

Andhra Revenues

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In February, 2016, Prime Minister Narendra Modi had assured the Andhra Pradesh Chief Minister Chandrababu Naidu to consider conferring the special category status to his state. Apart from this privilege, Mr Naidu has been demanding a special package for the residuary state of Andhra Pradesh after it was carved out from the erstwhile composite state in June 2014, and an additional Rs 16078 crore to bridge the budget deficit arising from the bifurcation of the State. It may be recalled that the Special Category Status allows a state to avail Central funding at liberal terms for the centrally sponsored schemes (90 percent grant and 10 percent loan), apart from various tax sops and incentives to industries.

The erstwhile composite state of Andhra Pradesh was divided with effect from 2nd June 2014, by the Andhra Pradesh Reorganisation Act, 2014. Of the 23 districts of undivided Andhra Pradesh, 9 districts in the coastal region and 4 districts in the backward Rayalseema region remained with the residual state of Andhra Pradesh, while the remaining 10 districts including the most prosperous Hyderabad district with the capital city of Hyderabad and the contiguous Ranga Reddy district, also equally prosperous, went to Telangana. As per the Act, the total liabilities of the undivided state were to be shared by the two successor states in the ratio of their population, i.e. 58:42.

The division had left the residual state of Andhra Pradesh much poorer. As per the 2012-13 accounts, the residuary Andhra Pradesh with its own revenue of Rs 11,627 crore and expenditure of Rs 60,750 crore had inherited a total liability of Rs 90,910 crore, while Telangana with revenue of Rs 56,476 crore and expenditure of Rs 42,376 crore inherited debt liability of Rs 65,832 crore only. But the asymmetry in the whole arrangement becomes striking, once we consider that the combined revenues of the two prosperous districts of Telangana, Hyderabad and Ranga Reddy, were Rs 51478 crore, or 91% of the total revenues of Telangana and these two districts together accounted for expenditure of Rs 23,302 crore or 48% of the total expenditure of Telangana during 2012-13. It was anticipated that this would lead to increased impoverishment of Andhra Pradesh as its own revenue would be too inadequate to meet even one fifth of its expenditure requirements. The huge debt inherited in addition would impose further heavy repayment burden on the poor state, and consequently stymie its growth with gaping fiscal deficits. Given the need to establish a new capital at Amaravathi, according a special category status giving it access to liberal Central aid at least for the first few years thus seemed imperative.

The latest accounts of the Government for the first completed year 2014-15 after its formation, placed in the Legislature last month, however, has allayed these apprehensions to some extent. The state's revenue did drop from Rs 1.10 lakh crore in 2013-14 when it was undivided to Rs 90,672 crore in the full year 2014-15, while its expenditure had gone up from Rs 1.10 lakh crore to Rs 1.14 crore. This left a revenue deficit of Rs 24194 crore and a fiscal deficit of Rs 31716 crore for 2014-15, in which the contributions of the last ten months of the state's existence as a residuary state were respectively Rs 13777 crore for the revenue deficit and Rs 20745 crore for the fiscal deficit. In contrast, Telangana had

a revenue surplus of Rs 369 crore and but fiscal deficit of only Rs 9410 crore for these ten months. Of course the higher revenue deficit and hence the higher fiscal deficit of Andhra were partly the state's own creation; in fulfilling its election promises, it waived the agricultural loans of farmers to the extent of Rs 7070 crore and increased the amounts under Indiramma Old Age and Disabled Pension Scheme to Rs 3344 crore, which together accounted for 76 percent of its revenue deficit of Rs 13777 crore. The previous year, the composite state has a revenue surplus of Rs 344 crore and a fiscal deficit of Rs 18041 crore.

Revenue of a state comes partly from its own resources and partly from Central transfers that includes the state's share in the divisible pool of Union taxes, besides Central grants. As a result of the bifurcation, during the ten months of its existence as a residuary state, Andhra's own revenues, tax plus non-tax combined, from its 13 districts amounted to Rs 38,038 crore. The central transfers, including the state's share in the divisible pool and Central grants, amounted to Rs 27,657 crore, bringing the total revenue to Rs 65695 crore during the period, against which the revenue expenditure was Rs 79471 crore, leaving a deficit of Rs 13777 crore in the revenue account, even with the election-promised sops. In contrast, the total own revenues from Telangana's 10 districts were almost the same as Andhra's (Rs 35735 crore), which means the loss of Hyderabad and Ranga Reddy districts did not affect Andhra's revenue position as drastically as anticipated – in fact the total revenue receipts of Andhra exceeded that of Telangana by over Rs 14600 crore, though it was because of the Central transfers, in which Telangana's share was only Rs 15,306 crore compared to Andhra's Rs 27,658 crore. Andhra commands a larger share in Central transfers, partly due to its higher population which has 25 percentage weightage in the divisible pool transfers.

Instead of total expenditure, per-capita developmental expenditure is a better and more reliable proxy for actual expenditure spent on development. Andhra, with 2011-population of 4.9 crore, had a per capita developmental revenue expenditure of Rs 12226, and per capita capital outlay of Rs 1331, making up the total per capita developmental expenditure of 13557. In contrast, Telangana with population of 3.52 crore had a per capita developmental revenue expenditure of Rs 10340 and per capita capital outlay of Rs 2379, making up a total of Rs 12719, which was lower than that of Andhra.

Going by the above financial results of the State, it thus seems improbable that Andhra Pradesh is getting the special category status anytime soon. While replying to the debate on the Andhra Pradesh Reorganisation Bill in Parliament during the last days of UPA-II, the then Prime Minister Manmohan Singh had assured that the resource gap likely to arise in the successor state of Andhra Pradesh in the very first year would be compensated in the regular Union Budget 2014-15. The new Government, apart from flagging the issue to the Niti Aayog which apparently had submitted its report, has not yet taken any concrete step so far on this promise. Special category status could have helped in attracting industries into the state by creating a congenial ecosystem for industrial growth through tax incentives. As of now, industries seem more interested in setting or expanding their units in Hyderabad which is in Telangana rather than in Amaravathi, which is not yet ready. In fact readying it would need massive capital investments and resources, which the state lacks presently. It is to be seen if Chandrababu Naidu succeeds in getting at least some assistance from the Centre towards this end.