



## **GOVERNMENT OF TELANGANA**

# **Statement of Fiscal Policy to be laid on the Table of the Telangana State Legislature in March, 2015**

*(As required under section 5 of the Fiscal Responsibility and  
Budget Management Act, 2005)*

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**Minister for Finance**

**Form F-1**  
**MACRO-ECONOMIC FRAMEWORK STATEMENT**  
(Under Rule 3 of FRBM Rules, 2006)  
Economic Performance at a Glance  
**Trends in Select Macro-economic and Fiscal Indicators**

S N	Item	Absolute Value (Rs.crore)		Percentage Change	
		2013-14 <sup>1</sup> Actuals	2014-15 RE	2013-14 (FRE) <sup>2</sup>	2014-15 (AE) <sup>3</sup>
	<b>Real Sector</b>				
I	<b>GSDP at factor cost</b>				
a)	Constant Prices	2,06,427	2,17,432	4.8	5.3
b)	Current Prices	3,91,751	4,30,599	12.9	9.9
	i) Agriculture & Allied Sector	80,544	77,061	15.9	-4.3
	ii) Industry Sector	98,721	1,07,528	6.7	8.9
	iii) Service Sector	2,12,486	2,46,010	14.8	15.8
	<b>Government Finances</b>				
II	<b>Revenue Receipts</b>	--	<b>80,090.33</b>	--	--
1	Share of Central Taxes	--	9,749.36	--	--
2	Tax Revenue	--	35,378.24	--	--
3	Non Tax Revenue	--	13,242.02	--	--
4	Grants-in-aid	--	21,720.71	--	--
III	<b>Capital Receipts</b>	--	<b>18,008.37</b>	--	--
5	Open Market Loans	--	12,700.00	--	--
6	Floating Debt(Gross)	--	630.00	--	--
7	Loans form the GOI	--	1,833.20	--	--
8	Other Loans	--	550.00	--	--
9	Deposits Transactions etc.(Net)	--	2,220.61	--	--
10	Loans and Advances	--	74.56	--	--
11	Other Receipts	--	0.00	--	--
12	Contingency Fund(Net)	--	0.00	--	--
IV	<b>Total Receipts(II + III)</b>	--	<b>98,098.70</b>	--	--
V	<b>Non Plan Expenditure(13 + VI)</b>	--	<b>51,989.49</b>	--	--
13	On Revenue Account	--	48,676.42	--	--
14	Of which Interest Payments	--	5,925.06	--	--
VI	<b>Capital Disbursements</b>	--	<b>3,313.07</b>	--	--
15	Capital Expenditure	--	0.00	--	--
16	Floating Debt	--	630.00	--	--
17	Public Debt Repayment	--	588.05	--	--
18	Loans Form GOI	--	389.07	--	--
19	Other Loans	--	1,467.23	--	--
20	Loans and Advances	--	238.72	--	--
VII	<b>Plan Expenditure</b>	--	<b>48,648.47</b>	--	--
21	On Revenue Account	--	31133.33	--	--
22	On Capital Account	--	15080.74	--	--
23	Loans and Advances	--	2434.39	--	--
VIII	<b>Total Expenditure</b>	--	<b>100637.96</b>	--	--
	Revenue Expenditure(13 + 21)	--	79809.76	--	--
	Capital Expenditure(15 + 22)	--	15080.74	--	--
	Loans and Advances (20 + 23)	--	2673.11	--	--
	Capital Disbursements(16 to 19)	--	3074.35	--	--
IX	Revenue Surplus(II – 24)	--	301.02	--	--
X	Fiscal Deficit(IX - 25 - 26 + 10)	--	-17398.72	--	--
XI	Primary Deficit(X - 14)	--	-11473.66	--	--

<sup>1</sup> The State of Telangana was formed on June 2, 2014 following the AP Reorganisation Act, 2014. Hence, there are no figures for the year 2013-14.

<sup>2</sup> FRE: First Revised Estimate

<sup>3</sup> AE: Advance Estimates

## MACRO-ECONOMIC FRAMEWORK STATEMENT

Under sections 5 and 6 of the Fiscal Responsibility and Budget Management (FRBM) Act 2005, the State Government is required to present the Macroeconomic Framework Statement containing an overview of the State economy along with an analysis of growth and the sectoral composition of Gross State Domestic Product (GSDP) and an assessment of State Government finances and future prospects to the State Legislature.

### **Overview of the economy:**

2. The growth of the State economy has been witnessing deceleration since 2011-12 mainly on account of decline in the growth of the industry sector coupled with the slow pace of growth in the services sector. From a double digit average annual growth of 12.87 percent in constant prices (2004-5) in the years 2004-05 to 2008-09, growth of the State economy slipped to 4.1 percent in 2012-13. As per the advance estimates, growth is expected to recover to 5.3 percent in the current year 2014-15 from 4.8 percent in the preceding year. Trends in the growth of GSDP in Telangana at constant prices are presented below (Table-1).

**Table-1: GSDP of Telangana State at Constant Prices (2004-05)**

Year	GSDP (Rs.in crore)	Growth
2004-05	89,946	
2005-06	1,04,233	15.9
2006-07	1,16,343	11.6
2007-08	1,28,618	10.6
2008-09	1,45,902	13.4
2009-10	1,47,577	1.1
2010-11	1,74,185	18.0
2011-12 (TRE) <sup>4</sup>	1,89,269	8.7
2012-13 (SRE) <sup>5</sup>	1,97,056	4.1
2013-14 (FRE)	2,06,427	4.8
2014-15 (AE)	2,17,432	5.3

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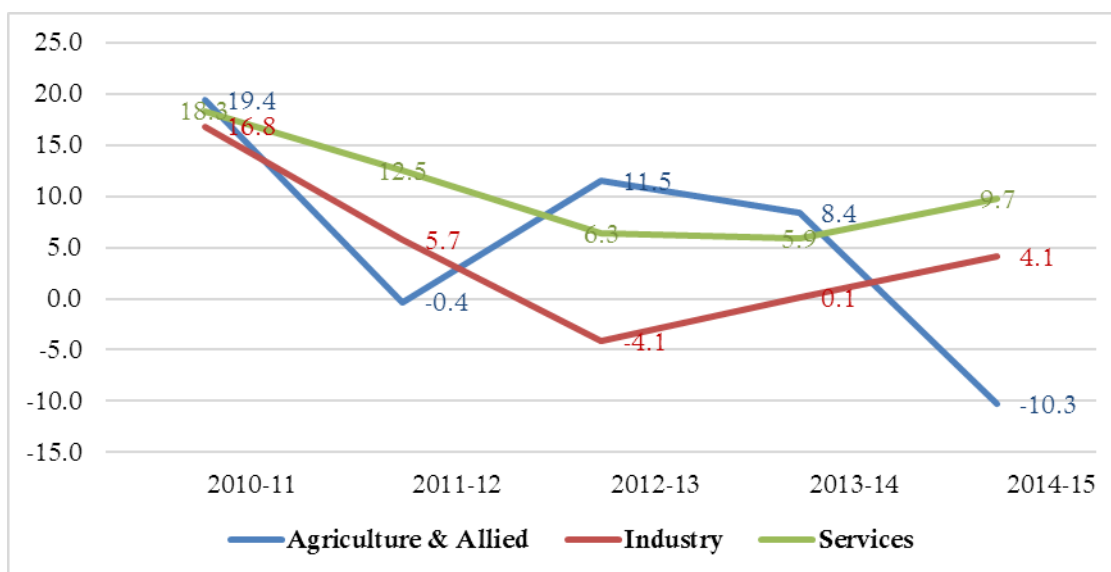
<sup>4</sup> TRE: Third Revised Estimates

<sup>5</sup> SRE: Second Revised Estimates

### Growth Rates-Sector-wise

3. While the growth in services sector is estimated to improve from 5.9 percent in 2013-14 to 9.7 percent in 2014-15, the improvement in the growth of the industry sector is from 0.1 percent to 4.1 percent in the same period. The delayed onset of monsoon and deficient rainfall has adversely impacted the growth of the agriculture sector in 2014-15. The deficiency in south west monsoon rains is over 30 percent of the normal and only 42 percent of the rainfall received last year. The deficiency in the rainfall received from North East monsoon is 58 percent as compared with the normal rainfall growth. The deficient rainfall has resulted in decline in area under foodgrains by nearly 19 percent and that under oil seeds by over 11 percent in 2014-15 compared with the preceding year. As a result, the growth of the agriculture sector is estimated to decline by 10.3 percent in 2014-15 as compared with a growth of 8.4 percent in the preceding year. Trends in sector-wise growth rates in Telangana are presented below (Figure-1).

**Figure-1: Trends in Sector-wise Growth Rates in Telangana at Constant Prices**



### Sectoral Composition of GSDP

4. In current prices, the shares of agriculture, industry and services sector in GSDP in 2014-15 are 17.9 percent, 25.0 percent and 57.1 percent, respectively. While the share of agriculture sector remained constant at 17.9 percent between 2004-05 and 2014-15, the share of industry sector witnessed a decline from 28.3 percent to 25.0

percent and that of the services sector improved correspondingly from 53.8 percent to 57.1 percent in the same period.

### **Growth Rates of Telangana and All-India**

5. All-India Gross Domestic Product (GDP) at 2011-12 prices is estimated to grow from 6.9 percent in 2013-14 to 7.4 percent in 2014-15. Recently, the Central Statistical Office has revised the GDP series shifting the base year from 2004-05 to 2011-12. There has been no corresponding revision GSDP estimation at the State level. Therefore, the estimates of All-India GDP with 2011-12 as the base year and the estimate of GSDP with 2004-05 as the base year are not comparable.

### **Per capita Income**

6. The per capita income gives a better idea about the level of development in a State. As per the advance estimates, the per capita income of Telangana State at Current Prices increased to Rs.1,03,889 in 2014-15 from Rs.95,361 in 2013-14 registering a growth of 8.9 percent. The per capita income at constant (2004-05) prices has gone up from 48,881 in 2013-14 to Rs.51,017 in 2014-15 registering a growth rate of 4.4 percent.

7. The per capita income of the State in 2014-15 at Rs.1,03,889 in 2014-15 is higher than the national average of Rs. 88,533. Trends in the per capita income of Telangana and All-India are presented below (Table-2).

**Table-2: Per capita Income at Current Prices**

Year	Telangana		All India <sup>6</sup>	
	Per Capita (Rupees)	Growth	Per Capita (Rupees)	Growth
2011-12 (TRE)	75,124		64,316	
2012-13 (SRE)	85,169	13.4	71,593	11.3
2013-14 (FRE)	95,361	12.0	80,388	12.3
2014-15 (AE)	1,03,889	8.9	88,533	10.1

<sup>6</sup>New Series Estimates (2011-12)

**Form F-2**  
**(See Rule 4 of FRBM Rules, 2006)**  
**MEDIUM TERM FISCAL POLICY STATEMENT**  
**A. Fiscal Indicators - Rolling Targets**

(in percentages)

			Previous Year (Y-2) (Actual) 2013-14	Current Year (Y-1) 2014-15 (Budget Estimate)	Current Year (Y-1) 2014-15 (Revised Estimate)	Ensuing Year (Y) 2015-16 (Budget Estimate)	Targets for next Two Years	
							2016-17	2017-18
1	Revenue Deficit / Surplus as percentage of Total Revenue Receipts (TRR)		-	0.38	0.35	0.56	0.10	0.10
2	Fiscal Deficit as percentage of GSDP	Target	--	4.79	4.04	3.49	3.49	3.49
		Achmt.	--	--	--			
3	Total outstanding Liabilities as percentage of GSDP	Target	--	--	--			
		Achmt.	--	--	--	--	--	--
4	[Any additional target(s)]		--	--	--	--	--	--

**Explanatory Notes:**

1. The higher fiscal deficit of 4.79 percent of the GSDP budgeted in 2014-15 as compared with the deficit of 3.0 percent of GSDP stipulated in the FRBM Act, 2005 is mainly on account of the higher expenditure commitments in farm, power, irrigation, drinking water and roads sector in the new State. Higher fiscal deficit has been budgeted in anticipation of the relaxation of FRBM borrowing limits for the new State of Telangana at least in the first year of formation of the State. The revised estimate of fiscal deficit for the year 2014-15 is based on the Advance Estimate of GSDP at current prices amounting to Rs.4,30,599 crore.
2. A fiscal deficit of 3.49 percent of estimated GSDP has been budgeted in 2015-16 taking into account the recommendation of the Fourteenth Finance Commission allowing flexibility of 0.50 percent over and above the annual fiscal deficit limit of 3 per cent of GSDP on fulfilling certain conditions. Telangana is likely to fulfil the conditions for availing the additional borrowing limit of 0.5 per cent of GSDP.

## FORM - F 3

### FISCAL POLICY STRATEGY STATEMENT

*(Under Rule 6 of FRBM Rules 2006)*

The State's Fiscal Policy Strategy Statement set out below is mandated to be laid before the Legislature under sections 5 and 6 of the Fiscal Responsibility and Budget Management (FRBM) Act, 2005. The Strategy Statement shall include a policy overview and the outlook for the ensuing year on taxation, expenditure, borrowings, Sinking and the Contingency Fund.

2. As mandated in the above Act, the State Government was required to eliminate Revenue Deficit by 31st March, 2009 by reducing it by 0.32 percentage points of GSDP every year. At the same time, fiscal deficit had to be brought down to 3% of GSDP by reducing it by 0.25 of GSDP points every year. The erstwhile State of Andhra Pradesh maintained revenue surplus every year. Telangana is a new State and there are a number of issues in realistically estimating the revenue potential of the State. There are huge expenditure commitments in sectors, such as, farm, power, drinking water, irrigation and roads sectors. Expecting relaxation of FRBM limit of 3 percent of GSDP at least in the first year of the formation of the State, higher fiscal deficit was budgeted in 2014-15 (BE).

3. The Fourteenth Finance Commission has recommended that the fiscal deficit of all States should be anchored to an annual limit of 3 percent of GSDP during the five-year period 2015-20. It recommended that State will be eligible for flexibility of 0.25 per cent over and above this limit for any given year for which their debt-GSDP ratio is less than or equal to 25 percent in the preceding year. A further relaxation of 0.25 percent of GSDP has been recommended if the interest payments are less than or equal to 10 percent of the revenue receipts in the preceding year. These two relaxations can be availed either separately or simultaneously only if there is no revenue deficit in the year in which the borrowing limits are to be fixed and the immediately preceding year. As the state is likely to be eligible for the relaxed limits, a fiscal deficit of 3.49 per cent of GSDP has been budgeted in 2015-16.

## **Fiscal Strategy**

4. The fiscal policy for the year 2015-16 is intended to promote agricultural and industrial development of the State thereby revive the growth prospects of the State economy, which has been witnessing a slowdown in recent years without compromising on the welfare of the common man. Towards this goal, the financial administration of the State is being streamlined by putting in place a Comprehensive Financial Management System (CFMS). This system driven by modern technology will bring all financial transactions on line and is expected to usher in a total transparent system of financial management.

5. Apart from modernising the financial system, the system is planning to augment resource mobilisation by plugging leakages in the existing sources of revenue and identifying new sources of revenue. As part of the broader of policy of reorienting and reinventing Telangana, a Task Force on Resource Mobilisation, among others, was constituted by the Government in August, 2014. The Task Force made a number of recommendations for augmenting revenues in different areas. Some of these recommendations are already under implementation.

## **Tax Revenue**

6. Tax revenue is the predominant source of resource to the State. Therefore, the State Government's strategy is to improve tax administration, plug leakages and to expand the tax base to fully exploit the tax potential available under various heads. Because of the softening on crude prices, the revenue from petroleum products had moderated. To arrest the fall in the revenue buoyancy of VAT, the Government has recently readjusted the VAT on petrol from 31 percent to 35.2 percent and that on diesel from 22.25 percent to 27.0 percent.

7. Based on the expected recovery of growth momentum, own tax revenue in 2015-16 is budgeted at Rs. 46,494.75 crore for the full year as compared with 2014-15 (BE) of Rs.35,378.24 crore for ten months.

## **Non-Tax Revenue**

8. Efforts are being made to improve the non-tax revenue of the State. One of the major sources of non-tax revenues to the state is royalty and seigniorage fees from



mines and minerals. To improve revenue and to eliminate evasion, the Government has recently amended the Telangana State Sand Mining Rules on February 19, 2015. These amendments provide for streamlined sand mining in the State and imposition of stiff penalties for illegal extraction and transportation of sand. The recently introduced e-challans for the payment of fines for traffic violations has considerably improved the collection of fines. Efforts are also being made to improve other sources of non-tax revenues.

9. The State's non-tax revenue is estimated at Rs. 22,413.27 crore, which includes revenue from mines and minerals at Rs.3,300 crore, contra interest of Rs.2696.38 crore, revenue from forests at Rs.125 crore and Rs. 13,500 crore from the regularisation and sale of government land, among others.

### **Expenditure Strategy:**

10. Productivity of public expenditure is proposed to be enhanced through better expenditure management, elimination of discretion and strengthening of monitoring and evaluation. An Evaluation Authority for the State of Telangana (EAST) is proposed to be set up to evaluate all major ongoing programmes of the government and to suggest improvements in their implementation to facilitate mid-course correction and to improve the productivity of public expenditure.

11. The strategy of the Government's expenditure management is to redirect expenditure away from less productive schemes towards investments which will result in lasting benefits to people. The Government firmly believes that development has no meaning if the poor are left out. With these objectives in view, the Government has taken up a number of flagship programmes. These include "Mission Kakatiya" for the restoration of tanks, Water Grid, for the provision of piped drinking water to every household, Harith Haram to increase green cover, road development and Aasara pensions, among others. The government has increased the income ceiling for the purpose of food subsidy and increased the provision of subsidized rice to 6 kg. Per family member without any upper limit on the quantity supplied to a family.

12. Welfare of the people is the main criteria adopted by the Government in planning its expenditure commitments.

## **Debt Management**

13. Effective debt management is vital for fiscal management. A pro-active approach to debt management is essential for better budget formulation that is consistent with the medium term fiscal policy. The main objective of debt management in the State is to ensure that the financing of the budget and refinancing of the debt is done at the lowest possible cost in medium- to long term, all within prudent limits of risk. To promote economic development and to increase investments in lasting and productive assets, efforts will be made to supplement the resources of the State Government through the additional cushion recommended by the Fourteenth Finance Commission to less debt stressed States. Thus the strategy is explore raising borrowing for productive investments within prudent limits.

### **Guarantees Assessment:**

14. The FRBM Act stipulates to limit the amount of annual incremental risk weighted guarantees to 90% of the total revenue receipts (TRR) in the year preceding the current year. The State Government guarantees are within these limits.

**FORM D-1**

[See rule 6 of FRBM Rules, 2006]

**SELECT FISCAL INDICATORS**

<b>SN</b>	<b>Item</b>	<b>2013-14 (Actuals)</b>	<b>2014-15 (RE)</b>
1	Gross Fiscal Deficit as Percentage of GSDP	--	4.04
2	Revenue Deficit/Surplus as Percentage of Gross Fiscal Deficit	--	1.61
3	Revenue Deficit/Surplus as Percentage of GSDP	--	0.07
4	Revenue Deficit/Surplus as Percentage of TRR	--	0.35
5	Total Liabilities -GSDP Ratio (%)	--	--
6	Total Liabilities - Total Revenue Receipts (%)	--	--
7	Total Liabilities –State’s Own Revenue Receipts (%)	--	--
8	State’s Own Revenue Receipts to Revenue Expenditure (%)	--	60.92
9	Capital Outlay as Percentage of Gross Fiscal Deficit	--	102.04
10	Interest Payment as Percentage of Revenue Receipts	--	7.40
11	Salary Expenditure as Percentage of Revenue Receipts	--	23.88
12	Pension Expenditure as Percentage of Revenue Receipts	--	8.22
13	Non-developmental Revenue Expenditure as Percentage of aggregate disbursements(TRE)	--	27.18
14	Gross Transfers from the Centre as Percentage of Aggregate Disbursements(TRE)	--	27.21
15	Non-tax Revenue as Percentage of TRR	--	16.53

Note: Final distribution of Total liabilities between the successor states of Telangana and Andhra Pradesh is yet to be finalized.

**FORM D-2**  
[See rule 6 of FRBM Rules, 2006]

**A. Components of State Government Liabilities**

(Rs.in crore)

Category	Raised during the Fiscal Year		Repayment/Redemption during the fiscal year		Outstanding amount (End-March)	
	2013-14 actual	2014-15 (RE)	2013-14 actual	2014-15 (RE)	2013-14 actual	2014-15 (RE)
Market Borrowings	--	12700.00	--	588.04	--	--
Loans from Centre	--	1833.20	--	389.07	--	--
Special Securities issued to the NSSF	--	--	--	508.00	--	--
Borrowings from Financial Institutions/ Banks	--	550.00	--	909.23	--	--
WMA/OD from RBI	--	630.00	--	630.00	--	--
Provident Funds, Insurance Funds etc.	--	1698.16	--	1410.19	--	--
<b>Total</b>	<b>--</b>	<b>17411.36</b>	<b>--</b>	<b>4434.54</b>	<b>--</b>	<b>--</b>

Note: Final distribution of outstanding liabilities between the successor states of Telangana and Andhra Pradesh is yet to be finalized.

**FORM D-3**

[See rule 6 of FRBM Rules, 2006]

**Consolidated Sinking Fund (CSF)**

(Amount in Rs. Crore)

Outstanding balance in CSF at the beginning of the 2013-14	Additions to CSF during the 2013-14	Withdrawals from CSF during the 2013-14	Outstanding balance in CSF at the end of the 2013-14/ beginning of 2014-15	(4)/ Outstanding Stock of SLR Borrowings (%)	Additions to CSF during the 2014-15 (RE)	Withdrawal- also from CSF during the 2014-15	Outstanding at the end of 2014-15/ beginning of 2015-16 (June)	(8)/ Stock of SLR Borrowings (%)
1	2	3	4	5	6	7	8	9
-	-	-	2360.92	3.97	366.68	-	2727.60	4.56

Note: The figures are provisional

**FORM D-5**

[See rule 6 of FRBM Rules, 2006]

**Outstanding Risk - weighted Guarantees**

(Rs.in crore)

Default Probability	Risk weights	Amount outstanding as in the Previous Year and the Current Year		Risk weighted outstanding Guarantee in the Previous Year and the Current Year	
		2013-14	2014-15	2013-14	2014-15
Direct Liabilities	100	--	16787.18	--	16787.18
High Risk	75	--	--	--	--
Medium Risk	50	--	--	--	--
Low Risk	25	--	--	--	--
Very Low Risk	5	--	--	--	--
<b>Total Outstanding</b>		--	16787.18	--	16787.18

Note: The figures are provisional and based on the distribution of Guarantees between the successor states of Telangana and Andhra Pradesh. Since the formation of Telangana no Guarantees have been extended so far. Classification of Guarantees by risk weight has not yet been done.

**FORM D-6**

[See rule 6 of FRBM Rules, 2006]

**Guarantee Redemption Fund (GRF)**

(Rs.in crore)

Outstanding invoked guarantees at the end of the 2013-14	Outstanding Amount in GRF at the end of 1 <sup>st</sup> June-2014	Amount of Guarantees (Likely to be Invoked during the 2014-15)	Addition to GRF during the 2014-15	Withdrawal from the GRF during the 2014-15	Outstanding Amount in GRF at the end of the 2014-15
(1)	(2)	(3)	(4)	(5)	(6)
--	367.73	--	--	--	367.73

Note: The figures are provisional