

## CHAPTER I

### FINANCES OF THE STATE GOVERNMENT

#### In Summary

Large Revenue and Fiscal deficits year after year indicate continued macro imbalances in the State. In Andhra Pradesh Revenue deficit had increased from Rs 3643 crore in 2001-02 to Rs 3922 crore in 2002-03 (current year).

Revenue of the State consists mainly of its own tax and non-tax revenue, Central tax transfers and grants-in-aid from Government of India. Overall revenue receipts increased from Rs 14260 crore in 1998-99 to Rs 23003 crore in 2002-03 at an average trend rate of 12 per cent. There were, however, significant inter year variations in the growth rates. During the current year the revenue receipts grew by 5.30 per cent. Arrears of revenue were at a high of Rs 3021 crore and represented 18.71 per cent of tax and non-tax revenue receipts of the current year. On an average 70 per cent of the revenue came from State's own resources. While Central tax transfers had increased by 6.28 per cent, the grants-in-aid from Government of India decreased by 23.38 per cent over the last year.

Total expenditure of the State increased from Rs 20361 crore in 1998-99 to Rs 31088 crore in 2002-03 at an average trend rate of 13 per cent. The rate of growth of expenditure in 2002-03 was 5.33 per cent which was lower than the average trend rate (13 per cent) for five years.

There was an increase of one per cent in capital expenditure and 18.47 per cent in non-developmental expenditure during 2002-03 over last year. The interest payment during 2002-03 was Rs 6131 crore and the same grew by 33.75 per cent over the last year. The average growth rate of interest payment during the period 1998-2003 was 15.26 per cent. Debt burden (fiscal liabilities) of the State at the end of 2002-03 was Rs 54831 crore, up by 15.58 per cent over the previous year. The average rate of interest paid on the borrowings of the State during 1998-2003 (11.99 per cent) was more than the average rate of growth of GSDP (10.50 per cent), violating the cardinal rule of debt sustainability. The finances of the State continued to be dependent on the ways and means advance/overdraft from Reserve Bank of India for its day-to-day expenditure.

State Government has not yet passed any Fiscal Responsibility Act but entered into Memorandum of Understanding with GOI in March 2000 and March 2003.

Though it is not uncommon for a State to borrow for widening its infrastructure and for creating income generating assets, an ever increasing ratio of fiscal liabilities to GSDP together with a large revenue deficit could lead the State finances into a debt trap. State Government proposes to achieve fiscal sustainability in the medium term in accordance with the Andhra Pradesh Medium Term Fiscal Reforms Programme in the coming years.

## **1.1 Introduction**

The Finance Accounts of the Government of Andhra Pradesh are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State Government. The lay out of the Finance Accounts is depicted in the **Box 1.1**.

### **Box 1.1**

#### **Lay out of Finance Accounts**

*Statement No. 1 presents the summary of transactions of the State Government –receipts and expenditure, revenue and capital, public debt receipts and disbursements etc in the Consolidated Fund, Contingency Fund and Public Account of the State.*

*Statement No. 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of current year.*

*Statement No. 3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.*

*Statement No. 4 indicates the summary of debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.*

*Statement No. 5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.*

*Statement No. 6 gives the summary of guarantees given by the Government for repayment of loans etc. raised by the statutory corporations, local bodies and other institutions.*

*Statement No. 7 gives the summary of cash balances and investments made out of such balances.*

*Statement No. 8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2003.*

*Statement No. 9 shows the revenue and expenditure under different heads for the current year as a percentage of total revenue/expenditure.*

*Statement No. 10 indicates the distribution between the charged and voted expenditure incurred during the year.*

*Statement No. 11 indicates the detailed account of revenue receipts by minor heads.*

*Statement No. 12 provides accounts of revenue expenditure by minor heads under non-plan, State plan and centrally sponsored schemes separately and capital expenditure major head wise.*

*Statement No. 13 depicts the detailed capital expenditure incurred during and to the end of the current year.*

*Statement No. 14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, cooperative banks and societies etc. up to the end of the current year.*

*Statement No. 15 depicts the capital and other expenditure to the end of the current year and the principal sources from which the funds were provided for that expenditure.*

*Statement No. 16 gives the detailed account of receipts disbursements and balances under heads of account relating to debt, Contingency Fund and Public Account.*

*Statement No. 17 presents the detailed account of debt and other interest bearing obligations of the Government.*

*Statement No. 18 provides the detailed account of loans and advances given by the Government of Andhra Pradesh, the amount of loans repaid during the year, the balances at the end of the year and the amount of interest received during the year.*

*Statement No. 19 gives the details of balances of earmarked funds.*

## 1.2 Trend of Finances with reference to Previous year

Finances of the State Government during the current year compared to previous year were as under:

(Rupees in crore)

2001-02	S. No	Major Aggregates	2002-03
2184	1.	Revenue Receipts (2+3+4)	2300
1155	2.	Tax Revenue	1261
291	3.	Non-Tax Revenue	352
737	4.	Other Receipts	685
94	5.	Non-Debt Capital Receipts	46
94	6.	Of which Recovery of Loans	46
2279	7.	Total Receipts (1+5)	2346
2015	8.	Non-Plan Expenditure (9+11+12)	2167
1957	9.	On Revenue Account	2107
458	10.	Of which, Interest Payments	613
1	11.	On Capital Account	15
56	12.	On Loans disbursed	44
936	13.	Plan Expenditure (14+15+16)	941
591	14.	On Revenue Account	584
231	15.	On Capital Account	277
113	16.	On Loans disbursed	79
2951	17.	Total Expenditure (8+13)	3108
672	18.	Fiscal Deficit (17-7)	762
364	19.	Revenue Deficit (9+14-1)	392
(-) 213	20.	Primary Deficit (+)/Surplus (-) (18-10)	(-) 149

## 1.3 Summary of Receipts and Disbursements for the year

Table 1 summarises the finances of the State Government of Andhra Pradesh for the year 2002-03 covering revenue receipts and

expenditure, capital receipts and expenditure, public debt receipts and disbursements and public accounts receipts and disbursements made during the year as emerging from Statement-1 of Finance Accounts and other detailed statements.

During the year, the State Government incorrectly classified expenditure of Rs 560.65 crore being Grants-in-aid to Local Bodies and Rs 307.49 crore being contribution to Reserve Fund/transfer to Deposit Account under Capital outlay instead of Revenue (see Paragraph 1.6.1). This had the effect of overstatement of capital outlay and understatement of revenue deficit to the extent of Rs 868.14 crore. To provide a consistent and correct picture of the government finances comparable with the position of past years, expenditure figures under Revenue and Capital accounts have been suitably modified in the statements of the Chapter and all the indicators, ratios etc., are worked out on that basis.

**Table 1 : SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2002-2003**

(Rupees in crore)

2001-02	Receipts	2002-03	2001-02	Disbursements	2002-03		
<b>Section-A: Revenue</b>							
					<b>Non-Plan</b>	<b>Plan</b>	<b>Total</b>
21845.05	<b>I. Revenue receipts</b>	23002.92	25487.92	<b>I. Revenue expenditure</b>	21077.34	5847.69	26925.03
11550.59	Tax revenue	12617.56	9286.34	General services	10929.98	73.97	11003.95
2917.65	Non-tax revenue	3529.42	8519.47	Social Services	6141.61	2762.24	8903.85
4061.51	Share of Union Taxes/ Duties	4315.81	7402.58	Economic Services	3743.36	3011.48	6754.84
3315.30	Grants from Government of India	2540.13	279.53	Grants-in-aid / Contributions	262.39	-	262.39
<b>Section-B: Capital</b>							
-	<b>II. Miscellaneous Capital Receipts</b>	-	2329.37	<b>II. Capital Outlay</b>	150.27	2777.67	2927.94
946.66	<b>III. Recoveries of Loans and Advances</b>	460.19	1697.54	<b>III Loans and Advances disbursed</b>	444.38	791.06	1235.44
7339.99	<b>IV. Public debt receipts*</b>	7802.38	1964.43	<b>IV Repayment of Public Debt</b>	3284.18 <sup>@</sup>	-	3284.18
1.45	<b>V. Contingency Fund</b>	3.50	3.50	<b>V. Contingency Fund</b>	4.36	-	4.36
21777.24	<b>VI. Public account receipts</b>	25646.52	20219.45	<b>VI. Public account disbursements</b>	22465.49	-	22465.49
237.88	<b>Opening Balance</b>	446.06	446.06	<b>Closing Balance</b>			519.13
52148.27	<b>Total</b>	57361.57	52148.27	<b>Total</b>			57361.57

\* Includes net ways and means advances and over draft also

@ Bifurcation of Plan and Non-plan not available

## 1.4 Audit Methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure and from the statements of the Finance Accounts for the year 2002-03 and wherever necessary, show these in the light of time series data and periodic comparisons. The key indicators adopted for the purpose are (i) Resources by volumes and sources, (ii) Application of

resources (iii) Assets and Liabilities, and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The reporting parameters are depicted in the **Box 1.2**.

**Box 1.2**

**Reporting Parameters**

Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The New GSDP series as base as published by the Bureau of Economics and Statistics Department of the State Government have been used.

For tax revenues, non-tax revenues, revenue expenditure etc, buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.

For most series a trend growth during 1998-2003 has been indicated. The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in *Appendix I*.

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account as defined in Box 1.3.

**Box 1.3 - State Government Funds and the Public Account**

Consolidated Fund	Contingency Fund	Public Account
All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled 'The Consolidated Fund of State' established under Article 266(1) of the Constitution of India.	Contingency Fund of State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.	Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursement are made from it.

## 1.5 State finances by key indicators

**1.5.1 Resources by volumes and sources:** Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, state's share of union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources viz., market loans, borrowings from financial institutions/commercial banks etc., and loans and advances from Government of India as well as accruals from Public accounts.

Table 2 shows that the total receipts of the State Government for the year 2002-03 were Rs 56914 crore. Of these, the revenue receipts of the State Government were Rs 23003 crore only, constituting 40 per cent of the total receipts. The balance of receipts came from borrowings and public account receipts.

**Table 2 – Resources of Andhra Pradesh**

(Rupees in crore)

<b>I.</b>	<b>Revenue Receipts</b>		<b>23003</b>
<b>II.</b>	<b>Capital Receipts</b>		<b>8262</b>
	(a) Miscellaneous Receipts	-	
	(b) Recovery of Loans and Advances	460	
	(c) Public Debt Receipts	7802	
<b>III.</b>	<b>Contingency Fund Receipts</b>		<b>3</b>
<b>IV.</b>	<b>Public Account Receipts</b>		<b>25646</b>
	(a) Small Savings, Provident Fund, etc.	4264	
	(b) Reserve Fund	602	
	(c) Deposits and Advances	9514	
	(d) Suspense and Miscellaneous	6186	
	(e) Remittances	5080	
	<b>Total Receipts</b>		<b>56914</b>

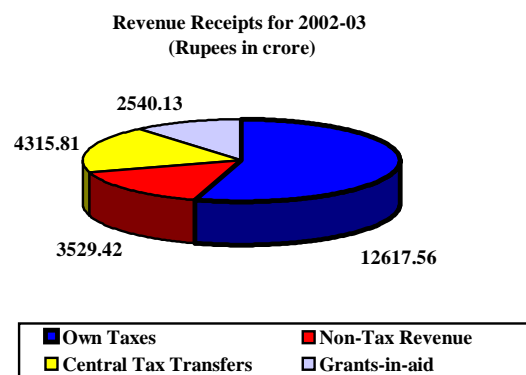
**1.5.2 Revenue Receipts:** Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. The Revenue Receipts of the State consist mainly of its own tax and non-tax revenues, central tax transfers and grants-in-aid from Government of India. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) and its buoyancy is indicated in Table 3.

**Table 3: Revenue Receipts - Basic Parameters (Values in Rupees crore and others in per cent)**

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Revenue Receipts	14260	16805	19475	21845	23003	19078
Own Taxes	55.83	53.61	54.18	52.88	54.85	54.27
Non-Tax Revenue	12.95	14.53	14.08	13.36	15.34	14.05
Central tax Transfers	21.09	19.89	20.43	18.59	18.76	19.75
Grants-in-aid	10.13	11.97	11.31	15.18	11.05	11.93
Rate of Growth	3.03	17.85	15.89	12.17	5.30	12.00
Revenue Receipt/GSDP	12.41	13.42	14.00	14.55	14.31	13.82
Revenue Buoyancy	0.151	1.992	1.431	1.545	0.747	1.143
GSDP Growth	20.00	8.96	11.10	7.88	7.10	10.50

The revenue receipts of the State increased from Rs 14260 crore in 1998-99 to Rs 23003 crore in 2002-03 at an average trend rate of 12 per cent. There were, however, significant inter-year variations in the growth rates. During the five-year period 1998-2003, the State had a buoyant economy with its GSDP growth averaging 10.50 per cent. Revenue growth exceeded GSDP growth rates during 1999-2002 and buoyancy of revenue receipt during this period was greater than one. There was sharp decline in revenue buoyancy to 0.747 due to a moderate growth in revenue receipt during 2002-03 relative to GSDP.

While 70 per cent of the revenue receipts during 2002-03 have come from State's own resources comprising of taxes and non-taxes, central tax transfers and grants-in-aid together contributed 30 per cent of the total revenue. Sales Tax was the major contributor (66 per cent) of State own tax revenue followed by State Excise (15 per cent), Stamps and Registration fees (8 per cent), taxes on vehicles (7 per cent). Of non-tax revenue sources interest receipts (49 per cent), receipts from Non-ferrous Mining and Metallurgical Industries (22 per cent) were principal contributors. However, 82 per cent of the interest receipts (Rs 1717 crore) was only notional in nature arising out of book adjustments without any cash flow, from Irrigation, Power and Drainage projects.



Besides, the arrears of revenue increased by 72 per cent from Rs 1756 crore in 1998-99 to Rs 3021 crore at the end of 2002-03. Of these, Rs 1321 crore (44 per cent) were more than 5 years old.

The current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of merit goods and services by Government are 2.72 per cent for secondary education, 0.47 per cent for university and higher education, 2.51 per cent for technical education, 3.49 per cent for medical and public health, and 3.27 per cent for water supply and sanitation.

The source of total receipts under different heads and GSDP during 1998-2003 is indicated in Table 4.

**Table 4 – Sources of Receipts: Trends**

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts*	Gross State Domestic product
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
1998-99	14260	396	5198	17025	36879	114937
1999-2000	16805	196	5505	17066	39572	125236
2000-01	19475	402	5261	22026	47164	139137
2001-02	21845	947	7340	21777	51909	150096
2002-03	23003	460	7802	25646	56911	160753

\* Slightly differ from item no. 9 of Appendix VII due to exclusion of receipts into Contingency Fund

## 1.6 Application of resources

**1.6.1 Incorrect classification of expenditure:** As per the Rules<sup>1</sup> made by the President of India in exercise of the powers conferred by Article 150 of the Constitution, expenditure on grants-in-aid to local bodies even for the purpose of creating assets cannot be classified as Capital expenditure. During the year 2000-01 and 2001-02, Government, however provided for and booked an expenditure of Rs 553.71 crore and Rs 761.59 crore respectively as grants-in-aid to local bodies under Capital section of Accounts. Though the misclassification was pointed out in earlier Audit Reports, Government continued the misclassification in the current year and booked Rs 560.65 crore being grants-in-aid to local bodies and Rs 307.49 crore being contribution to Reserve Fund/transfer to Deposit Account under Capital section. The incorrect classification increased the capital outlay and reduced the revenue expenditure as well as revenue deficit in the Finance Accounts by Rs 868.14 crore. Further, subsidy of Rs 1554 crore to the energy sector was misclassified as Plan expenditure.

**1.6.2 Trend of growth:** Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State increased from Rs 20361 crore in 1998-99 to Rs 31088 crore in 2002-03 at an average trend rate of 13 per cent per annum. The rate of growth of total expenditure was higher than the rate of growth of revenue receipts during this period.

Total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its

<sup>1</sup> Note below Rule 30(1) of Government Accounting Rule, 1990



buoyancy with regard to GSDP and revenue receipts are indicated in Table-5 below:

**Table 5: Total Expenditure- Basic Parameters (value in Rs crore and others in per cent)**

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Total Expenditure*	20361	21977	27183	29515	31088	26025
Rate of Growth	18.19	7.94	23.69	8.58	5.33	13.00
TE/GSDP Ratio	17.71	17.55	19.54	19.66	19.34	18.85
Revenue Receipts/ TE Ratio	70.04	76.47	71.64	74.01	73.99	73.23
<b>Buoyancy of Total Expenditure with</b>						
GSDP	0.909	0.886	2.134	1.089	0.751	1.238
Revenue Receipts	6.007	0.445	1.491	0.705	1.005	1.083

\* Total Expenditure includes Revenue Expenditure, Capital Expenditure and Loans & Advances

Consistent increase of total expenditure over a five-year period 1998-2003 was also reflected in gradual increase in percentage of total expenditure to GSDP (17.71 to 19.34 per cent) and also revenue receipts to total expenditure (from 70.04 to 73.99 per cent). Though in monetary terms, total expenditure in 2002-03 has increased by Rs 1573 crore over previous year its ratio as a percentage to GSDP has shown a declining trend. The increase in total expenditure in 2002-03 was due to increase in interest payment by Rs 1547 crore which was nearly 98 per cent of net increase of total expenditure over previous year.

In terms of the activities, total expenditure could be considered as being composed of expenditure on General services, interest payments, Social and Economic services, grants-in-aid and other contributions to institutions and loans and advances. Relative share of these components in total expenditure is indicated in Table 6.

**Table 6: Components of Expenditure – Relative Share (in per cent)**

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
General Services	14.74	16.76	17.63	16.17	15.94	16.25
Interest Payments	12.99	14.11	13.95	15.53	19.72	15.26
Social Services	35.27	34.20	30.60	29.50	30.31	31.98
Economic Services	26.29	25.49	32.10	32.09	29.22	29.04
Loans and Advances	9.98	8.86	5.11	5.75	3.97	6.73
Grants-in-aid	0.73	0.58	0.61	0.96	0.84	0.74

The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. But expenditure on General services and interest payments which were considered as non-developmental, together accounted for 35.66 per cent in 2002-03 as against 27.73 per cent in 1998-99. On the other hand, development expenditure i.e., on Social and Economic services together accounted for only 59.53 per cent in 2002-03 as against 61.56 per cent in 1998-99. This indicated declining priority for developmental expenditure.

**1.6.3 Incidence of Revenue expenditure:** In the total expenditure, revenue expenditure had the predominant share. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in Table 7.

**Table 7: Revenue Expenditure - Basic Parameters**

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Revenue Expenditure (Rupees in crore)	16944	18038	23624	25488	26925	22204
Rate of Growth (per cent)	16.50	6.46	30.97	7.89	5.64	13.96
RE/GSDP	14.74	14.40	16.98	16.98	16.75	16.09
RE as percentage of TE	83.22	82.08	86.91	86.36	86.61	85.32
RE as percentage of RR	118.82	107.34	121.30	116.68	117.05	116.39
<b>Buoyancy of Revenue Expenditure with (per cent)</b>						
GSDP	0.825	0.721	2.790	1.002	0.794	1.330
Revenue Receipts	5.451	0.362	1.949	0.648	1.064	1.163

Overall revenue expenditure of the State increased at an average trend rate of 13.96 per cent. Rate of growth of revenue expenditure reached a level of 30.97 per cent in 2000-01 but had decelerated since then. As a result revenue expenditure-GSDP ratio declined from 16.98 per cent in 2000-01 to 16.75 per cent in 2002-03. On an average 85.32 per cent of the total expenditure was on current consumption.

*i) High salary expenditure:* Salaries including grants in aid towards salaries accounted for 35 per cent of the revenue receipts and 30 per cent of the revenue expenditure of the State during 2002-03. The expenditure on salaries increased from Rs 5263 crore in 1998-99 to Rs 8108 crore in 2002-03 at an average annual rate of 11.4 per cent as indicated in the Table 8:

**Table 8**

(Rupees in crore)

Heads	1998-99	1999-2000	2000-01	2001-02	2002-03
Salary expenditure	5263	6516	7614	7792	8108
As a percentage of GSDP	4.58	5.20	5.47	5.19	5.04
As a percentage of Revenue Receipts	36.91	38.71	39.10	35.67	35.25
As a percentage of Revenue expenditure	31.06	36.12	32.23	30.57	30.11

*ii) Huge expenditure on pension payments:* Pension payments have increased by 72.18 per cent from Rs 1373 crore in 1998-99 to Rs 2364 crore in 2002-03 (average annual rate of 14.5 per cent). Year-wise break-up of expenditure incurred on pension payments

during the years 1998-99 to 2002-03 was as under:

Table 9

(Rupees in crore)

Year	Expenditure	Percentage to total revenue expenditure
1998-99	1373	8.10
1999-2000	1657	9.19
2000-01	2378	10.07
2001-02	2321	9.11
2002-03	2364	8.78

With the increase in number of retirees, the pension liabilities are likely to increase further in future. The State Government has not constituted any fund to meet the fast rising pension liabilities of the retired State employees.

*iii) Interest payments:* The Eleventh Finance Commission (August 2000) has recommended that as a medium term objective, states should endeavour to keep interest payment, as a ratio to revenue receipts at 18 per cent. It was however observed that the interest payments were more than 18 per cent of revenue receipts as shown below:

Table 10

Year	Interest payments (Rupees in crore)	Percentage of interest payment with reference to	
		Revenue Receipts	Revenue Expenditure
1998-99	2644	18.54	15.60
1999-2000	3101	18.45	17.19
2000-01	3793	19.48	16.06
2001-02	4584	20.98	17.98
2002-03	6131	26.65	22.77

Interest payments increased steadily by 132 per cent from Rs 2644 crore in 1998-99 to Rs 6131 crore in 2002-03 primarily due to ever increasing borrowings. The interest payment was on Internal Debt (Rs 3290 crore), loans received from Central Government (Rs 2361 crore) and Small Savings, PF, etc. (Rs 480 crore).

*iv) Subsidies by the Government:* Though the finances of the State are under strain, the State Government has been paying subsidies for Food and Energy sectors. During the last five years, State Government paid the subsidies as under:

Table 11

(Rupees in crore)

S.No.	Particulars	1998-99	1999-2000	2000-01	2001-02	2002-03
1.	APSEB/APGENCO/ APTRANSCO (Energy Sector)	---	25	2228	2095	1554
2.	Subsidy on Rice	768	1063	850	454	242
3.	Others	27	14	30	20	40
	<b>Total</b>	<b>795</b>	<b>1102</b>	<b>3108</b>	<b>2569</b>	<b>1836</b>
	Percentage of increase (+)/ decrease (-) over previous year	-	(+)38.62	(+)182.03	(-)17.34	(-)19.51
	Percentage of subsidy in total expenditure*	4.34	5.50	12.05	9.24	6.15

\* Total expenditure excludes Loans and Advances

During the current year subsidies constituted 6 per cent of the total expenditure out of which 85 per cent was paid to APGENCO/APTRANSCO only.

### 1.7 Expenditure by Allocative priorities

The expenditure of the State in the nature of plan expenditure, capital expenditure and development expenditure reflects its quality. Higher the ratio of these components to total expenditure, better is the quality of expenditure. Table 12 gives these ratios during 1998-2003, as follows.

**Table 12 : Quality of Expenditure (per cent to total expenditure)**

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Plan Expenditure	26.99	22.95	26.07	29.58	28.89	27.19
Capital Expenditure	7.56	9.95	8.41	8.37	9.81	8.87
Development Expenditure	68.38	65.50	66.08	65.35	61.99	65.46

(Total expenditure does not include Loans and Advances)

All the three components of quality of expenditure indicated inter year variations. In the year 2002-03, the Plan as well as Capital expenditure increased slightly when compared to 1998-99 but the steep decline in developmental expenditure (expenditure on Economic and Social Services) compared to 1998-99 is disturbing.

Out of the developmental expenditure of Rs 18504 crore, during the year, social services accounted for 51 per cent (Rs 9422 crore). Expenditure on General Education, Health, Medical and Family Welfare, Water supply and sanitation constituted 72 per cent of the expenditure on Social sector.

**Table 13: Social Sector Expenditure**

(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
General Education	2846	3304	3740	3871	4027
Health, Medical and Family Welfare	1040	1154	1334	1367	1378
Water Supply and sanitation	998	578	573	993	1394
<b>Total</b>	<b>4884</b>	<b>5036</b>	<b>5647</b>	<b>6231</b>	<b>6799</b>
<b>As a percentage of expenditure on Social sector</b>	<b>68.00</b>	<b>66.99</b>	<b>67.90</b>	<b>71.56</b>	<b>72.16</b>

Similarly, the expenditure on Economic Services (Rs 9083 crore) accounted for 49 per cent of the development expenditure. Of which, Irrigation and flood control, Energy and Transport accounted for 69 per cent.

**Table 14: Economic Sector Expenditure**

(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Irrigation and flood control	2033	2274	2590	2727	3117
Energy	77	343	2345	2328	1669
Transport	629	828	1231	1342	1478
<b>Total</b>	<b>2739</b>	<b>3445</b>	<b>6166</b>	<b>6397</b>	<b>6264</b>
<b>As a percentage of expenditure on Economic sector</b>	<b>51.18</b>	<b>61.48</b>	<b>70.65</b>	<b>67.54</b>	<b>68.96</b>

**1.7.1 Financial Assistance to Local Bodies and other Institutions**

*i) Extent of assistance:* The quantum of assistance (Rs 9258.75 crore) provided by way of grants (Rs 8100.88 crore) and loans (Rs 1157.87 crore) to different local bodies etc., during the period of 5 years ending 2002-03 was as follows:

**Table 15**

(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Zilla Parishads and other Panchayati Raj institutions	2263.44	1957.61	3165.92	3259.35	2895.64
Municipal corporations and Municipalities	340.16	418.75	482.06	388.54	509.31
Cooperative Societies	105.34	99.59	37.95	44.28	240.74
Universities and Educational institutions	897.16	1127.31	1325.96	1272.93	1243.64
AP State Electricity Board (APGENCO and APTRANSCO)	1598.32	1548.42	3065.52	3150.87	2138.01
AP State Housing Corporation	85.10	171.24	200.86	283.22	263.52
Others	3391.13	1726.79	1419.95	2384.33	1967.89 <sup>5</sup>
<b>Total</b>	<b>8680.65</b>	<b>7049.71</b>	<b>9698.22</b>	<b>10783.52</b>	<b>9258.75</b>
Percentage of increase (+)/ decrease (-) over previous year	15.41	(-)18.79	37.57	11.19	(-)14.14
Assistance as a percentage of revenue expenditure	51.23	39.08	41.05	42.31	34.39

<sup>5</sup> Includes assistance to AP Vaidya Vidhana Parishad (Rs 172.92 crore), Andhra Pradesh Urban Infrastructure Corporation (Rs 44.18 crore), AP State Road Transport Corporation (Rs 100 crore) and AP State Police Housing Corporation (Rs 39.37 crore)

The total assistance at the end of 2002-03 had grown by 7 per cent over the level of 1998-99, but decreased by 14 per cent compared to previous year mainly as a result of decreased assistance to Energy Sector. The assistance to local bodies as a percentage of total revenue expenditure had, also decreased from the high of 51 in 1998-99 to 34 in 2002-03.

*ii) Delay in furnishing Utilisation Certificates:* At the end of March 2003, 3223 utilisation certificates (UCs) relating to Rs 590.49 crore in respect of grants released up to September 2001 and due by

March 2003 from 6 departments were outstanding as detailed below:

Table 16

S. No.	Department	Number of UCs outstanding	Amount (Rupees in crore)	Earliest year of pendency
1	Revenue (Relief on account of natural calamities)	2448	474.81	1993-94
2	Panchayati Raj and Rural Development	634	53.01	1991-92
3	Social Welfare (including Tribal Welfare)	38	37.38	1992-93
4	Panchayati Raj and Rural Development, and Municipal Administration and Urban Development (Water Supply and Sanitation)	63	22.51	1998-99
5	Education (School Education)	4	1.44	1992-93
6	Municipal Administration and Urban Development	36	1.34	1998-99
	<b>Total</b>	<b>3223</b>	<b>590.49</b>	

*iii) Delay in submission of accounts:* Submission of 1558 accounts from 85 Municipal Corporations/Municipalities to the AG up to 31 March 2003 were due as of September 2003, in order to examine to what extent they attract audit under Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

Accounts of 21 autonomous bodies covered under Sections 19(2), 19(3) and 20(1) of the Act, up to 2002-03 were due for the periods ranging from 1 to 11 years (2 bodies for 10 years and 5 bodies for five years and more) as detailed in *Appendix II*.

*1.7.2 Misappropriation, losses etc.:* Out of 615 cases of misappropriation amounting to Rs 3412.43 lakh reported by the State Government to end of March 2003, 11 cases amounting to Rs 7.36 lakh were disposed off with 604 cases amounting to Rs 3405.07 lakh outstanding to the end of June 2003. The year-wise details are given in *Appendix III*.

## 1.8 Assets and liabilities

In the government accounting system, comprehensive accounting of the fixed assets like land and buildings etc, owned by Government is not done. However, the government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. *Appendix IV* gives an abstract of such liabilities and the assets as on 31 March 2003, compared with the corresponding position on 31 March 2002. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. *Appendix IV* shows that while the liabilities grew by 16 per cent, the assets increased only by 12 per cent widening the gap between assets and liabilities and

increasing the proportion of liabilities which did not have an asset back up. This shows a continuous deterioration of the financial condition of the State. The liabilities of Government of Andhra Pradesh depicted in the Finance Accounts, however, do not include the pension, other retirement benefits payable to serving/retired state employees, guarantees/letters of comforts issued by the State Government. *Appendix VII* depicts the Time series data on State Government Finances for the period 1998-2003.

**1.8.1 Incomplete projects:** As per the information furnished by the Irrigation and Command Area Development Department, there were 23 incomplete Major (13) and Medium (10) projects as of March 2003 involving Rs 8692 crore including those whose benefits have accrued partially. Details are given in *Appendix VIII*.

**1.8.2 Investments and returns:** As on 31 March 2003, Government had invested Rs 4334.74 crore in its Statutory Corporations, Government companies, Joint Stock Companies and Co-operative Societies. Government's return on this investment was less than one per cent in the last five years. With an average interest rate of 10.58 per cent being paid by Government on its borrowings, the average annual subsidy amounted to 10.49 per cent and the implicit subsidy during the period 1998-2003 was Rs 2059 crore.

**Table 17 : Return on Investment**

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Investment (Rs in crore)	3477.70	3832.34	3934.58	3975.02	4334.74	3910.88
Returns (Rs in crore)	9.42	2.91	2.02	0.57	1.34	3.25
Percentage of returns	0.27	0.08	0.05	0.01	0.03	0.09
Average interest rate paid by Government	10.25	10.01	10.22	10.42	11.99	10.58
Difference between interest rates and return	9.98	9.93	10.17	10.41	11.96	10.49
Implicit subsidy (Rs in crore)	347	381	400	413	518	410

**1.8.3 Loans and advances by State Government:** In addition to investments in Co-operatives, Corporations and Companies, Government has also been providing support in terms of loans and advances to many of these parastatals. Total outstanding balance as on 31 March 2003 was Rs 9180 crore. Interest received on such loans had varied from 3.21 per cent to 6.10 per cent during 1998-2003 (Table 18). Total implicit subsidy during 1998-2003, on such loans was Rs 1996 crore.

**Table 18: Average Interest Received on Loans Advanced by the State Government**

(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03
Opening Balance	3280	4916	6667	7654	8405
Amount Advanced during the year	2032	1947	1389	1698	1235
Amount repaid during the year	396	196	402	947	460
Closing Balance	4916	6667	7654	8405	9180
Net Addition	1636	1751	987	751	775
Interest Received	187	353	295	341	282
Interest Received as per cent to Loans advanced	4.56	6.10	4.12	4.25	3.21
Average interest paid by the State (per cent)	10.25	10.01	10.22	10.42	11.99
Difference between interest paid and received (per cent)	5.69	3.91	6.10	6.17	8.78
Implicit subsidy	187	192	407	472	738

**1.8.4 Commercial activities - Lack of accountability in the use of public funds in departmental commercial undertakings:**

Activities of quasi-commercial nature are performed by the departmental undertakings of certain Government departments. These undertakings are required to prepare annually *pro forma* accounts in prescribed formats showing the results of financial operations so that Government can assess their functioning. The Heads of Departments in Government are to ensure that the undertakings which are funded by the budgetary releases, prepare the accounts in time and submit the same to Accountant General for Audit.

As of 31 March 2003, there were six such departmentally managed commercial and quasi-commercial undertakings under the control of Government of Andhra Pradesh. In addition, there were three departmentally managed units of Tungabhadra Project, which is a joint venture of Governments of Andhra Pradesh and Karnataka. However, the preparation of *pro forma* accounts for these units up to 2002-03 was in arrears for periods ranging from 2 to 39 years (one unit for 39 years since inception in 1963, two for 30 years and more, one for more than 20 years, one for more than 10 years and four for less than 10 years). Rupees 11.27 crore had been invested in 3 of the undertakings, at the end of the financial year up to which their accounts were completed (*Appendix IX*).

The failure of the Heads of Departments and the managements of the undertakings, in timely preparation of the *pro forma* accounts, was repeatedly commented upon in the earlier Reports of the Comptroller and Auditor General of India. Yet, there was no improvement in the position.

**1.8.5 Management of cash balances:** It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) and overdraft from Reserve Bank of India



has been put in place. State has shown improvement in management of cash balances as WMA facilities were used for 137 days during 2002-03 as against 164 days in previous year. As regards overdraft, the State Government has used this facility for 33 days only in 2002-03, signifying distinct improvement in cash management.

**Table 19: Ways and means and overdrafts of the State and Interest Paid thereon**  
(Rupees in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
<b>Ways and Means Advances</b>						
Taken in the year	2657.60	4395.09	4261.54	5114.48	2189.40	3723.62
Outstanding	219.84	316.41	404.90	---	---	313.72
Interest Paid	5.67	13.43	18.72	24.88	10.67	14.67
Number of Days	130	174	121	164	137	145
<b>Overdraft</b>						
Taken in the year	2150.11	2972.79	5101.61	5582.68	1925.40	3546.52
Outstanding	---	---	---	---	---	---
Interest Paid	4.12	2.27	9.47	8.74	1.08	5.14
Number of Days	89	117	167	172	33	116

### 1.8.6 Undischarged liabilities

i) **Fiscal liabilities – public debt and guarantees:** Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may from time to time be fixed by the Act of its Legislature. However, no such law has been passed by the State, to lay down any such limit. Table 20 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters.

**Table 20: Fiscal Liabilities- Basic Parameters**  
(value in Rs crore and ratios in per cent)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Fiscal Liabilities <sup>§</sup>	28297	33630	40602	47439	54831	40960
Rate of Growth	21.41	18.85	20.73	16.84	15.58	18.75
<b>Ratio of Fiscal Liabilities to</b>						
GSDP	24.60	26.90	29.20	31.60	34.10	29.70
Revenue Receipt	198.40	200.10	208.50	217.20	238.40	211.60
Own Resources	288.50	293.70	305.40	327.90	339.60	309.80
<b>Buoyancy of Fiscal Liabilities to</b>						
GSDP	1.071	2.103	1.868	2.138	2.195	1.786
Revenue Receipt	7.072	1.056	1.305	1.384	2.939	1.563
Own resources	2.099	1.126	1.287	1.907	1.344	1.775

§ Includes internal debt, loans and advances from GOI and other obligations

Overall fiscal liabilities of the State increased from Rs 28297 crore in 1998-99 to Rs 54831 crore in 2002-03 on an average rate of 18.75 per cent during 1998-2003. The ratio of these liabilities to GSDP also increased from 24.60 per cent in 1998-99 to 34.10 per cent in 2002-03. These liabilities stood at 2.38 times of its revenue receipts and 3.40 times of its own resources.

In addition to these liabilities, Government have guaranteed loans raised by various Corporations and others which at the end of 2002-03 stood at Rs 15317 crore. The guarantees are in the nature of contingent liabilities and the fiscal liabilities together with the contingent liabilities currently exceed three times the Revenue receipts of the State. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limit within which government may give guarantees on the security of the Consolidated Fund of the State.

The fiscal liabilities had grown faster than the State's GSDP, revenue receipts and own resources. Average buoyancy of these liabilities with respect to GSDP was 1.786 indicating that for each one per cent increase GSDP fiscal liabilities were growing at the rate of 1.79 per cent.

Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. However in the case of Andhra Pradesh, increasing interest rates and declining trend of GSDP growth has resulted in negative interest spread in four out of five years (Table 21). This negative spread of interest may endanger debt sustainability.

**Table 21: Debt Sustainability- Interest Rate and GSDP Growth (in per cent)**

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Weighted Interest Rate	10.25	10.01	10.22	10.42	11.99	10.58
GSDP Growth	20.00	8.96	11.10	7.88	7.10	10.50
Interest spread	9.75	(-) 1.05	0.88	(-) 2.54	(-) 4.89	(-) 0.08

Another important indicator of the debt sustainability is the net availability of the borrowed funds after payment of principal and interest. Table 22 below gives the position of receipt and re-payment of internal debt and other fiscal liabilities of the State over the last five years. The net funds available from the total receipts on account of public debt, loans and advances from Government of India and other debt receipts (including public account) declined from 11.70 per cent in 1998-99 to 4.81 per cent in 2002-03. This is due to increased interest payments and repayment of loans from borrowed funds.

Table 22: Net Availability of Borrowed Funds (Rs in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
<b>Internal debt</b>						
Receipt	6853	9976	13208	14891	9479	10881
Repayment (Principal + Interest)	5927	8956	11475	14211	8506	9815
Net Fund Available	926	1020	1733	680	973	1066
Net Fund Available (per cent)	13.51	10.22	13.12	4.57	10.26	9.80
<b>Loans and Advances from GOI</b>						
Receipt	3022	3189	1889	3717	2548	2873
Repayment (Principal + Interest)	2618	2292	2701	3243	4653	3101
Net Fund Available	404	897	(-)812	474	(-)2105	(-)1142
Net Fund Available (per cent)	13.37	28.13	---	25.09	---	---
<b>Other obligations</b>						
Receipt	10177	10178	12195	11838	14189	11715
Repayment (Principal + Interest)	9160	9863	9938	10739	11796	10299
<b>Total liabilities</b>						
Receipt	20052	23343	27292	30446	26216	25470
Payments	17705	21111	24114	28193	24955	23216
Net receipts	2347	2232	3178	2253	1261	2254
Net Funds Available (per cent)	11.70	9.56	11.64	7.40	4.81	8.85

During 2002-03, Government resorted to adjustment of high cost borrowings of Rs 1160.87 crore under Debt Swap Scheme; the beneficial effect thereof would however, be visible only in the future.

ii) **Off budget borrowings:** The Constitution of India provides for State Governments to borrow from Open Market, Financial Institutions and Government of India, upon the security of the Consolidated Fund, within such limits, if any, as may from time to time be fixed by an Act of Legislature of the State. Apart from the borrowings under the Constitutional provision, Government borrowed funds through companies/corporations from the market and certain financial institutions.

Government created special purpose vehicles in the Power Sector and for road development with a view to raising resources from the market by issue of bonds guaranteed by Government.

Government raised off-budget borrowings of Rs 3350 crore during 1999-2000 to 2002-03, as per the following details furnished by Finance Department.

Year	Amount (Rupees in crore)	Source from which borrowed
1999-2000	406	AP Industrial Infrastructure Corporation
2000-01	1053	AP Power Finance Corporation (APFFC)
2001-02	876	AP Power Finance Corporation
2002-03	850	AP Power Finance Corporation
	165	AP Road Development Corporation (APRDC)
<b>Total</b>	<b>3350</b>	

During 2002-03, the APRDC raised loans of Rs 165 crore from various banks on the security of Government and advanced the funds as loan to Government. Similarly, the APPFC raised Rs 5823.47 crore to the end of 2002-03 by issue of Power Bonds and has given Rs 5813.36 crore as loan to Government of Andhra Pradesh.

Due to these extra budgetary borrowings the effective fiscal deficit would increase (Paragraph 1.9 also refers).

## 1.9 Management of deficits

**1.9.1 Fiscal imbalances:** The deficit in Government accounts represents the gap between its receipts and expenditure. The nature of the deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources so raised are applied are important pointers to its fiscal health. The revenue deficit of the State, which in turn indicates the excess of its revenue expenditure over revenue receipts, increased from Rs 2684 crore in 1998-99 to Rs 3922 crore in 2002-03 (Table 23). The Revenue deficit of the State Government however does not include the net deficit on account of power sector (Rs 445 crore). Hence, the effective revenue deficit would come out to Rs 4367 crore (Appendix X). The fiscal deficit which represents the total borrowings of the Government and the total resource gap increased from Rs 5705 crore in 1998-99 to Rs 7625 crore in 2002-03. The fiscal deficit of the Government of Andhra Pradesh, however, does not include the off budget borrowings made by the government in the form of bonds through different PSUs/special purpose vehicles (APRDC, APPFC). The effective fiscal deficit would come out to Rs 8640 crore.

The State had persistent revenue deficit. The ratio of revenue deficit to fiscal deficit had increased from 47.05 per cent in 1998-99 to 51.44 per cent in 2002-03 indicating that more than 50 per cent of the borrowed funds were used for current consumption. Persistently high ratio of revenue deficit to fiscal deficit also indicated that the asset base of the State was continuously shrinking and increasingly a large part of borrowings (fiscal liabilities) were not having an asset backup. As proportion to the State's GSDP, the revenue deficit had reached 2.44 per cent and fiscal deficit 4.74 per cent in 2002-03.

Table 23: Fiscal Imbalances- Basic Parameters (Values in Rs crore and ratios in per cent)

	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
Revenue Deficit	-2684	-1233	-4149	-3643	-3922	-3126
Fiscal Deficit	-5705	-4976	-7306	-6723	-7625	-6467
Primary Deficit	-3061	-1875	-3513	-2139	-1494	-2416
RD/GSDP	-2.34	-0.98	-2.98	-2.43	-2.44	-2.26
FD/GSDP	-4.96	-3.97	-5.25	-4.48	-4.74	-4.69
PD/GSDP	-2.66	-1.50	-2.52	-1.43	-0.93	-1.75
RD/FD	-47.05	-24.78	-56.79	-54.19	-51.44	-48.34

(Negative figures indicate deficit)

## **1.10 Fiscal reforms programme**

Under the Fiscal Reforms Programme initiated by Government of India (GOI), a Memorandum of Understanding (MOU) was signed (March 2000) by GOI and Government of Andhra Pradesh (GOAP). In accordance with the MOU, the GOI provided a medium term financial assistance of Rs 200 crore in the form of Ways and Means advance during 1999-2000 and the same was linked up with the specific fiscal reform measures the GOAP agreed to undertake within the time schedule specified.

A review (April and May 2003) of the progress of implementation of the fiscal reform measures by the State Government revealed the following shortcomings.

**1.10.1 Downsizing Government:** The GOAP agreed to identify and abolish 36000 posts by end of July 2000 but could abolish only 15026 posts, that too by December 2002.

**1.10.2 Tax reforms:** The GOAP was committed to do away with tax based incentives to industries with effect from April 2000 except for Mega projects in whose case individual incentives were proposed to be worked out. In violation of the commitment, Sales Tax exemption/ deferment incentives were accorded by State Level Committee to certain industries other than Mega projects, after 1 April 2000 (up to March 2003). Sales Tax exemption was given to 251 units and the amount involved was Rs 738.44 crore and 133 units were given Sales Tax deferment facility involving Rs 684.59 crore. This was in addition to the cases of exemption/ deferment accorded by District Level Committees the details of which were not available with the Commissionerate of Industries.

**1.10.3 Power Sector Reforms:** The GOAP was committed to keep its financial support to APGENCO<sup>2</sup> and APTRANSCO<sup>3</sup> to the minimum and also to phase out subsidies within a time frame to be worked out. However, the subsidies given to APTRANSCO during the last three years (Rs 2228 crore in 2000-01, Rs 2095 crore in 2001-02 and Rs 1554 crore in 2002-03) continue to be a heavy charge on the revenues of the State Government.

**1.10.4 Hike in bus fares in Road Transport Corporation:** The GOAP was committed to pass on the burden of any increase in the price of petrol and diesel to the consumers by appropriate enhancement of bus fares. However, the actual increase in fares during the period April 2000 to March 2003 ranged from 7 to 14 per cent and was not commensurate with the increase in HSD oil rates which was 39 per cent during the period.

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<sup>2</sup> AP Power Generation Corporation

<sup>3</sup> Transmission Corporation of Andhra Pradesh

## 1.11 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 24 below presents a summarised position of government finances over 1998-2003, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facets.

**Table 24: Indicators of Fiscal Health (in per cent)**

Fiscal Indicators	1998-99	1999-2000	2000-01	2001-02	2002-03	Average
<b>I. Resource Mobilization</b>						
Revenue Receipt/ GSDP	12.41	13.42	14.00	14.55	14.31	13.82
Revenue Buoyancy	0.151	1.992	1.431	1.545	0.747	1.143
Own tax/GSDP	6.93	7.19	7.58	7.70	7.85	7.49
<b>II. Expenditure Management</b>						
Total Expenditure/GSDP	17.71	17.55	19.54	19.66	19.34	18.85
Revenue Receipt/Total Expenditure	70.04	76.47	71.64	74.01	73.99	73.23
Revenue Expenditure/ Total Expenditure	83.22	82.08	86.91	86.36	86.61	85.32
Plan Expenditure/ Total Expenditure	27.00	22.95	26.07	29.58	28.90	27.19
Capital Expenditure / Total Expenditure	7.56	9.95	8.41	8.37	9.81	8.87
Development Expenditure/ Total Expenditure	68.38	65.50	66.08	65.35	61.99	65.46
Buoyancy of TE with RR	6.01	0.44	1.49	0.70	1.01	1.08
Buoyancy of RE with RR	5.451	0.362	1.949	0.648	1.064	1.163
<b>III. Management of Fiscal Imbalances</b>						
Revenue deficit (Rs in crore)	2684	1233	4149	3643	3922	3126
Fiscal deficit (Rs in crore)	5705	4976	7306	6723	7625	6467
Primary Deficit (Rs in crore)	3061	1875	3513	2139	1494	2416
Revenue Deficit/Fiscal Deficit	47.05	24.78	56.79	54.19	51.44	48.34
<b>IV. Management of Fiscal Liabilities (FL)</b>						
Fiscal Liabilities/ GSDP	24.62	26.85	29.18	31.61	34.11	29.72
Fiscal Liabilities/RR	198.44	200.12	208.48	217.16	238.36	211.61
Buoyancy of FL with RR	7.072	1.056	1.305	1.384	2.939	1.563
Buoyancy of FL with OR	2.099	1.126	1.287	1.907	1.344	1.775
Interest spread	9.75	(-) 1.05	0.88	(-) 2.54	(-) 4.89	---
Net Funds Available	11.70	9.56	11.64	7.40	4.81	9.02
<b>V. Other Fiscal Health Indicators</b>						
Return on Investment	0.27	0.08	0.05	0.01	0.03	0.09
BCR (Rs in crore)	(-) 400	(-) 37	(-) 1337	(-) 327	(-) 22	(-) 425
Financial Assets/ Liabilities	0.72	0.73	0.68	0.65	0.62	0.68

The ratio of own taxes to GSDP had shown continuous improvement in the five-year period. The ratio of Revenue receipt to GSDP and its buoyancy also was on a rising trend from 1998-99 to 2001-02, but the revenue buoyancy steeply declined in 2002-03. Various ratios concerning expenditure indicate quality of expenditure and sustainability in relation to resources. The total expenditure to GSDP is buoyant. Revenue expenditure is on the increasing trend over the five-year period 1998-2003 and comprises 87 per cent of total expenditure in 2002-03 leaving very little for capital formation or asset creation. The development expenditure to total expenditure was on a declining trend and its ratio has fallen significantly in 2002-03 over previous year. All these indicate State's increasing dependence on borrowings for meeting its revenue expenditure and inadequate expansion of its developmental activities. Increasing revenue and fiscal deficit over last year indicates growing fiscal imbalances of the State. Similarly increase in the ratio of revenue

deficit to fiscal deficit indicates that the application of borrowed funds was largely to meet current consumption. The decreasing primary deficit indicates increasing interest payments and lesser availability of borrowed funds for developmental purposes.

Increasing ratio of fiscal liabilities to GSDP and revenue receipts together with a growing revenue deficit on account of increased interest payments indicate that the State is gradually getting into a debt trap. Similarly, the higher buoyancy of the debt both with regard to its revenue receipts and own resources indicate its increasing unsustainability. The average interest paid by the State on its borrowings during 1999-2003 has also exceeded the rate of growth of its GSDP, violating the cardinal rule of debt sustainability. There has also been a decline in net availability of funds from its borrowings due to a larger portion of these funds being used for debt servicing. The State's insignificant return on investment indicates huge implicit subsidy and utilisation of high cost borrowing for investments that yield little. The ratio of State's total financial assets to liabilities has also deteriorated indicating that increasingly a greater part of liabilities are without an asset back-up. The balance from current revenue of the State has also continued to be negative indicating continued dependence on borrowings for plan or developmental expenditure.