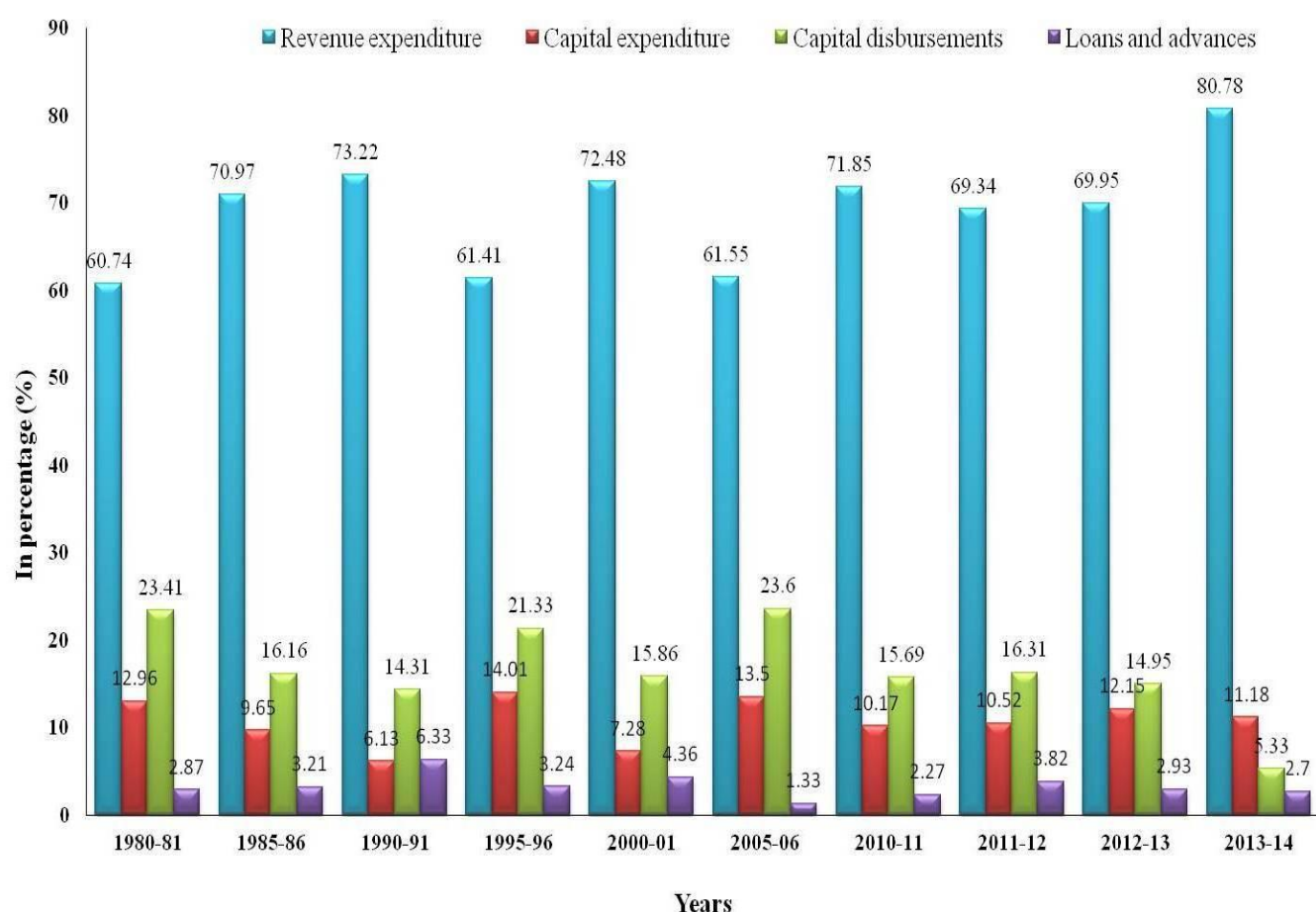
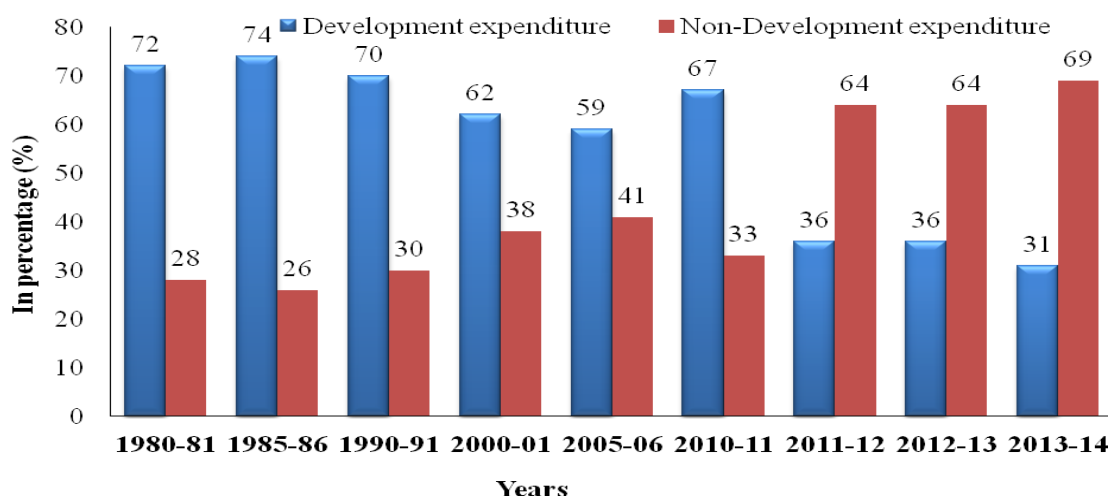


Table.3 MAJOR HEADS OF REVENUE EXPENDITURE [% to Total]



Public expenditure needs to grow as the economy grows in order to provide the required public services at adequate levels. In other words, growth in expenditure needs to follow the growth in the GSDP. Moreover, the composition of expenditure- the relative proportion of revenue and capital expenditure- is also important as the growth of an economy very much depends upon the size and growth of capital expenditure. The pattern and composition of expenditure underwent a substantial change between 1980-81 and 1995-96 during which the proportion of revenue expenditure was not only very high but also increased substantially, minimizing the role of capital expenditure. For instance, the revenue expenditure as a proportion of total expenditure increased from 78 percent in 1980-81 to 86 percent in 1995-96. Similarly, the revenue expenditure as a proportion of GSDP shows an increasing trend until 1990-91 but has then

declined to 13.29 percent in 1995-96 from 14.18 percent in 1980-81. It is a matter of concern that the capital expenditure as a proportion of GSDP has declined from 3.98 percent in 1980-81 to just 2.10 percent in 1995-96. The growth of revenue expenditure in the total expenditure has been mainly due to the introduction of new welfare schemes and expansion of the already existing schemes, increased salary bill and pension commitment, increasing number of loss making public sector enterprises and the resultant budgetary support. The changes in the political parties in power in the state during this period brought about a sea-change in the public policies wherein the composition and direction of the public expenditure was changed for the worse, although the need was for restructuring and reorientation in order to have a developmental impact that would lead to accelerated economic growth of the state.

Discussion

The Government of united A.P like several other state governments, experienced severe fiscal stress in 1994-95 and 1995-96. The state which enjoyed revenue surpluses in 1980-81, 1981-82 and 1982-83, was reeling under revenue deficits in all the subsequent years' until 1995-96. As a result of unabated growth of expenditure with revenue receipts falling short, budgetary deficits emerged. Fiscal and revenue deficits as a proportion of GSDP were at 3 percent and 0.93 percent respectively in 1995-96. These were not large by themselves, but indicated the emergence of the vicious cycle of deficits- greater borrowing – rising interest burden-higher deficits. The borrowings increased from Rs.266 crore in 1980-81 to Rs.2, 563 crore in 1995-96. The outstanding debt also increased from Rs.1, 781 crore in 1980-81 to Rs.15, 164 crore in 1995-96. Besides, almost 31 percent of the borrowed funds were utilized for current expenditures crowding out capital outlays to that extent. The growing debt burden was evident from the increase in per capita outstanding debt, average effective interest rate and per capita

interest payments which increased from Rs.336, Rs.4.58 and Rs.15 respectively in 1980-81 to Rs.2115, 11.8 and 213 respectively in 1995-96. Between 1984-85 and 1996-97, interest payments have increased by 12 times reflecting the increased recourse of the government to debt financing and the increasing cost of debt. Plan outlays came down in 1995-96 mainly due to the non-release of the promised level of central assistance, smaller market borrowings allocated by the Planning Commission and a sharp decline in the resources of the State Electricity Board. Moreover, revenues from taxes like sales tax, and stamp duty and registration fees were well below the budgetary projections. Consequently the government experienced severe resource crunch even in 1994-95, so that it had to rely on overdrafts on a number of days to maintain the cash balance. The government which did not utilize overdrafts in 1992-93 and 1993-94 at all had to rely on overdrafts for 16 days in 1994-95 and 30 days in 1995-96.

Prospective and Potentiality of Telangana State and Residuary State of A.P

As per the advanced estimates, the Gross State Domestic Product (GSDP) growth of the State during 2014-15 is estimated at 5.3%, as compared to the growth rate of 4.8% recorded in 2013-14, at constant prices of 2004-05. This marks a reversal of the declining trend registered during the past three years. Though agricultural growth suffered a decline during the last year due to adverse seasonal conditions, allied sectors like

livestock, forestry and fisheries sectors have shown positive growth rates of 6.5, 2.7 and 11.4%, respectively. A substantial increase in industrial growth rate of 4.1% and a healthy service sector growth rate of 9.7% has made a major contribution to the increase in the overall GSDP growth of the State. A significant point to be noted is the total GSDP of the State at the current prices has crossed the Rs. 4 lakh crore

mark. This positive growth in GSDP has increased the per capita income in the State during 2014-15 (current prices) to Rs. 1,03,889 compared to Rs. 95,361 recorded during 2013-14. This is substantially higher than the all India per capita income of Rs. 88,533.

Due to the variance in methodology adopted for allocation of revenue receipts and expenditure, the residuary state of Andhra Pradesh will be facing tremendous fiscal challenges. The total receipts of revenue including State's own revenue, Central taxes devolution, grants and market borrowings are going to be the same for both Telangana and residuary state of Andhra Pradesh - with the entire Hyderabad revenue going to Telangana. However, on the expenditure side, due to the allocation of debt, salaries, pensions and subsidies based on population ratio, the residuary State of AP will have more i.e., 58% share, while Telangana will have only 42%. The result is very high revenue deficit and fiscal deficit for the residuary state of Andhra Pradesh – unprecedented and like never before. There has not been any revenue deficit for the State in the last decade and fiscal deficit has never crossed 3% of GSDP so far. The residuary State of AP unfortunately will have a revenue deficit of 4.84% and a fiscal deficit of 7.18% - if the normal Plan voted by the united State of AP Legislature is to be implemented reflecting the challenge. The

percentage of expenditure on salaries and pensions in the new State of Andhra Pradesh will reach 73% of its own revenues from 58% in the combined State, leaving little scope for developmental expenditure. As seen from the table, the residuary Andhra Pradesh is at a significant disadvantage vis-à-vis Telangana State. First, the GSDP of the AP State is only 55.7 per cent of the combined State's GSDP, and the per capita income of the residuary AP State is much below the Telangana State. More significantly, the AP State's own revenues are far lower than that of Telangana; Andhra Pradesh State with 58.32 per cent of the population earns only 46.6 per cent of the total revenues of the combined State. Further, Andhra Pradesh has much higher debt burden compared to Telangana, as population ratio was the sole criterion for apportionment of debt between the two States. The Debt/GSDP ratio of AP is 19.4, compared to 18.1 of Telangana. The borrowing limit of AP is only Rs 2,222 crores more than that of Telangana. The resource gap for 2014-15 year is estimated at Rs 18,236 crores, which translates to about 4.84 per cent revenue deficit and 7.18 fiscal deficit. The resource gap for the ten-month period of the fiscal year was around Rs 15,691 crores, compared to Rs 3,555 crores surplus of Telangana. The current context has positioned Andhra Pradesh in a fiscally precarious position.

Table 4. ANALYSIS OF TOTAL EXPENDITURE OF TELANGANA AND RESIDUARY STATE OF A.P [In %]

Particulars	A.P STATE		TELANGANA	
	2014-15	2015-16	2014-15	2015-16
Revenue Expenditure	87.72	83.33	81.32	78.73
Capital Expenditure	6.37	11.19	13.43	15.74
Loans and Advances	0.76	0.80	2.37	1.19
Capital Disbursements	5.13	4.96	2.85	3.74
Total Expenditure	112067[100 %]	112216	62306	100661

Discussion

The financial parameters of A.P looked worrisome during 2014-15, the first year after bifurcation with the fiscal deficit at 6.10 per cent, double the ceiling of 3 per cent stipulated under FRBM ACT. The state registered a revenue deficit of Rs.24, 194 crore during 2014-15 after the eight consecutive years of revenue surplus. The fiscal deficit stood at Rs.31, 717 crore. The State's total liability shot up to 32.03 per cent of GSDP, against a ceiling of 27.6per cent prescribed in the FRBM Act. The revenue receipts for the year registered a shortfall of Rs.1, 406 crore. Against the projection of Rs. 92,078 crore in the budget,

State realized Rs. 90,672 crore. On the revenue expenditure side, the state spent Rs.1, 14,866 crore [22.09 per cent of GSDP] and it was more than the projected Rs.98, 142 crore in the budget. About 78.9 percent of the revenue expenditure was met from the State's revenue receipts and the balance-Rs.24, 194 crore-was met by the borrowed funds. Though capital expenditure-Rs.11, 405 crore exceeded the budget estimates of Rs.7, 070 crore, its ratio to total expenditure stood at 8.95 per cent. The State incurred excess expenditure of Rs.13, 134 crore during 2014-15 without legislative authorization.

Table. 5 An analysis of Revenue Receipts [in %]

Particulars	A.P STATE		TELANGANA	
	2014-15	2015-16	2014-15	2015-16
1.Taxes & Duties	57917	66317	37476	56130.37
<i>Percentage to Total</i>	63.88 %	74.20 %	73 %	70.77
a. Share of central Taxes &Duties	15299	21893	8188.50	12595.60
b. State Excise	42618	44423	29288.38	43534.77

Percentage to total	47.00 %	49 %	57.38 %	54.89 %
2.Non-tax Revenue	10974	5341	6446.81	10721.93
<i>Percentage to Total</i>	<i>12 %</i>	<i>6 %</i>	<i>12.63 %</i>	<i>13.52 %</i>
3.Grants-in-aid	21779	17722	7118.10	12460.50
<i>Percentage to Total</i>	<i>24.02 %</i>	<i>19.83 %</i>	<i>13.95 %</i>	<i>15.71 %</i>
TOTAL	90671[100%]	89380	51041.79	79312.80

CONCLUSION

The following conclusions emerge from the preceding analysis of the Public Finance of both Telangana and Residuary State of A.P with reference to pre-bifurcation and post-bifurcation.

1. United Andhra Pradesh registered the highest growth rate both on plan side and non-plan side at the aggregate level. Interestingly plan- expenditure exhibited a lesser growth rate and non-plan expenditure exhibited a higher growth rate.
2. In united Andhra Pradesh Development Expenditure has witnessed a down-turn trend whereas on the other hand, Non-development expenditure experienced a growing trend from 1980-2014.
3. United Andhra Pradesh witnessed an incremental increase in Revenue and Expenditure after the state adopted reforms during 1995-96.
4. The Public Finance of united Andhra Pradesh have been under stress for many years on account of various factors such as increase in the establishment costs [salaries and pensions], rising interest payments, welfare commitments, power

sector expenditure etc. This fiscal stress is the result of expenditure commitments rising faster than revenue receipts, less than anticipated returns from major projects in irrigation, power, etc. and the increasing debt burden of the government.

5. Expenditure on salaries and wages of government employees was a major item of non-plan revenue expenditure. Expenditure on subsidies of various types started steeply increasing from 1980-2014.
6. The residuary State of Andhra Pradesh is at a significant disadvantage vis-à-vis Telangana State. First, the GSDP of the AP State is only 55.7 per cent of the combined State's GSDP, and the per capita income of the residuary AP State is much below the Telangana State. More significantly, the AP State's own revenues are far lower than that of Telangana; Andhra Pradesh State with 58.32 per cent of the population earns only 46.6 per cent of the total revenues of the combined State. Further, Andhra Pradesh has much higher debt burden compared to Telangana, as population ratio was the sole

criterion for apportionment of debt between the two states.

7. Telangana state which came in to existence on June 2, 2014, had an advantage of Revenue Surplus of about Rs.14, 000 Crores and well established capital city i.e. Hyderabad which contributes more than half of revenue to Telangana State. However, Political leadership of Telangana has to maintain economic growth momentum by adopting reforms, good budget management, judicious utilization of resources, practicing fiscal discipline.
8. In the residuary state of Andhra Pradesh, there is a crunch for revenue which translates to about 4.84 per cent revenue deficit and 7.18 fiscal deficit. This has positioned Andhra Pradesh in a fiscally precarious position.
9. Andhra Pradesh desperately requires central assistance magnanimously notwithstanding construction of new capital city i.e. Amravati, as the trend is leading to fiscal imbalances, which will cause irreparable damage to the economy and adversely affect growth and development of the state. The state of A.P is in the borrowing end, predominantly waiting for the central Government to bail out by any means as such by granting Special Status, or by granting Special

Grants, allocation of Funds and special Incentives.

10. Telangana State had a head start and economy is going to be vibrant in foreseeable future owing to comprehensive development activities undertaken by Chief Minister K. Chandrasekhar Rao and booming software Industry in Hyderabad city after bifurcation which is witnessing an increase in employment opportunities with regard to IT and IT enabled services. The state of Telangana is projecting to be a most happening state in India.
11. Despite Andhra Pradesh being in a dismal state as far as economy is concerned, but the state has silver lining as such it possess lengthiest coastal corridor second next to Gujarat, the people of Andhra Pradesh are entrepreneurial and intellectual, the coastal areas possess fertile lands where crop yield is three times a year, the state is endowed with abundant natural resources and capable administration of Shri. N. Chandrababu Naidu who has great experience as Chief Minister and known for perseverance. The state is looking for a kick-start if the Central Government is prepared to comprehensively support the state Government.

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