Chapter I Overview

1.1 Introduction

Telangana state was formed on the 02 June 2014. Telangana is ranked 12th in the country in terms of population (350.04 Lakh as per the 2011 Census) and ranked 11th in terms of area (1,12,077 Sq. Km). The State re-organised 10 districts into 33 districts[1], 459 mandals into 612 mandals along with re-organisation of districts and from time to time after that, and 8,368 Gram Panchayats into 12,769 Gram Panchayats[2]. Agriculture and allied sectors employ nearly 45.8 *per cent* of the population indicating that majority in the State are dependent on Agriculture related activities.

General and financial data relating to Telangana is given in ***Appendix 1.1***.

1.1.1 Gross State Domestic Product of Telangana

Gross Domestic Product (GDP) is the value of all goods and services produced within the boundaries of the Country in a specific period. **Gross State Domestic Product (GSDP)** refers to the same parameter of a State. Growth of GDP or GSDP is an important economic indicator denoting the level of economic development over a period. Changes in sectoral contribution to the GDP/GSDP represent the changing structure of the Country's/State's economy.

The Gross Value Added (GVA) of any unit (sector, sub-sector, firm, etc.) measures the contribution of that unit to the overall output of a country. It is calculated by subtracting the value of all intermediate goods and services from the total value of units' output. This is done to remove any 'double counting'. **Gross State Value Added (GSVA)** refers the same parameters of a particular State.

While GDP include taxes and subsidies and GVA ignores their impact. Hence, GVA is used for economic analysis by GoI and international organisations like International Monetary Fund and World Bank. From a policymaker's perspective it is therefore vital to have a comparison of the GVA and GSVA data for better analysis and making policy interventions.

Per Capita Income measures the amount of money that would be available if the total value of all goods and services produced in the economy was divided equally among all citizens[3].

Trends in annual growth of Gross Domestic Product (GDP)[4], GVA and Per Capita Income of the country *vis-à-vis* GSDP[5], GSVA and Per Capita Income of State are given in the following table.

1 October 2016 and February 2019
2 Telangana Panchayat Raj Act, 2018 (May 2018) and amendments from time to time
3 As per Socio Economic Outlook 2022 (prepared by Directorate of Economics and Statistics)
4 Gross Domestic Product is adopted at current prices throughout this Report
5 Gross State Domestic Product is adopted at current prices throughout this Report

Table 1.1: Trends in growth rate of GSDP *vis-à-vis* GDP

	2018-19	2019-20 (TRE)	2020-21 (SRE)	2021-22 (FRE)	2022-23 (AE)
GDP (2011-12 Series) (₹ in crore)	1,88,99,668	2,01,03,593	1,98,29,927	2,34,71,012	2,72,40,712
Growth rate of GDP over previous year (in *per cent*)	*10.59*	*6.37*	*(-)1.36*	*18.36*	*16.06*
GVA at basic prices (₹ in crore)	*1,71,75,128*	*1,83,81,117*	*1,81,88,780*	*2,14,38,883*	*2,47,42,871*
Growth rate of GVA over previous year (in *per cent*)	*10.77*	*7.02*	*(-)1.05*	*17.87*	*15.41*
Per Capita GDP of the Country (₹)	*1,42,424*	*1,49,915*	*1,46,301*	*1,71,498*	*1,96,983*
GSDP (2011-12 Series) (₹ in crore)	8,57,427	9,50,090	9,42,814	11,28,907	13,13,391
Growth rate of GSDP over previous year (in *per cent*)	***14.32***	***10.81***	***(-)0.77***	***19.74***	***16.34***
GSVA at basic prices (₹ in crore)	7,76,946	8,69,773	8,68,689	10,33,322	12,14,122
Growth rate of GSVA over previous year (in *per cent*)	***14.23***	***11.95***	***(-)0.12***	***18.95***	***17.50***
Per Capita GSDP of Telangana (₹)	***2,31,156***	***2,54,402***	***2,50,755***	***2,98,526***	***3,45,638***
Percentage of GSDP of Telangana to GDP of the country	***4.54***	***4.72***	***4.75***	***4.81***	***4.82***

Source of data: Ministry of Statistics and Programme Implementation

TRE: Third Revised Estimates; SRE: Second Revised Estimates; FRE: First Revised Estimates; AE - Advanced Estimates

It can be seen from the above that the growth rate of the State has been higher than growth rate of GDP of the country all along during the past five years. Further, the share of GSDP in GDP has been continuously increasing during the past five years from 4.54 *per cent* to 4.82 *per cent* indicating positive growth of the State's economy. Similarly, the growth rate of GSVA has also been higher than that of GVA.

The Per Capita GSDP of Telangana at current prices was ₹3,45,638[6] in 2022-23, which was 1.75 times of all India average of ₹1,96,983[7].

The GSDP generated from economic activities is generally classified into Primary[8], Secondary[9] and Tertiary[10] Sectors, broadly corresponding to Agriculture, Industry and Services respectively. The sectoral contribution to GDP and GSDP of the State during 2022-23 are given in ***Charts 1.1*** and ***1.2***.

[6] measured in terms of Per Capita Net State Domestic Product, Source: Ministry of Statistics and Programme Implementation as on 01 August 2023

[7] measured in terms of average Per Capita Income as on 01 September 2023

[8] Primary Sector includes Crops, Livestock, Forestry and Logging, Fishing and Aquaculture and Mining and Quarrying

[9] Secondary Sector includes Manufacturing, Electricity, Gas, Water Supply and Other utility services and Construction

[10] Tertiary Sector is Services sector and includes Trade and Repair services, Hotels and Restaurants, Transport, Storage, Communication Services, Financial services, Real Estate, ownership of dwellings etc

Chart 1.1: Sector-wise GDP for the year 2022-23 (₹ in crore and in *per cent*)

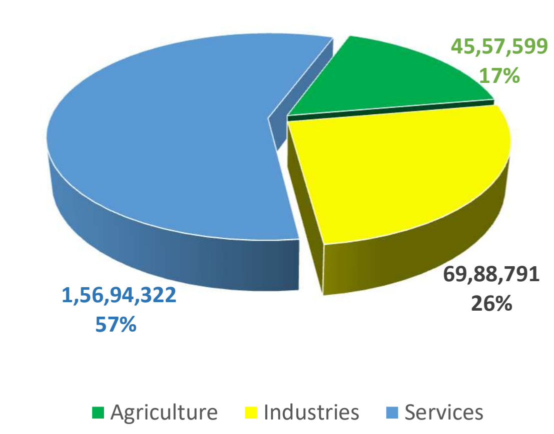
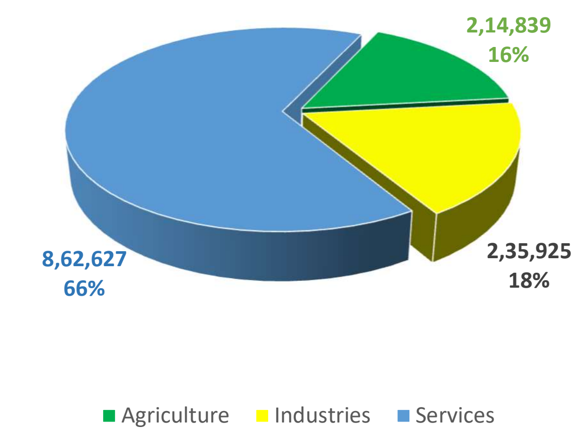


Chart 1.2: Sector-wise GSDP for the year 2022-23 (₹ in crore and in *per cent*)



Source: Data of Ministry of Statistics and Programme Implementation

Note 1: Services sector in all the charts includes taxes and subsidies on products of all sectors

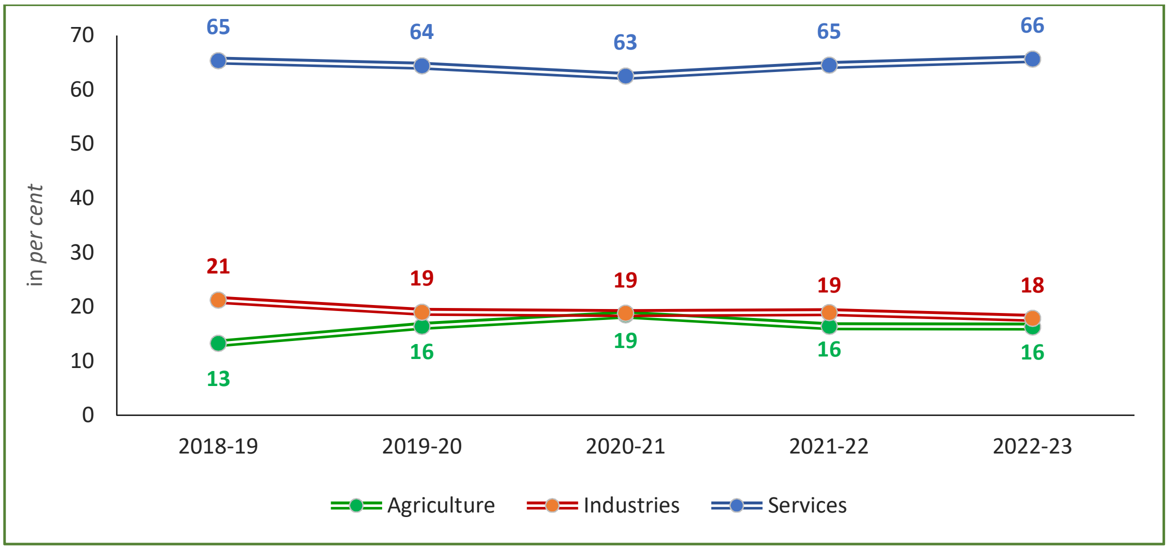
Note 2: Agriculture sector in all the charts in this chapter include Crops, Livestock, Forestry and Logging, Fishing, and Aquaculture

It can be noted that the share of Agriculture sector in GSDP was comparable to that of GDP during 2022-23. However, while Industries contributed more to GDP, the Services sector contributed more to GSDP of Telangana. In any case more than half is contributed by Services Sector for both GDP and GSDP.

- Under Agriculture sector, the major share to GSDP was from 'Crops' (₹1,05,134 crore) closely followed by 'Livestock' (₹96,344 crore) contributing 8.00 *per cent* and 7.34 *per cent* to GSDP respectively.
- Under Industries sector, like previous year, major share came from 'Manufacturing' (₹1,37,869 crore), which was 10.50 *per cent* of the GSDP.
- In respect of Services sector, like previous year, the major share to GSDP was from Real Estate, ownership of dwellings and professional services' (₹2,74,233 crore) with 20.88 *per cent* followed by 'Trade and repair services' (₹2,00,908 crore) with 15.30 *per cent*.

Change in sectoral contribution to the GSDP is also important to understand the changing structure of economy. The change in sectoral contribution to GSDP from 2018-19 to 2022-23 is shown in ***Chart 1.3***.

Chart 1.3: Changes in sectoral contribution to GSDP from 2018-19 to 2022-23

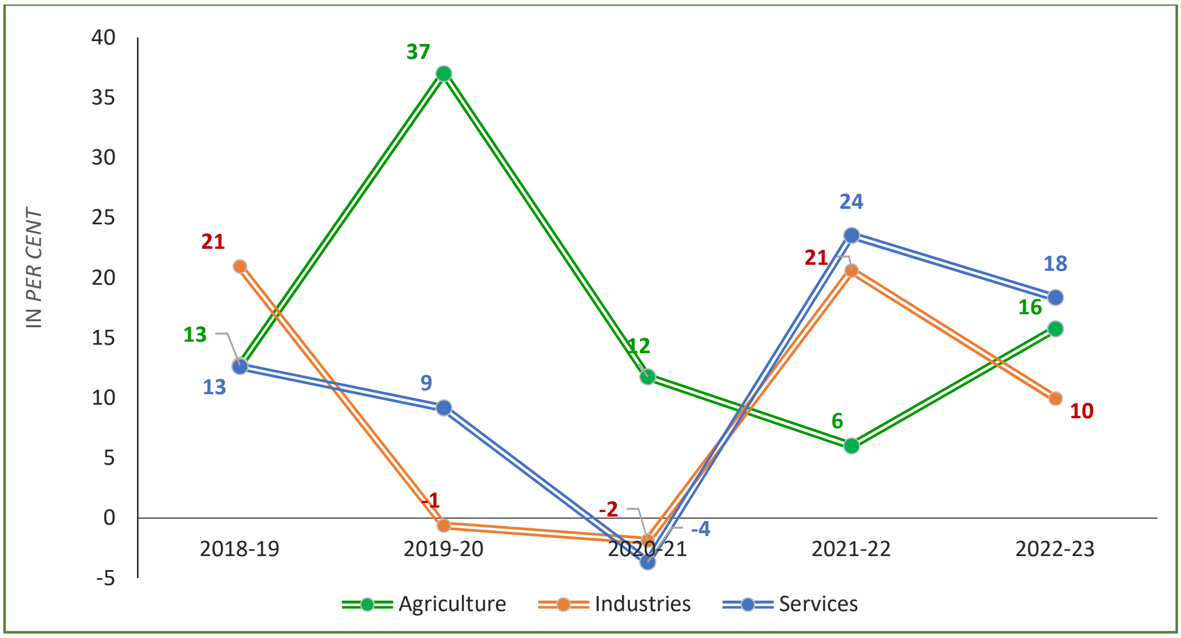


Source: Data of Ministry of Statistics and Programme Implementation

Share of Services sector has all along been around 65 *per cent* except during the Covid-19 period (2019-20 and 2020-21), when its share marginally decreased. During the Covid-19 period the contribution of Agriculture has been at its highest. The contribution from Industries sector has been around 19 *per cent* during the past four years.

Individual sectoral growth in GSDP is shown in ***Chart 1.4***.

Chart 1.4: Sectoral growth rates in GSDP



Source: Data of Ministry of Statistics and Programme Implementation

Growth rates of Industries sector, which had shown a negative growth rate during the Covid-19 period (2019-20 and 2020-21), significantly grew in 2021-22, but declined in 2022-23, and was still at 10 *per cent* positive growth rate. Agriculture sector which grew sharply in 2019-20 has declined to 6 *per cent* in 2021-22 but grew at a higher growth rate of 16 *per cent* during the current year. The Services sector has decreased by 6 *per cent* during the current year when compared to previous year due to lower growth rates in 'service incidental to transport' and 'storage'.

1.2 Basis and approach to State Finances Audit Report

1.2.1 Preparation of Accounts of the State Government

Annual Accounts (Finance and Appropriation Accounts) are prepared by the Principal Accountant General (Accounts and Entitlements), Telangana from the compiled accounts and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts functioning under the control of the Government of Telangana and the advices received from the Reserve Bank of India. The treasuries and/or Departments functioning under the control of the Government of Telangana are primarily responsible for preparation and correctness of the initial and subsidiary accounts as well as ensuring the regularity of transactions in accordance with the applicable laws, standards, rules, and regulations relating to such accounts and transactions.

1.2.2 Audit of Accounts and preparation of State Finances Audit Report

The Audit of Annual Accounts of Telangana is independently conducted in accordance with the requirements of Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers, and Conditions of Service) Act, 1971, for expressing an opinion on these Accounts based on the results of such audit. An audit includes examination, on test basis, of evidence relevant to the amounts and disclosures in the financial statements. The reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) of Telangana for the year ending 31 March 2023 has been prepared by the CAG for submission to the Governor of Telangana under Article 151 (2) of the Constitution of India.

1.2.3 Sources for preparation of State Finances Audit Report

Finance Accounts and Appropriation Accounts of the State for the year 2022-23 constitute the core data for the State Finances Audit Report (SFAR). Other sources include the following:

- Telangana State Fiscal Responsibility and Budget Management (TSFRBM) Act, as amended from time to time;
- Gross State Domestic Product (GSDP) and other State related statistics from Ministry of Statistics and Programme Implementation (MoSPI) and Director of Economics and Statistics, Government of Telangana;
- Budget of the State, both for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;

- Data from the Treasuries and Departmental authorities (accounting as well as Management Information System);
- Recommendations of the Fourteenth Finance Commission (XIV FC) and Fifteenth Finance Commission (XV FC); and
- Results of audit carried out by the office of the Accountant General (Audit).

1.3 Overview of Government Accounts Structure

The Accounts of the Government are kept in three Parts:

1. Consolidated Fund of the State

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from Financial Institutions, Special Securities issued to National Small Savings Fund, etc.), Ways and Means Advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (*e.g.*, salaries of Constitutional authorities, loan repayments *etc*.), constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

2. Contingency Fund of the State

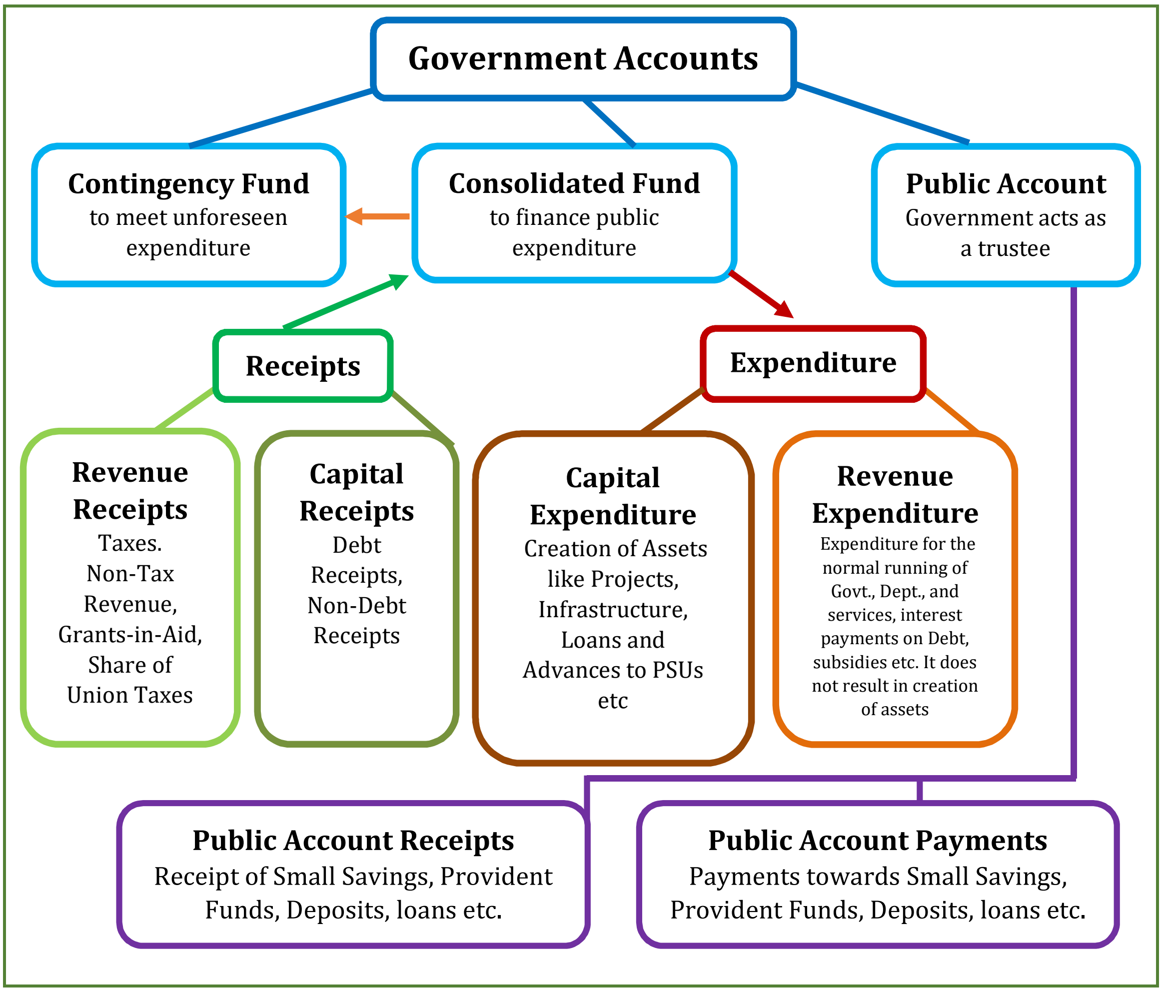
This Fund is in the nature of an imprest which is established by the State Legislature by law and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. The fund is recouped by debiting the expenditure to the concerned functional Major Head relating to the Consolidated Fund of the State.

3. Public Account of the State

Apart from the above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net Cash Balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

A pictorial depiction of the structure of Government Accounts is given in ***Chart 1.5***.

Chart 1.5: Structure of Government Accounts



Source: Finance Accounts

Revenue Receipts consist of Tax Revenue, Non-Tax Revenue, Share of Union Taxes/ Duties, and grants from Government of India (GoI).

Capital Receipts consist of:

- **Debt receipts:** Market Loans, Bonds, Loans from financial institutions, Net transactions under Ways and Means Advances, Loans and Advances from Central Government, etc.
- **Non-debt receipts:** Proceeds from disinvestment, Recoveries of Loans and Advances.

Revenue Expenditure consists of all those expenditures of the Government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the Government departments and various services, interest payments on debt incurred by the Government and grants given to various institutions (even though some of the grants may be meant for creation of assets).

Capital Expenditure includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and Loans and Advances by the Government to PSUs and other parties.

Public Debt comprises market borrowings, institutional loans, special securities issued to National Small Savings Fund (NSSF), loan given by Central Government etc. For this purpose, the Major Heads 6003 and 6004 - Public Debt are taken into consideration.

Public Account consists of transactions relating to 'Small Savings, Provident Fund, etc.', 'Reserve Funds' and 'Deposit and Advances' on which the Government has a liability to repay the moneys received or has a claim to recover the amounts paid. Major Heads 8001 to 8554 are taken into consideration. Transactions relating to '**Remittances**' and '**Suspense**' under Public Account, includes merely adjusting heads such as transactions as remittances of cash between treasuries and currency chests and transfer between different accounting circles.

In this Report, 'Public Liability' has been taken to include the transactions under major heads 8001 to 8554 relating to 'Small Savings, Provident Fund, etc.', 'Reserve Funds' and 'Deposit and Advances' along with the transactions under Major Heads 6003 and 6004.

1.3.1 Accounting classification system in the Government

The accounting classification system in the Government is both functional and economic, as detailed below. The functional classification helps to identify the department, function, scheme or programme, and object of the expenditure. Economic classification helps organize these payments as Revenue, Capital, Debt, etc.

Table 1.2: Accounting classification framework

	Attribute of transaction	Classification
Standardised in List of Major and Minor Heads of Account of Union and States by Controller General of Accounts	Function - Education, Health, *etc*., Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major Head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub-scheme	Detailed Head (3-digit)
	Economic nature/Activity	Object head-salary, minor works, *etc*. (3-digit)

Functional classification involves arranging the receipts and expenditure by economic categories, distinguishing the Government transactions into Sections like Revenue and Capital (including Public Debt, Loans and Advances), Sectors like Tax Revenue from other revenue and Grants-in-Aid, Sub-sectors like Taxes on Income and Expenditure, fiscal services, *etc.* On the expenditure side also, the transactions are classified into Sectors *viz*., General Services, Economic Services, Social Services and Grants-in-Aid and contributions and sub-divided into Major Heads of account below these Sectors. Major Heads of account falling within the Consolidated Fund generally correspond to 'Functions' of Government, such as 'Education', while Minor Heads subordinate to them identify the 'Programme' undertaken to achieve the objectives of the function represented by the Major Head. A programme may consist of several schemes or activities, and these generally correspond to 'Sub-Heads' below the Minor Head. 'Detailed Head' below the Sub-Head, is primarily meant for itemised control over expenditure and indicates the object or nature of expenditure on a scheme or activity in terms of inputs such as 'Salaries', 'Office Expenses', 'Grants-in-Aid', *etc.*

1.4 Budgetary Process

There is a Constitutional requirement in India (Article 202) that the Governor causes to be laid before the House or Houses of the Legislature of the State, a statement of estimated receipts and expenditures of the Government in respect of every financial year in the form of Annual Financial Statement. This 'Annual Financial Statement' constitutes the main Budget document. Further, the Budget must distinguish expenditure on the revenue account from other expenditures.

In terms of Article 203, the statement is submitted to the State Legislature in the form of Demands for Grants/ Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund. The Budget Manual details the process of budget preparation, budget execution and budget monitoring.

Pragathi Paddu (Scheme Expenditure) and Nirvahana Paddu (Expenditure for Establishment / Maintenance): With effect from the year 2017-18 in accordance with the norms set by the Union Government, Plan and Non-Plan distinction was done away with, to bring the public schemes and projects under a monitorable output-outcome frame. Accordingly, Plan and Non-Plan budgets were replaced with "Pragathi Paddu (Scheme Expenditure)" and "Nirvahana Paddu (Expenditure for Establishment/ Maintenance)" in State.

Special Development Fund: Consequent to enactment of Telangana State Scheduled Castes and Scheduled Tribes Special Development Fund (Planning, Allocation and Utilisation of Financial Resources) Act, 2017, the State Government has been preparing sub-budgets in the form of Scheduled Castes Special Development Fund and Scheduled Tribes Special Development Fund, in which portions of the total Pragathi Paddu outlays of State in a Financial year are earmarked proportionate to the Scheduled Castes (15.45 *per cent*)/Scheduled Tribes (9.08 *per cent*) population in the State. Special Development Funds of the Departments shall include only such schemes that secure direct and quantifiable benefits to the Scheduled Castes/Scheduled Tribe individuals or households or habitations or areas.

Outcome/ Performance Budget is a comprehensive operational document, conceived, presented and implemented in terms of programmes, projects and activities with their financial and physical aspects closely interwoven. It seeks to present the purposes and objectives for which funds are requested, the cost of various programmes and activities proposed for achieving these objectives and quantitative data measuring the work performed or services rendered, or results accomplished under each programme and activity. Results of Audit scrutiny of budget and implementation of other budgetary initiatives of the State Government along with utilisation of funds provided under Special Development Fund are detailed in ***Chapter III***.

1.5 Snapshot of Finances

Table 1.3 provides the details of actual financial results vis-à-vis Budget Estimates (BE) for the year 2022-23 in comparison to actuals for the year 2021-22. Time series data of Government Finances for the years 2018-23 are given in ***Appendix 1.2.***

Table 1.3: Snapshot of Finances

Sl. No.	Components	2021-22 Actuals (₹ in crore)	2022-23 Budget Estimates (BE) (₹ in crore)	2022-23 Actuals (₹ in crore)	*Percentage* of Actuals to BE	*Percentage* of Actuals to GSDP
1	Tax Revenue					
	(i) Own Tax Revenue	91,271	1,08,212	1,06,949	98.83	8.14
	(ii) Share of Union taxes/duties[(a)]	18,721	18,393	19,668	106.93	1.50
2	Non-Tax Revenue	8,858	25,422	19,554	76.92	1.49
3	Grants-in-Aid and Contributions	8,619	41,002	13,179	32.14	1.00
4	**Revenue Receipts (1+2+3)**	**1,27,469**	**1,93,029**	**1,59,350**	**82.56**	**12.13**
5	Recovery of Loans and Advances	48	60	629	1,048.33	--
6	Other Receipts	--	--	--	--	--
7	Borrowings and other Liabilities[(b)]	46,638[11]	52,167	32,556	62.41	2.48
8	**Capital Receipts (5+6+7)**	**46,686**	**52,227**	**33,185**	**63.54**	**2.53**
9	**Total Receipts (4+8)**	**1,74,155**	**2,45,256**	**1,92,535**	**78.50**	**14.66**
10	**Revenue Expenditure**	**1,36,804**	**1,89,275**	**1,53,406**	**81.05**	**11.68**
11	Interest payments in Revenue Expenditure	19,161	18,912	21,821	115.38	1.66
12	**Capital Expenditure**	**28,874**	**29,728**	**17,881**	**60.15**	**1.36**
13	**Loan and advances**	**8,469**	**26,253**	**21,248**	**80.94**	**1.62**
14	**Inter-State Settlements**	**8**	**0**	**0**	**--**	**--**
15	**Total Expenditure (10+12+13+14)**	**1,74,155**	**2,45,256**	**1,92,535**	**78.50**	**14.66**
16	**Revenue Surplus (+) / Deficit (-) (4-10)**	**(-)9,335**	**3,754**	**5,944**	**158.33**	**(-)0.45**
17	**Fiscal Deficit {(4+5+6)-15}**	**(-)46,638**	**(-)52,167**	**(-)32,556**	**62.41**	**2.48**
18	**Primary Deficit (17-11)**	**(-)27,477**	**(-)33,255**	**(-)10,735**	**32.28**	**0.82**

Source: Finance Accounts

(a) *Includes State's share of Union Taxes*

(b) *Borrowings and other Liabilities: Net (Receipts-Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts - Disbursements) of Public Account + Net of Opening and Closing Cash Balance*

[11] includes back-to-back loans of ₹4,569 crore received from Government of India in lieu of GST compensation shortfall

- It can be seen from the above that the actual receipts in respect of Own Tax Revenue and Share of Union Taxes and duties are nearly comparable to Budget Estimates indicating that the estimates were realistic.
- Budget Estimate was considerably on higher side in respect of Non-Tax Revenue (NTR). Though the actual receipts from NTR were much higher than the previous year, they were still less than the Budget Estimates.
- Budget Estimates of Grants-in-Aid were more than four times higher than the previous year's actual receipts (refer to ***Paragraph 3.2.2.2*** for further details). Though the receipts under GIA from GoI were 53 *per cent* higher when compared to the previous year, they were only 32 *per cent* of the Budget Estimates due to excessive projection.
- The borrowings and other liabilities taken were also less by ₹19,611 crore when compared to Estimates.

Thus, the State could mobilise around only 79 *per cent* of Budget Estimates. Consequently, the State Government had to curtail its expenditure. Importantly, Capital Expenditure has gotten reduced by around 40 *per cent* of the Estimates. Both Revenue Expenditure and disbursement of Loans and Advances have gotten reduced by around 19 *per cent* each.

While the Revenue Receipts were less by ₹33,679 crore, the Revenue Expenditure was less by ₹35,869 crore resulting higher Revenue Surplus than that projected in the Budget Estimates. Despite higher Revenue Surplus, the Capital Expenditure has taken a dip due to lower borrowings and higher provision of Loans and Advances. The Fiscal Deficit was also lower when compared to previous year or the Budget Estimates.

1.6 Snapshot of Assets and Liabilities of the Government

Government accounts capture the financial liabilities of Government and assets created out of the expenditure incurred. Liabilities consist mainly of internal borrowings, Loans and Advances from Government of India, receipts from Public Account and Reserve Funds, while assets comprise mainly of the Capital outlay and Loans and Advances given by State Government and Cash Balances. Summarised position of Assets and Liabilities is shown in ***Table 1.4***.

Table 1.4: Summarised position of Assets and Liabilities

Liabilities					Assets				
		2021-22 (₹ in crore)	2022-23 (₹ in crore)	*per cent* increase (+) / decrease (-)			2021-22 (₹ in crore)	2022-23 (₹ in crore)	*per cent* increase (+)/ decrease (-)
Consolidated Fund									
A	Internal Debt	2,63,041	2,93,129	11.44	a	Gross Capital Expenditure	1,63,531	1,81,412	10.93
B	Loans and Advances from GoI	14,448*	16,434*	13.74	b	Loans and Advances	52,379	72,998	39.37
Contingency Fund		**50**	**50**	**0**			**0.05**	**0.00**	**--**
Public Account									
A	Small Savings, Provident Funds, etc.	12,912	14,962	15.88	a	Advances	(-)23	(-)23	0
B	Deposits	27,424	28,373	3.46	b	Remittance	…	…	…
C	Reserve Funds	11,762	12,188	3.62	c	Suspense and Miscellaneous	…	…	…
D	Remittances	723	257	(-)64.45	Cash Balance (including investment in Earmarked Fund)		8,095	10,919	34.89
E	Suspense and Miscellaneous Balances	1,018	1,365	34.09	**Total**		2,23,982	2,65,305	18.45
					Deficit in Revenue Account		1,07,396	1,01,452	(-)5.54
Grand Total		**3,31,378**	**3,66,758**	**10.68**	**Grand Total**		**3,31,378**	**3,66,758**	**10.68**

Source: Finance Accounts

* *includes ₹6,949 crore of back-to-back loans from GoI in lieu of GST compensation shortfall, which need not be repaid from out of the resources of the State Government*

There is an overall decrease of ₹5,944 crore (6 *per cent*) in Revenue Account deficit. The Government assets are 27 *per cent* less than Government's liabilities.

1.7 Fiscal Balance: Achievement of Deficit and total Debt targets

When a Government spends more than it collects by way of revenue, it incurs a deficit. There are various measures that capture Government deficit.

Deficits are financed by borrowing giving rise to Government debt. The concepts of deficits and debt are closely related. Deficits can be thought of as a flow which add to the stock of debt. If the Government continues to borrow year after year, it leads to the accumulation of debt and the Government must pay more and more by way of interest. These interest payments themselves contribute to the debt.

By borrowing, the Government entails the burden of reduced consumption on future generations. This is because it borrows by issuing bonds to the people but pay off the bonds later by raising taxes or reducing expenditure. Also, Government borrowing from the people reduces the savings available to the private sector. To the extent that this reduces capital formation and growth, debt acts as a 'burden' on future generations.

However, if Government deficits succeed in their goal of raising production, there will be more income and, therefore, more saving. In this case, both Government and industry can borrow more. Also, if the Government invests in infrastructure, future generations may be better off, provided the return on such investments is greater than the rate of interest. The actual debt could be paid off by the growth in output. The debt should not then be considered burdensome. The growth in debt will have to be judged by the growth of the economy (State GDP) as a whole.

The Central and individual State Governments have passed Fiscal Responsibility and Budget Management (FRBM) Act with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit and overall/outstanding debt to acceptable level, establishing improved debt management and improving transparency in a medium-term framework. In this context, the Act provides quantitative targets to be adhered by the State regarding deficit measures and debt level.

To ensure prudence in fiscal management and fiscal stability by progressive elimination of Revenue Deficit, reduction in Fiscal Deficit and prudent debt management, the State Government (erstwhile composite Andhra Pradesh) enacted the Andhra Pradesh Fiscal Responsibility and Budget Management Act (APFRBM), 2005. This Act was adapted by the Government of Telangana in 2016 (TSFRBM Act) and subsequently amended in 2020 and 2022. The Act prescribes fiscal targets for giving effect to the fiscal management objectives.

1.7.1 TSFRBM targets on key fiscal parameters and achievement thereon

Targets relating to key fiscal parameters as per TSFRBM Act during the five-year period 2018-19 to 2022-23 and their achievement is shown in ***Table 1.5***.

Table 1.5: Compliance with the provisions of Fiscal Responsibility and Budget Management Act

Fiscal Parameters	Fiscal targets set in the Act	Achievement				
		2018-19	2019-20	2020-21	2021-22	2022-23
Revenue Deficit (-) / Surplus (+) (₹ in crore)	Revenue Surplus to be achieved during each year	4,337	(-)6,254	(-)22,298	(-)9,335	5,944
		✓	✗	✗	✗	✓
Fiscal Deficit (-)/ Surplus (+) (as *percentage of GSDP*)	For 2018-19:3.25 *per cent* For 2019-20: 3.25 *per cent* + ₹1,435 crore* For 2020-21: 4.75 *per cent*# For 2021-22: 4 *per cent* For 2022-23: 5 *per cent*@	(-)3.14 *per cent*	(-)3.19 *per cent*) + ₹1,435 crore	(-)5.20 *per cent*	(-)4.13 *per cent*	*(-)2.48 per cent*
		✓	✓	✗	✗	✓
Ratio of Total Outstanding Liabilities to GSDP (in *per cent*)	25 *per cent*	22.97	24.44	29.24[12]	27.87[13]	26.61[14]
		✓	✓	✗	✗	✗

Source: Finance Accounts for the years concerned and Ministry of Statistics and Programme Implementation in respect of GSDP, Statement of Fiscal Policy

* *As per TSFRBM (Amendment) Act, 2020 (19 September 2020) which came into effect from 01 January 2020, additional Fiscal Deficit of ₹1,435 crore was permitted over and above 3.25 per cent of the GSDP in accordance with Government of India decision (February 2020) to allow additional borrowings beyond the State's eligibility as a one-time special dispensation for the Financial Year 2019-20.*

As per GoI letter dated 17 May 2020, in addition to the normal borrowing limit of 3 per cent of GSDP, Telangana has been able to avail the additional borrowing limit up to 1.75 per cent of GSDP (Unconditional: 0.50 per cent; Fulfilling three of the four reforms: 0.50 per cent; Implementation of One Nation One Ration Card System: 0.25 per cent; Ease of doing business reform: 0.25 per cent; Urban Local body/ utility reforms: 0.25 per cent)

@ *In view of the extra borrowing space allowed by XV Finance Commission, the State made an amendment (March 2022) to TS FRBM Act increasing the Fiscal Deficit target to five per cent of the GSDP for the year 2022-23*

As per Finance Accounts, the State was able to register a Revenue Surplus after a gap of three years. After a gap of two years, the State was also able to contain the Fiscal Deficit within the amended target of five *per cent*. However, it failed to achieve the target in respect of Outstanding Liabilities for a third consecutive year.

The achievement or otherwise of the above targets are to be understood in the context of certain audit observations made in this Report at different places, the summary of which is discussed at the end of this Chapter ***(Paragraph 1.8).***

[12] excludes ₹2,380 crore back-to-back loans received from GoI in lieu of GST compensation shortfall
[13] excludes ₹6,949 crore of back-to-back loans received from GoI in lieu of GST compensation shortfall
[14] excludes ₹6,949 crore of back-to-back loans received from GoI in lieu of GST compensation shortfall

1.7.2 Achievement of projections made in Medium Term Fiscal Policy Statement

As per the TSFRBM Act, the Medium-Term Fiscal Policy Statement shall set forth the fiscal management objectives and three-year rolling targets for the prescribed fiscal indicators with clear enunciation of the underlying assumptions.

The State Government, along with budget documents, in the Statement of Fiscal Policy to be laid on the table of the Legislature has included Medium Term Fiscal Policy Statement (March 2023), in which the rolling targets for three years were mentioned. The achievement of these rolling targets was mentioned in ***Table 1.5***.

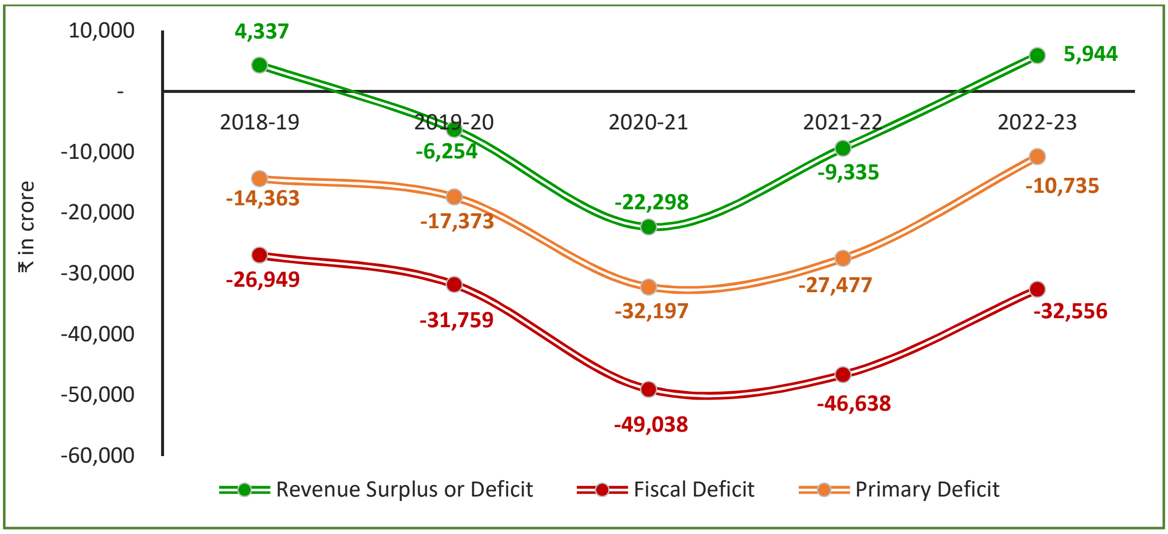
The Medium-Term Fiscal Policy Statement shall include the various assumptions behind the fiscal indicators and an assessment of sustainability relating to (i) the balance between revenue receipts and revenue expenditure, (ii) the use of capital receipts including borrowings for generating productive assets and (iii) estimated yearly pension liabilities worked on actuarial basis for the next ten years.

However, the Medium-Term Fiscal Policy Statement did not include projections in respect of balance between revenue receipts and revenue expenditure, use of capital receipts for generating productive assets and yearly pension liabilities.

1.7.3 Trends of Surplus / Deficit

The trends of Surplus / Deficit parameters in absolute figures and relative to GSDP are depicted in ***Chart 1.6*** and ***Chart 1.7***.

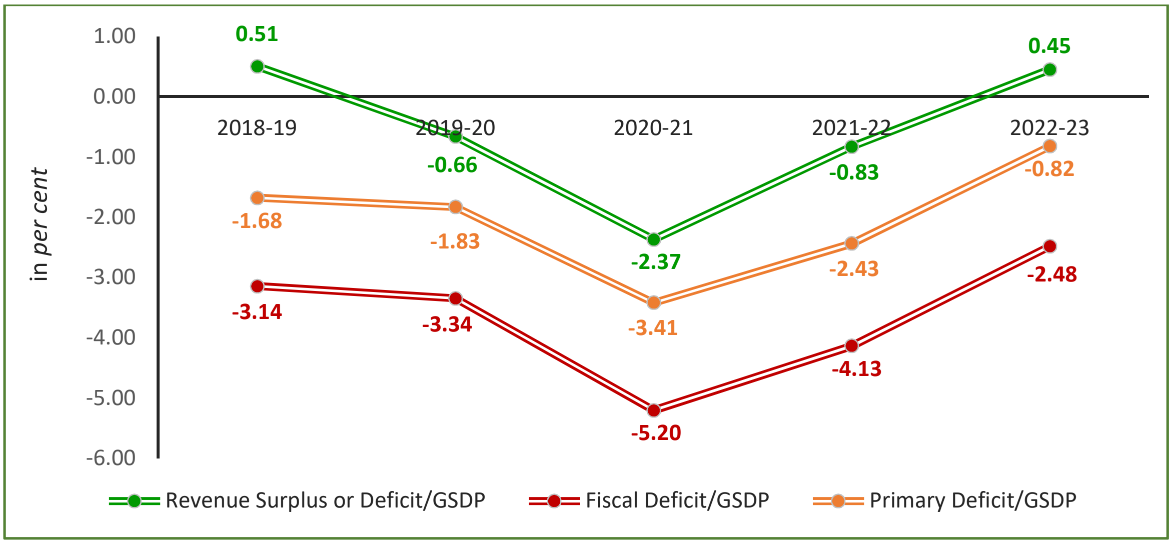
Chart 1.6: Trends of Surplus / Deficit parameters



Source: Finance Accounts of last five years

After having Revenue Deficit for three years continuously, the State registered a Revenue Surplus during 2022-23. Fiscal Deficit and Primary Deficit which were at the lowest dip in 2020-21 during the past five-year period continued to show an improvement for a second consecutive year. A similar trend can be seen in respect of Surplus or Deficit parameters relative to GSDP as in ***Chart 1.7*** below.

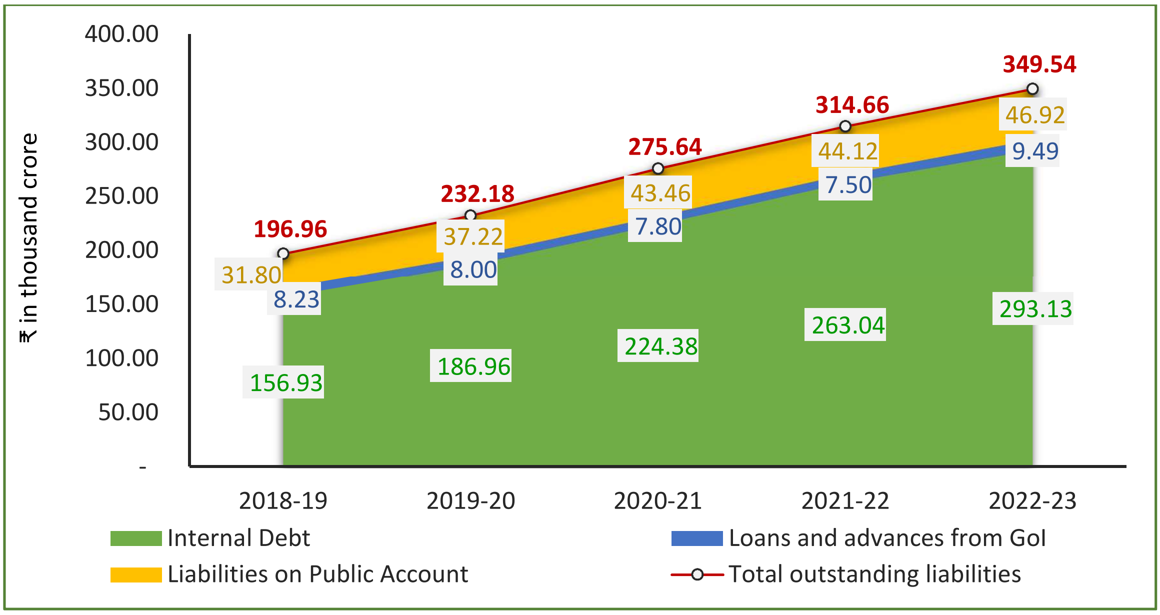
Chart 1.7: Surplus / Deficit parameters relative to GSDP



Source: Finance Accounts

The trend of fiscal liabilities during the five-year period 2018-19 to 2022-23 is shown in ***Chart 1.8***.

Chart 1.8: Trend of Fiscal Liabilities



Source: Finance Accounts

Note: The figures of Loans and Advances from GoI and Total Outstanding Liabilities in 2020-21, 2021-22 and 2022-23 do not include back-to-back loans in lieu of GST compensation shortfall.

Total Outstanding Liabilities have increased by 77 *per cent* from 2018-19 to 2022-23. Contributing to the increase in Internal Debt (87 *per cent*) and Liabilities on Public Account (48 *per cent*). Loans and Advances from Government of India have increased by 15 *per cent* during the same time.

1.8 Deficits and Total Debt after examination in Audit

As per the FRBM Act, the State Government must ensure compliance to the targets fixed for the fiscal indicators such as deficits' ceiling on debt and on guarantees, etc. The Revenue Deficit and the Fiscal deficit as worked out for the State gets impacted due to various circumstances such as misclassification of revenue expenditure as capital expenditure and vice-versa as also due to off budget fiscal operations, deferment of liabilities, non-deposit of mandatory amounts to National Pensions System (NPS), etc. These have been brought out in the State Finances Audit Reports of the Comptroller and Auditor General of India for the previous years[15]. To arrive at actual deficit figures for the current year, the impact has been re-computed as detailed in ***Table 1.6***.

Table 1.6: Revenue and Fiscal Deficits after examination in Audit

Particulars	Impact on Revenue Surplus (Understated (+) / overstated (-)) (₹ in crore)	Impact on Fiscal Deficit (Understated) (₹ in crore)	Para Reference
Transfer from Loans given and kept in Deposit Accounts to Revenue head[16]	(-)1,400	--	**Box 2.1 of Paragraph 2.4.1.1(ii)**
Short Contribution to Defined Contributory Pension Fund Deposit Account	(-)114	114	***2.5.2.3***
Non-contribution to Consolidated Sinking Fund	(-)1,536	1,536	***2.6.2.1***
Non-transfer of Guarantee Commission to Guarantee Redemption Fund	(-)17	17	***2.6.2.3***
Non-contribution to Guarantee Redemption Fund	(-)951	951	***2.6.2.3***
Non-discharge of Interest liabilities[17]	(-)131	131	***4.2***
Misclassifications			
(i) Revenue classified as Capital[18]	(-)140	--	***3.4.9.1***
(ii) Capital classified as Revenue[19]	25	--	***3.4.9.2***
Total	**(-)4,264**	**2,749**	

Source: Finance Accounts and audit analysis

15 previous year(s) SFAR can be accessed at *https://cag.gov.in/ag/telangana*

16 (i) ₹1,100 crore transferred from Deposit account of Telangana Scheduled Castes Development Corporation to Receipt head; and ₹300 crore transferred from Deposit account of Telangana Tribal Cooperative Finance Corporation to receipt head.

17 (i) Interest on State Disaster Response Fund at the rate applicable to overdraft (two *per cent* over Ways and Means interest rate): ₹53 crore; (ii) Interest on State Compensation Afforestation Fund at rate of 3.35 *per cent* fixed by Ministry of Environment, Forest & Climate Change (National Authority): ₹47 crore; (iii) Interest on State Disaster Mitigation Fund at the rate applicable to overdraft (two *per cent* over Ways and Means interest rate i.e., 7.49 *per cent*): ₹9 crore; (iv) Interest in Deposit Account of Defined Contribution Pension Scheme for Government Employees: ₹22 crore

18 (i) Minor Works (consisting of other expenditure, Maintenance, HTCC charges, etc.) treated as Capital Expenditure: ₹90 crore (ii) Purchase of surgical consumables treated as Capital Expenditure: ₹50 crore

19 (i) Purchase of Motor Vehicles: ₹6 crore; (ii) Purchase of Machinery and Equipment: ₹14 crore; (iii) Tools and Plants: ₹5 crore

As a result, the Revenue Surplus is overstated by ₹4,264 crore and Fiscal Deficits were understated by ₹2,749 crore.

Effectively, there was a Revenue Surplus of only ₹1,680 crore (₹5,944 crore - ₹4,264 crore) and Fiscal Deficit of ₹35,305 crore (₹32,556 crore + ₹2,749 crore). Therefore, the Fiscal Deficit would be 2.69 *per cent* of GSDP, which is still under the permissible limits.

Apart from its liabilities of ₹3,49,537 crore[20], the State Government is also liable to pay the principal and interest on account of its Off-Budget Borrowings (OBB) to an extent of ₹1,18,629 crore (refer ***Paragraph 2.7.2***). Considering that OBB and other liabilities, which are being serviced out of the State Budget, the ratio of Debt to GSDP would be 35.64 *per cent*, which is 10.64 *per cent* above the set target of 25 *per cent* as per the TSFRBM Act. This is also 5.94 *per cent* above the limit (29.70 *per cent)* prescribed by the XV Finance Commission.

[20] excluding back-to-back loans of ₹6,949 crore in lieu of GST compensation to be serviced out of GST compensation Cess