



Chapter 1

Overview

1.1 Profile of the State

The State of Telangana came into existence on 2 June 2014 consequent to the bifurcation of the erstwhile composite State of Andhra Pradesh. It is the 12th largest State in the country in terms of both area (1,12,077 square kilometres) as well as population (3.51 crore as per Census 2011). The per capita income of the State at current prices was ₹2,28,216 in 2019-20, which was higher than the all India average of ₹1,34,432.

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

1.1.1 Gross State Domestic Product of Telangana

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important economic indicator denoting the extent of changes in the level of economic development over a period of time. Changes in sectoral contribution to the GSDP represent the changing structure of the State economy. Trends in annual growth of State's GSDP¹ vis-à-vis Gross Domestic Product (GDP)² of the country are given in *Table 1.1*.

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

Year	2015-16	2016-17 (TRE)	2017-18 (SRE)	2018-19 (FRE)	2019-20 (AE)
National GDP (2011-12 Series) (₹ in crore)	1,37,71,874	1,53,91,669	1,70,98,304	1,89,71,237	2,03,39,849
Growth rate of GDP over previous year (in per cent)	10.46	11.76	11.09	10.95	7.21
State's GSDP (2011-12 Series) (₹ in crore)	5,77,902	6,58,325	7,53,127	8,61,031	9,69,604
Growth rate of GSDP over previous year (in per cent)	14.24	13.92	14.40	14.33	12.61

Source of data: Ministry of Statistics and Programme Implementation

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

The GSDP of Telangana grew at a higher rate than the GDP of the country during the period 2015-16 to 2019-20. However, during the year 2019-20, it registered the lowest growth rate in five years due to general economic slowdown in India and rest of the world.

The GSDP generated from economic activities is generally classified into Primary³, Secondary⁴ and Tertiary⁵ Sectors, broadly corresponding to Agriculture, Industry and

¹ Gross State Domestic Product is adopted at current prices throughout this Report

² Gross Domestic Product is adopted at current prices throughout this Report

³ Primary Sector includes Crops, Livestock, Forestry and Logging, Fishing and Aquaculture and Mining and Quarrying

⁴ Secondary Sector includes Manufacturing, Electricity, Gas, Water Supply and Other utility services and construction

⁵ 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

Services respectively. The sectoral contribution to GDP and GSDP of the State during 2019-20 are given in **Charts 1.1 and 1.2**.

Chart 1.1: Sector-wise GDP for the year 2019-20 (₹ in crore and in per cent)

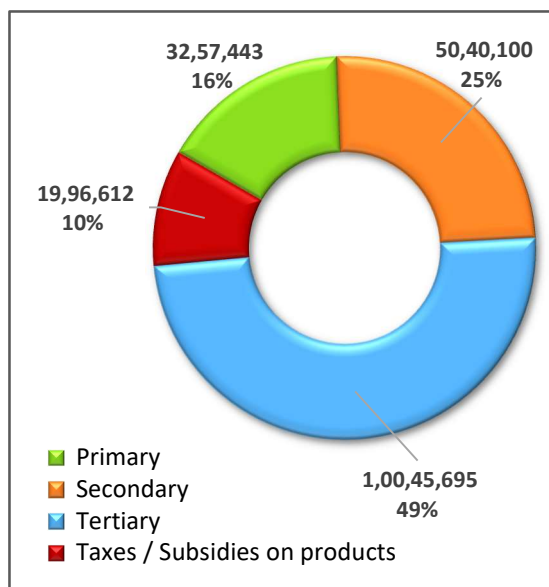
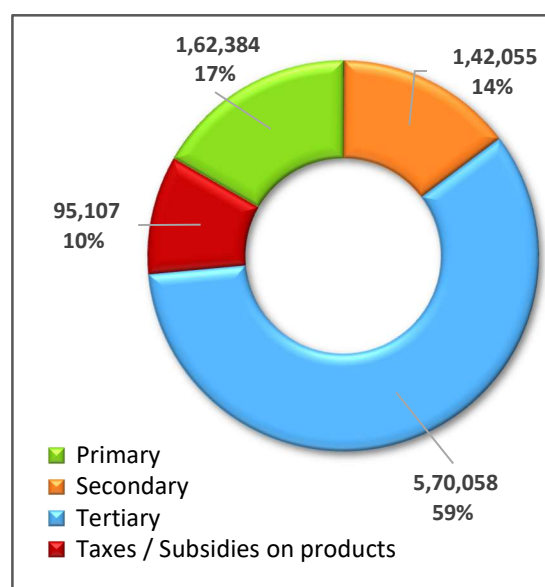


Chart 1.2: Sector-wise GSDP for the year 2019-20 (₹ in crore and in per cent)

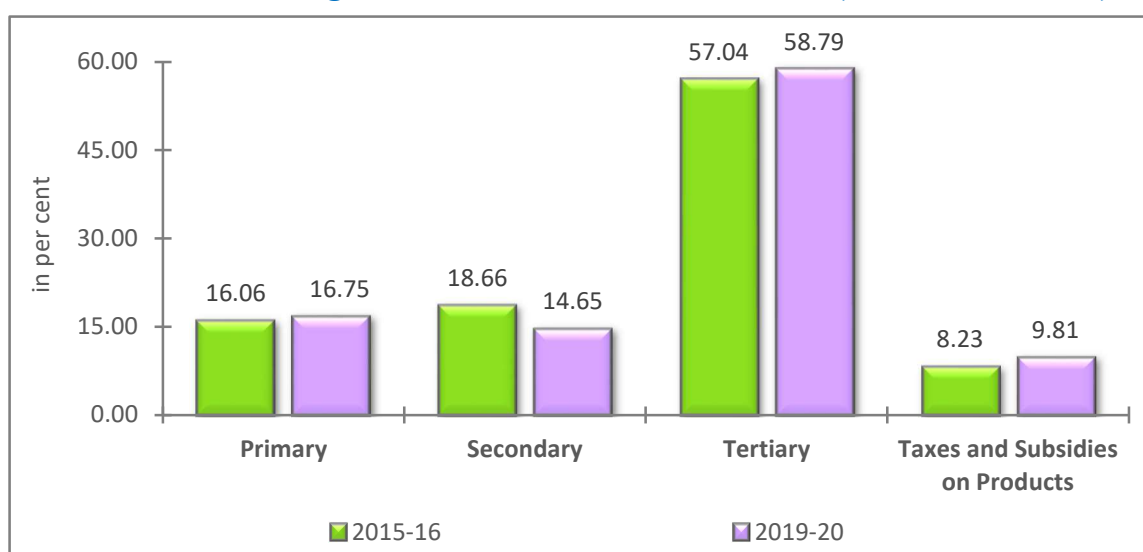


Source: Socio Economic Outlook 2020

While the proportionate contribution to GDP and GSDP from Primary Sector (Agriculture) and Taxes / Subsidies on products was almost similar, in the case of the State, the Tertiary (Services) sector was the highest contributor to the GSDP, unlike the country, where the Secondary sector (Industries) contributed a fourth of the GDP.

The major share of Tertiary sector in the GSDP of the State was on account of contribution from 'Real Estate, ownership of dwellings and professional services' which forms 20.05 per cent of GSDP. Under Primary sector, the major share was from 'Livestock' and 'Crops' which contributed 6.85 per cent and 6.25 per cent of GSDP respectively. Under Secondary sector, 'Manufacturing' contributed 9.54 per cent of GSDP.

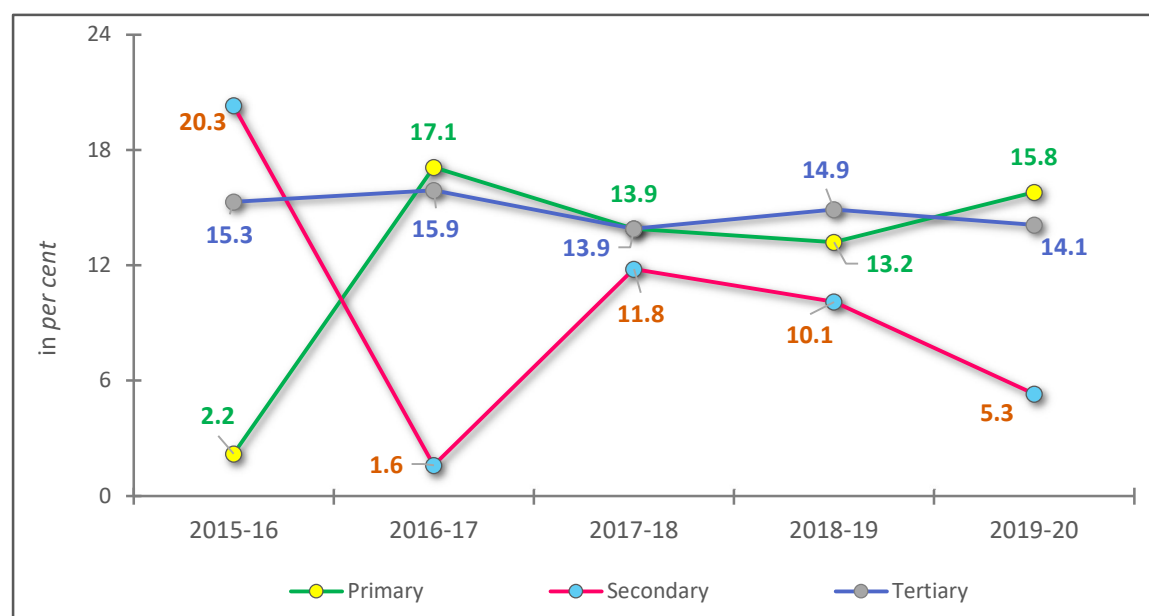
Change in sectoral contribution to the GSDP is also important to understand the changing structure of economy. The change in sectoral contribution to GSDP for the period 2015-20 is shown in **Chart 1.3**.

Chart 1.3: Changes in sectoral contribution to GSDP (2015-16 to 2019-20)

Source: Socio Economic Outlook 2020

There was a marginal increase in the share of Primary sector in GSDP in 2019-20 as compared to 16.06 *per cent* in 2015-16. This was mainly due to increase in the share of ‘Livestock’ (1.2 *percentage points*). The share of Secondary Sector in 2019-20 was considerably less by nearly four *percentage points* when compared to 2015-16 as shown in **Chart 1.3**. The share of Tertiary (i.e., Services) sector increased marginally in 2019-20 *vis-à-vis* its share in 2015-16. This was mainly on account of increase in ‘Trade, Repair, Hotels and Restaurants services’ by 2.20 *percentage points* during 2015-20.

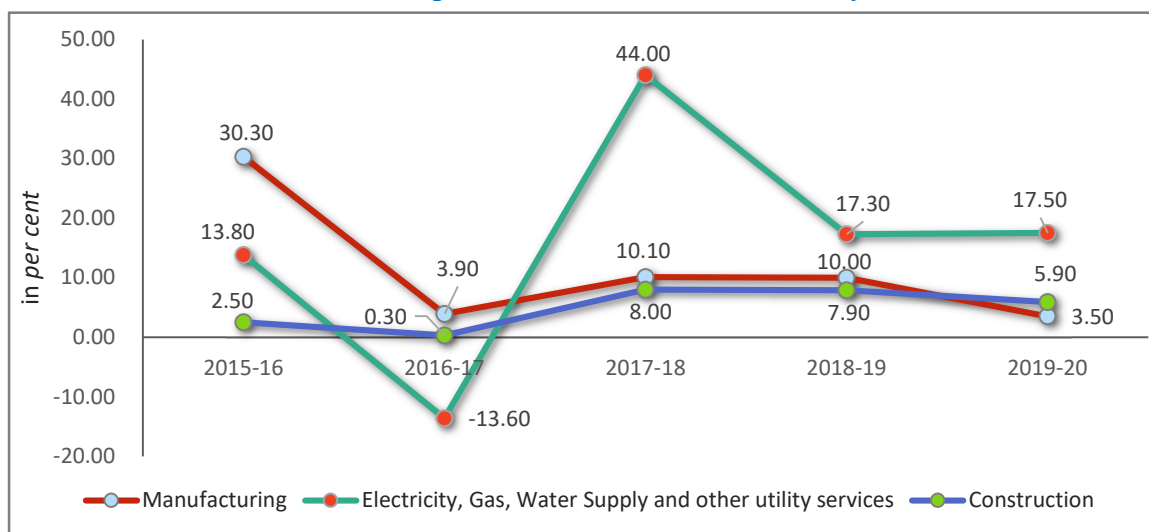
Individual sectoral growth in GSDP is shown in **Chart 1.4**.

Chart 1.4: Sectoral growth trends of GSDP

Source: Socio Economic Outlook 2020

Component-wise trend of Secondary Sector is shown in **Chart 1.5**.

Chart 1.5: Component-wise trend of Secondary sector



Source: Socio Economic Outlook 2020

The decrease in Secondary Sector during 2019-20 compared to the previous year was primarily due to a dip in Manufacturing (decreased by 6.5 percentage points) and Electricity, Gas, Water Supply and other utility services (decreased by two percentage points).

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 Accountant General (Accounts and Entitlements), Telangana from the compiled accounts and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for the 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, offices 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 a 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 2020 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 2019-20 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;
- Gross State Domestic Product (GSDP) and other State related statistics from Ministry of Statistics and Programme Implementation (MoSPI);
- 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
- Results of audit carried out by the office of the Accountant General (Audit).

An Entry Conference was held in December 2020 with the Principal Secretary to Government, Finance Department (PFS) and other senior Officers wherein the audit approach was explained. Draft SFAR was forwarded to the Government in February 2021 for their responses. An Exit Conference was held with the PFS in March 2021 and key issues of draft SFAR were discussed. The responses of the Government, both written as well as those expressed during the Exit Conference, have been considered and included in the Report, at appropriate places.

1.3 Structure of State Finances Audit Report

The State Finances Audit Report is structured in the following four Chapters:

Table 1.2: Structure of State Finances Audit Report

Chapter - 1 Overview	<i>This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of Government Accounts, Budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the Deficits / Surplus.</i>
Chapter - 2 Finances of the State	<i>This Chapter is based on Finance Accounts of the State. It provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to preceding year(s), overall trends during the period from 2015-16 to 2019-20, Debt profile of the State and key Public Account transactions.</i>
Chapter - 3 Budgetary Management	<i>This Chapter is based on Appropriation Accounts of the State. It reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.</i>

Chapter - 4 Quality of Accounting and Financial Reporting Practices	<i>This Chapter reports on the Quality of Accounts rendered by various authorities of the State Government. It also reviews various issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.</i>
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1.4 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 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.

There is a constitutional requirement in India (Article 202) to present 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. This 'Annual Financial Statement' constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

Revenue Receipts consists of tax revenue, Non-Tax Revenue, share of Union Taxes/Duties, and grants from Government of India.

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 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;

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. The accounting classification system in the Government is both functional and economic.

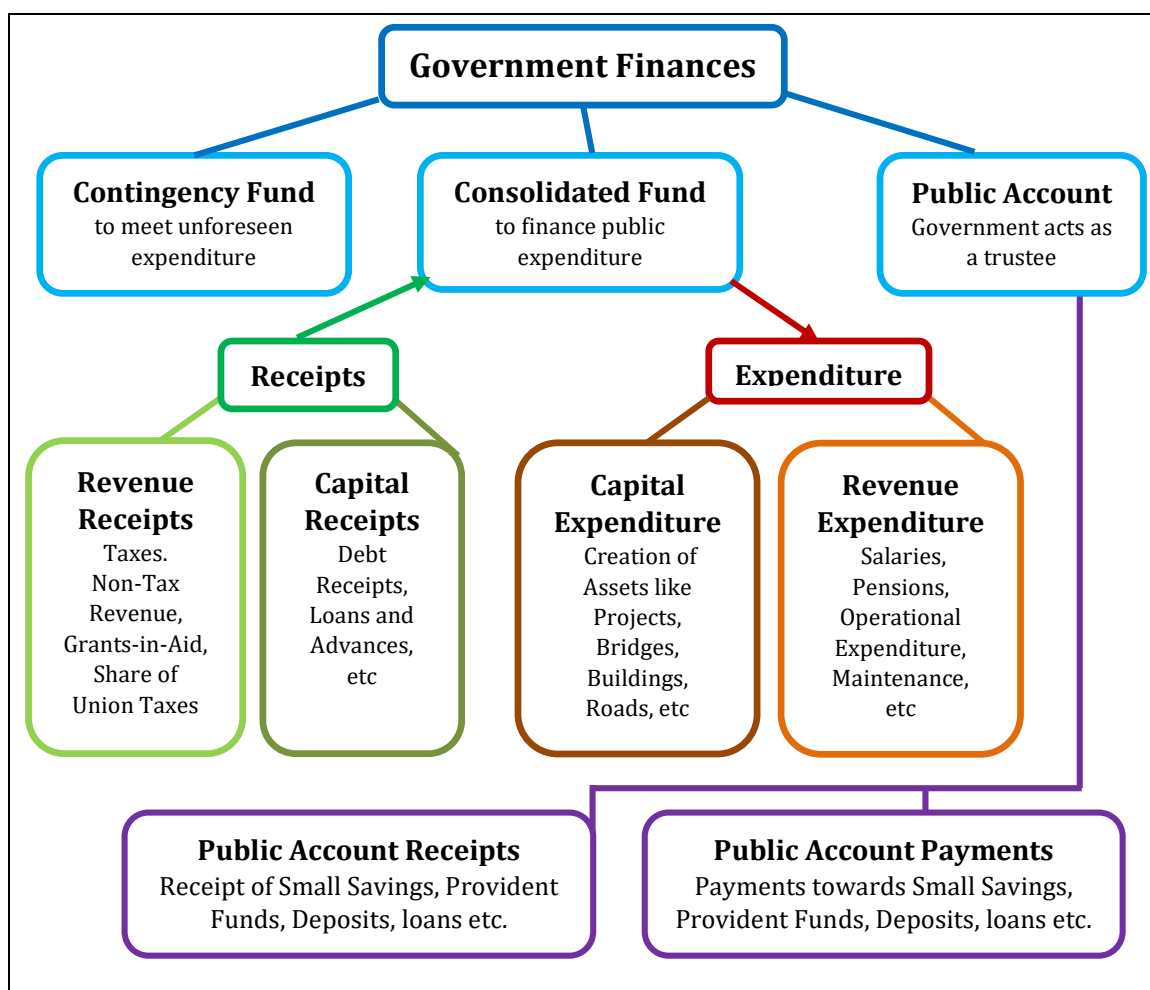
Table 1.3: Accounting classification framework

	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 (2-digit)
	Economic nature/Activity	Object head-salary, minor works, etc. (2-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 a number of 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.

A pictorial depiction of the structure of Government Accounts is given in **Chart 1.6**.

Chart 1.6: Structure of Government Accounts



Source: Finance Accounts

1.5 Budgetary Process

In terms of Article 202 of the Constitution of India, the Governor of Telangana caused to be laid before the State Legislature, a statement of the estimated Receipts and Expenditure of the State for the year 2019-20, in the form of an Annual Financial Statement. 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, the 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 the State.

Special Development Fund: Consequent to enactment of Telangana State Scheduled Castes and Scheduled Tribes Special Development Fund (Planning, Allocation and Utilization 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*) / Schedules 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: **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. Performance budget 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 3*.

1.5.1 Snapshot of Finances

Table 1.4 provides the details of actual financial results vis-à-vis Budget Estimates (BE) for the year 2019-20 in comparison to actuals for the year 2018-19. Time series data of Government Finances for the years 2015-20 are given in *Appendix 1.2*.

Table 1.4: Snapshot of Finances

Sl. No.	Components	2018-19 Actuals (₹ in crore)	2019-20 Budget Estimates (BE) (₹ in crore)	2019-20 Actuals (₹ in crore)	Percentage of Actuals to BE	Percentage of Actuals to GSDP
1	Tax Revenue	64,674	69,329	67,597	97.50	6.97
2	Non-Tax Revenue	10,007	15,875	7,360	46.36	0.76
3	Share of Union taxes/duties ^(a)	18,561	19,718	15,988	81.08	1.65
4	Grants-in-Aid and Contributions	8,178	8,178	11,599	141.83	1.20
5	Revenue Receipts (1+2+3+4)	1,01,420	1,13,100	1,02,544	90.66	10.58
6	Recovery of Loans and Advances	66	45	62	137.78	0.01
7	Other Receipts	--	--	--	--	--
8	Borrowings and other Liabilities ^(b)	26,949	24,082	31,759	131.88	3.27
9	Capital Receipts (6+7+8)	27,015	24,127	31,821	131.89	3.28
10	Total Receipts (5+9)	1,28,435	1,37,227	1,34,365	97.91	13.86
11	Revenue Expenditure	97,083	1,11,056	1,08,798	97.97	11.22
12	Interest payments	12,586	14,575	14,386	98.70	1.48
13	Capital Expenditure^(c)	31,352	26,171	25,567	97.69	2.64

Sl. No.	Components	2018-19 Actuals (₹ in crore)	2019-20 Budget Estimates (BE) (₹ in crore)	2019-20 Actuals (₹ in crore)	Percentage of Actuals to BE	Percentage of Actuals to GSDP
14	Capital outlay	22,641	17,275	16,859	97.59	1.74
15	Loan and advances	8,706	8,896	8,700	97.80	0.90
16	Inter-State Settlements	5	--	8	--	--
17	Total Expenditure (11+13)	1,28,435	1,37,227	1,34,365	97.91	13.86
18	Revenue Surplus (+) / Deficit (-) (5-11)	4,337	2,044	(-)6,254	(-)305.97	(-)0.65
19	Fiscal Deficit {(5+6+7)-17}	(-)26,949	(-)24,082	(-)31,759	131.88	(-)3.27
20	Primary Deficit (19-12)	(-)14,363	(-)9,507	(-)17,373	182.74	(-)1.79

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

(c) Expenditure on Capital Account includes Capital Expenditure and Loans and Advances disbursed and inter-state settlements

1.5.2 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 (GoI), 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 1.5**.

Table 1.5: Summarised position of Assets and Liabilities

(₹ in crore)

Liabilities					Assets				
		2018-19	2019-20	per cent increase			2018-19	2019-20	per cent increase
Consolidated Fund									
A	Internal Debt	1,56,934	1,86,959	19.13	a	Gross Capital Outlay	1,01,876	1,18,735	16.55
B	Loans and Advances from GoI	8,231	7,999	(-)2.82	b	Loans and Advances	24,509	33,147	35.24
Contingency Fund		50	50	0			2	4	100
Public Account									
A	Small Savings, Provident Funds, etc.	10,116	10,900	7.75	a	Advances	(-)23	(-)23	0
B	Deposits	19,714	21,121	7.14	b	Remittance
C	Reserve Funds	7,688	12,041	56.62	c	Suspense and Miscellaneous
D	Remittances	131	138	5.34	Cash Balance (including investment in Earmarked Fund)		7,218	12,096	67.58
E	Suspense and Miscellaneous Balances	201	498	147.76	Total		1,33,582	1,63,959	22.74
					Deficit in Revenue Account		69,483	75,747	9.02
Total		2,03,065	2,39,706	18.04	Total		2,03,065	2,39,706	18.04

Source: Finance Accounts

1.6 Fiscal Balance: Achievement of Deficit and total Debt targets

To ensure prudence in fiscal management and fiscal stability by progressive elimination of Revenue Deficit, reduction in Fiscal Deficit, prudent debt management, the State Government (erstwhile composite Andhra Pradesh) enacted the Andhra Pradesh Fiscal Responsibility and Budget Management Act, 2005⁶. The Act prescribes fiscal targets for giving effect to the fiscal management objectives.

1.6.1 Telangana State FRBM targets on key fiscal parameters and achievement thereon

Targets relating to key fiscal parameters as per TSFRBM Act during the five-year period 2015-16 to 2019-20 and their achievement is shown in **Table 1.6**.

Table 1.6: Compliance with the provisions of Fiscal Responsibility and Budget Management Act

Fiscal Parameters	Fiscal targets set in the Act	Achievement (₹ in crore)				
		2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Deficit (-) / Surplus (+) (₹ in crore)	Revenue Surplus to be achieved during each year	238	1,386	3,459	4,337	(-)6,254
		✓	✓	✓	✓	✗
Fiscal Deficit (-) / Surplus (+) (as percentage of GSDP)	For the years 2015-18: 3.5 per cent	(-)3.26 per cent	(-)5.36 per cent	(-)3.54 per cent	(-)3.13 per cent	(-)3.13 per cent + ₹1,435 crore
	For the year 2018-19 : 3.25 per cent					
	For the year 2019-20: 3.25 per cent + ₹1,435 crore*	✓	✗	✗	✓	✓
Ratio of Total Outstanding Liabilities⁷ to GSDP (in per cent)	25 per cent	16.95	20.47	22.02	22.87	23.95
		✓	✓	✓	✓	✓

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 1 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.

- The State could not achieve a Revenue Surplus during 2019-20 for the first time since its formation in June 2014 due to an increase of 12.07 per cent in Revenue Expenditure while the increase in Revenue Receipts at 1.11 per cent was marginal.

⁶ as amended in 2010, 2011 and adapted by Government of Telangana in 2016; subsequently amended in 2020

⁷ As per FRBM Act, "Total liabilities" means the liabilities under the Consolidated Fund of the State and Public Account of the State and shall also include borrowings by the Public Sector Undertakings and the Special Purpose Vehicles and other equivalent instruments including Guarantees where the principal and/or interest are to be serviced out of the State Budgets

- The targeted ratio of Fiscal Deficit to GSDP was achieved during 2019-20 due to the one-time special dispensation accorded by the GoI .
- The State achieved the target in respect of ratio of total outstanding debt to GSDP every year during the period 2015-16 to 2019-20.

However, achievement of the above targets as depicted in the accounts have to be seen in the context of certain mis-classifications in accounts of the State Government as brought out in the State Finances Audit Reports of the Comptroller and Auditor General of India for the years concerned⁸.

1.6.2 Achievement of projections made in Medium Term Fiscal Policy Statement

As per the TSFRBM Act, the State Government shall in each financial year, lay before the State Legislature a Medium Term Fiscal Policy (MTFP) Statement, which contains the fiscal objectives of the State Government and five-year rolling targets, along with the Budget.

Table 1.7: Actuals vis-à-vis projections in MTFP for 2019-20

(₹ in crore)

Sl. No.	Fiscal Variables	Projections as per MTFP	Actuals (2019-20)	Variation (in per cent)
1	Own Tax Revenue	71,327	67,597	(-)5.23
2	Non-Tax Revenue	12,275	7,360	(-)40.04
3	Share of Central Taxes	15,988	15,988	0
4	Grants-in-Aid from GoI	11,338	11,599	2.30
5	Revenue Receipts (1+2+3+4)	1,10,928	1,02,544	(-)7.56
6	Revenue Expenditure	1,10,825	1,08,798	(-)1.83
7	Revenue Deficit (-)/ Surplus (+) (5-6)	103	(-)6,254	(-)6,171.84
8	Fiscal Deficit (-)/ Surplus (+)	(-)21,913	(-)31,759	44.93
9	Debt-GSDP ratio (<i>per cent</i>)	20.55	23.9	16.30
10	GSDP growth rate at current prices (<i>per cent</i>)	12.6	12.6	0

Source: Finance Accounts and Statement of Fiscal Policy

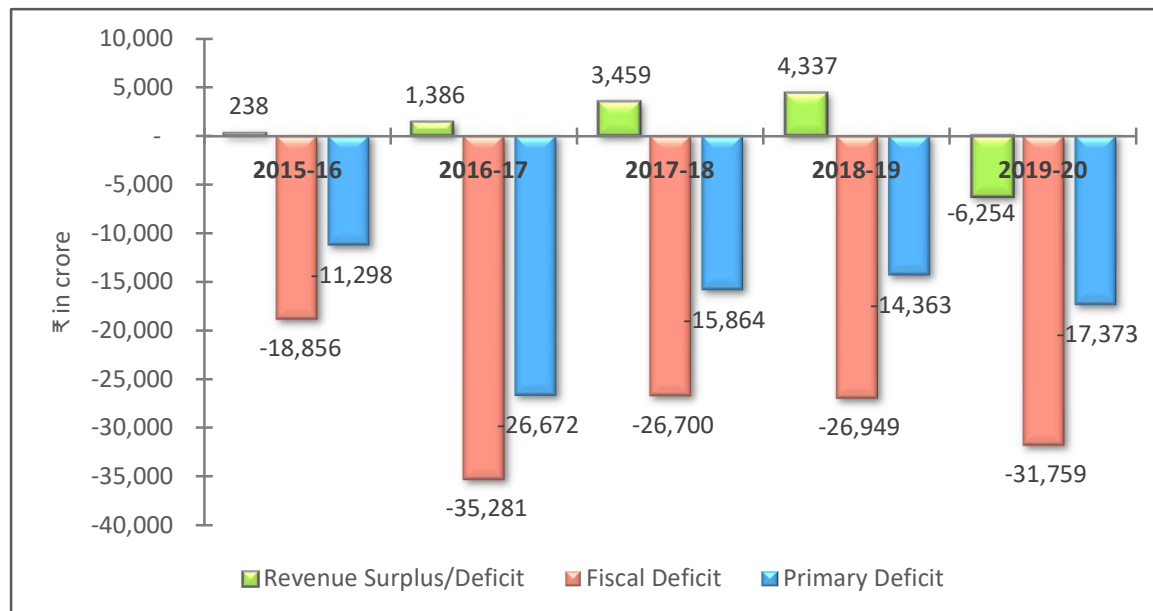
The performance of the State vis-à-vis targets projected in MTFP statement in respect of Non-Tax Revenue, Revenue Surplus, Fiscal Deficit and Debt / GSDP ratio is not encouraging.

⁸ previous year(s) SFAR can be accessed at <https://cag.gov.in/ag/telangana>

1.6.3 Trends of Deficit / Surplus

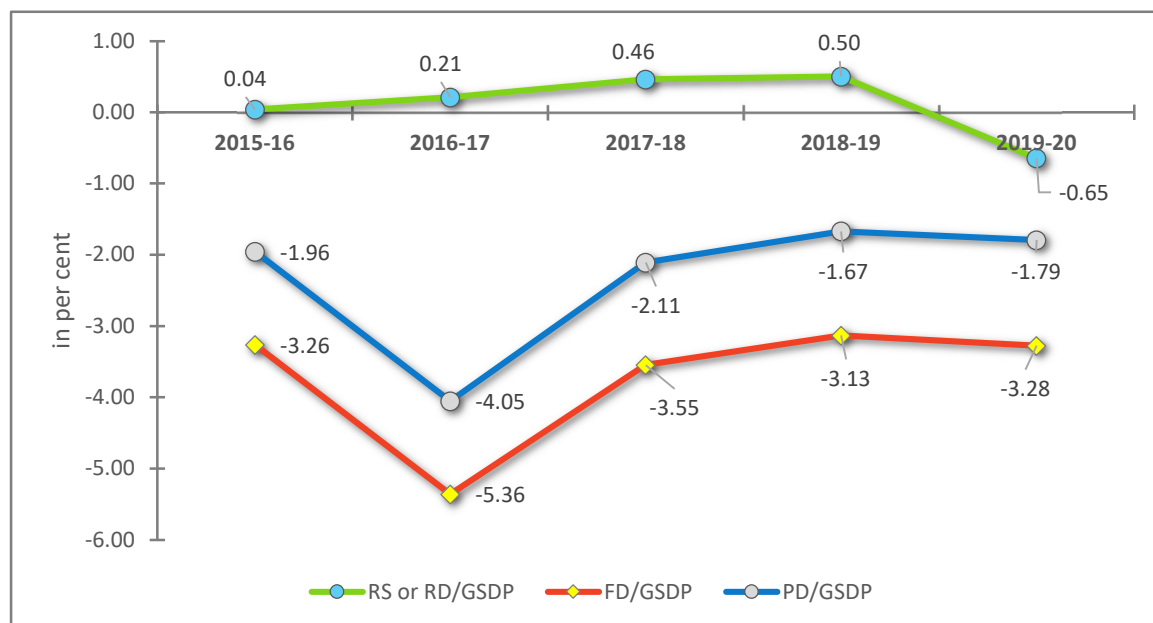
The trends of Surplus / Deficit parameters in absolute figures and relative to GSDP are depicted in **Chart 1.7**.

Chart 1.7: Trends of Surplus / Deficit parameters



Source: Finance Accounts

Chart 1.8: Surplus / Deficit parameters relative to GSDP

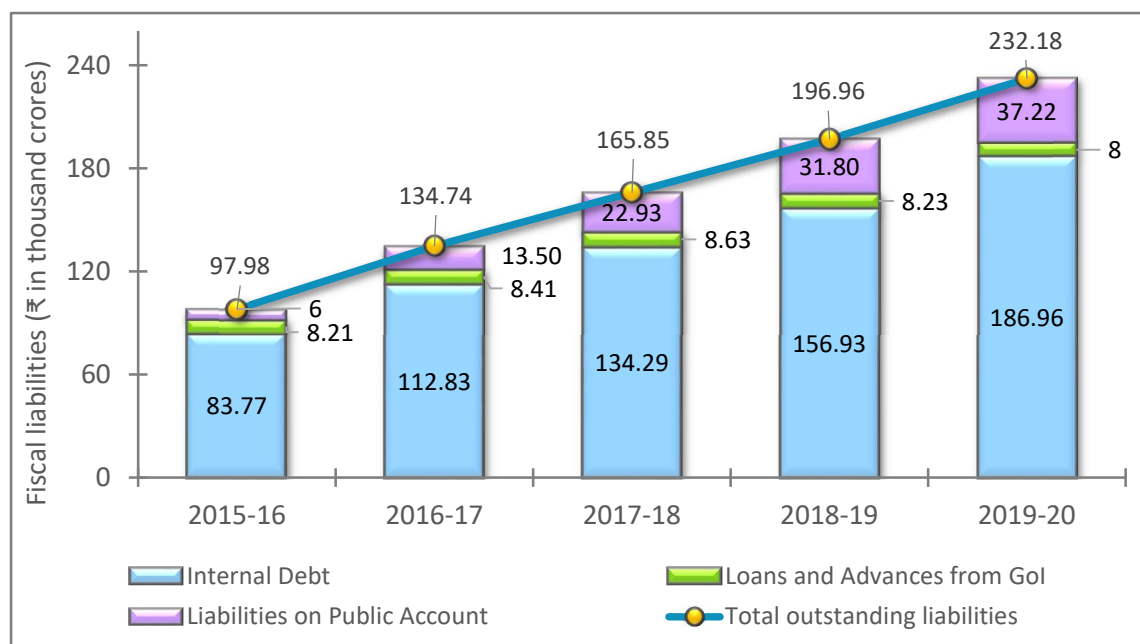


Source: Finance Accounts

The State registered a Revenue Deficit of ₹6,254 crore during 2019-20 in comparison to Revenue Surplus of ₹4,337 crore in the preceding year. On the other hand, both Fiscal Deficit (₹31,759 crore) and Primary Deficit (₹17,373 crore) in the current year increased in comparison to the preceding year.

The trend of fiscal liabilities during the five year period 2015-16 to 2019-20 is shown in **Chart 1.9**.

Chart 1.9: Trend of Fiscal Liabilities



Source: Finance Accounts

Internal Debt and Liabilities on Public Account have been increasing, while Loans and Advances from GoI have remained almost constant over the years.

1.7 Deficits and Total Debt after examination in Audit

1.7.1 Deficits after examination in Audit

Misclassification of revenue expenditure as capital and *vice versa*, off budget fiscal operations, deferment of firm liabilities, non-depositing of mandatory amounts to National Pension System (NPS) etc. impact deficit parameters. In order to arrive at actual deficit figures, the impact of such irregularities have been re-computed as detailed in **Table 1.8**.

Table 1.8: Revenue and Fiscal Deficits after examination in Audit

(₹ in crore)

Particulars	Impact on Revenue Deficit (Understated (+) / overstated (-)) (₹ in crore)	Impact on Fiscal Deficit (Understated) (₹ in crore)	Para Reference
Non discharge of Interest liabilities on State Disaster Response Fund (SDRF)	22.62	22.62	4.3
Short contribution to National Pension System (NPS)	7.48	7.48	2.5.2.3
Misclassification			
(i) Revenue expenditure classified as Capital ⁹	310.28	--	3.4.8.1, 3.4.8.2 and 3.4.8.4
(ii) Capital expenditure classified as Revenue ¹⁰	(-)49.56	--	3.4.8.5
Total	291.14	30.10	

Source: Finance Accounts and audit analysis

As a result, the Revenue and Fiscal Deficits were understated by ₹291.14 crore and ₹30.10 crore respectively.

Effectively, therefore, there was a Revenue Deficit of ₹ 6,545 crore (₹6,254 crore + ₹291.14 crore) and Fiscal Deficit of ₹ 31,789.10 (₹ 31,759 crore + ₹ 30.10 crore). The effective Fiscal Deficit of the State was 3.13 per cent¹¹ of GSDP.

The Government replied (March 2021) that interest liabilities on SDRF could not be met on account of Covid-19. With regard to short contribution to National Pension System, it stated that there was no short contribution and it was only an amount that represents non-uploaded amount to NSDL due to variations in PRAN software. The Government, however, did not respond with regard to mis-classification of expenditure between ‘Revenue’ and ‘Capital’ sections.

Apart from its liabilities of ₹2,32,181 crore, the State Government is also liable to pay the principle and interest on account of its Off-Budget Borrowings (OBB) to an extent of ₹71,131.63 crore. Considering that the OBB and other liabilities are to be serviced out of the State Budget, the ratio of Debt / Total Liabilities to GSDP (25 per cent) as per TSFRBM Act would be higher by 6.29 per cent.

The Government stated (March 2021) that the OBB were being utilised fully for creation of assets and hence, if OBBs are considered for re-calculating the fiscal parameters of the State, the expenditure incurred through OBBs may be considered under the Capital Expenditure of the State. It was further stated that major projects like Mission Bhagiratha and Kaleshwaram Lift Irrigation were entrusted to Special Purpose Vehicles (SPVs) which

⁹ (i) Treatment of payment of semi-annual interest on Andhra Pradesh Power Finance Corporation Bonds as loans: ₹287.35 crore (*paragraph 3.4.8.1*); (ii) Purchase of surgical consumables treated as Capital Expenditure: ₹17.07 crore (*paragraph 3.4.8.4*); (iii) Grants-in-Aid booked under Capital section instead of Revenue: ₹5.86 crore (*paragraph 3.4.8.2*)

¹⁰ (i) Treatment of Purchase of Vehicles: ₹23.12 crore; (ii) Treatment of Purchase of Machinery: ₹23.30 crore; (iii) Treatment of expenditure on Tools and Plants: ₹3.14 crore

¹¹ After excluding the onetime additional borrowing of ₹1,435 crore permitted by GoI

raised funds from Banks/financial institutions for implementation and they would explore possibilities to repay the loans from their own resources.

The Government also provides financial assistance to these entities in the form of loans depending on its Ways and Means position. During the year 2019-20, the State Government provided financial assistance of ₹6,557.26 crore from out of its budget (in the form of loans) for servicing debt of these entities.