

Chapter 1
Overview

1.1 Profile of the State

Telangana is the 11th largest State in the country in terms of area and 12th largest in terms of population. The per capita income¹ of Telangana at current prices was ₹2,78,833 in 2021-22, which was 1.86 times of all India average of ₹1,50,007. General and financial data relating to Telangana 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 goods and services produced within the boundaries of the State in a specific period of time. Growth of GSDP is an important economic indicator denoting the level of economic development over a period. Changes in sectoral contribution to the GSDP represent the changing structure of the State economy. Trends in annual growth of GSDP² *vis-à-vis* Gross Domestic Product (GDP)³ of the country are given in *Table 1.1*.

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

Year	2017-18	2018-19 (TRE)	2019-20 (SRE)	2020-21 (FRE)	2021-22 (AE)
GDP (2011-12 Series) (₹ in crore)	1,70,90,042	1,88,99,668	2,00,74,856	1,98,00,914	2,36,64,637
Growth rate of GDP over previous year (in per cent)	11	11	6	(-1)	19
GSDP (2011-12 Series) (₹ in crore)	7,50,050	8,57,427	9,50,287	9,61,800	11,48,115
Growth rate of GSDP over previous year (in per cent)	14	14	11	1	19

Source of data: Ministry of Statistics and Programme Implementation

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

During 2021-22, both Telangana's GSDP and India's GDP have registered higher growth rate when compared to 2020-21 as the economy has recovered positively after a slow down due to Covid-19 pandemic. While the country's Compounded Annual Growth Rate (CAGR) over the last five years was 9 per cent, Telangana has registered a CAGR of 12 per cent. The GSDP generated from economic activities is generally classified into Primary⁴, Secondary⁵ and Tertiary⁶ Sectors, broadly corresponding to Agriculture, Industry and Services respectively. The sectoral contribution to GDP and GSDP of the State during

¹ As per Socio Economic Outlook 2022 (prepared by Directorate of Economics and Statistics), the 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.

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

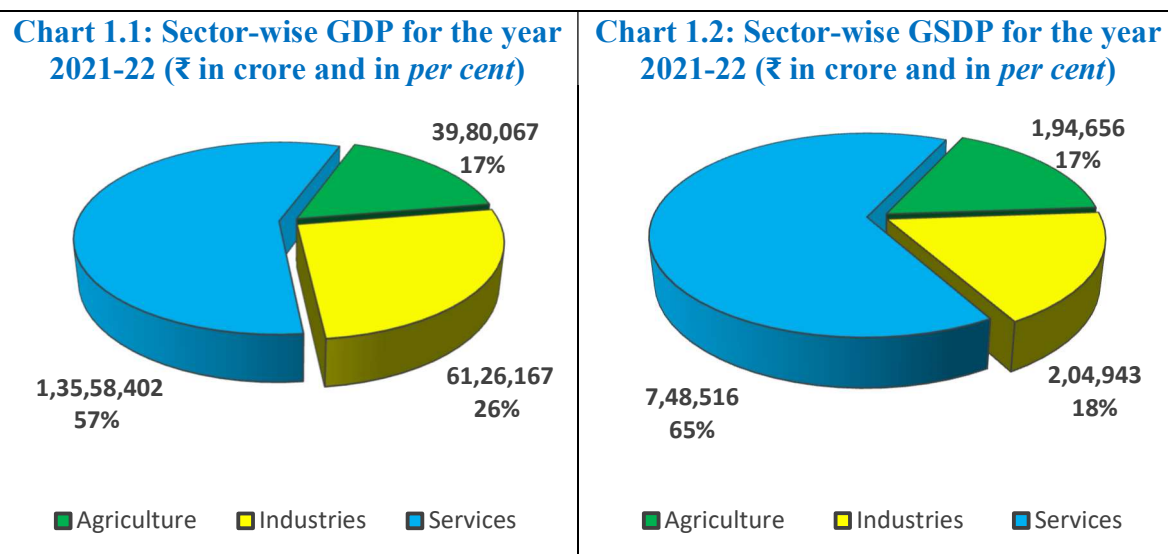
³ Gross Domestic Product is adopted at current prices throughout this Report

⁴ Primary Sector includes Crops, Livestock, Forestry and Logging, Fishing and Aquaculture and Mining and Quarrying

⁵ Secondary Sector includes Manufacturing, Electricity, Gas, Water Supply and Other utility services and Construction

⁶ 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.

2021-22 are given in **Charts 1.1** and **1.2**. Manufacturing and Services sectors, which were hit the hardest because of the pandemic in 2020-21, have recovered in 2021-22.



Source: Data of Ministry of Statistics and Programme Implementation for GDP, and for GSDP, information furnished by Director of Economics and Statistics, Telangana.

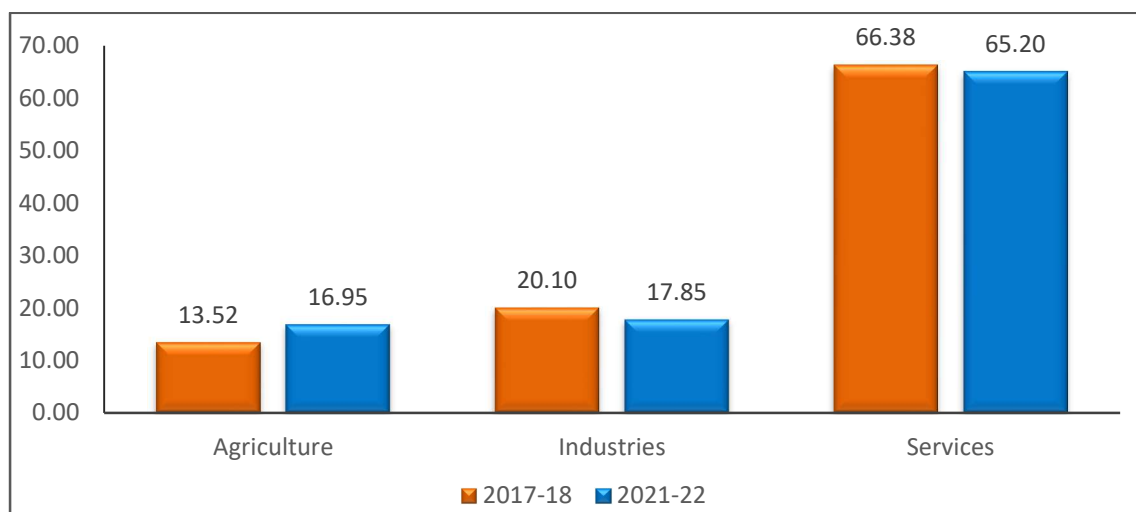
Note 1: Services sector in all the charts includes taxes and subsidies on products of all sectors

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

Under Agriculture sector, the major share was from ‘Livestock’ and ‘Crops’ which contributed nearly eight *per cent* each respectively to GSDP. Under Industries sector, ‘Manufacturing’ was the main contributor to GSDP with 11 *per cent*. The major share of Services sector in GSDP was from ‘Real Estate, ownership of dwellings and professional services’ with 19 *per cent* followed by ‘Trade and repair services’ with 15 *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 in 2021-22 when compared to 2017-18 is shown in **Chart 1.3**.

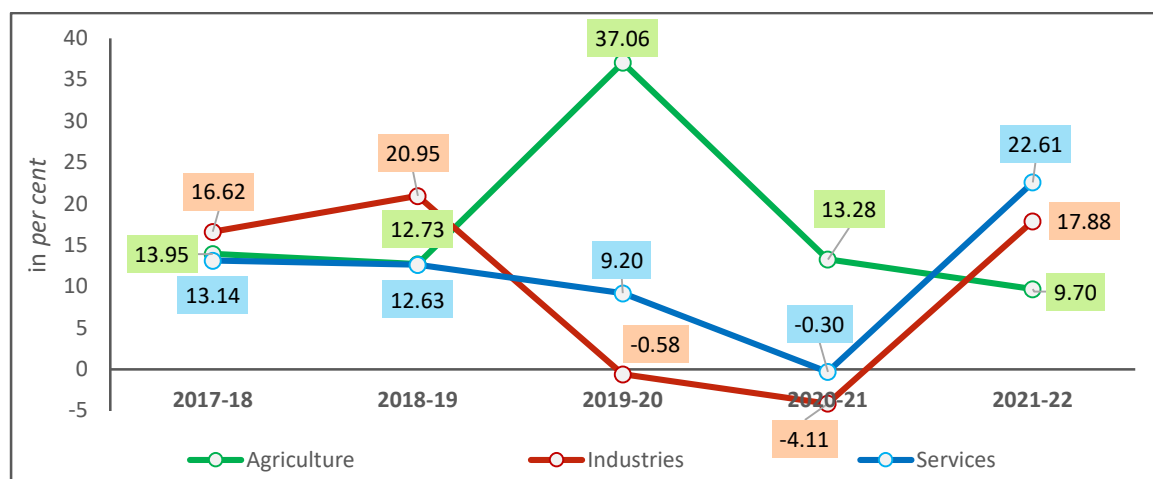
Chart 1.3: Changes in sectoral contribution to GSDP (2017-18 vis-à-vis 2021-22)



Source: Directorate of Economics and Statistics, Government of Telangana, both years Services sector includes taxes and subsidies on products.

The share of Agriculture sector in GSDP for 2021-22 was more than three *percentage* points higher than 2017-18. The increase in the share of Agriculture sector was mainly on account of Livestock (which increased from ₹46,595 crore in 2017-18 to ₹93,599 crore in 2021-22) and Crops (which increased from ₹47,457 crore in 2017-18 to ₹87,381 crore in 2021-22), both of which have increased by 101 *per cent* and 84 *per cent* respectively. Individual sectoral growth in GSDP is shown in **Chart 1.4**.

Chart 1.4: Sectoral growth rates of GSDP



Source: Directorate of Economics and Statistics, Government of Telangana

Agriculture sector which grew at 14 *per cent* in 2017-18 registered a growth rate of 10 *per cent* in 2021-22. Growth rates of Industries and Services sectors, which have declined in 2019-20 and 2020-21, significantly grew in 2021-22. While manufacturing and construction segments gave a major impetus to the growth rate of Industries sector, Trade and repair services, Real estate, Ownership of dwelling and professional services, financial services and other services, etc., registered significant growth rates under Services sector.

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 2022 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 2021-22 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) 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 Structure of State Finances Audit Report

The State Finances Audit Report is structured in the following five 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 and 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 2017-18 to 2021-22, 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 Accounts 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>

Chapter - 5
Financial Performance
of State Public Sector
Undertakings

This chapter discusses financial performance of Government Companies, Statutory Corporations and Government Controlled Other Companies as revealed from their accounts.

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 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.

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 (GoI).

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:

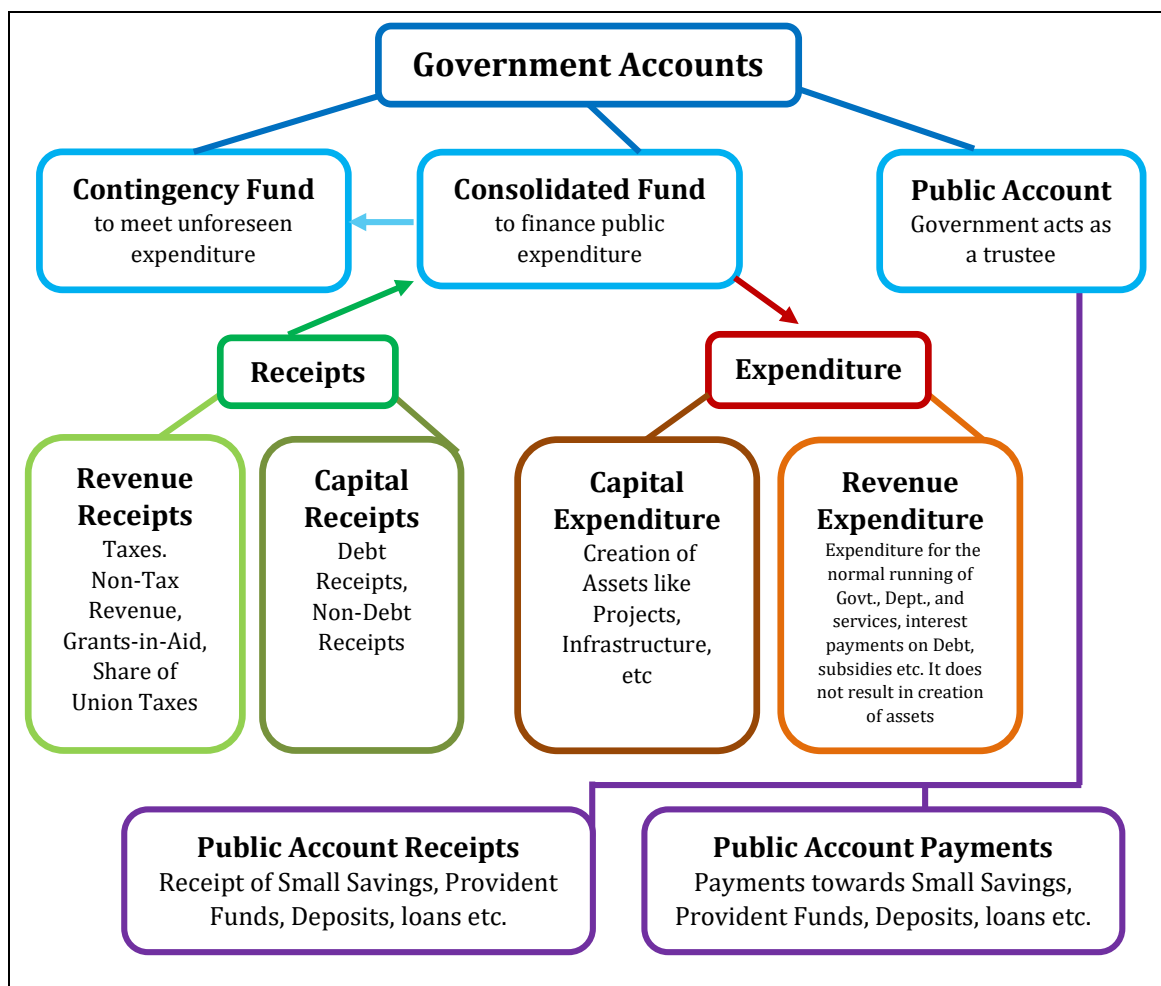
Debt receipts: Market Loans, Bonds, Loans from financial institutions, Net transactions under Ways and Means Advances, Loans and Advances from Central Government, etc.;

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.

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

The accounting classification system in the Government is both functional and economic, as detailed below.

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, <i>etc.</i> , 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, <i>etc.</i> (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 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.*

1.5 Budgetary Process

In terms of Article 202 of the Constitution of India, the Governor of Telangana causes to be laid before the State Legislature, a statement of the estimated Receipts and Expenditure of the State for the year 2021-22, 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, 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 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 2021-22 in comparison to actuals for the year 2020-21. Time series data of Government Finances for the years 2017-22 are given in *Appendix 1.2*.

Table 1.4: Snapshot of Finances

Sl. No.	Components	2020-21 Actuals (₹ in crore)	2021-22 Budget Estimates (BE) (₹ in crore)	2021-22 Actuals (₹ in crore)	Percentage of Actuals to BE	Percentage of Actuals to GSDP
1	Tax Revenue					
	(i) Own Tax Revenue	66,650	92,910	91,271	98	8
	(ii) Share of Union taxes/duties ^(a)	12,692	13,990	18,721	134	2
2	Non-Tax Revenue	6,101	30,557	8,858	29	1
3	Grants-in-Aid and Contributions	15,471	38,669	8,619	22	1
4	Revenue Receipts (1+2+3)	1,00,914	1,76,126	1,27,469	72	11
5	Recovery of Loans and Advances	58	50	48	96	--
6	Other Receipts	--	--	--	--	--
7	Borrowings and other Liabilities ^(b)	49,038 ⁷	45,510	46,638 ⁸	102	4
8	Capital Receipts (5+6+7)	49,096	45,560	46,686	102	4
9	Total Receipts (4+8)	1,50,010	2,21,686	1,74,155	79	15
10	Revenue Expenditure	1,23,212	1,69,383	1,36,804	81	12
11	Interest payments in Revenue Expenditure	16,841	17,584	19,161	109	2
12	Capital Expenditure	15,922	29,047	28,874	99	3
13	Loan and advances	10,868	23,256	8,469	36	1
14	Inter-State Settlements	8	0	8	--	--
15	Total Expenditure (10+12+13+14)	1,50,010	2,21,686	174,155	79	15
16	Revenue Surplus (+) / Deficit (-) (4-10)	(-)22,298	6,743	(-)9,335	(-)138	(-)1
17	Fiscal Deficit {(4+5+6)-15}	(-)49,038	(-)45,510	(-)46,638	102	4
18	Primary Deficit (17-11)	(-)32,197	(-)27,926	(-)27,477	98	2

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

The State Government estimated its Revenue Receipts higher by 75 per cent than what was received last year. Revenue Receipts realised were 28 per cent less than estimates this year. The gap between Budget Estimates and actual Revenue Receipts in 2021-22 was ₹48,657 crore. Consequently, the Government had to curtail its expenditure plans, which was not commensurate with the shortfall in Revenue Receipts. As a result, the State registered a Revenue Deficit instead of a Revenue surplus. Interest payments have increased by ₹1,577 crore as against the Budget Estimates in 2021-22 and by ₹2,320 crore over the previous year.

When compared to Budget estimates, the total expenditure for the year was less by 21 per cent and Fiscal Deficit was higher by 2 per cent.

⁷ includes back-to-back loans of ₹2,380 crore received from GoI in lieu of GST compensation shortfall

⁸ includes back-to-back loans of ₹4,569 crore received from GoI in lieu of GST compensation shortfall

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, 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

		Liabilities			Assets					
		2020-21 (₹ in crore)	2021-22 (₹ in crore)	per cent increase (+) / decrease (-)						
		2020-21 (₹ in crore)	2021-22 (₹ in crore)	per cent increase (+) / decrease (-)	2020-21 (₹ in crore)	2021-22 (₹ in crore)	per cent increase (+) / decrease (-)			
Consolidated Fund										
A	Internal Debt	2,24,379	2,63,041	17	a	Gross Capital Expenditure	1,34,657	1,63,531	21	
B	Loans and Advances from GoI	10,174*	14,448*	42	b	Loans and Advances	43,957	52,379	19	
Contingency Fund		50	50	0				0	0.05	0
Public Account										
A	Small Savings, Provident Funds, etc.	11,845	12,912	9	a	Advances	(-)23	(-)23	0	
B	Deposits	26,201	27,424	5	b	Remittance	
C	Reserve Funds	12,816	11,762	(-)8	c	Suspense and Miscellaneous	
D	Remittances	106	723	582	Cash Balance (including investment in Earmarked Fund)		9,193	8,095	(-)12	
E	Suspense and Miscellaneous Balances	266	1,018	283	Total		1,87,784	2,23,982	19	
					Deficit in Revenue Account		98,053	1,07,396	10	
Grand Total		2,85,837	3,31,378	16	Grand Total		2,85,837	3,31,378	16	

Source: Finance Accounts

* The figures ₹10,174 crore and ₹14,448 crore include ₹2,380 crore and ₹6,949 crore of back-to-back loans received from GoI in lieu of GST compensation shortfall during 2020-21 and 2021-22 respectively.

In 2021-22, the Gross Capital Expenditure and Internal Debt increased by ₹28,874 crore (21 per cent) and ₹38,662 crore (17 per cent) respectively, as compared to previous year. There is an overall increase of ₹9,343 crore (9 per cent) in Revenue Account deficit and a variation of 32 per cent in Government's Assets and Liabilities.

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 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. The Act prescribes fiscal targets for giving effect to the fiscal management objectives.

1.6.1 TSFRBM targets on key fiscal parameters and achievement thereon

Targets relating to key fiscal parameters as per TSFRBM Act during the five-year period 2017-18 to 2021-22 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				
		2017-18	2018-19	2019-20	2020-21	2021-22
Revenue Deficit (-) / Surplus (+) (₹ in crore)	Revenue Surplus to be achieved during each year	3,459	4,337	(-)6,254	(-)22,298	(-)9,335
		✓	✓	✗	✗	✗
Fiscal Deficit (-)/ Surplus (+) (as percentage of GSDP)	For 2017-18: 3.50 per cent For 2018-19: 3.25 per cent For 2019-20: 3.25 per cent + ₹1,435 crore*	(-)3.56 per cent	(-)3.13 per cent	(-)3.17 per cent + ₹1,435 crore	(-)5.10 per cent	(-)4.06 per cent
	For 2020-21: 4.75 per cent [#] For 2021-22: 4 per cent	✗	✓	✓	✗	✗
Ratio of Total Outstanding Liabilities to GSDP (in per cent)	25 per cent	22.11	22.97	24.43	28.66 ⁹	27.41 ¹⁰
		✓	✓	✓	✗	✗

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.

[#] 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)

The purpose of GST compensation is to compensate States for loss of revenue arising on account of implementation of GST. During the year 2021-22, the State Government has received GST compensation of ₹2,006 crore as GIA from the GoI. Besides, State Government has also received a back-to-back loan of ₹4,569 crore from GoI in lieu of

⁹ excludes ₹2,380 crore back-to-back loans received from GoI in lieu of GST compensation shortfall during 2020-21

¹⁰ excludes ₹6,949 crore of back-to-back loans received from GoI in lieu of GST compensation shortfall to the end of March 2022

shortfall in GST compensation. This is to be serviced from cess collected in Compensation Fund with no repayment obligation on the State resources. The revenue deficit of ₹9,335 crore and fiscal deficit of ₹46,638 crore of the State Government as depicted in the Finance Accounts 2021-22 should therefore, be read in conjunction with GST compensation of ₹4,569 crore received from GoI as back-to-back loan which has no repayment obligation on the State. Thus, Revenue deficit and fiscal deficit effectively works out to be as ₹4,766 crore and ₹42,069 crore respectively.

The State could not achieve any of the above three targets for the second consecutive year since its formation in June 2014. In fact, it failed to achieve a Revenue surplus for a third consecutive year. Further, even the achievement of the above targets in earlier years as depicted in the accounts have to be seen in the context of certain misclassifications.

1.6.2 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 2022), in which the rolling targets for three years were mentioned. The achievement of these rolling targets was discussed in *paragraph 1.6.1* above.

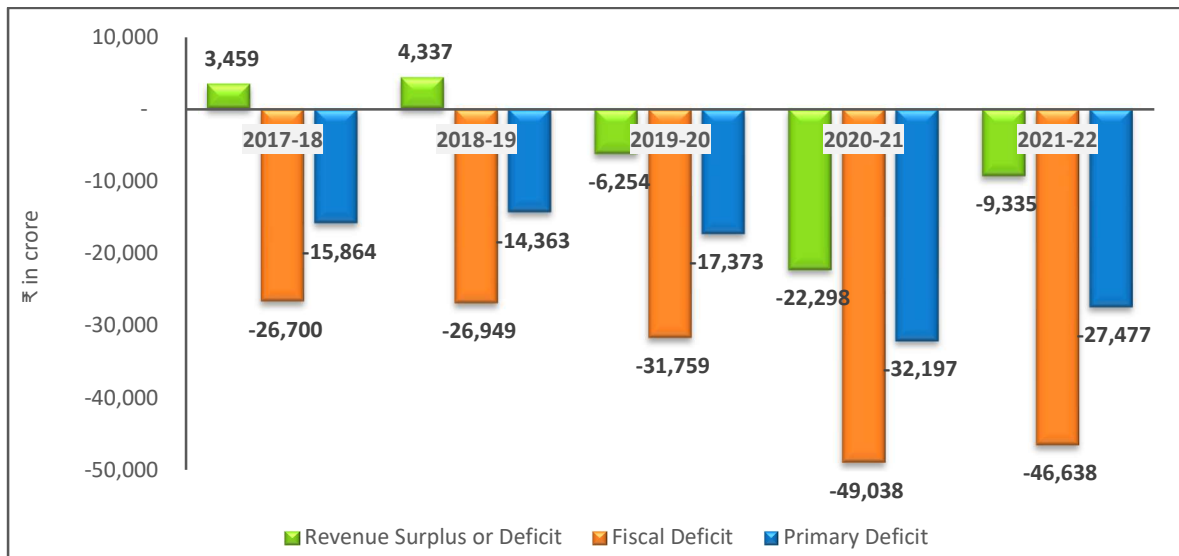
The Medium-Term Fiscal Policy Statement shall include the various assumptions behind the fiscal indicators and an assessment of sustainability relating to (i) the balance between revenue receipts and revenue expenditure, (ii) the use of capital receipts including borrowings for generating productive 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.

1.6.3 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*.

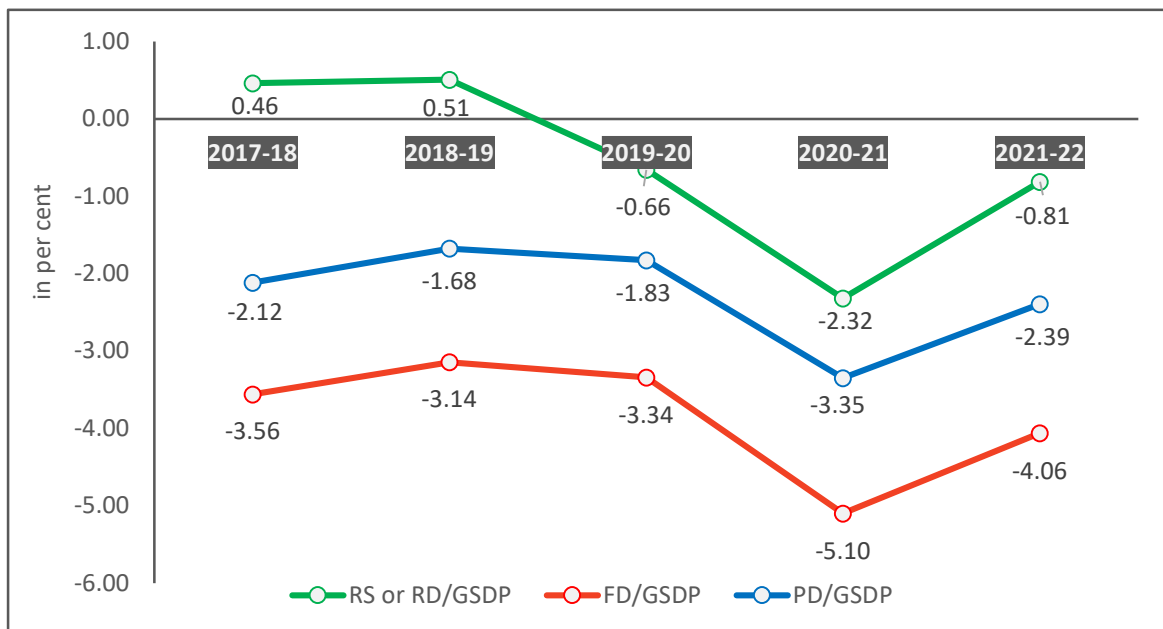
Chart 1.6: Trends of Surplus / Deficit parameters



Source: Finance Accounts

The State registered a Revenue Deficit of ₹9,335 crore in 2021-22. The Revenue Deficit has decreased by ₹12,963 crore in comparison to previous year (₹22,298 crore). Fiscal Deficit (₹46,638 crore) and Primary Deficit (₹27,477 crore) have also decreased by ₹2,400 crore and ₹4,720 crore respectively.

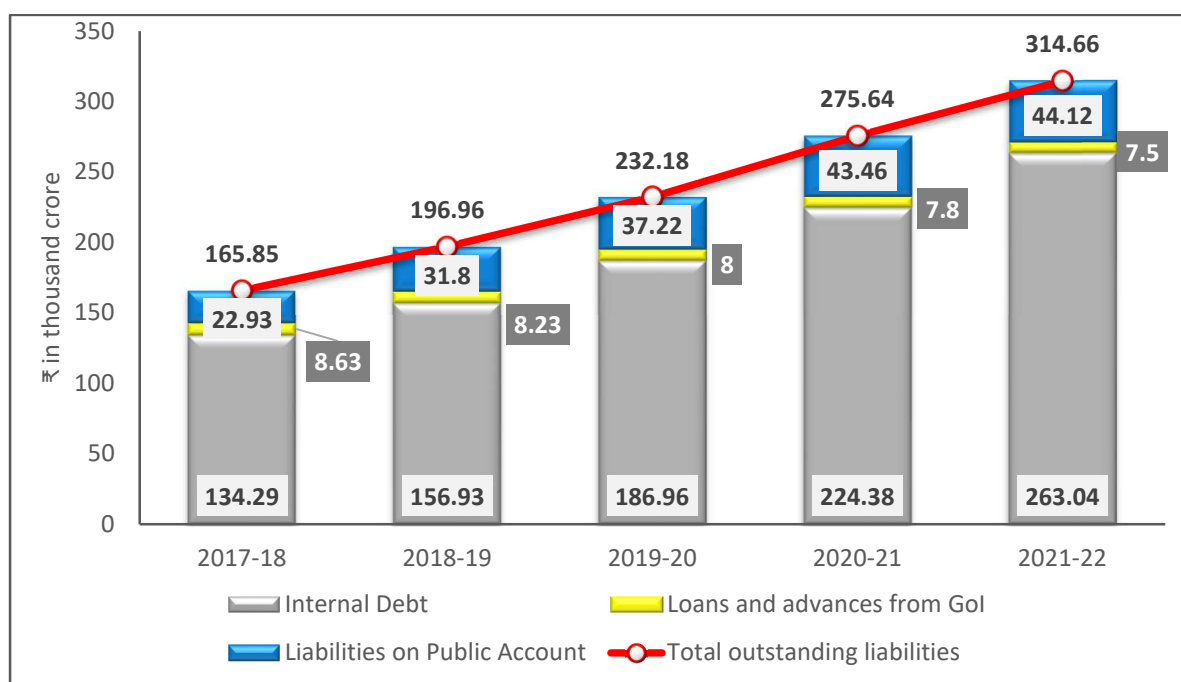
Chart 1.7: Surplus / Deficit parameters relative to GSDP



Source: Finance Accounts

The State's performance in respect of all three key fiscal parameters has improved when compared to the previous year. However, it is below the FRBM targets as mentioned in **Table 1.6**. The trend of fiscal liabilities during the five-year period 2017-18 to 2021-22 is shown in **Chart 1.8**.

Chart 1.8: Trend of Fiscal Liabilities



Source: Finance Accounts

Note: The figures of ₹275.64 thousand crore and ₹7.80 thousand crore in 2020-21, figures ₹314.66 thousand crore and ₹7.50 thousand crore in 2021-22 exclude ₹2,380 crore and ₹4,569 crore of back-to-back loans in lieu of GST compensation shortfall respectively. The debt servicing of this loan would be done from the collection of cess in the GST compensation Fund and hence, repayment obligation will not be on the other resources of State

Total Outstanding Liabilities have increased by 90 per cent from 2017-18 to 2021-22. Contributing to the increase is Internal Debt (96 per cent increase from 2017-18 to 2021-22) and Liabilities on Public Account (92 per cent increase from 2017-18 to 2021-22). Loans and Advances from Government of India have decreased by 4 per cent in 2021-22.

1.7 Deficits and Total Debt after examination in Audit

Misclassification of revenue expenditure as capital and *vice versa*, off budget fiscal operations, deferment of firm liabilities, non-deposit of mandatory amounts to National Pension System (NPS), etc. impact deficit parameters. These have been brought out in the State Finances Audit Reports of the Comptroller and Auditor General of India for the previous years¹¹. To arrive at actual deficit figures for the current year, the impact has been re-computed as detailed in **Table 1.7**.

¹¹ previous year(s) SFAR can be accessed at <https://cag.gov.in/ag/tehrangana>

Table 1.7: 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 ¹²	182	182	4.3
Misclassification			
(i) Revenue classified as Capital ¹³	43		3.4.9.1
(ii) Capital classified as Revenue ¹⁴	(-)68	--	3.4.9.2
(iii) Transfer from Deposit Accounts to Revenue head ¹⁵	1,000	--	2.4.1.1 (ii)
Total	1,157	182	

Source: Finance Accounts and audit analysis

As a result, the Revenue and Fiscal Deficits were understated by ₹1,157 crore and ₹182 crore respectively.

Effectively, there was a Revenue Deficit of ₹10,492 crore (₹9,335 crore + ₹1,157 crore) and Fiscal Deficit of ₹46,820 crore (₹46,638 crore + ₹182 crore). Therefore, the Fiscal Deficit would be 4.08 per cent of GSDP.

Apart from its liabilities of ₹3,14,663 crore¹⁶, the State Government is also liable to pay the principal and interest on account of its Off-Budget Borrowings (OBB) to an extent of ₹1,18,955 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 37.77 per cent, which is 12.77 per cent higher than the set target of 25 per cent as per the TSFRBM Act. This is also 8.47 per cent above the norms of 29.30 per cent as prescribed by the XV Finance Commission.

¹² (i) State Compensatory Afforestation Fund: ₹76 crore; (ii) State Disaster Response Fund: ₹86 crore; (iii) Defined Contribution Pension Scheme for Government Employees: ₹20 crore

¹³ Purchase of surgical consumables treated as Capital Expenditure: ₹43 crore

¹⁴ (i) Purchase of Motor Vehicles: ₹43 crore; (ii) Purchase of Machinery and Equipment: ₹22 crore; (iii) Tools and Plants: ₹3 crore

¹⁵ (i) ₹400 crore transferred from Deposit account of Telangana Scheduled Castes Development Corporation to Receipt head; and ₹600 crore transferred from Deposit account of Telangana Tribal Cooperative Finance Corporation to receipt head.

¹⁶ excluding back-to-back loans in lieu of GST compensation to be serviced out of GST compensation Cess