

# Evaluation of State Finances: A Study of Telangana



A study submitted to the 16<sup>th</sup> Finance Commission

## **About Indian School of Business**

---

The Indian School of Business (ISB) evolved from a need for a world-class business school in Asia. The founders, some of the best minds from the corporate and academic worlds, foresaw the leadership needs of emerging economies, particularly the need for young leaders with a global perspective. ISB is committed to creating such leaders.

Funded entirely by private corporations, foundations, and individuals from around the world who believe in its vision, ISB is a not-for-profit organisation.

It has the distinction of carrying a 'triple crown' – accreditations from the AMBA, the EFMD Quality Improvement System (EQUIS), and the Association to Advance Collegiate Schools of Business (AACSB).

## **About Bharti Institute of Public Policy**

---

Bharti Institute of Public Policy is a premier research centre and education institution, nurturing future leaders in the public policy domain. The objective is to impart high-quality education and conduct insightful research in public policy, cultivate leaders who are skilled in both policy formulation and implementation through world-class programmes, and collaborate with key stakeholders to influence public policy at the national and international level for the social good. The institute focuses on policy-related issues across a wide range of disciplines, ranging from agriculture and food, environment, education, finance, governance, and digital identity, for shaping the future of public policy.

The Bharti Institute of Public Policy at the Indian School of Business, through its numerous Projects, Research endeavours, Asynchronous Training Courses, Legislative Support Programme, and most notably, the flagship Advanced Management Programme in Public Policy (AMPPP), has garnered a reputable standing in the sphere of public policy. As a premier public policy institute, the engagement is with a multitude of stakeholders from the private sector and policymaking community, providing them with data-driven evidence, research, and analytical insights on pressing issues. The institute has partnered with the Fletcher School at Tufts University located in Massachusetts, USA. The team of faculty and staff members are highly experienced and possess a wealth of knowledge in the domains of public policy and management, enabling the institute to undertake extensive research for arriving at informed public policy decisions and to drive transformative change in society.

Bharti Institute is currently involved with several departments and ministries of Government of India. At the state government level, the institute is collaborating with multiple departments across states such as Meghalaya, Himachal Pradesh, Jharkhand, Punjab, Andhra Pradesh, Bihar, Tamil Nadu, Madhya Pradesh, Odisha, and Telangana. Furthermore, Bharti Institute has collaborations with government agencies and institutions, such as NITI Aayog, Lal Bahadur Shastri National Academy of Administration, Registrar General of India, Quality Council of India, Environment Protection and Training and Research Institute, and National Institute of Urban Affairs.

The institute has received numerous grants and projects from national and international funding organisations such as the Bill and Melinda Gates Foundation, Swedish Research Council, International Land and Tenure Facility, Dutch Research Council, Environmental Defense Fund, Hindustan Unilever, and Tata Trusts. The Bharti Institute has come a long way and today stands tall as one of India's eminent public policy think tanks engaging with eminent policy makers and providing them with critical, data-driven evidence, research, and analysis of relevant and critical concern.

## TABLE OF CONTENTS

Chapter	Description	Page No.
	Table of Content	i-v
	List of Tables	vi-ix
	List of Figures	x-xii
	Abbreviations	xiii-xiv
	Terms of Reference for Studies on Evaluation of Finances of Telangana.	xv-xvi
	Executive Summary	xvii- xxvi
<b>Chapter 1</b>	<b>Telangana State Profile: An overview</b>	<b>1-8</b>
	<b>1.1</b> Introduction	1
	<b>1.2</b> Key Statistics of the State	1
<b>Chapter 2</b>	<b>Fiscal Outline of Telangana</b>	<b>9-86</b>
	<b>2.1</b> Revenue Receipts	9
	<b>2.1.1</b> <i>Budget Estimates Vis-À-Vis Actuals</i>	11
	<b>2.1.2.</b> <i>Tax Revenue</i>	13
	<b>2.1.3</b> <i>Components of Tax Revenue</i>	15
	<b>2.1.4</b> <i>State's Own Tax Revenue</i>	16
	<b>2.1.5</b> <i>State's Own Tax Revenue-GSDP Ratio</i>	20
	<b>2.1.6</b> <i>Share in Central Taxes</i>	23
	<b>2.1.7</b> <i>Non-Tax Revenue</i>	25
	<b>2.1.8</b> <i>State's Own Non-Tax Revenue</i>	26
	<b>2.1.9</b> <i>Dividends &amp; Profits</i>	31
	<b>2.1.10</b> <i>User Charges</i>	32
	<b>2.1.11</b> <i>Suggestions to Enhance State's Own Non-Tax Revenue</i>	31
	<b>2.1.12</b> <i>Grants from the Centre</i>	32
	<b>2.1.13</b> <i>Revenue Receipts Relative to GSDP</i>	34
	<b>2.2</b> Revenue Expenditure	35
	<b>2.2.1</b> <i>Comparison with Andhra Pradesh &amp; General Category States</i>	41
	<b>2.2.2</b> <i>Budget Estimates Vis-À-Vis Actuals</i>	45

	2.2.3	<i>Revenue Receipts and Expenditure: Comparative Analysis</i>	47
	2.2.4	<i>Recommendations for Enhance Expenditure Efficiency.</i>	48
	2.3	Capital Receipts	49
	2.3.1	<i>Internal Debt</i>	54
	2.3.2	<i>Recovery of Loans and Advances</i>	55
	2.3.3	<i>Remittances</i>	56
	2.3.4	<i>Budget Estimates Vis-À-Vis Actuals</i>	57
	2.4	Capital Expenditure	58
	2.4.1	<i>Total Capital Outlay</i>	60
	2.4.2	<i>Discharge of Internal Debt</i>	63
	2.4.3	<i>Loans and Advances by State Government</i>	64
	2.4.4	<i>Suspense and Miscellaneous</i>	66
	2.4.5	<i>Budget Estimates Vis-À-Vis Actuals</i>	66
	2.4.5	<i>Capital disbursement: Comparison of Telangana with</i>	67
	(ii)	<i>Andhra Pradesh and Non-Special Category States</i>	
	2.5	Development & Non-Development Expenditure of the State	70
	2.5.1	Comparison with Andhra Pradesh and General Category States	72
	2.6	Committed Expenditure: Growth and Trends	75
	2.7	Tax-GSDP Ratio	78
	2.7.1	Measures to Improve Tax-GSDP Ratio and Revenue Productivity of the State	79
	2.7.2	Impact of GST on State Finances	80
	2.8	Deficit Indicators of the State	80
<b>Chapter 3</b>		<b>Debt and liability of Telangana.</b>	<b>87-96</b>
	3.1	Outstanding Liabilities	87
	3.2	Debt-to-GDSP Ratio	90
	3.3	Debt Growth Rate	92
	3.3.1	<i>Loans from the Centre</i>	93

	3.3.2 <i>Borrowings from International Bilateral &amp; Multilateral Lending Agencies</i>	93
	3.3.3 <i>Debt Management &amp; Sustainability</i>	94
	3.3.3.1 <i>Indicators of Debt Sustainability</i>	94
	3.3.3.2 <i>Debt Maturity Profile</i>	96
	3.3.3.3 <i>Off-Budget Borrowings</i>	96
<b>Chapter 4</b>	<b>Fiscal Consolidation and Management</b>	<b>97-102</b>
	4.1 <i>Telangana Fiscal Responsibility and Budget Management Act, 2006</i>	97
	4.1.1 <i>Fiscal Consolidation Overview</i>	98
	4.1.2 <i>Fiscal Deficit</i>	99
	4.1.3 <i>A Critical Analysis of Rising Liabilities and Fiscal Challenges</i>	101
	4.1.4 <i>Revenue Balance</i>	101
	4.1.5 <i>Debt Management</i>	102
<b>Chapter 5</b>	<b>Transfers to Urban Local Bodies and Panchayati Raj Institutions</b>	<b>103-110</b>
	5.1 <i>Telangana Panchayati Raj Act</i>	103
	5.2 <i>Receipts &amp; Expenditure of PRIs</i>	104
	5.2.1 <i>Source of Funds</i>	104
	5.2.2 <i>Application of Fund</i>	105
	5.2.3 <i>Assistance by State Finance Commission</i>	106
	5.2.4 <i>Prevailing Mechanism of Auditing of PRIs</i>	106
	5.3 <i>Receipts &amp; Expenditure of Urban Local Bodies(ULB)</i>	107
	5.3.1 <i>Sources of Funds</i>	107
	5.3.2 <i>Application of Funds</i>	108
	5.3.3 <i>Financial Assistance by State Finance Commission</i>	108
	5.3.4 <i>Prevailing Mechanism of Auditing of ULBs</i>	108
	5.4 <i>14th Finance Commission: Assistance to PRIs &amp; ULBs</i>	108
<b>Chapter 6</b>	<b>Fiscal Position of State Public Enterprises in Telangana</b>	<b>113-118</b>
	6.1 <i>Stake of Government of Telangana</i>	113

	<b>6.2</b> Budgetary Support to PSUs <b>6.3</b> Performance of PSUs <b>6.4</b> Dissolution and Winding Up of Non-Working PSUs	114 115 117
<b>Chapter 7</b>	<b>Power Sector of Telangana</b>  <b>7.1</b> Revenue Expenditure on Power Sector in Telangana <b>7.2</b> Budgetary Assistance: Grants-In-Aid <b>7.3</b> Government Investment in Power Sector PSU's <b>7.4</b> Financial Turnaround of Discoms (Uday Scheme): Debt Management & Progress <b>7.5</b> Performance of Power Distribution Companies <b>7.5.1</b> <i>Northern Power Distribution Company of Telangana Limited</i> <b>7.5.1.1</b> <i>Operational Performance</i> <b>7.5.1.2</b> <i>Financial Performance</i> <b>7.5.2</b> <i>Southern Power Distribution Company of Telangana Limited</i> <b>7.5.2.1</b> <i>Operational Performance</i> <b>7.5.2.2</b> <i>Financial Performance</i> <b>7.6</b> Disruption to the Fiscal Health of the State <b>7.7</b> Conclusion	<b>119-138</b> 119 120 121 122 124 125 125 127 129 129 131 132 137
<b>Chapter 8</b>	<b>Contingent Liabilities of Telangana</b>  <b>8.1</b> Explicit Contingent Liabilities <b>8.2</b> Implicit Contingent Liabilities <b>8.3</b> Analysis of Telangana's Contingent Liabilities <b>8.4</b> Fiscal Risks and Compliance Challenges	<b>139-143</b> 139 139 140 141
<b>Chapter 9</b>	<b>Subsidies Given by Telangana</b>  <b>9.1</b> Key Subsidy Programs in Telangana: An Overview <b>9.2</b> Analysis of Five-Year Subsidy Expenditure and Revenue Receipt Trends	<b>144-151</b> 144 146

	9.3	Summary of Subsidy and Grants-in-Aid Expenditure	147
	9.4	Conclusion	150
<b>Chapter 10</b>	<b>Recommendation of the 15<sup>th</sup> and 14<sup>th</sup> Finance Commission: An Outcome Evaluation</b>		<b>152-158</b>
	10.1	15 <sup>th</sup> Finance Commission	152
	10.1.1	Strengths and Opportunities	153
	10.1.2	Risk and Challenges	154
	10.1.3	Observations by Auditor General, Telangana	156
	10.2	14 <sup>th</sup> Finance Commission	157
<b>Chapter 11</b>	<b>Recommendation for Establishing a Sustainable Debt Roadmap</b>		<b>159-167</b>
	11.1	Evaluating Telangana's Fiscal Health: Positive Revenue Growth amidst Fiscal Deficit Challenges	159
		Strategic Roadmap for Enhancing Telangana's Fiscal Health: Addressing Challenges and Securing Financial Stability	164
	11.2	Health: Addressing Challenges and Securing Financial Stability	
	11.2.1	<i>Forecasting a Sustainable Debt Roadmap (2026-31)</i>	164
	11.3	Determinants for A Sustainable Debt Roadmap for 2026-31: Taking into account Tax and Non-Tax Trends.	166
	11.3	Outlook for 2026-2030	167
<b>Chapter 12</b>	<b>Suggestions for Improving the Financial Performance of Telangana</b>		<b>169-184</b>
	12.1	Specific Strategies to Enhance Revenue Receipts of Telangana	169
	12.2	Strategic Approaches for Optimizing Revenue Expenditure in Telangana	173
	12.3	Strategies to Enhance Capital Receipts of Telangana	176
	12.4	Strategies to Improve Capital Expenditure of Telangana	180
	Concluding Remarks		185
	References		187

## LIST OF TABLES

<b>CHAPTER 1</b>	<b>PAGE</b>
	<b>NO</b>
TABLE 1   Population structure in Telangana (in Lakhs)	2
<b>CHAPTER 2</b>	
TABLE 2.1   Revenue Receipts (in Cr INR)	10
TABLE 2.2   Revenue Receipts - Budget estimates vis-a-vis Accounts (in Cr INR)	12
TABLE 2.3   State's Own Tax to GSDP ratio	21
TABLE 2.4   Revenue Expenditure (in Cr INR)	36
TABLE 2.5   Revenue Expenditure - Budget Estimates vis-à-vis Actuals	46
TABLE 2.6   Capital Receipts (in Cr INR)	51
TABLE 2.7   Internal Debt (in Cr INR)	55
TABLE 2.8   Components of 'Recovery of Loans and Advances' (in Cr INR)	56
TABLE 2.9   Capital Receipts: Budget estimates vis-a-vis Accounts	57
TABLE 2.10   Total Capital Disbursements (in Cr INR)	58
TABLE 2.11   Economic Services (in Cr INR)	61
TABLE 2.12   Social Services (in Cr INR)	62
TABLE 2.13   Loans and Advances on Social Services (in Cr INR)	65
TABLE 2.14   Loans and advances on Economic Services (in Cr INR)	65
TABLE 2.15   Capital Expenditure: Budget estimates vis-a-vis Accounts	67
TABLE 2.16   Developmental and Non-Developmental Expenditure (relative to GSDP) (in Cr INR)	71
TABLE 2.17   Components of Committed Expenditure (in Cr INR)	76
TABLE 2.18   Committed Expenditure relative to Receipts	77
TABLE 2.19   Tax Revenue to GSDP Ratio	78
TABLE 2.20   Deficit Indicators (in Cr INR)	81
TABLE 2.21   Deficit Indicators relative to GSDP (in %)	84
<b>CHAPTER 3</b>	
TABLE 3.1   Components of outstanding liabilities (in Cr INR)	88
TABLE 3.2   Component - Wise Debt Trends (in crore)	91

TABLE 3.3	Loans from the center (in Cr INR)	93
TABLE 3.4	Debt Sustainability: Indicators and Trends	95
<b>CHAPTER 4</b>		
TABLE 4.1	Medium-Term Fiscal Policy Statement (MTFPS)	99
TABLE 4.2	Telangana Budget 2023-24	100
TABLE 4.3	Components of State Government Liabilities	102
<b>CHAPTER 5</b>		
TABLE 5.1	Sources of Funds of PRIs (in Cr INR)	105
TABLE 5.2	Application of Funds by PRIs (in Cr INR)	106
TABLE 5.3	Financial Assistance to PRIs by State Government (in Cr INR)	106
TABLE 5.4	Sources of Funds of ULBs (in Cr INR)	107
TABLE 5.5	Application of Funds by ULBs (in Cr INR)	108
TABLE 5.6	Financial Assistance to ULBs by State Government (in Cr INR)	108
TABLE 5.7	Basic Grants (in Crores INR)	110
TABLE 5.8	Performance Grants (in Crore INR)	110
<b>CHAPTER 6</b>		
TABLE 6.1	Sectoral Distribution of Telangana PSUs	113
TABLE 6.2	Budgetary Support to Telangana PSUs (2021-22)	114
TABLE 6.3	Number Of PSUs Incurring Losses	115
TABLE 6.4	Key Performance Indicators	116
TABLE 6.5	Return on Equity of PSUs	117
<b>CHAPTER 7</b>		
TABLE 7.1	Revenue Expenditure on Power Sector of Telangana (In Cr)	120
TABLE 7.2	Operational Performance of The Northern Power Distribution Company of Telangana Limited (TSNPDCL)	126
TABLE 7.3	Financial Performances of the Northern Power Distribution Company of Telangana Limited (TSNPDCL)	128
TABLE 7.4	Operational Performances Southern Power Distribution Company of Telangana Limited, (TSNPDCL)	130

TABLE 7.5	Financial Performance of the Southern Power Distribution Company of Telangana Limited, (TSNPDCL)	132
<b>CHAPTER 8</b>		
TABLE 8.1	Guarantees given by the Government of Telangana	140
<b>CHAPTER 9</b>		
TABLE 9.1	Expenditure on Subsidies (in Cr INR)	146
TABLE 9.2	Summary of Subsidy and Grants-in-Aid Expenditure by the Telangana State Government	147
TABLE 9.3	Summary of Releases Classified as ‘Other Grants-in-Aid’ under Detailed Head 310 (in Cr INR)	149
<b>CHAPTER 11</b>		
TABLE 11.1	Fiscal Indicators of Telangana (2018-19 to 2022-23)	162

## LIST OF FIGURES

<b>CHAPTER 1</b>	<b>PAGE NO</b>
FIGURE 1.1 Estimated Population of Telangana	3
FIGURE 1.2 Population of Telangana (in lakhs)	3
FIGURE 1.3 Gender wise 0-6 Population (In lakhs)	4
FIGURE 1.4 Literacy Rate and Gender wise Literacy Rate	4
FIGURE 1.5 Gross State Domestic Product of Telangana (at Current Prices) In Crores	5
FIGURE 1.6 Gross State Domestic Product of Telangana (at Constant prices) In Crores	6
FIGURE 1.7 Per Capita Income of Telangana (at current Prices)	7
FIGURE 1.8 Per Capita Income of Telangana (at constant prices)	7
FIGURE 1.9 Per Capita Income of Indian States (at constant prices)	8
<b>CHAPTER 2</b>	
FIGURE 2.1 Revenue Receipts (in Cr INR)	10
FIGURE 2.2 Annual Growth in Revenue Receipts (%)	11
FIGURE 2.3 Revenue Receipts - Gap between Actuals and Estimates (in Cr INR)	12
FIGURE 2.4 Percentage difference Budget Estimates and Actuals (in %)	13
FIGURE 2.5 Tax Revenue (in Cr INR)	14
FIGURE 2.6 Tax Revenue of Non-Special category States (2021-22 Accounts, as %)	15
FIGURE 2.7 Components of Tax Revenue (in Cr INR)	16
FIGURE 2.8 Components of State's Own Tax Revenue (in Cr INR)	17
FIGURE 2.9 Composition of Taxes on Property and Capital (in Cr INR)	18
FIGURE 2.10 Composition of Taxes on Commodities	19
FIGURE 2.11 Own Tax Revenue of Non-Special category States (2021-22 Accounts, as %)	20
FIGURE 2.12 State's Own Tax Revenue relative to GSDP (in %)	22
FIGURE 2.13 Ratio of Own Tax Revenue to GSDP of Non-Special Category States (in %, 2021-22 Accounts)	22

FIGURE 2.14	Composition of Share in Central Taxes (2023-24 Budget Estimates)	24
FIGURE 2.15	Share in Central Taxes of Non-Special Category (2021-22 Accounts)	24
FIGURE 2.16	Non-Tax Revenue (in Cr INR)	25
FIGURE 2.17	Non-Tax revenue of Non-Special Category States (2021-22 Accounts)	26
FIGURE 2.18	State's Own Non-Tax Revenue of Non-Special Category States (2021-22 Accounts)	27
FIGURE 2.19	Components of State's Own Non-Tax Revenue (in Cr INR)	29
FIGURE 2.20	Composition of Economic Services (2023-24 Budget Estimates)	29
FIGURE 2.21	Composition of Social Services (2023-24 Budget Estimates)	30
FIGURE 2.22	Ratio of State's Own Non-Tax Revenue to GSDP of Non-Special Category States (in %, 2021-22 Accounts)	30
FIGURE 2.23	Dividends & Profits (in Cr INR)	32
FIGURE 2.24	Grants from the Centre (in Cr INR)	33
FIGURE 2.25	Grants from Centre of Non-Special Category States (2021-22 Accounts)	34
FIGURE 2.26	Ratio of Revenue Receipts to GSDP of Non-Special Category States (in %, 2021-22 Accounts)	35
FIGURE 2.27	Revenue Expenditure (in Cr INR)	36
FIGURE 2.28	Annual growth in Revenue Expenditure (in %)	37
FIGURE 2.29	Developmental Expenditure (in Cr INR)	37
FIGURE 2.30	Non-Developmental Expenditure (in Cr INR)	38
FIGURE 2.31	Grants-in-Aid and Contributions (in Cr INR)	38
FIGURE 2.32	Components of Non-Developmental Expenditure (in Cr INR)	39
FIGURE 2.33	Components of Developmental Expenditure (in Cr INR)	40
FIGURE 2.34	Composition of Social Services (2023-24 Budget Estimates)	41
FIGURE 2.35	Composition of Economic Services (2023-24 Budget Estimates)	41
FIGURE 2.36(I)	Per Capita Revenue Expenditure of Non-Special Category States (in %) (2021-22 Accounts)	42

FIGURE 2.36 (II)	Per Capita Revenue Expenditure on Social Services in the Non-Special Category States (in %) (2021-22 Accounts)	42
FIGURE 2.36(III)	Per Capita Revenue Expenditure on Economic Services in the Non-Special Category States (in %) (2021-22 Accounts)	43
FIGURE 2.36(IV)	Ratio of Revenue Expenditure to GSDP of Non-Special Category States (in %) (2021-22 Accounts)	43
FIGURE 2.37	Ratio of Developmental Expenditure to GSDP of Non-Special Category States (in %) (2021-22 Accounts)	44
FIGURE 2.38	Ratio of Non-Developmental Expenditure to GSDP of Non-Special Category States (in %) (2021-22 Accounts)	45
FIGURE 2.39	Revenue Expenditure - Gap between estimates and actuals (in Cr INR)	46
FIGURE 2.40	Percentage difference between estimates and accounts (in %)	46
FIGURE 2.41	Annual growth in Revenue Receipts and Revenue Expenditure (in %)	47
FIGURE 2.42	Ratio of Own Revenue to Revenue Expenditure of Non-Special Category States (in %) (2021-22 Accounts)	48
FIGURE 2.43	Capital Receipts (I) (in Cr INR)	51
FIGURE 2.44	Capital Receipts (II) (in Cr INR)	52
FIGURE 2.45	Capital Receipts (III) (in Cr INR)	53
FIGURE 2.46	Capital Receipts (IV) (in Cr INR)	53
FIGURE 2.47	Growth of Capital Receipts (in %)	54
FIGURE 2.48	Capital Receipts: Gap between Estimates and Accounts (in Cr INR)	57
FIGURE 2.49	Components of Capital Expenditure (partial) (in Cr INR)	59
FIGURE 2.50	Annual growth in Capital Expenditure (in %)	60
FIGURE 2.51	Trends in Capital Disbursement (in Cr INR)	61
FIGURE 2.52	Composition of Total Capital Outlay for Economic and Social Developmental (2023-24 Budget Estimates)	63
FIGURE 2.53	Composition of Internal Debt (2023-24 Budget Estimates)	64
FIGURE 2.54	Composition of Loans and Advances by State Government (2023-24 Budget Estimates)	64

FIGURE 2.55	Composition of Suspense and Miscellaneous' by State Government (2023-24 Budget Estimates)	66
FIGURE 2.56 (I)	Capital Expenditure: Gap between Estimates and Actuals (in Cr INR)	67
FIGURE 2.56 (II)	Capital Disbursement of Non-Special Category States ((2021-22 Accounts) (in crores)	68
FIGURE 2.56 (III)	Per capital Disbursement of Telangana with Non-Special Category States (2021-22 Accounts)	68
FIGURE 2.56 (IV)	Per capita Capital Expenditure on Social Services in the Non-Special Category States (2021-22 Accounts)	69
FIGURE 2.56 (V)	Per capita capital expenditure on Economic Services in the Non-Special Category States (2021-22 Accounts)	70
FIGURE 2.57	Developmental and Non-Developmental Expenditure (in Cr INR)	72
FIGURE 2.58 (I)	Developmental Expenditure of Non-special category states (2021-22 Accounts) (in Cr INR)	73
FIGURE 2.58 (II)	Per Capita Developmental Expenditure of Non-special category states (2021-22 Accounts)	73
FIGURE 2.59 (I)	Non-Developmental Expenditure of Non-special category states (2021-22 Accounts) (in Cr INR)	74
FIGURE 2.59 (II)	Per capita Non-Developmental Expenditure of Non-special category states (2021-22 Accounts)	75
FIGURE 2.60	Components of Committed Expenditure (in Cr INR)	76
FIGURE 2.61	Committed Expenditure relative to Revenue Receipts (in %)	77
FIGURE 2.62	Committed Expenditure relative to Total Receipts (in %)	77
FIGURE 2.63	Tax revenue to GSDP ratio (in %)	79
FIGURE 2.64	Deficit Indicators (in Cr INR)	81
FIGURE 2.65	Revenue Deficit of Non-special category states (2021-22 Accounts) (in Cr INR)	82
FIGURE 2.66	Gross Fiscal Deficit of Non-special category states (2021-22 Accounts) (in Cr INR)	83
FIGURE 2.67	Deficit Indicators relative to GSDP (in %)	84

<b>CHAPTER 3</b>		
FIGURE 3.1	Outstanding liabilities (in Cr INR)	88
FIGURE 3.2	Total outstanding liabilities of non-special category states (in Cr INR)	89
FIGURE 3.3	Total outstanding liabilities relative to GSDP of Non-Special category states (in %)	90
FIGURE 3.4	Debt / GSDP 2017-18 to 2021-22	92
<b>CHAPTER 5</b>		
FIGURE 5.1	Grants to Local Bodies (in Cr INR)	111
FIGURE 5.2	Performance Grants to Local Bodies (in Cr INR)	111
<b>CHAPTER 7</b>		
FIGURE 7.1	Revenue Expenditure on Power in Telangana	119
FIGURE 7.2	Budgetary Support to Power (in Cr INR)	121
FIGURE 7.3	Government Investment in the Power Sector PSUs (In Cr)	122
<b>CHAPTER 11</b>		
FIGURE 11.1	Tax Revenue of Telangana (2018-19 to 2023-24)	160
FIGURE 11.2	Non-Tax Revenue (in Cr INR)	161

## ABBREVIATIONS

<b>BE</b>	<b>BUDGET ESTIMATES</b>
<b>BRGF</b>	Backward Regional Grant Fund
<b>CAGR</b>	Compound Annual Growth Rate
<b>DISCOMS</b>	State Power Distribution Companies
<b>EHT</b>	Extra High Tension
<b>EODB</b>	Ease of Doing Business
<b>FD</b>	Fiscal Deficit
<b>FRBM</b>	Fiscal Responsibility and Budget Management
<b>FRE</b>	First Revised Estimates
<b>GFD</b>	Gross Fiscal Deficit
<b>GPS</b>	Gram Panchayat
<b>GRF</b>	Guarantee Redemption Fund
<b>GSDP</b>	Gross State Domestic Product
<b>GST</b>	Goods and Service Tax
<b>HMWSSB</b>	Hyderabad Metropolitan Water Supply and Sewerage Board
<b>IGAS</b>	Indian Government Accounting Standards
<b>INR</b>	Indian Rupee
<b>MMR</b>	Maternal Mortality Rate
<b>MTFPS</b>	Medium Term Fiscal Policy Statement
<b>NEC</b>	North Eastern Council
<b>NHM</b>	National Health Mission
<b>OTR</b>	Own Tax Revenue
<b>PE</b>	Provisional Estimates
<b>PLF</b>	Plant Load Factor
<b>PRI</b>	Panchayati Raj Institutions
<b>PSUS</b>	Public Sector Undertakings
<b>PTB</b>	Property Tax Board
<b>RBI</b>	Reserve Bank of India
<b>RD</b>	Revenue Deficit
<b>RE</b>	Revised Estimates
<b>RLBS</b>	Rural Local Bodies

<b>SDG</b>	Sustainable Development Goal
<b>SDVS</b>	Special Purpose Vehicles
<b>SFC</b>	State Finance Commission
<b>SGST</b>	State Goods and Service Tax
<b>SMES</b>	Small and Medium Enterprises
<b>SOTR</b>	State's Own Tax Revenue
<b>SRE</b>	Second Revised Estimates
<b>SRS</b>	Sample Registration System
<b>TGS</b>	Technical Guidance and Supervision
<b>TRE</b>	Third Revised Estimates
<b>TRR</b>	Total Revenue Receipts
<b>TSGENCO</b>	Telangana State Power Generation Corporation
<b>TSIIC</b>	Telangana State Industrial Infrastructure Corporation
<b>TSNPDC</b>	Northern Power Distribution Company of Telangana Limited
<b>TSSPDCL</b>	Southern Power Distribution of Telangana Limited
<b>TSTRANSCO</b>	Telangana State Transmission Corporation
<b>UDAY</b>	Ujwal DISCOM Assurance Yojana
<b>ULBS</b>	Urban Local Bodies
<b>WMA</b>	Ways and Means Advances

### **Terms of Reference for Studies on Evaluation of Finances of Telangana.**

The Second party to the Contract will conduct the above study in accordance with the Memorandum of Agreement and covering the following aspects:

- i. Estimation of revenue capacities of State and Measures to improve the tax-GSDP ratio during last five years. Suggestions for enhancing the revenue productivity of the tax system in the State.
- ii. Analysis of the state's own non-tax revenues and suggestion to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises.
- iii. Expenditure pattern and trends separately for Revenue and Capital, and major components of expenditure thereunder. Measures to enhance allocative and technical efficiency in expenditures during the last 5 years. Suggestions for improving efficiency in public spending.
- iv. Analysis of deficits – fiscal and revenue
- v. The level of debt to GSDP ratio and the use of debt (i.e., whether it has been used for capital expenditure or otherwise). Composition of the state's debt in terms of market borrowing, off-budget borrowings, Central government debt (including those from bilateral/ multilateral lending agencies routed through the Central government), liabilities in public account (small savings, provident funds etc) and borrowings from agencies such as NABARD, LIC etc
- vi. Implementation of FRBM Act and commitment towards targets. Analysis of MTFP of various departments and aggregate.
- vii. Analysis of the state's transfers to urban and rural local bodies in the State. Major decentralization initiatives.
- viii. Impact of State Public Enterprises finances on the State's financial health and measures taken to improve their performance and/or alternatives of closure, disinvestment etc.
- ix. Impact of Power Sector Reforms on States' fiscal health. In case reforms have not been implemented, the likely outcome on the States' fiscal health.
- x. Analysis of contingent liabilities of the State.
- xi. Subsidies given by the States (Other than Central subsidies), their costs and benefits, targeting and evaluation.

- xii. Outcome Evaluation of State Finances in the context of recommendations of the 14th and 15th FC, in particular (a) analysis of the flow of resources from Centre to States through various schemes, the expenditure of States in those schemes, resources of States channeled towards these schemes and the overall impact on development spending of the States; (b) States' own schemes for different development objectives.
- xiii. Determination of a sustainable debt roadmap for 2026-31, taking into account tax/ non-tax trend forecasts.

The evaluation study is expected to critically analyse the overall States' finances over the twelve-year period from 2012-13 to 2023-24. Suggestions for improving the financial performance shall also be given under a separate chapter of Recommendations. The total duration of the study would be six months from the date of signing the Agreement. The first draft of the study should be submitted to the Commission within four months. The final report after incorporating the feedback/ suggestions, if any, made by the Referee appointed by the First party, shall be submitted within 6 months from the date of signing the Agreement.

The duration for submission of the Study Report would be six months commencing from - and concluding on. The total Agreement amount for the study project would be Rs. 6,50,000 (Rupees six lakhs fifty thousand only) inclusive of all expenses incurred in preparation of the final report. The applicable taxes, if any, will be paid additionally. The Second party shall indicate separately the proportion of the agreement amount towards expenses and towards professional fees/ charges etc. The payment shall be subject to all taxes/cesses (including TDS) payable, if any. It is made clear that the First party to the contract will not reimburse any other expenditure on Study report over and above the agreement amount.

## EXECUTIVE SUMMARY

The significance of sound public financial management in enhancing state effectiveness has become increasingly evident over the years. Effective financial management not only fosters robust governance and transparency but also plays a crucial role in the efficient delivery of services essential for human and economic development. Consequently, periodic evaluations of state finances are imperative to ensure ongoing fiscal health and administrative efficacy.

In recent years, the Union Government has demonstrated unwavering commitment to strengthening India's fiscal federalism framework, recognizing it as a fundamental pillar for achieving sustainable development, inclusive growth, and effective governance across the nation. This commitment manifests through various governmental forums that consistently emphasize the critical importance of establishing cooperative and collaborative federal structures. The government's approach centers on transforming key institutions—including the Finance Commission, Inter-State Councils, and NITI Aayog—into dynamic platforms that facilitate continuous dialogue, ongoing consultations, and effective dispute resolution among diverse stakeholders within the fiscal ecosystem. This institutional evolution reflects a broader understanding that pooling resources and risks across different levels of government can convert uncertainties into opportunities for collective resilience and shared prosperity.

The Union Government's strategic vision places significant emphasis on empowering states with sustainable revenue sources, thereby enhancing their capacity to effectively address diverse developmental and social obligations. This approach encompasses the systematic augmentation of both tax and non-tax revenues with the objective of making states more autonomous, innovative, and resilient in their fiscal operations. The importance of this vision was prominently highlighted during the 10th Governing Council meeting of NITI Aayog held on May 24, 2025, which adopted the theme '*Viksit Rajya for Viksit Bharat @2047*', underscoring the aspiration for developed states contributing to a developed India by 2047. The underlying principle recognizes that when states achieve the capability to generate revenues confidently and sustainably, they gain essential autonomy to design and implement policies specifically tailored to their unique demographic, geographic, and socio-economic contexts. Such fiscal self-reliance serves multiple strategic purposes: reducing dependence on central grants, creating financial buffers for strategic investments, and enabling states to allocate resources to critical sectors including health, education, infrastructure, and social welfare based on their specific ground realities and developmental priorities.

The **Evaluation of State Finances with Respect to the Government of Telangana** offers a comprehensive analysis of the state's financial health for the period from 2018-19 to 2022-23. It addresses critical aspects of state finances, including revenue receipts and expenditures, deficits, and debt liabilities. The report also evaluates the performance of Panchayati Raj Institutions (PRIs) and Urban Local Bodies, as well as state public enterprises and their impact on the overall fiscal stability. Furthermore, it assesses the effects of power sector reforms on the state's fiscal health, explores contingent liabilities and subsidies, and examines the performance of the transport sector. Additionally, the report reviews adherence to the recommendations of the 14<sup>th</sup> and 15<sup>th</sup> Finance Commission, providing a thorough overview of these various financial dimensions and their implications for the state's economic well-being.

The study utilizes secondary data sourced from a range of published materials, including RBI reports, Finance Accounts, budget documents, CAG reports, public enterprise reports, and various ministry publications. To analyze changes in fiscal parameters over the period, the study employs straightforward analytical techniques such as ratios, percentages, and graphical representations. These methods effectively illustrate shifts and trends in the state's financial metrics.

This document aims to provide a comprehensive overview of Telangana's fiscal landscape since the state's inception in 2014. It examines key budgetary parameters, including both revenue and capital receipts and expenditures, offering detailed analysis and insights. The following sections outline the major findings of the report.

- 1. Overview of the state:** Telangana, the youngest state of India, was created on June 2, 2014, following its separation from Andhra Pradesh. This landlocked state, covering 1,12,077 square kilometres with a population of approximately 3.5 crores as of the 2011 Census. It shares borders with Maharashtra, Chhattisgarh, Karnataka, and Andhra Pradesh. Telangana ranks as the twelfth largest state in both area and population in India. The majority of its population resides in rural areas, accounting for 61.12% of the total (as per the census 2011) Despite its agricultural base, Hyderabad has emerged as a significant hub for IT/ITeS and the pharma sector. The state boasts a diverse industrial landscape, including textiles, leather, minerals, food processing, nano-technology, and biotechnology, with the service sector making substantial contributions to its Gross State Domestic Product (GSDP). Key statistics include the Gross State Domestic Product at both current and constant prices and per capita income metrics,

reflecting the state's economic performance and growth trajectory. Telangana's economic development is underscored by its expanding industrial base and the pivotal role of Hyderabad as a hub for technology and pharmaceuticals.

- 2. Revenue Receipts:** The state's total revenue exhibits remarkable growth, increasing from ₹51,042 crores in 2014-15 to a projected ₹216,567 crores in 2023-24—a substantial 324% expansion over the decade. This growth trajectory shows consistent upward momentum, with particularly accelerated growth in the post-pandemic period. Tax revenue has been the dominant revenue source throughout, accounting for approximately 70-80% of total collections in most years. It has grown from ₹37,477 crores to a projected ₹152,499 crores, representing a 307% increase. Despite this strong performance, tax revenue experienced a notable 5.1% contraction during 2020-21, reflecting pandemic-related economic challenges. Non-tax revenue displays more volatility, with significant fluctuations throughout the period. After peaking at ₹23,808 crores in 2015-16, it declined substantially before showing remarkable recovery in recent years. The dramatic surge from ₹21,572 crores in 2020-21 to ₹45,542 crores in 2022-23 (a 111% increase) suggests effective diversification of revenue sources. This component is projected to reach ₹64,067 crores in 2023-24, indicating continued emphasis on strengthening non-tax revenue streams.
- 3. Revenue Expenditure:** The section on revenue expenditure outlines the government's spending on operational and maintenance activities that do not create assets. It details expenditures on salaries, interest payments, pensions, and various services. Over the years from 2014-15 to 2023-24, revenue expenditure has grown at an average rate of 16.87%, with a notable 118% increase since 2018. The largest share is allocated to developmental purposes, showing a 156% rise, while non-developmental expenditures grew by 48%. Grants-in-aid have remained minimal. The report also compares Telangana's revenue expenditure ratios with those of other states, highlighting that Telangana's spending relative to GSDP is lower compared to states like Andhra Pradesh. The section further examines the discrepancy between budget estimates and actual expenditures, revealing that while Telangana has generally spent less than estimated, efforts have been made to improve budget accuracy, with the variance decreasing over time.
- 4. Capital Receipts:** The section on capital receipts details how the government acquires funds through methods that either reduce its assets or increase liabilities. Major sources

include internal debt, loans and advances from the Centre, and deposits and advances. Internal debt, a significant contributor, saw a sharp rise from ₹9,494.11 crore in 2014-15 to peaking at ₹1,13,920.91 crore in 2020-21. Deposits and advances have remained high, peaking at ₹92006 crores in 2023-24, while suspense and miscellaneous receipts have diminished significantly. Remittances have also declined sharply from ₹17860 crores in 2018-19 to negligible amounts in recent years. The section highlights a substantial gap between budget estimates and actual receipts, particularly in the earlier years, though this discrepancy has narrowed in more recent periods.

- 5. Capital Expenditure:** The section on Capital Expenditure offers a comprehensive overview of the state's investment spending from 2018-19 to 2023-24, focusing on non-recurring investments in assets such as land, buildings, and machinery, as well as debt servicing. It highlights a 22% reduction in total capital expenditure over the period, with a notable decline in 2022-23. Key components analysed include total capital outlay, discharge of internal debt, and loans and advances. Major figures include an increase in total capital disbursement from ₹8373 crore in 2014-15 to ₹37525 crores in 2023-24 a decline in the share of 'Suspense and Miscellaneous' from 36% in 2018-19 to under 10% in 2021-22 and a significant gap between budget estimates and actual expenditures, indicating overspending).
- 6. Developmental and Non-Developmental Expenditure:** The section examines the allocation of state funds for economic and social development versus essential government operations from 2014-15 to 2023-24. Developmental Expenditure, which includes spending on sectors like education, healthcare, and infrastructure, has risen significantly, accounting for approximately 75% of total expenditures. In contrast, Non-Developmental Expenditure, covering administrative and maintenance costs, has increased by nearly 50% over the same period. For the 2023-24 budget, Developmental Expenditure is projected to be 16.1% of the GSDP, while Non-Developmental Expenditure stands at 3.8% of GSDP. Comparatively, Telangana's Development Expenditure surpasses Andhra Pradesh but lags states like Uttar Pradesh and Maharashtra. Similarly, Telangana's Non-Developmental Expenditure is lower than Andhra Pradesh but higher than several other states.
- 7. Committed Expenditure:** The section highlights the mandatory financial obligations of the Telangana government, encompassing salaries, pensions, interest payments, and subsidies. From 2015-16 to 2021-22, committed expenditure surged by 32%, with the

most significant increase in salaries and wages, which rose from ₹ 18350 crores in 2015-16 to ₹30256 crores in 2021-22. This rise in committed expenditure poses challenges for fiscal stability, as it accounted for over 21% of total receipts and more than 57% of revenue receipts in 2021-22. The increasing burden of committed expenditure, primarily driven by salaries, pensions, and interest payments, constrains the state's ability to allocate resources to other areas.

- 8. Tax-GSDP Ratio:** The section examines the effectiveness and capacity of Telangana's tax revenue relative to its Gross State Domestic Product (GSDP). It highlights the changes in the Tax-GSDP ratio over the years, noting a slight fluctuation but an overall increase, which reflects improved revenue performance. The section also discusses the impact of GST on the state's tax system, acknowledging the reduction in state autonomy over tax rates but anticipating a positive long-term effect on tax buoyancy and revenue through administrative efficiencies and a broader tax base. Key points include the state's efforts to enhance tax collection through reforms and the implications of GST for state finances.
- 9. Deficit Indicators:** The section provides an analysis of Telangana's fiscal health by examining various types of deficits: revenue deficit, gross fiscal deficit, and primary deficit. It discusses the fluctuations in these deficits from 2014-15 to 2023-24, noting a trend of increasing gross fiscal deficit and periodic revenue deficits. Despite a revenue surplus in 2018-19, deficits grew significantly in subsequent years, with projections indicating persistent fiscal challenges. The section also compares Telangana's deficit metrics with other general category states, highlighting that while Telangana's revenue and gross fiscal deficits are substantial, they are somewhat higher compared to states like Andhra Pradesh. Deficit indicators relative to GSDP are presented, showing the impact of deficits on the state's economic performance and fiscal stability.
- 10. Debt And Liability Profile of Telangana:** The section explores the state's financial obligations and debt management strategies. It outlines the composition of outstanding liabilities, including internal debt, loans from the Centre, and other liabilities, highlighting fluctuations over the years with a peak in 2021-22 followed by a decrease. The Debt to GSDP ratio shows an increasing trend, reflecting a rising fiscal burden, though there was a slight improvement in 2021-22. The debt growth rate has been high but it declined recently, indicating persistent financial strain. The state's reliance on central government loans has increased, and borrowing from international agencies is

regulated through the Centre. The section also emphasizes the importance of debt sustainability and transparency in managing off-budget borrowings (OBBs), underscoring the need for prudent fiscal practices to maintain financial stability.

**11. Fiscal Consolidation and Management:** This chapter explores Telangana's fiscal consolidation and management strategies aimed at reducing debt and controlling the fiscal deficit. It discusses efforts to enhance revenue, manage expenditures, and follow the Fiscal Responsibility and Budget Management (FRBM) Act, which seeks to eliminate the revenue deficit and maintain a fiscal deficit at 3% of GSDP. The chapter emphasizes the state's balance between fiscal prudence and development, illustrated by budget allocations to key sectors such as agriculture, education, and health. It critically analyzes rising liabilities, fiscal challenges, and the increasing primary deficit. While Telangana has historically maintained a revenue surplus, the chapter highlights a sharp decline in recent years. Debt management is also examined, revealing an overall increase in debt but a stable debt-to-GSDP ratio, suggesting the state's expanding economy and careful approach to debt servicing. The analysis points to the need for continued fiscal discipline and adjustments to tackle these emerging challenges.

**12. Transfer To Urban Local Bodies And Panchayati Raj Institutions:** This chapter provides an analysis of the financial and functional aspects of Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) in Telangana. It evaluates the implementation of the Telangana Panchayati Raj Act 2018, which outlines responsibilities and resource allocation for Gram Panchayats. Major findings reveal that while PRIs have limited resource transfer and rely heavily on government grants, ULBs exhibit improved revenue generation and expenditure efficiency. The 14<sup>th</sup> Finance Commission's recommendations include basic and performance grants aimed at enhancing local governance capabilities. The chapter highlights a growing emphasis on performance-based funding, especially for urban areas, and a general trend of increased financial support for both PRIs and ULBs, with significant improvements observed in ULBs' revenue generation and expenditure.

**13. Fiscal Position of State Enterprises in Telangana:** This chapter examines the fiscal position of state enterprises in Telangana, focusing on the government's significant investment and support for Public Sector Undertakings (PSUs). As of March 31, 2022, Telangana's investment in 74 PSUs totalled ₹45,672 crore, with major investments in the power and infrastructure sectors. The chapter highlights the budgetary support of

₹12,567 crore for FY 2021-22, divided into equity, loans, and grants, with a notable shift towards performance-based funding. Performance analysis shows a mixed picture: while 41 PSUs reported profits and improved overall net profit, 28 incurred losses, particularly in non-power sectors. The power sector showed a turnaround, moving from losses to profits, whereas non-power PSUs continued to face financial challenges. The chapter also addresses the dissolution of non-working PSUs, with seven under liquidation and plans for merger or revival of others to optimize resources and reduce fiscal burden.

**14. Power Sector of Telangana:** The chapter reviews Telangana's power sector's fiscal health and reforms. It highlights the increase in revenue expenditure on the power sector, from ₹49.67 crores in 2018-19 to ₹121.13 crores in 2023-24, driven by rising electricity costs and expanded operations. Budgetary assistance through grants-in-aid also rose significantly, from ₹4750 crores in 2019-20 to ₹8329 crores in 2022-23. It discusses the Telangana government's investment in power sector PSUs, which declined from ₹23643 crores in 2019-20 to ₹20407 crores in 2022-23. The chapter also covers debt management under the UDAY scheme, detailing Telangana's absorption of DISCOMs' debt and losses, despite budgetary anomalies in 2022-23. The operational and financial performance of TSNPDCL and TSSPDCL are evaluated, noting challenges like fluctuating revenues and losses for TSNPDCL and improvements in energy loss reduction and revenue for TSSPDCL. The chapter emphasizes the need for effective fiscal management and reform for sustainability and efficiency.

**15. Contingent Liabilities of The State:** The chapter examines Telangana's contingent liabilities, which include explicit and implicit obligations. Explicit contingent liabilities involve financial guarantees provided by the state to support public enterprises and private sector entities, as well as state-backed insurance schemes. Implicit liabilities arise from potential defaults by public entities, privatization clean-up costs, underfunded pensions, and expenses from natural calamities. The chapter highlights the sharp increase in Telangana's guarantees over recent years, from ₹41892 crores in 2017-18 to ₹1,05007 crores in 2021-22, with outstanding guarantees surpassing total revenue receipts by 2021-22. This surge reflects the state's ambitious developmental programs but poses significant financial risks. The chapter also discusses challenges related to guarantee management, including breaches of the FRBM Act, off-budget borrowings, incomplete guarantee statements, and irregular contributions to the Guarantee

Redemption Fund. It underscores the need for stringent fiscal management to avoid over-leveraging and ensure financial stability.

**16. Subsidies Given by Telangana:** The chapter evaluates Telangana's subsidy programs, highlighting their role in economic growth and welfare. Key initiatives include the Rythu Bandhu Scheme, which supports farmers with ₹10,000 per acre annually, and the KCR Kits Scheme, which improves maternal and child health. Aasara Pensions offer financial support to vulnerable groups, enhancing social security. The Industrial Subsidy Scheme, under TS-iPASS, attracts investments and creates jobs, although concerns about environmental impact and distribution equity exist. Mission Bhagiratha aims to provide safe drinking water, significantly improving rural access. The chapter notes an increase in subsidy expenditure from ₹5,899 crore in 2017-18 to ₹10,218 crore in 2021-22. Major subsidies go to the power sector (79%) and civil supplies (12%). Grants-in-Aid totalled ₹61,400 crore in 2021-22, constituting 45% of revenue expenditure. While these programs have fostered growth and welfare, challenges like implementation delays and unequal benefit distribution need addressing to enhance their effectiveness and sustainability.

**17. Recommendations of the 15<sup>th</sup> and 14<sup>th</sup> Finance Commission: An Outcome Evaluation:** The chapter evaluates the impact of the 14<sup>th</sup> and 15<sup>th</sup> Finance Commission recommendations on Telangana's finances. The 15<sup>th</sup> Finance Commission, led by Mr. N.K. Singh, recommended maintaining the state's share of central taxes at 41%, down from the 42% suggested by the 14<sup>th</sup> Finance Commission. Key findings include Telangana's strong decentralization, with high rankings in devolution indices, yet challenges in fiscal discipline, rising debt, and unfulfilled local governance reforms. The 14<sup>th</sup> Finance Commission's recommendations led to increased central tax devolution, boosting Telangana's revenues and providing significant grants to local bodies. However, fiscal deficits exceeded targets and financial management issues persisted. The chapter highlights Telangana's fiscal strengths and challenges, including effective tax revenue generation, health improvements, and business-friendly policies, alongside fiscal risks, development disparities, and education and unemployment concerns.

**18. Suggestions for improving the Financial Performance of the Telangana:** This chapter explores Telangana's fiscal health and strategies for sustainable debt management from 2026-2031. It highlights Telangana's impressive growth in tax

revenue and non-tax revenue, with self-generated tax revenue doubling from 2018-19 to 2023-24 and a projected significant rise in non-tax revenue. Despite these positive trends, the state faces fiscal challenges, including a rising gross fiscal deficit and unsustainable losses in the power sector, with DISCOMs reporting substantial financial losses. The chapter advocates for a strategic roadmap including improving tax collection, reforming the power sector, enhancing debt management, increasing transparency, and rationalizing expenditures. It emphasizes the need for comprehensive fiscal reforms to address off-budget borrowings, boost economic growth, and improve fiscal stability. By addressing these challenges and implementing recommended measures, Telangana aims to achieve financial stability and meet FRBM targets by 2030.

## MAP OF TELANGANA



Source: Government of Telangana, accessed at <https://www.telangana.gov.in/about/state-profile/>



## 1. TELANGANA STATE PROFILE: AN OVERVIEW

### 1.1 Introduction

Telangana, the 29th state of India, was officially established on June 2, 2014, following its separation from Andhra Pradesh. Historically, this region was part of the Hyderabad State, which was integrated into India in 1948 and later merged with Andhra Pradesh in 1956. The landlocked state covers an area of 112,077 square kilometers and had a population of 35,003,674 according to the 2011 Census. Telangana is bordered by Maharashtra and Chhattisgarh to the north, Karnataka to the west, and Andhra Pradesh to the south and east.

In terms of both area and population, Telangana ranks as the twelfth largest state in India. The state's economy is predominantly agrarian, with agriculture serving as the backbone for many of its residents. As per the census 2011, approximately 61.12% of the population lives in rural areas, where agriculture and allied activities are crucial for their livelihoods. Despite its agricultural base, Telangana is not solely dependent on farming; it has developed a diverse and vibrant economy.

Hyderabad, the capital of Telangana, has emerged as a prominent hub for the IT and IT-enabled Services (ITeS) sectors, establishing itself as a leading player in India's technology and software industry. Additionally, Telangana boasts a diverse industrial base that includes textiles, leather, minerals, food processing, nanotechnology, and biotechnology. The service sector plays a crucial role in the state's Gross State Domestic Product (GSDP), highlighting its economic versatility and growth potential.

### 1.2 Key Statistics of the State

**1.2.1 Demographic Composition:** The population structure is depicted in Table 1. The population data reveals a total of 350.04 lakhs individuals, with a nearly balanced gender distribution of 50.31% male and 49.69% female. The majority (61.12%) reside in rural areas, while 38.88% inhabit urban regions (depicted in figure 1.2). Scheduled Castes (SC) constitute 15.45% of the total population, with a slightly higher proportion of females (50.21%) than males. Scheduled Tribes (ST) make up 9.08% of the population, with a marginally higher male representation (50.60%). The child population aged 0-6 years accounts for 11.14% of the total, with a higher proportion of males (51.76%) than females (depicted in figure 1.3). Interestingly, the gender ratio varies across categories, with the SC population showing the highest ratio of 1009 females per 1000 males, while the child population has the lowest at 932 females per 1000 males. The overall gender ratio stands at 987 females per 1000 males. The mean

population across categories is 87.51 lakhs, with a median of 38.99 lakhs, indicating a skewed distribution. The wide range of 338.26 lakhs between the highest and lowest values underscores the significant variation in the size of different demographic groups within this population.

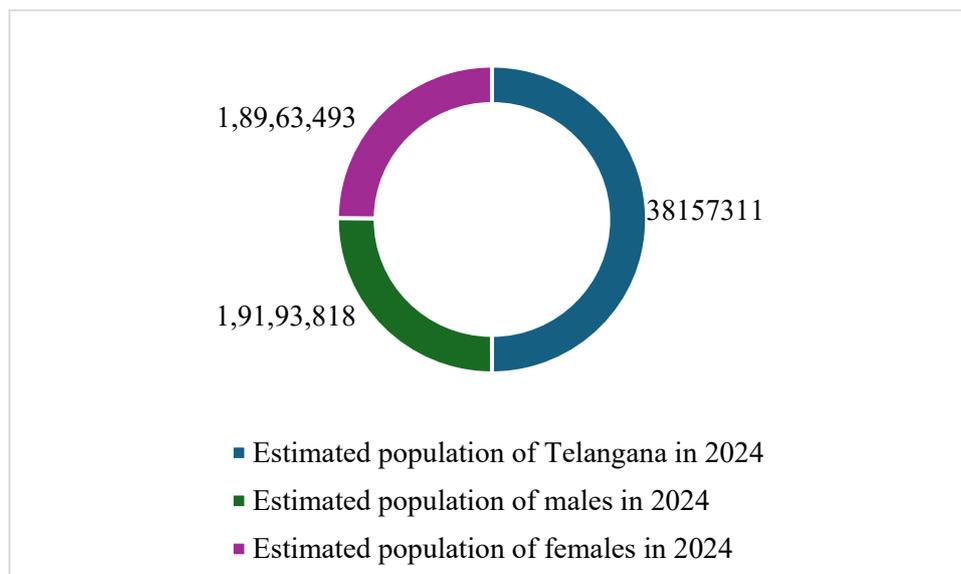
**Table 1. Population structure in Telangana (in Lakhs)**

Total Population	350.04
Male	176.12
Female	173.92
Rural Population	213.95
Urban Population	136.09
SC Population	54.09
SC Population Male	26.93
SC Population Female	27.16
ST Population	31.78
ST Population Male	16.08
ST Population Female	15.70
Child Population (0-6 years)	38.99
Child Population (0-6 years) Male	20.18
Child Population (0-6 years) Female	18.81

Sources: Ministry of Home Affairs, Government of India

While the table above represents the demographic composition of Telangana based on the 2011 census, figure 1.1 presents estimated population data for Telangana in 2024, offering insights into the state's demographic composition. According to the chart, the total estimated population of Telangana in 2024 is projected to be 38,157,311.

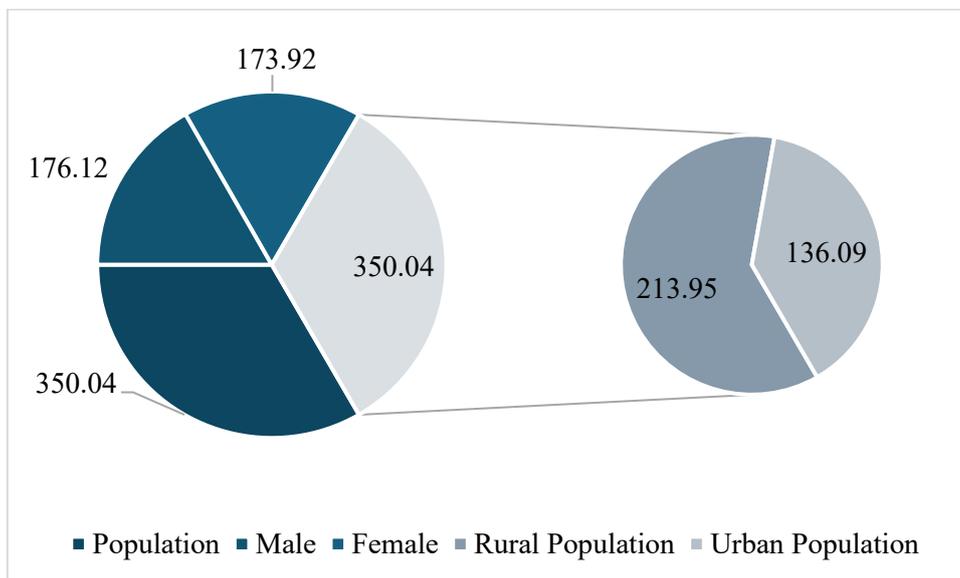
**Figure 1.1: Estimated Population of Telangana**



Source: [Telangana Population 2024 \(indiacensus.net\)](https://indiacensus.net)

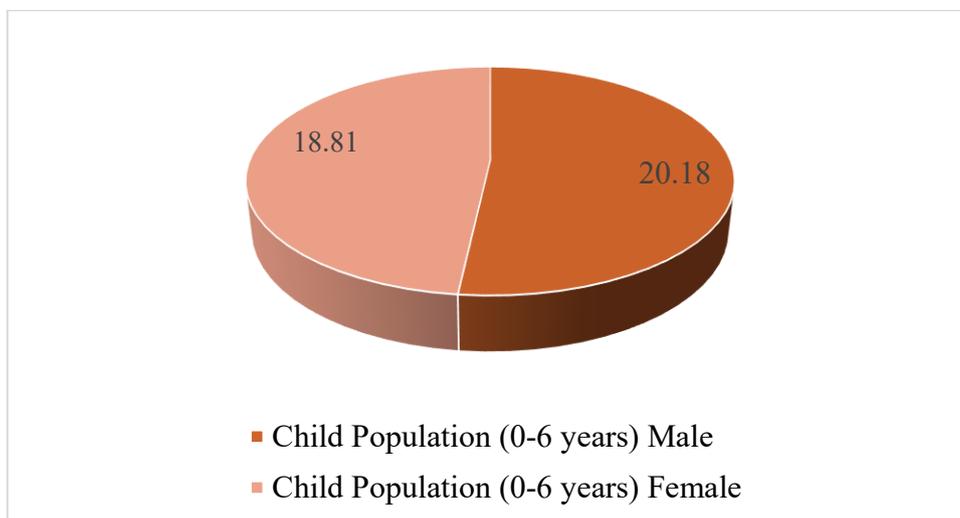
The state’s population is almost evenly split between males and females, with a slight male majority. The estimated male population stands at 19,193,818, constituting 50.30% of the total, while the female population is estimated at 18,963,493, making up 49.70% of the total.

**Figure 1.2 Population of Telangana (in lakhs)**



Source: [Home | Government of India \(censusindia.gov.in\)](http://Home | Government of India (censusindia.gov.in))

**Figure 1.3: Gender wise 0-6 Population (In lakhs)**

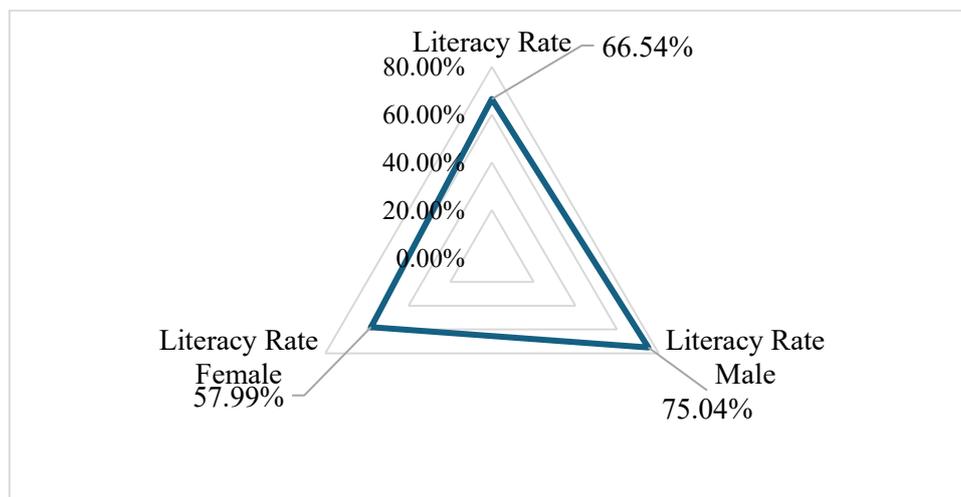


Source: [Home | Government of India \(censusindia.gov.in\)](http://Home | Government of India (censusindia.gov.in))

**1.2.2 Literacy Level:** Figure 1.4 presents literacy rates for a population, broken down by overall rate and gender-specific rates. As depicted in figure 1.4, the overall literacy rate stands at 66.54%, indicating that about two-thirds of the total population is literate. There is a notable gender disparity in literacy rates, with males having a significantly higher literacy rate of 75.04% compared to females at 57.99%. This gender gap of 17.05 percentage points suggests

considerable inequality in educational access or attainment between men and women. These statistics highlight a significant gender-based educational disparity, with females lagging substantially behind males in literacy, and point to a need for targeted efforts to improve female literacy to achieve greater educational equality.

**Figure 1.4 Literacy Rate and Gender-wise Literacy Rate**



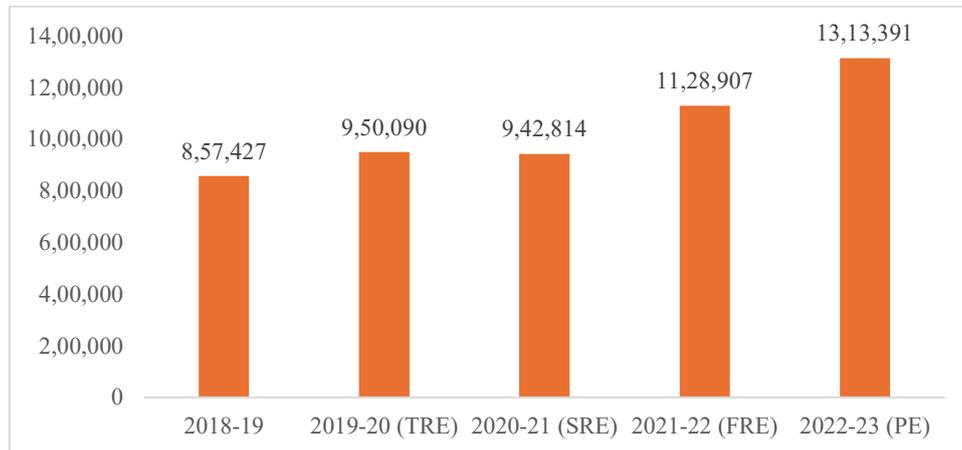
Source: [Telangana Population 2024 \(worldpopulationreview.com\)](https://www.worldpopulationreview.com)

**1.2.3.1 Gross State Domestic Product (GSDP) at current prices:** The Gross State Domestic Product (GSDP) of the state has witnessed substantial growth, with the service sector emerging as the predominant contributor. Figure 1.5 illustrates a consistent upward trend in a financial or statistical metric over a five-year period from 2018-19 to 2022-23. The values increase each year, starting at ₹ 8,57,427 crores in 2018-19 and culminating at ₹ 13,13,391 crores in 2022-23 (PE). The data shows a steady growth, with the largest year-over-year increase occurring between 2020-21 and 2021-22, with an increase from ₹ 9,42,814 crores to ₹ 11,48,515 crores. The average annual value across the five years is ₹ 10,38,526 crores, with a total increase of ₹ 4,55,964 crores from the first to the last year, representing a growth of approximately 53.2% over the entire period. It's worth noting that the labels indicate different stages of estimation for each year: TRE (2019-20), SRE (2020-21), FRE (2021-22), and PE (2022-23), suggesting varying degrees of finality in the reported figures, with the most recent year likely being a preliminary estimate.

**1.2.3.2 Gross State Domestic Product (GSDP) at constant prices:** While the GSDP at current prices depicts a fluctuating picture, the GSDP at constant prices display a much realistic growth over the years. Figure 1.6 illustrates a financial progression from 2018-19 to 2022-23, with values increasing overall during this period. While in 2018-19, the figure stands at 6,08,401

crores and rises to 6,40,968 crores in 2019-20 (TRE), demonstrating initial growth. However, in 2020-21 (SRE), there is a decline to 6,02,284 crores, marking a brief dip in the trend. This is followed by a strong recovery in 2021-22 (FRE), where the value climbs to 6,74,371 crores. The upward trend continues into 2022-23 (PE), reaching its peak at 7,26,707 crores.

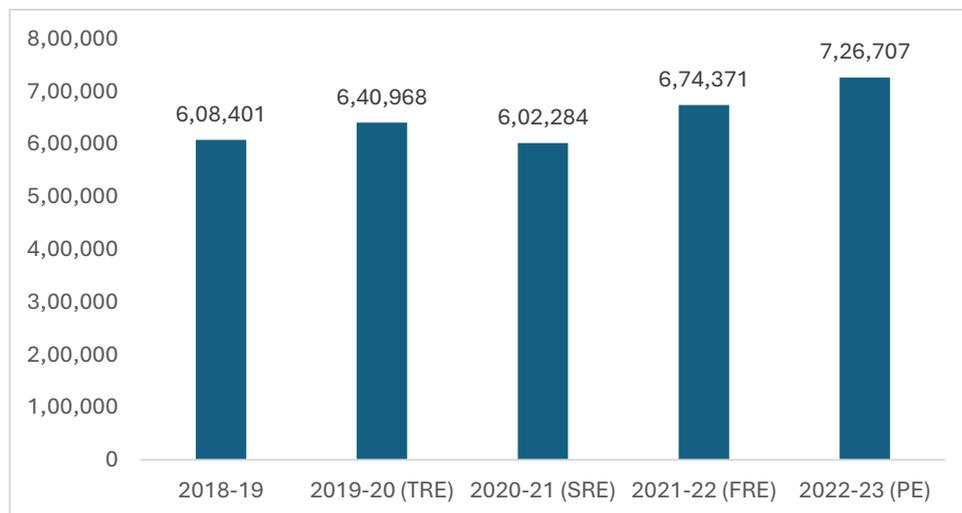
**Figure 1.5 Gross State Domestic Product of Telangana (at Current Prices) In Crores**



TRE: Third Revised Estimates  
 SRE: Second Revised Estimates  
 FRE: First Revised Estimates  
 PE: Provisional Estimates

Source: Directorate of Economics and Statistics, Government of Telangana (Provisional Estimates 2023).

**Figure 1.6 Gross State Domestic Product of Telangana (at Constant prices) In Crores**



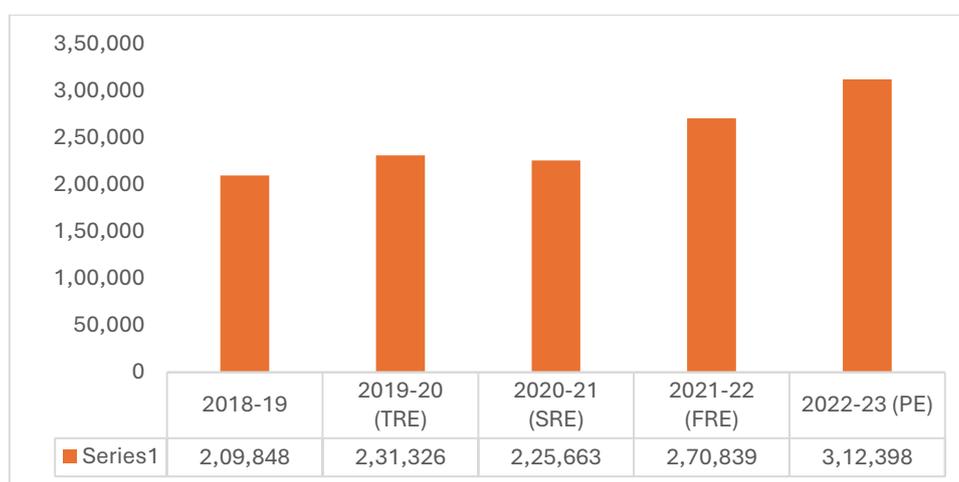
TRE: Third Revised Estimates  
 SRE: Second Revised Estimates  
 FRE: First Revised Estimates  
 PE: Provisional Estimates

Source: Directorate of Economics and Statistics, Government of Telangana (Provisional Estimates 2023).

**1.2.4.1 Per Capita Income (at current prices):** Figure 1.7 illustrates the per capita income of Telangana from 2018-19 to 2022-23 (at current prices). Over the five-year period, there is a general upward trend in per capita income. In 2018-19, the per capita income is recorded at ₹ 2,09,848, which increases to ₹ 2,31,326 in 2019-20 (TRE). There is a slight dip in 2020-21 (SRE), where the value decreases to ₹ 2,25,663, reflecting a temporary decline. However, the income rebounds in 2021-22 (FRE), rising to ₹ 2,70,839. The growth continues in 2022-23 (PE), where the per capita income reaches its peak at ₹ 3,12,398. Although there was a slight decline in 2020-21, the long-term trajectory indicates a consistent rise in the per capita income of Telangana.

**1.2.4.2 Per Capita Income (at current prices):** Figure 1.8 presents the per capita income of Telangana at constant prices from 2018-19 to 2022-23. The data shows a generally increasing trend, despite a slight decline in 2020-21. In 2018-19, the per capita income was ₹ 1,46,777, which increased to ₹ 1,53,286 in 2019-20 (TRE). However, the income dipped in 2020-21 (SRE) to ₹ 1,40,703, reflecting the impact of external economic factors. The following year saw a recovery, with the income rising to ₹ 1,58,202 in 2021-22 (FRE). The upward trajectory continues into 2022-23 (PE), where the per capita income peaked at ₹ 1,69,006. Overall, despite the temporary decline, the state's per capita income at constant prices demonstrates growth over the five-year period.

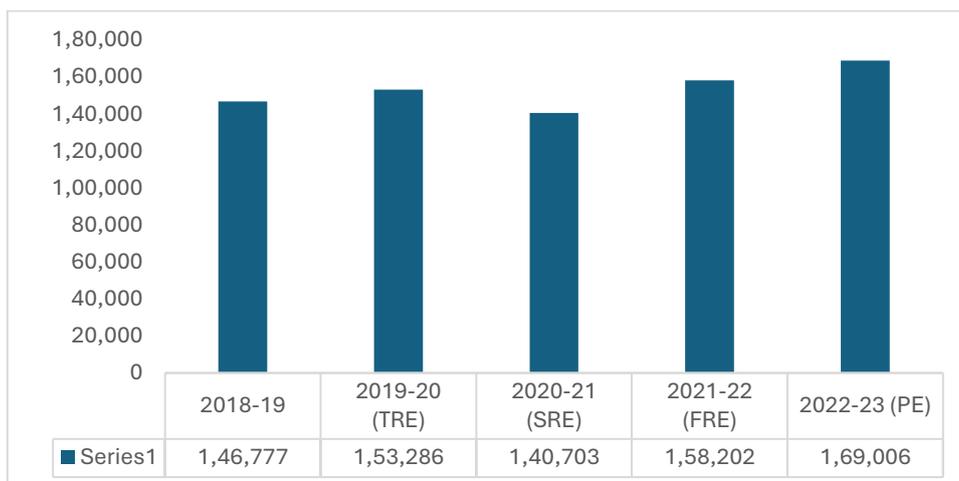
**Figure 1.7 Per Capita Income of Telangana (at current Prices)**



TRE: Third Revised Estimates  
 SRE: Second Revised Estimates  
 FRE: First Revised Estimates  
 PE: Provisional Estimates

Source: Directorate of Economics and Statistics, Government of Telangana (Provisional Estimates 2023).

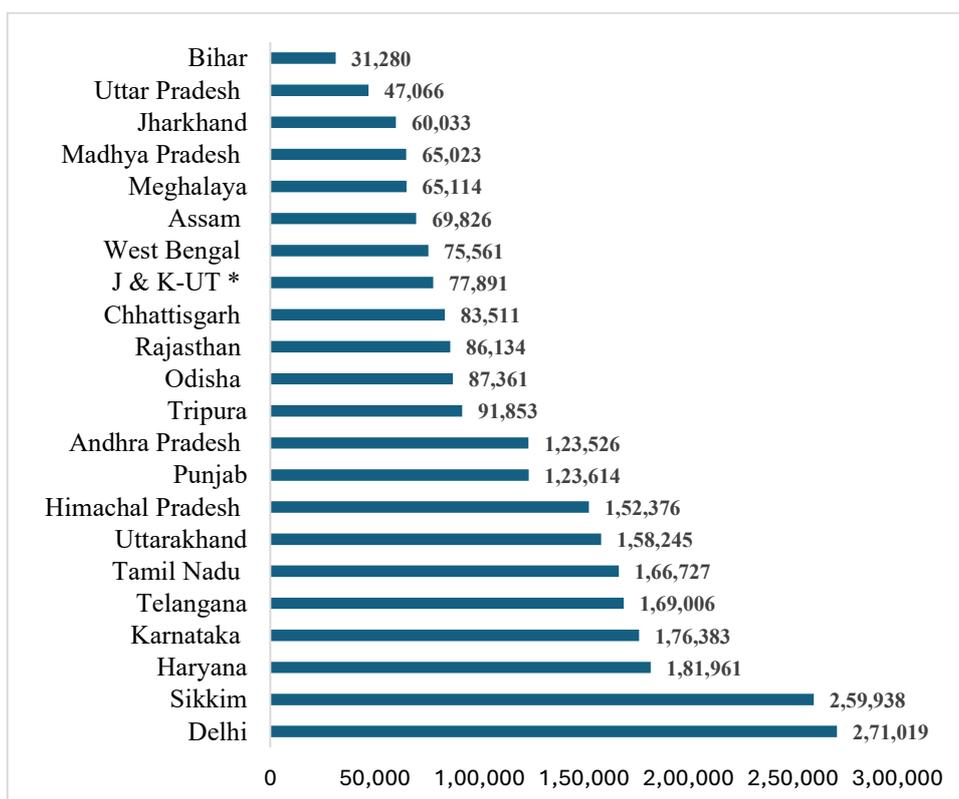
**Figure 1.8 Per Capita Income of Telangana (at constant prices)**



TRE: Third Revised Estimates  
 SRE: Second Revised Estimates  
 FRE: First Revised Estimates  
 PE: Provisional Estimates

Source: Directorate of Economics and Statistics, Government of Telangana (Provisional Estimates 2023).

**Figure 1.9 Per Capita Income of Indian States (at constant prices)**



TRE: Third Revised Estimates  
 SRE: Second Revised Estimates  
 FRE: First Revised Estimates  
 PE: Provisional Estimates

Source: Directorate of Economics and Statistics, Government of Telangana (Provisional Estimates 2023).

The above section provides a basic statistical overview of Telangana. The following chapters will offer a comprehensive analysis of the state's fiscal landscape, addressing a wide array of pertinent topics. These include an overview of the state's fiscal framework, strategies for fiscal consolidation and management, and the impact of financial transfers to Urban Local Bodies (ULBs) and Panchayati Raj Institutions (PRIs). Additionally, the chapters will explore the fiscal position of State Public Enterprises, examine power sector reforms and subsidies, and review state-provided subsidies. The analysis will also cover contingent liabilities and assess the impact of the 14th Finance Commission's recommendations on state finances. Finally, the chapters will propose recommendations for establishing a sustainable debt management strategy for Telangana, aimed at ensuring long-term fiscal stability.

## 2. FISCAL OUTLINE OF TELANGANA

Fiscal outline of the state refers to a state's revenue generation, expenditure, and fiscal management practices. This chapter provides a comprehensive overview of major components of Telangana's revenue receipts, revenue expenditure, capital receipts, capital expenditure, development and non-developmental expenditure, committed expenditure, tax-GSDP, deficit indicators and debt liabilities.

### 2.1 Revenue Receipts

Revenue receipts are the income earned by the government from its regular, recurring activities. They do not create any liabilities or reduce any assets of the government.

Revenue receipts indicate the government's cash inflow which are generally regular and recurring in nature. Such receipts include taxes, interest and dividends, cess and other receipt. These government receipts are meant for government expenditure.

Revenue receipts can be split into two major constituents:

**Tax Revenue:** Includes taxes levied and collected by the state government. Examples are GST, Excise Duty, Stamp Duty and Registration, Land Revenue, Professional Tax, Entertainment Tax etc. Whereas **Non-Tax Revenue** includes other revenue such as Interest Receipts, Dividends and Profits, Fees and Fines, Aids, Grants etc.

Revenue receipts form an important source of the state's fund for operational and administrative costs, including infrastructure development, public welfare programmes, healthcare, education, and other essential services. Therefore, efficient management of revenue receipts ensures the fiscal stability and development of the state.

Figure 2.1 and Table 2.1 portray the major components of Revenue Receipts. The table presents the trends in Telangana's revenue components from 2014–15 to 2023–24 (BE). The Total Revenue increased significantly from ₹51,042 crore in 2014–15 to ₹2,16,567 crore in 2023–24 (BE).

Tax Revenue rose from ₹37,477 crore to ₹1,52,499 crore over the same period. Within this, the State's Own Tax Revenue grew from ₹29,288 crore to ₹1,31,029 crore, while the Share in Central Taxes rose moderately from ₹8,189 crore to ₹21,471 crore.

Non-Tax Revenue also expanded, increasing from ₹13,565 crore to ₹64,067 crore. Notably, State's Own Non-Tax Revenue climbed from ₹6,447 crore to ₹22,808 crore, and Grants from the Centre rose from ₹7,118 crore to ₹41,259 crore.

Overall, all major revenue components show a strong upward trend, reflecting the state's robust fiscal growth over the decade.

**Table 2.1: Revenue Receipts (in Cr INR)**

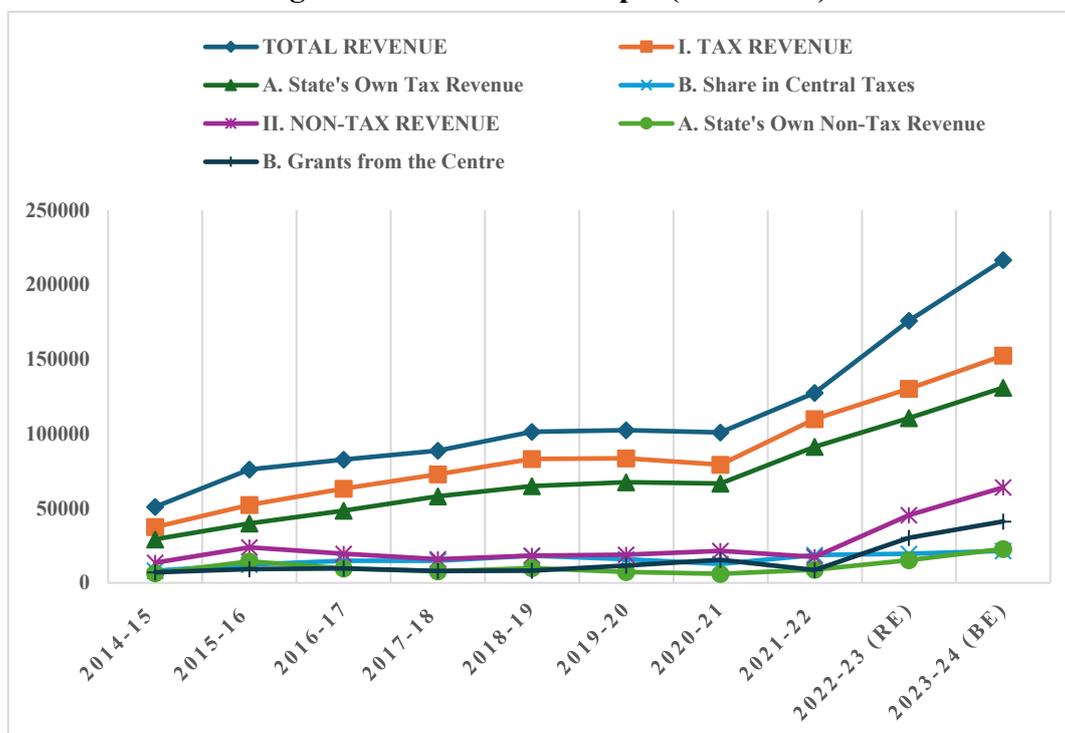
Components	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (RE)	2023-24 (BE)
<b>TOTAL REVENUE</b>	51042	76134	82818	88824	101420	102544	100914	127469	175802	216567
<b>I. TAX REVENUE</b>	37477	52325	63284	72940	83235	83585	79342	109992	130260	152499
<b>A. State's Own Tax Revenue</b>	29288	39975	48408	58177	65040	67597	66650	91271	110592	131029
<b>B. Share in Central Taxes</b>	8189	12351	14877	14763	18195	15988	12692	18721	19668	21471
<b>II. NON-TAX REVENUE</b>	13565	23808	19534	15884	18185	18959	21572	17477	45542	64067
<b>A. State's Own Non-Tax Revenue</b>	6447	14414	9782	7825	10007	7360	6101	8857	15292	22808
<b>B. Grants from the Centre</b>	7118	9394	9752	8059	8178	11598	15471	8619	30250	41259

\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

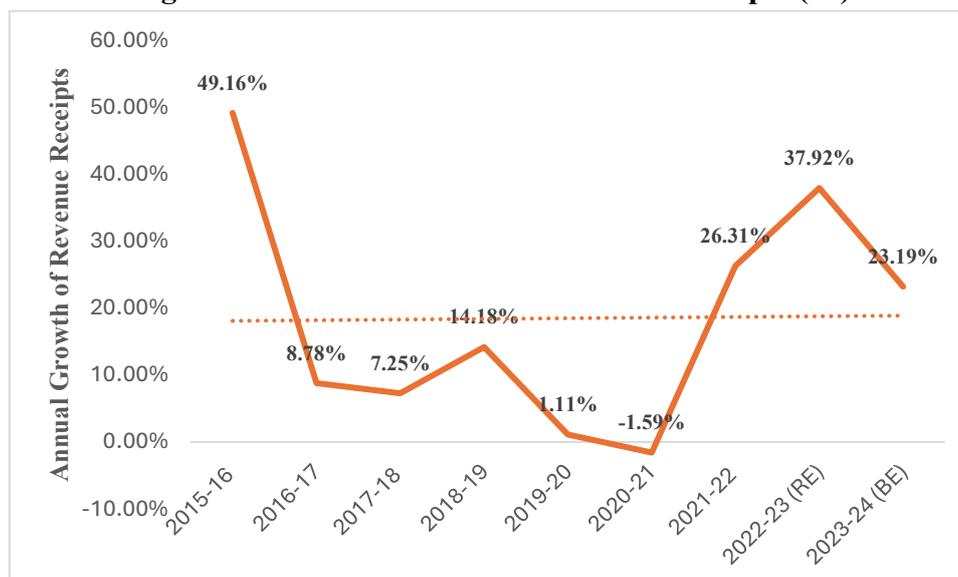
**Figure 2.1: Revenue Receipts (in Cr INR)**



\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

**Figure 2.2: Annual Growth in Revenue Receipts (%)**

\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

Telangana's revenue receipts have demonstrated significant fluctuations in growth over the period from 2015-16 to 2023-24 as depicted in figure 2.2. The state experienced exceptional growth of 49.2% in 2016-17, followed by more moderate increases of 8.8% and 7.3% in the subsequent two years. Growth strengthened to 14.2% in 2019-20 as receipts crossed the ₹1 lakh crore mark, before the pandemic's impact resulted in minimal growth (1.1%) in 2020-21 and a decline of 1.6% in 2021-22—the only contraction in the dataset. However, a robust recovery emerged in 2022-23 with 26.3% growth, while the 2023-24 budget estimates project continued strong growth at 23%. Throughout this period, Telangana maintained an overall compound annual growth rate of approximately 12.1%, reflecting the young state's resilient fiscal expansion despite temporary challenges.

### 2.1.1. Budget Estimates vis-à-vis Actuals

Prudent budget practice envisages the estimation of revenue receipts to be as close to accounts as possible. Based on a comparative analysis of the government of Telangana's budget estimates of revenue receipts vis-à-vis the accounts, it can be inferred that there has been an over estimation of revenue receipts, in the period 2018-19 to 2022-23 (Table 2.2).

The difference between the accounts and budget estimates for the years from 2018-19 to 2022-23 is consistently negative, depicting the State Government’s difficulty to project fiscal parameters and consequent faulty planning. Further, most of the differences are in double digit percentage terms, indicating that there is no trend of improvement. Again, part of the variance can be attributed to the pandemic, however there could have been a correction in 2021-22.

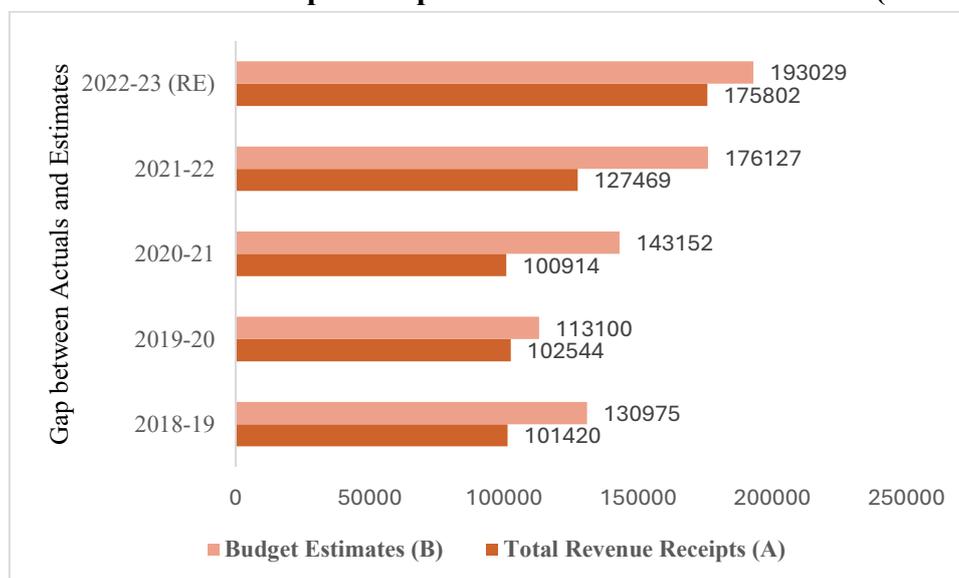
**Table 2.2: Revenue Receipts - Budget estimates vis-a-vis Accounts (in Cr INR)**

Components	2018-19	2019-20	2020-21	2021-22	2022-23 (RE)
Total Revenue Receipts (A)	101420	102544	100914	127469	175802
Budget Estimates (B)	130975	113100	143152	176127	193029
Difference (A-B)	-29555	-10556	-42238	-48658	-17227
% Difference (A-B)/B	-23%	-9%	-30%	-28%	-9%

\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

**Figure 2.3: Revenue Receipts - Gap between Actuals and Estimates (in Cr INR)**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

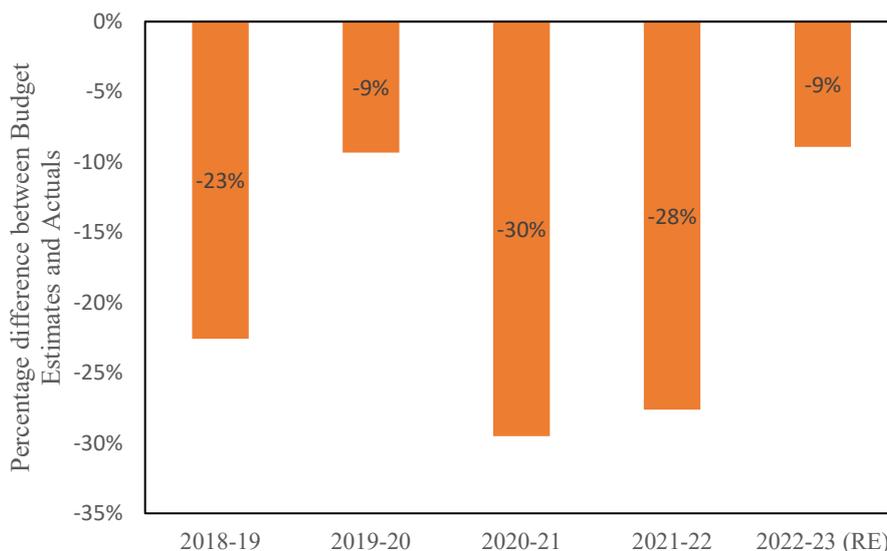
Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

Figure 2.4 shows the percentage difference between budget estimates and accounts. The highest variation is observed during the pandemic years which was -30% in 2020-21 and -28% in 2021-22. Though the government of Telangana is thriving to curtail

the gap between accounts and budget estimates, the average variance has remained around -20% during the last 5 years (2018-19 to 2023-24).

The gap in the accounts and the budget estimates of the revenue receipts is however lessened in the year 2022-23 with a value close to 9% which is lower than the average variance.

**Figure 2.4: Percentage difference Budget Estimates and Actuals (in %)**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2018-19 to 2023-24), RBI.

### 2.1.2 Tax Revenue

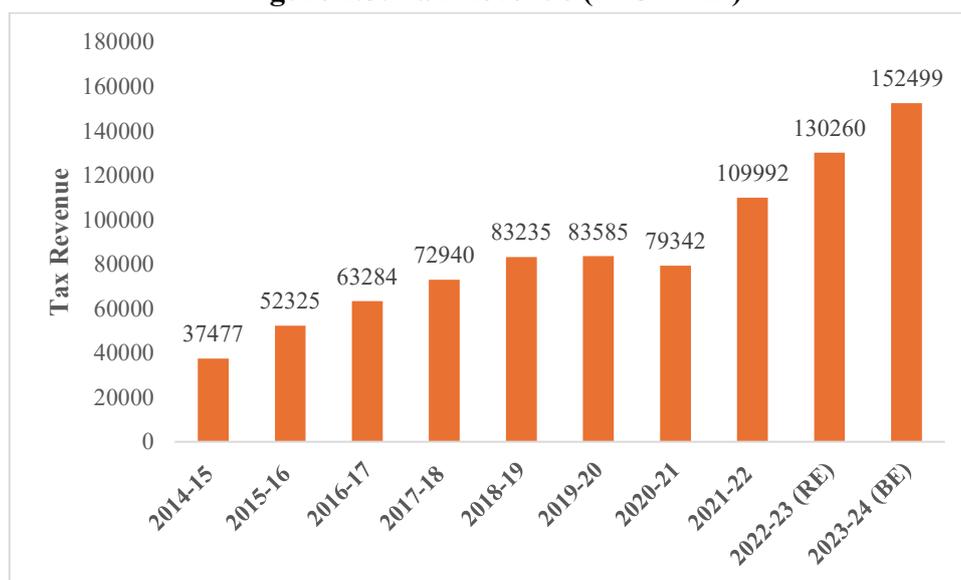
Tax Revenue refers to income earned by government through taxation. Tax revenue is the primary source of income for the state and the income generated through taxation is used on state’s expenditure.

It gives thorough description of revenue collected through different sources such as corporation tax, income tax, wealth tax, taxes on property, service tax, stamp & registration tax, land revenue, etc.

Telangana's tax revenue has shown substantial growth over the decade from 2014-15 to 2023-24, with periods of both robust expansion and occasional slowdowns as depicted in Table 2.1 and Figure 2.5. Beginning at ₹37,477 crores in 2014-15, tax collections surged by 39.6% to ₹52,325 crores in 2015-16, followed by continued strong growth of 21% to reach ₹63,284 crores in 2016-17. The upward trajectory continued with 15.3% growth in 2017-18 and 14.1% in 2018-19, bringing collections to ₹83,235 crores. However, the pandemic era introduced volatility, with negligible

growth of 0.4% in 2019-20, followed by a decline of 5.1% in 2020-21—the only year showing negative growth in the dataset. A remarkable recovery followed in 2021-22 with 38.6% growth to ₹109,992 crores, continuing with 18.4% growth in 2022-23 (RE) and projected at 17.1% for 2023-24 (BE) to reach ₹152,499 crores. This represents a compound annual growth rate of approximately 16.9% over the entire period, demonstrating the state's expanding tax base and economic resilience despite pandemic-related challenges.

**Figure 2.5: Tax Revenue (in Cr INR)**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

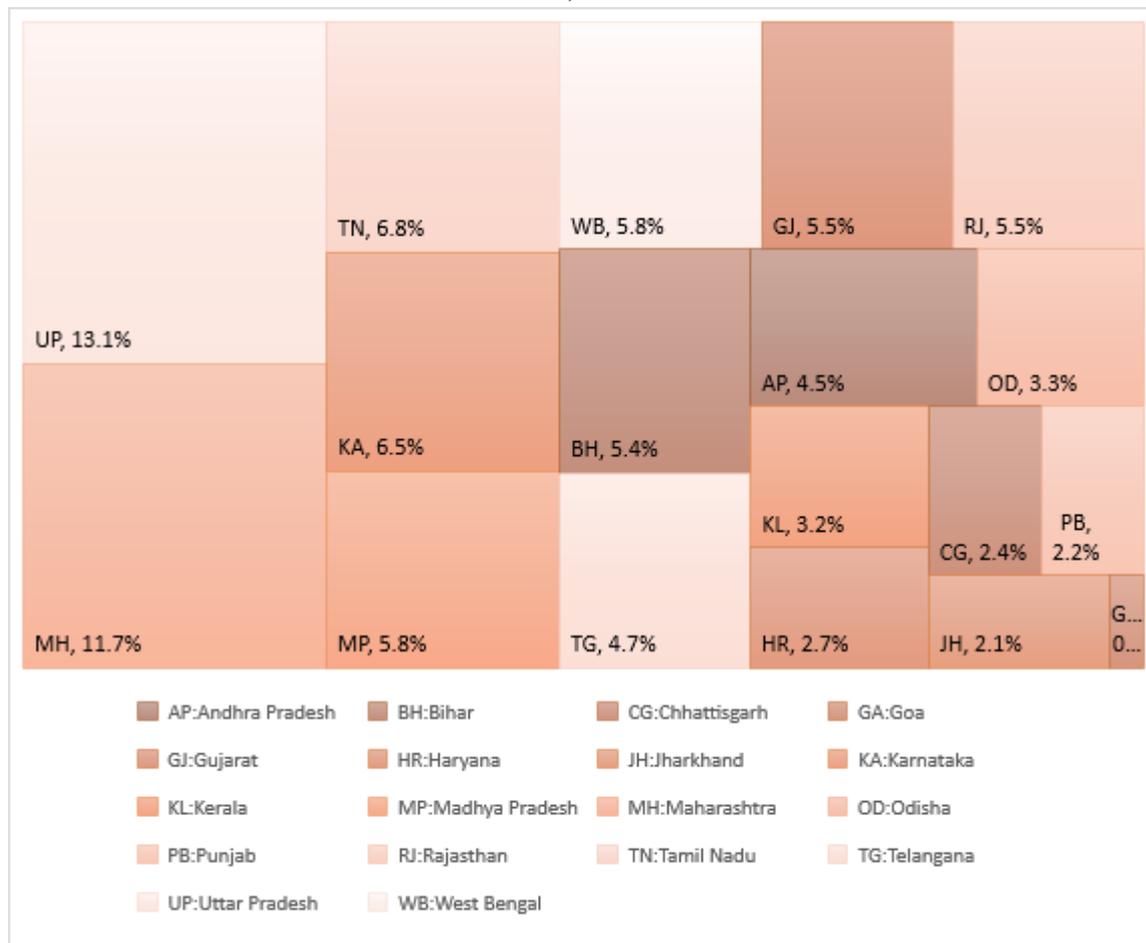
Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

Figure 2.6 displays the percentage share of tax revenue of the state in the total tax revenue of Non-Special Category States (General Category States). The values correspond to 2021-22 accounts data taken from RBI (latest accounts are available for all states).

Among the Non-Special Category States, Uttar Pradesh and Maharashtra have the highest share of tax revenue at 13.1% and 11.7% respectively, followed by Tamil Nadu at 6.8%. Andhra Pradesh’s share (4.5%) is slightly lower than Telangana’s which is at 4.7%.

Figure 2.6 represents the percentage share of the state’s tax revenue in the total of non-special category states’ tax revenue.

**Figure 2.6: Tax Revenue of Non-Special category States (2021-22 Accounts, as %)**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2023), RBI.

### 2.1.3 Components of Tax Revenue

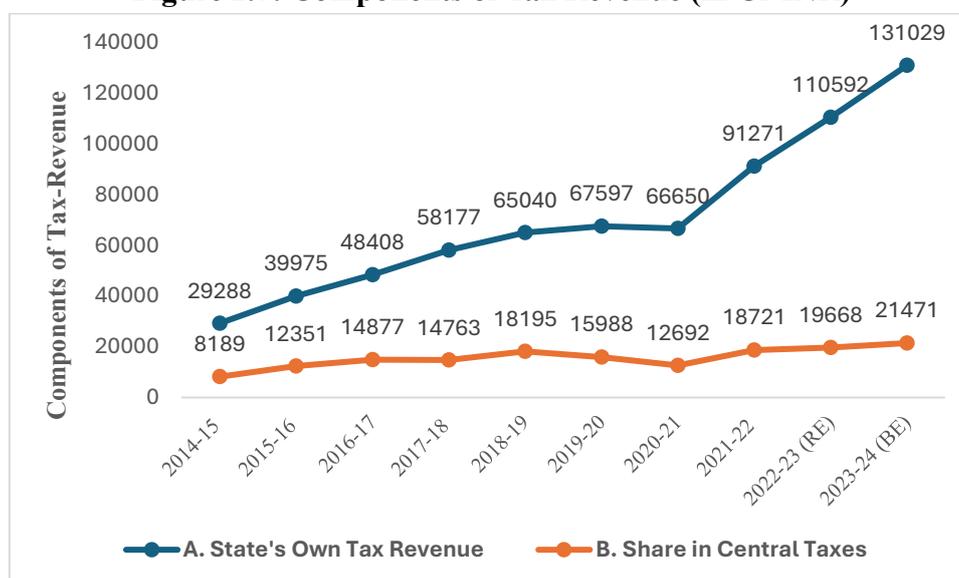
Tax Revenue includes two broad components—state’s own tax revenue and share in central taxes. If we look at the components of the tax revenue (Figure 2.7) the state’s own tax revenue has taken off post pandemic period while the share in central taxes has stagnated over the past five years.

From 2014-15 to 2023-24 (BE), the State’s Own Tax Revenue shows a consistent upward trend, rising from ₹29,288 crore in 2014-15 to a budgeted estimate of ₹1,31,029 crore in 2023-24. This growth highlights the increasing capacity of the state to mobilize its own financial resources.

Over the period, the Share in Central Taxes has also increased, though at a relatively slower and more fluctuating pace — from ₹8,189 crore in 2014-15 to ₹21,471 crore

in 2023-24 (BE). The variations reflect changes in central tax collections, the Finance Commission's award, and national economic conditions.

**Figure 2.7: Components of Tax Revenue (in Cr INR)**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

The description and contribution of the sub-components of ‘State’s Own Tax Revenue’ and ‘Share in Central Taxes’ are discussed in the further chapters.

### 2.1.4 State’s Own Tax Revenue (SOTR)

The State’s Own Tax Revenue is derived from various sources, including taxes on income, property, and capital transactions, as well as taxes on commodities and services. Additionally, the state benefits from its share in central taxes, which comprises a portion of corporation tax, income tax, taxes on wealth, customs duties, union excise duties, and taxes related to the Goods and Services Tax (GST) and service tax. These revenue streams collectively form a significant portion of the state's fiscal capacity, enabling it to fund public services and infrastructure development.

State’s Own Tax Revenue (SOTR) is the revenue generated through state tax sources, other than central taxes. It reveals the revenue generating capacity of the state.

The major components of the state’s own tax revenue are

taxes on income, taxes on property and capital transactions, taxes on commodities and services.

Figure 2.8 displays the share of components of state’s own tax revenue from 2014-15 to 2023-24. Taxes on commodities and services is a major constituent with highest

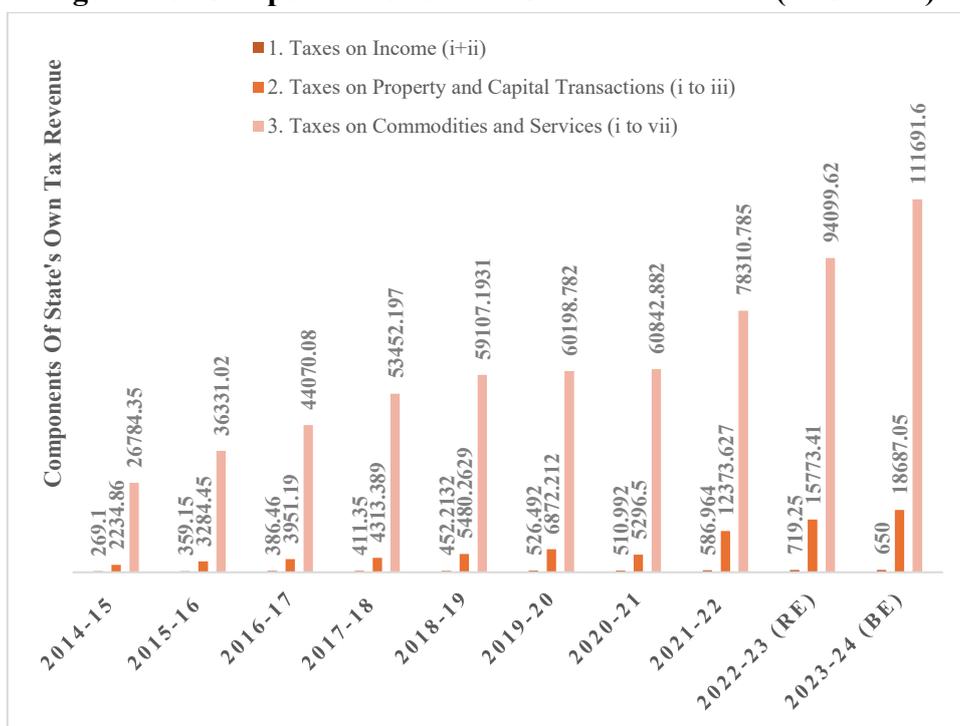
share in state’s own tax revenue. Revenue from this component increased robustly from ₹26,784.35 crore in 2014-15 to ₹1,11,691.60 crore in 2023-24 (BE), indicating strong growth in consumption and service activities within the state.

Second major constituent is taxes on property and capital transactions. The revenue under this head grew significantly from ₹2,234.86 crore in 2014-15 to ₹18,687.05 crore in 2023-24 (BE), reflecting an expansion in property-related economic activities and improved collection efficiency.

The contribution from taxes on income remains relatively modest, growing from ₹269.1 crore in 2014-15 to a budgeted estimate of ₹650 crore in 2023-24. It shows a steady but gradual rise over the years.

Over the years, the highest growth was observed in Taxes on Income at 33% in 2015-16, while the lowest was -10% in 2023-24 (BE). For Taxes on Property and Capital Transactions, the highest growth was 134% in 2021-22 and the lowest was -23% in 2020-21. In Taxes on Commodities and Services, the highest growth was 36% in 2015-16, while the lowest was 1% in 2020-21.

**Figure 2.8: Components of State’s Own Tax Revenue (in Cr INR)**



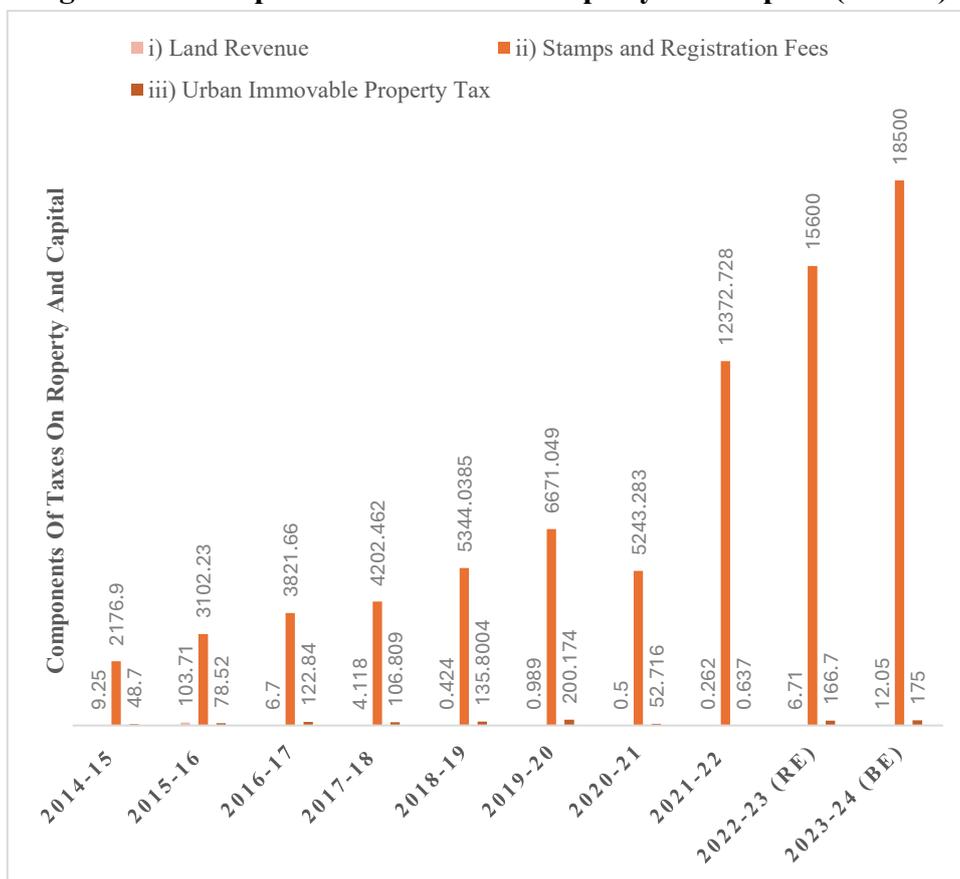
\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

On observing the composition of tax revenue, taxes on income, taxes on professions, trades, callings and employment are major contributing constituents and have seen a gradual rise from 2014 to 2024. As agricultural income is exempted from taxation, hence ‘Agricultural Income Tax’ has no contribution in tax revenue.

Figure 2.9 shows that Land Revenue has fluctuated significantly, peaking in 2015-16 but mostly declining since, with a slight recovery in recent years. Stamps and Registration Fees have shown a strong and steady increase, with only a brief dip during 2020-21, and are projected to rise further in 2023-24. Urban Immovable Property Tax increased steadily until 2019-20, dipped sharply during 2020-21 and 2021-22, but has since recovered and is expected to grow modestly.

**Figure 2.9: Composition of Taxes on Property and Capital (in INR)**



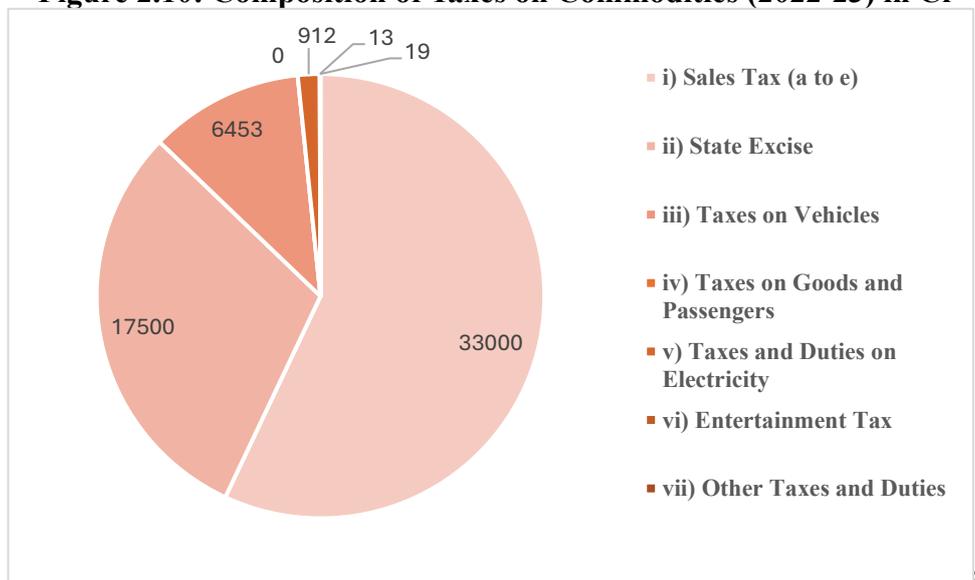
\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

Figure 2.10 displays the composition of taxes on commodities and services and reveals that Sales Tax was the major contributor among taxes on commodities and services, accounting for approximately 57% of the total. State Excise followed with around 30%, while Taxes on Vehicles contributed about 11%. Taxes and Duties on Electricity made up a smaller share at around 1.6%. Entertainment Tax and Other Taxes and

Duties were negligible, each contributing less than 0.05%. Notably, Taxes on Goods and Passengers recorded no collection during this period.

**Figure 2.10: Composition of Taxes on Commodities (2022-23) in Cr**



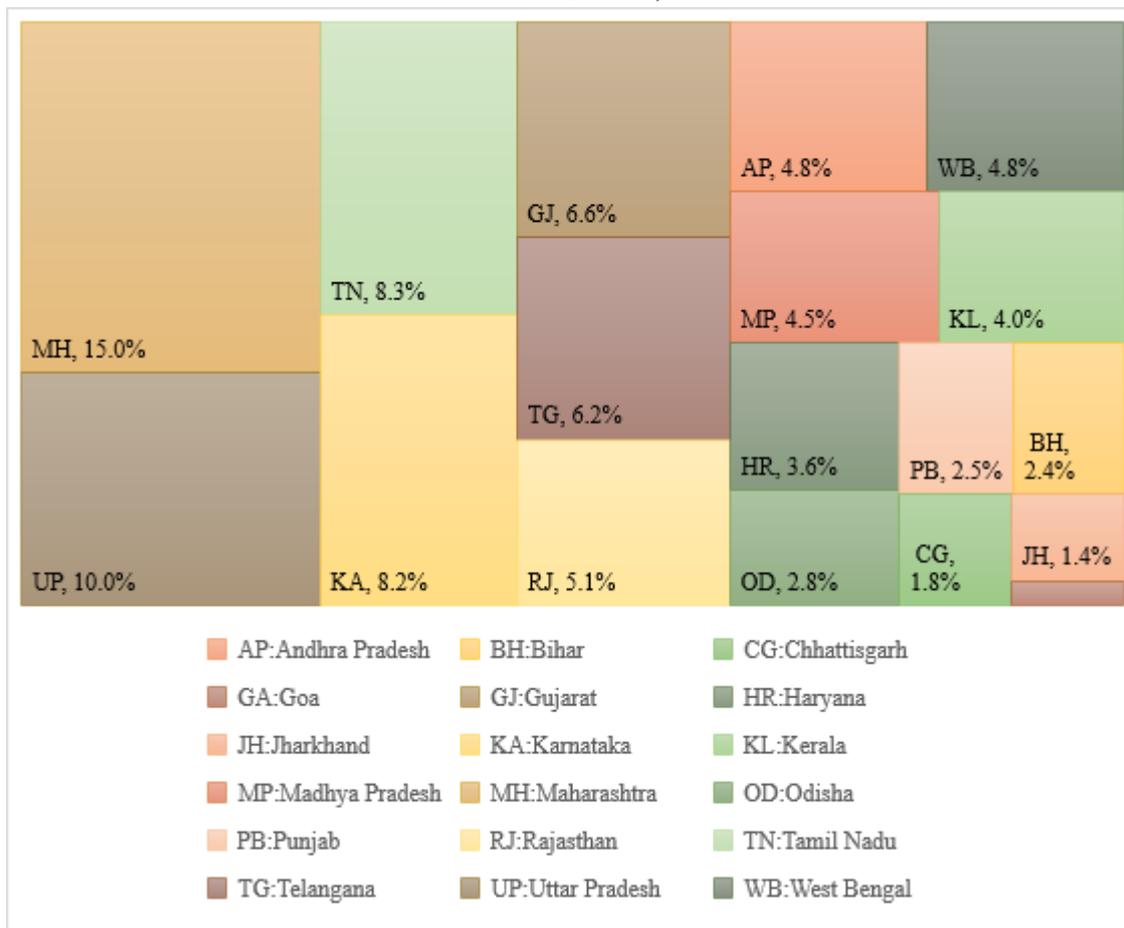
\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

Figure 2.11 displays the percentage share of Own Tax Revenue of the state in the total own tax revenue of Non-Special Category States (General Category States). The values correspond to 2021-22 account for the data taken from RBI (latest accounts available for all states).

Among the Non-Special Category States, Maharashtra and Uttar Pradesh have the highest share of Own Tax Revenue at 15% and 10% respectively. Andhra Pradesh has a share of 4.8%, lower than Telangana which is at 6.2%.

**Figure 2.11: Own Tax Revenue of Non-Special category States (2021-22 Accounts, as %)**



Source: State Finance: A Study of Budgets (2023), RBI.

### 2.1.5 State’s Own Tax Revenue-GSDP ratio

Table 2.3 and Figure 2.12 detail the State’s Own Tax Revenue relative to Gross State Domestic Product (at constant price), a measure of the revenue capacity of the state. Higher the proportion of the State’s Own Tax Revenue, greater the government’s discretion in spending on development purposes. On the other hand, lower proportion of the State’s Own Tax Revenue limits the government’s capacity to spend and increases its dependence on the Centre.

Though the state’s own tax revenue has almost doubled in 2024, as compared to 2014, the ratio of own tax to GSDP has improved by a minimal proportion with the maximum ratio at 9% in 2024. These figures have not reached double digit figures which needs to be examined to identify key inhibitors to growth. Interestingly, the introduction of GST has limited impact on the ratio as it had been similar to the previous cycle between to 5%-9% window.

Figure 2.12 shows the State's Own Tax Revenue as a percentage of GSDP from 2014-15 to 2023-24 (BE). Over this period, the ratio has generally shown a gradual upward trend. It started at 6% in 2014-15, increased to 7% by 2015-16, and reached 8% by 2017-18, maintaining that level through most subsequent years. After a slight dip to 7% in 2019-20 and 2020-21, the ratio returned to 8% in 2021-22 and 2022-23 (RE). For 2023-24 (BE), the share is projected to rise further to 9%, indicating improved tax mobilization relative to the state's economic output.

Figure 2.13 displays the ratio of own tax revenue to GSDP of Non-Special Category States (General Category States). The values correspond to 2021-22 account for the data taken from RBI (latest accounts are available for all states).

Among the Non-Special Category States, Telangana has the highest share of own tax revenue relative to GSDP at 8.1% followed by UP at 7.5%. Andhra Pradesh (6.3%) is at the sixth position in the list.

**Table 2.3: State's Own Tax to GSDP Ratio (in Cr)**

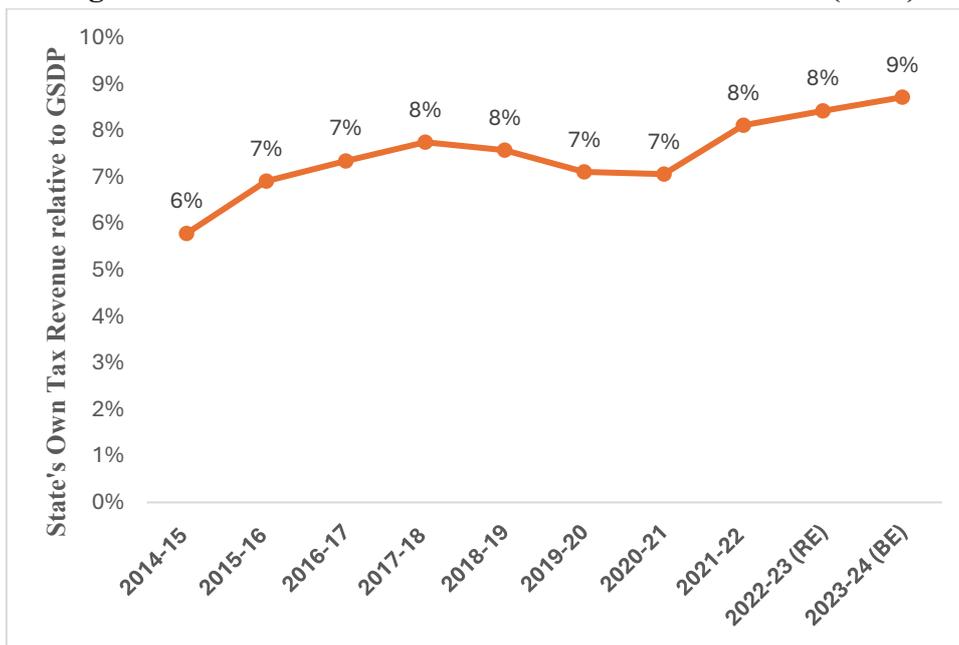
Components	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (RE)	2023-24 (BE)
<b>A. State's Own Tax Revenue</b>	29288	39975	48408	58177	65040	67597	66650	91271	110592	131029
<b>GSDP</b>	505848.8	577902.1	658325.3	750050.3	857427.2	950090.5	943078	1124086	1311823	1501981
<b>SOTR/GSDP</b>	6%	7%	7%	8%	8%	7%	7%	8%	8%	9%

\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

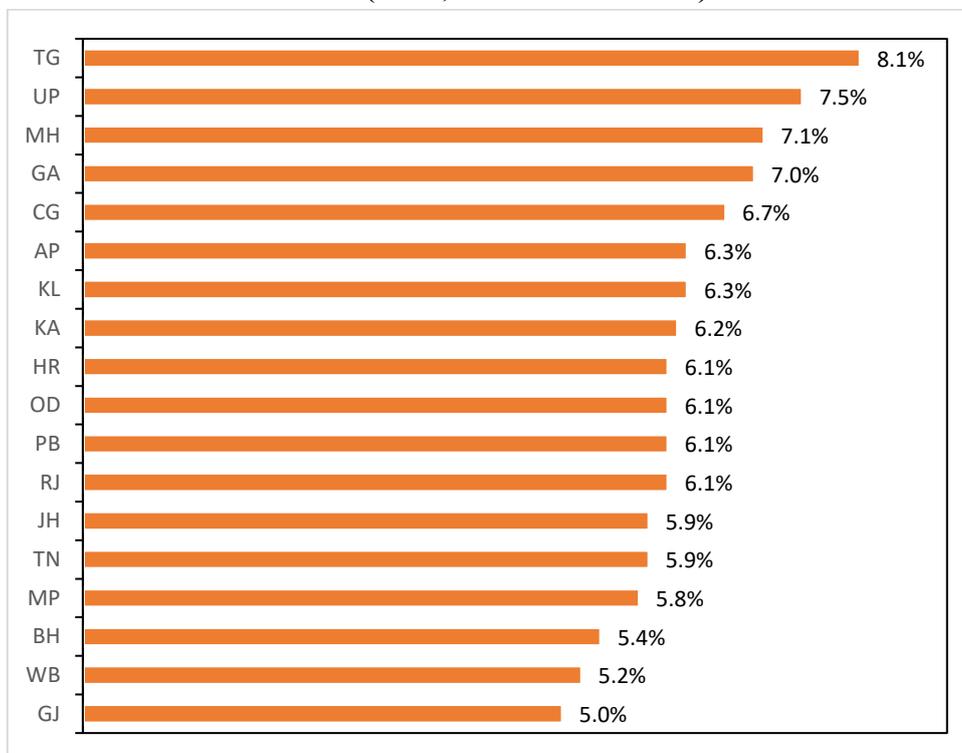
**Figure 2.12: State’s Own Tax Revenue relative to GSDP (in %)**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

**Figure 2.13: Ratio of Own Tax Revenue to GSDP of Non-Special Category States (in %, 2021-22 Accounts)**



Source: State Finance: A Study of Budgets (2023), RBI.

### 2.1.6 Share in Central Taxes

In India, large taxation authority rest with the central government, resulting in a lower taxation autonomy on the state government. Under the Article 280 of the Indian Constitution, Finance Commission is constituted every five years to give recommendations on the transfer of resources from the centre to states. This ensures an efficient tax devolution and overall efficient state government activities.

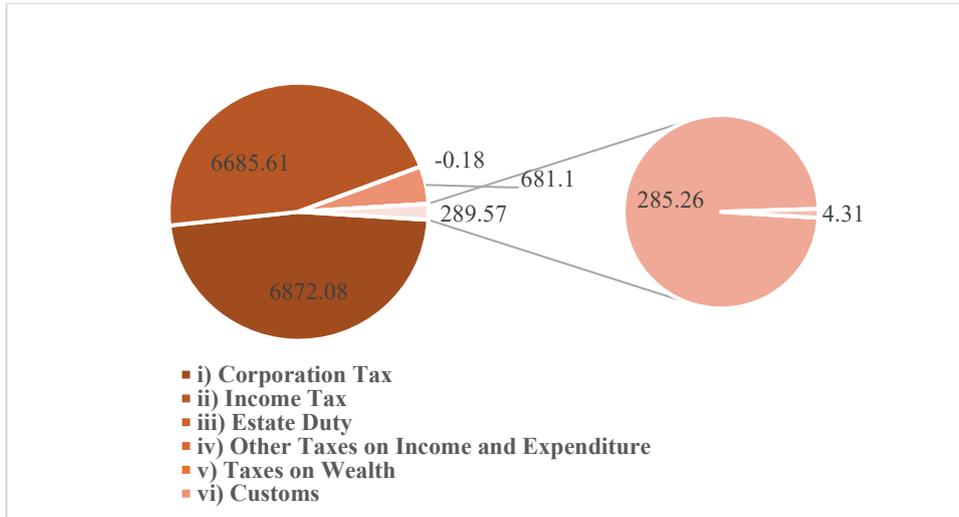
The central taxes devolved to states are untied funds, hence states can spend them according to their discretion. Over the years, tax devolved to states has constituted over 80% of the total central transfers to states. The states' share of central taxes has increased to 42%, as per recommendations of the 14th Finance Commission. While the 15th Finance Commission has incorporated tax effort as a criterion in the devolution formula, its objective is to incentivize States that demonstrate superior tax collection efficiency. In this regard, the states' share of central taxes have increased to 8886 crores.

Figure 2.14 shows the composition of central taxes of Telangana for the year 2023-24. The figure reveals that Corporation Tax and Income Tax are the two major sources, contributing 32% and 31% respectively, together accounting for 63% of the total. Customs is the next significant contributor at 3%, followed by Union Excise Duties at 1%. Other components such as Estate Duty, Service Tax, and Other Taxes contribute a negligible share (0%), while Taxes on Wealth is shown as a negative value (-0.18), likely reflecting adjustments or refunds. Overall, the Union tax structure remains heavily reliant on direct taxes.

Figure 2.15 displays the percentage share of 'Share in Central Taxes' of the state in the total central tax share of Non-Special Category States (General Category States). The values correspond to 2021-22 account for the data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Uttar Pradesh and Bihar have the highest share in central taxes at 18.2% and 10.3% respectively. Andhra Pradesh's share (4.0%) is much higher than Telangana (2.1%)

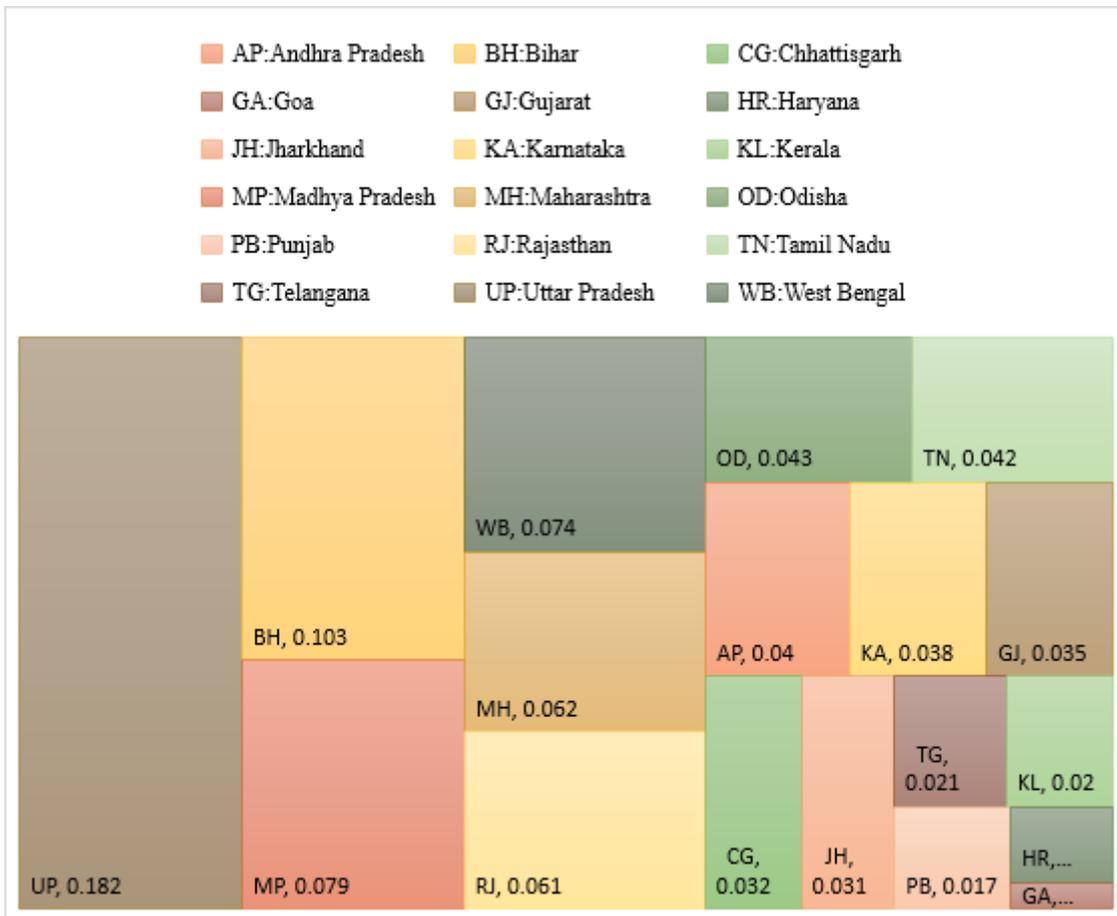
**Figure 2.14: Composition of Share in Central Taxes (2023-24 Budget Estimates)(in Cr)**



\*BE: Budgeted Estimates,

Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

**Figure 2.15: Share in Central Taxes of Non-Special Category (2021-22 Accounts)**



Source: State Finance: A Study of Budgets (2023), RBI.

### 2.1.7 Non-Tax Revenue

Non-Tax Revenue refers to income of the government generated from sources other than taxation. Non-Tax Revenue comprises of two major contributions, state’s Own Non-Tax Revenue and grants from the Centre.

Such receipts include charges earned for various social and economic services provided by the government such as medical, police and defence, social and community services, power and railways, interest receipts, dividends and profits of departmental and non- departmental enterprises. Grants include monetary aid received from the Centre for various state plan schemes and Central schemes, and Non-Plan Grants.

Figure 2.16 shows the Non-Tax Revenue from 2014-15 to 2023-24 (BE). The revenue started at ₹13,564.91 crore in 2014-15 and saw a significant rise in 2015-16 to ₹23,808.48 crore. After fluctuating in the range of ₹15,000–₹21,000 crore over the next several years, there was a sharp increase in recent years. In 2022-23 (RE), Non-Tax Revenue jumped to ₹45,541.75 crore, and it is projected to rise further to ₹64,067.48 crore in 2023-24 (BE), indicating a substantial expected growth in this revenue stream.

**Figure 2.16: Non-Tax Revenue (in Cr INR)**



\*BE: Budgeted Estimates,

RE: Revised Estimates

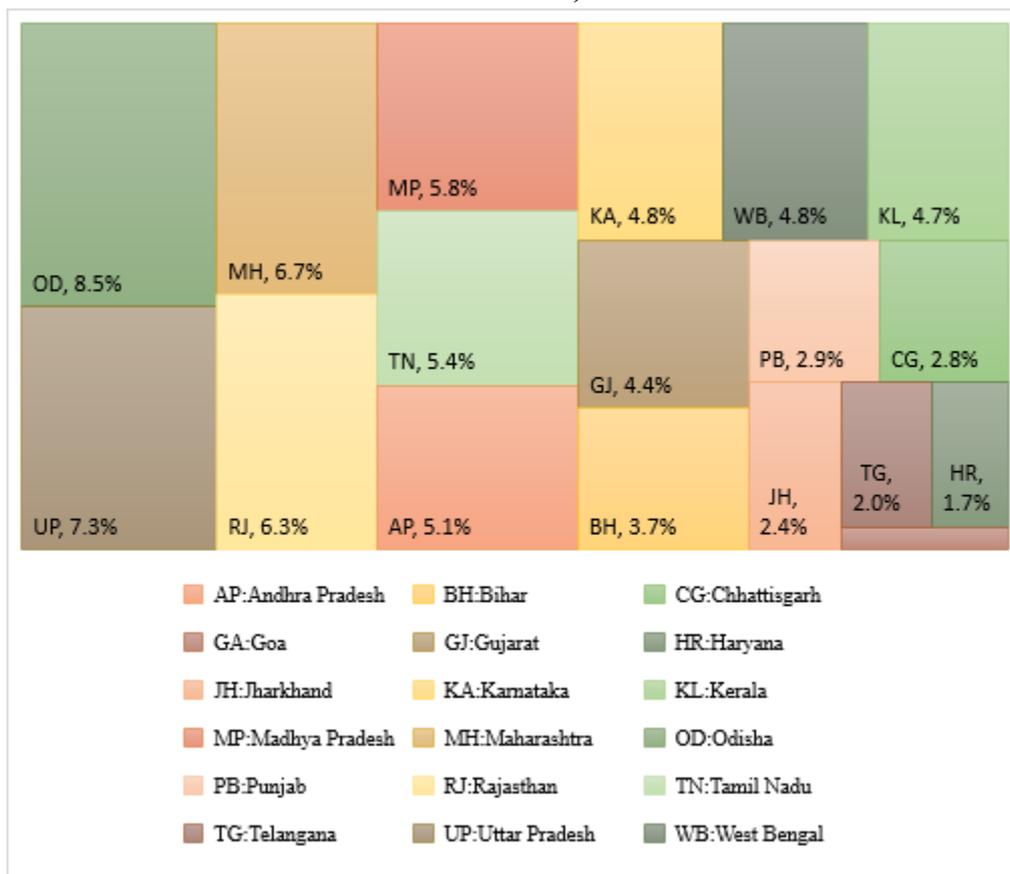
Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

Figure 2.17 displays the percentage share of Non-Tax Revenue of the state in the total non-tax revenue of Non-Special Category States (General Category States). The

values correspond to 2021-22 account for the data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Odisha, Uttar Pradesh and Maharashtra have the highest share of tax revenue at 8.5% and 7.3%, 6.7%, respectively. Andhra Pradesh’s share (5.1%) is higher than Telangana (2.0%).

**Figure 2.17: Non-Tax revenue of Non-Special Category States (2021-22 Accounts)**



Source: State Finance: A Study of Budgets (2023), RBI

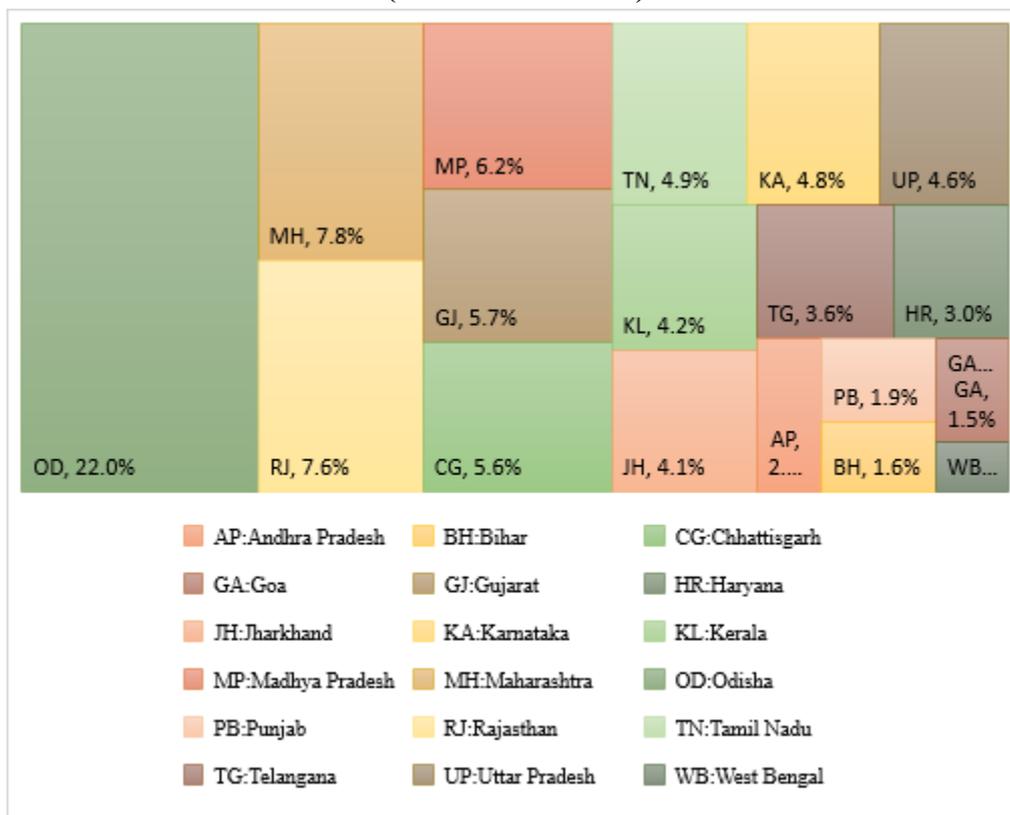
### 2.1.8 State’s Own Non-Tax Revenue

State’s Own Non-Tax Revenue directly indicates the revenue raising capacity of the state government from sources other than taxes. This revenue along with State’s Own Tax Revenue amplifies the state government’s exchequer.

Figure 2.18 displays the percentage share of own non-tax revenue of the state in the total own non-tax revenue of Non-Special Category States (General Category States). The values correspond to 2021-22 account for the data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Odisha has the highest share of 22.0% with Maharashtra at far second with 7.8%. Andhra Pradesh’s share (2.0%) is slightly lower than Telangana which is at 3.6%.

**Figure 2.18: State’s Own Non-Tax Revenue of Non-Special Category States (2021-22 Accounts)**



Source: State Finance: A Study of Budgets (2023), RBI.

Figure 2.19 reveals a growth in the State’s Own Non-Tax Revenue collection of Telangana and displays the components of State’s Own Non-Tax Revenue and their movement over the years of study.

The share of ‘Economic Services’ which includes crop cultivation, animal husbandry, fisheries, forestry & wildlife, co-operation, major medium & small irrigation projects, power, petroleum, village and small industries, tourism and others, has increased from ₹2290.51 crore in 2014-15 to a peak of ₹6918.37 crore in 2022-23 (RE), with a slight dip to ₹6482.5 crore in 2023-24 (BE). It has been a major constituent in the year 2022-23, adding the highest revenue to Non-Tax Revenue than other components. While economic services are highly volatile, there have been a major revenue source, peaking at 73% in 2017-18 and settling at 28% in 2023-24 (BE), indicating shifting trends in income from economic sectors like agriculture, industry, and transport.

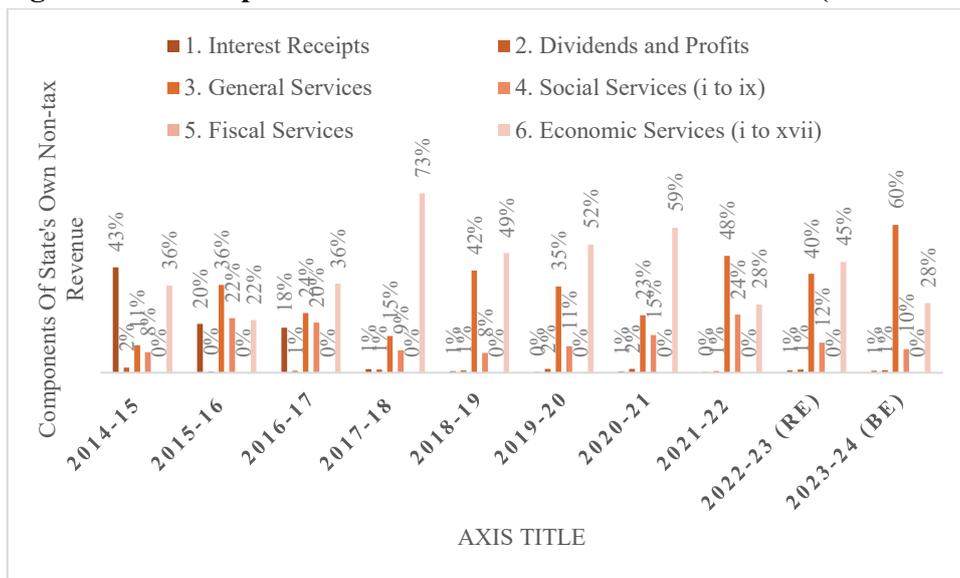
The share of 'General Services' have shown significant growth and volatility, with a notable surge from ₹722.96 crore in 2014-15 to ₹13,754.62 crore in 2023-24 (BE), indicating increased collections from administrative fees, penalties, and other government service-related charges. General Services have shown considerable fluctuation, rising from 11% in 2014-15 to a high of 60% in 2023-24 (BE). This phenomenal increase is an effective outcome of the state's improvement in tax administration and expansion of tax base.

'Social Services' which includes education, sports, art & culture, medical & public health, family welfare, housing, urban development, labour & employment, social security & welfare, water supply & sanitation and others. Revenue from social services have increased from ₹533.45 crore in 2014-15 to ₹2184.7 crore in 2023-24 (BE), reflecting enhanced non-tax income from areas like education, health, and welfare services. Social Services have witnessed a rise until 2021-22 (24%) but declined to 10% in the latest estimate, possibly reflecting reduced recoveries from health, education, and welfare services.

Apart from the encouraging contribution of the revenue receipts, the share of 'interest receipts', 'Dividends & Profits' have remained consistently low throughout the period, maintaining a modest share of around 1–2%. Dividends and Profits have remained relatively modest, with a general upward trend in recent years, rising from ₹133.88 crore in 2014-15 to ₹223.7 crore in 2023-24 (BE).

Lastly, 'Fiscal Services' have had no contribution in any year and may not be considered a driver for State's Own Non-Tax Revenue. The low share also indicates inadequate returns on investments by the government.

**Figure 2.19: Components of State’s Own Non-Tax Revenue (in Cr INR)**



\*BE: Budgeted Estimates,

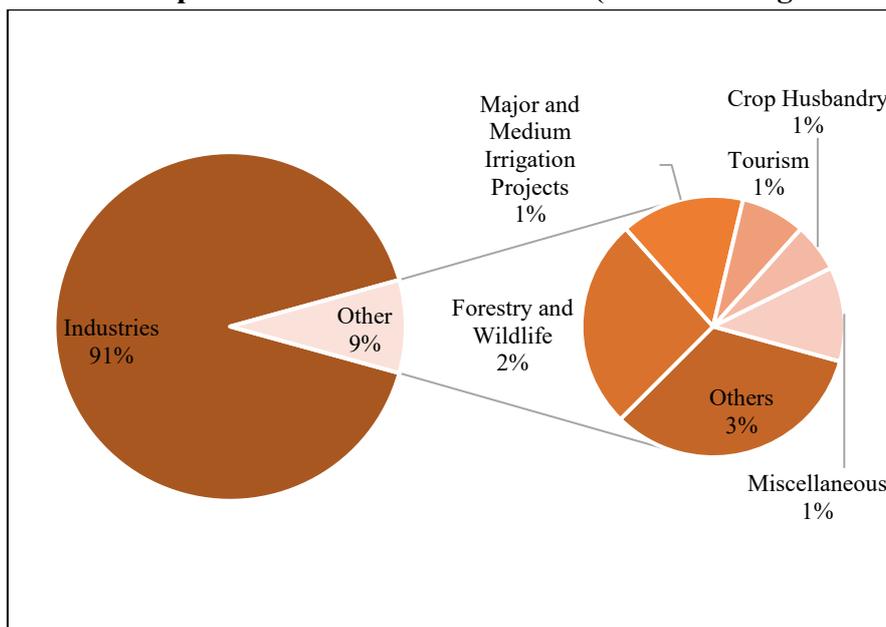
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

Figures 2.20 and 2.21 portray the composition of ‘Economic Services’ and ‘Social Services’ and the percentage contribution of their components.

Under the head ‘Economic Services’, major receipts come from ‘Industries’ (91%) whereas under the head ‘Social Services’ major receipts come from ‘Medical and Public Health’ (43%).

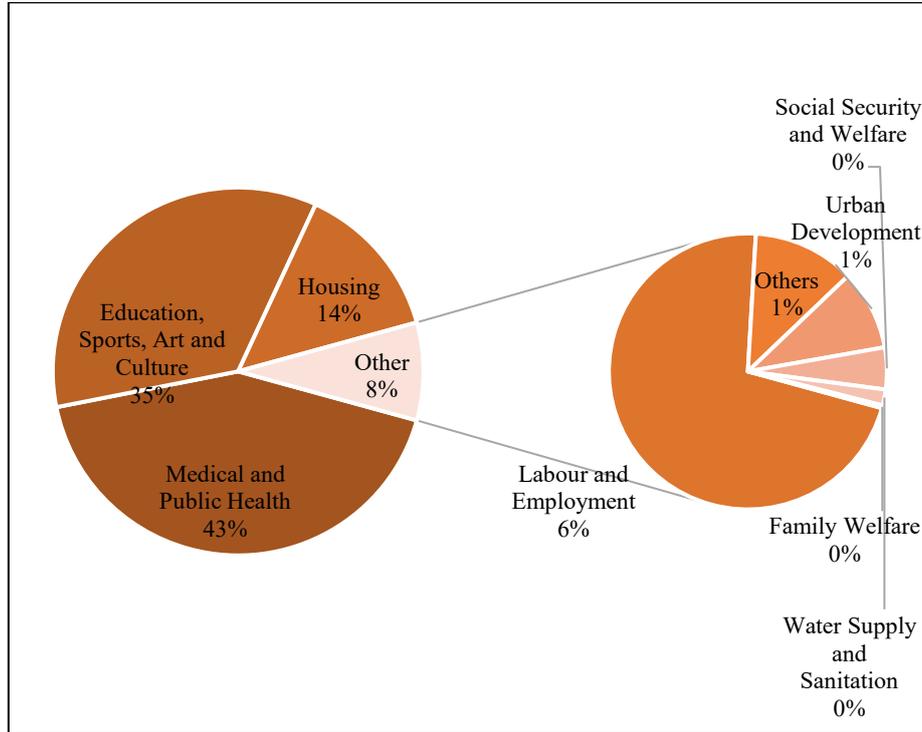
**Figure 2.20: Composition of Economic Services (2023-24 Budget Estimates)**



\*BE: Budgeted Estimates,

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

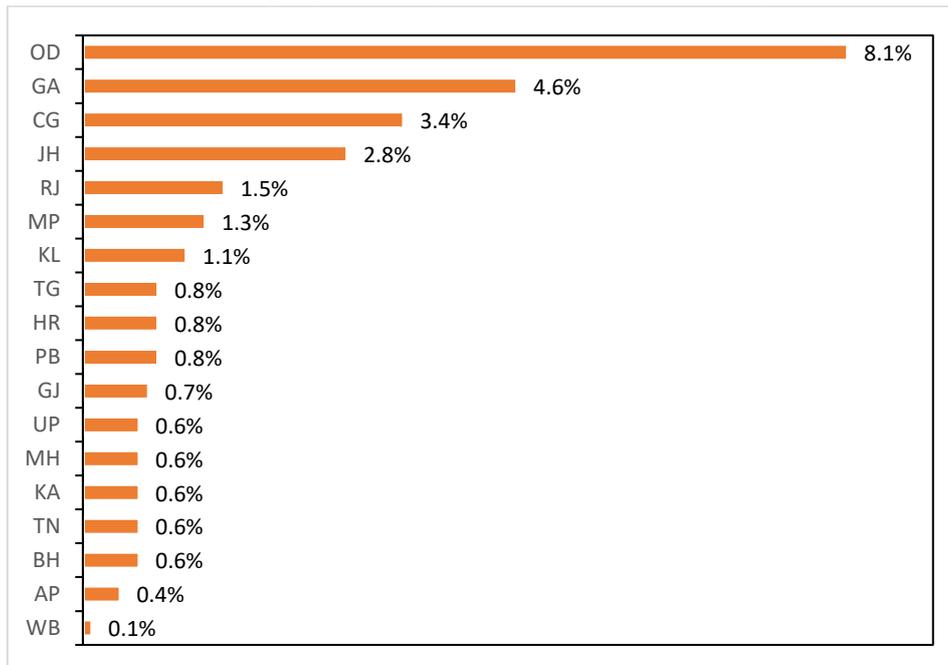
**Figure 2.21: Composition of Social Services (2023-24 Budget Estimates)**



\*BE: Budgeted Estimates,

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

**Figure 2.22: Ratio of State’s Own Non-Tax Revenue to GSDP of Non-Special Category States (in %, 2021-22 Accounts)**



Source: State Finance: A Study of Budgets (2023), RBI.

Figure 2.22 displays the ratio of own non-tax revenue of the state to GSDP of Non-Special Category States (General Category States). The values correspond to 2021-22 account for the data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Odisha and Goa have the highest share of own non-tax revenue relative to GSDP at 8.1% and 4.6% respectively. Andhra Pradesh's share (0.4%) is lower than Telangana (0.8%).

### 2.1.9 Dividends & Profits

Profits pertain to departmental enterprises, often referred to as Department Commercial Undertakings, and are enterprises (not maintained as legal corporation) owned, controlled and run directly by public authorities. Government activities like irrigation, forest, railways, transport, communication, milk-supply, printing presses, mints, currency and coinage, security presses, ordinance factories and electricity are considered as commercial enterprises.

Dividends pertain to Non-Departmental Commercial enterprises (NDCE) which includes government companies with at least 51% of the paid-up capital held by central government or state government or partly by both or, partly one or more state governments and subsidiaries of government companies. Based on the type of activity, NDCEs can be categorised into Financial Enterprises (National Banks, financial corporations, LIC, GIC, ESIC) and Non-Financial Enterprises (undertakings related to agriculture, forestry, fishing, mining, manufacturing, electricity and gas, road, air and water transport, storage and warehousing, hotels and restaurants, etc.)

Figure 2.23 shows contribution of dividends and profits over the years 2014–15 to 2023–24. It can be understood that the share of dividends and profits have been quite low with ₹ 133.88 Crore in 2014-15 to ₹ 223.7 crore in the year 2023-24.

Profits and dividends have a diminutive share in State's Own Non-Tax Revenue, with just close to 1% contribution in the year 2023-24. In many cases no dividends were received due to several losses, non-availability of surpluses, or reinvestment.

The scenario thus reflects inefficient utilization of resources by the government of Telangana in departmental enterprises and non-departmental commercial enterprises leading to insufficient returns and profits.

**Figure 2.23: Dividends & Profits (in Cr INR)**



\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

### 2.1.10 User Charges

User charges are fees that people are required to pay for using public services provided by the government. Government provides a variety of services and user charges is a measure covering not only the cost but also generate revenue and promote economic efficiency. Nonetheless, it cannot be ignored that user charges are not expected to be high as public social services are provided without any charges or at subsidised rates. In case of merit goods, the government does not consider cost recovery as the primary objective, as investment in certain core development areas is necessary considering overall economic development.

Since the government of Telangana provides many services such as power, education, health, water-supply and sanitation, major and medium irrigation, minor irrigation, roads and bridges etc. at subsidised charges, hence user charges generate limited revenue for the state

### 2.1.11 Suggestions to enhance State’s Own Non-Tax Revenue

The government should minimise the fluctuations in the revenue generated through Non-Tax Revenue sources. The State could adopt measures to increase the share of ‘Economic Services’ and ‘Social Services’ in State’s Own Non-Tax Revenue and should also keep a check on whether investment in these services is efficiently leading to economic development of society.

Considering miniscule contribution of profits and dividends, government should opt for disinvestment or winding up of loss-making enterprises. The Government can also formulate a sound turnaround policy for financial recovery of poor performing units. The methodology of determination of user charges can be changed considering economic status of different groups, and depending on increase in the frequency of usage, charges can be increased every year by a certain percentage. The government should also consider the recovery rates and overuse (overconsumption) of services (due to minimal charges).

### 2.1.12 Grants from the Centre

Grants from the Centre is the amount of money received from central government for special purposes like State Plan Schemes, Central Plan Schemes, Centrally Sponsored Schemes and Non-Plan Grants (Statutory Grants, Grants for relief on account of natural calamities etc.)

Grants from the Centre is the second major component of Non-Tax Revenue. Figure 2.24 exhibits major movement in components of ‘Grants from the Centre’ in the period 2014-15 to 2023-24. The government of Telangana receives no grants under the heads ‘Central Plan Schemes and ‘NEC’. It may be noted that grants under the section ‘Centrally Sponsored Schemes’ have been zero over the years.

At the same time, contributions have noticeably increased under the head ‘Other Grants’.

**Figure 2.24: Grants from the Centre (in Cr INR)**



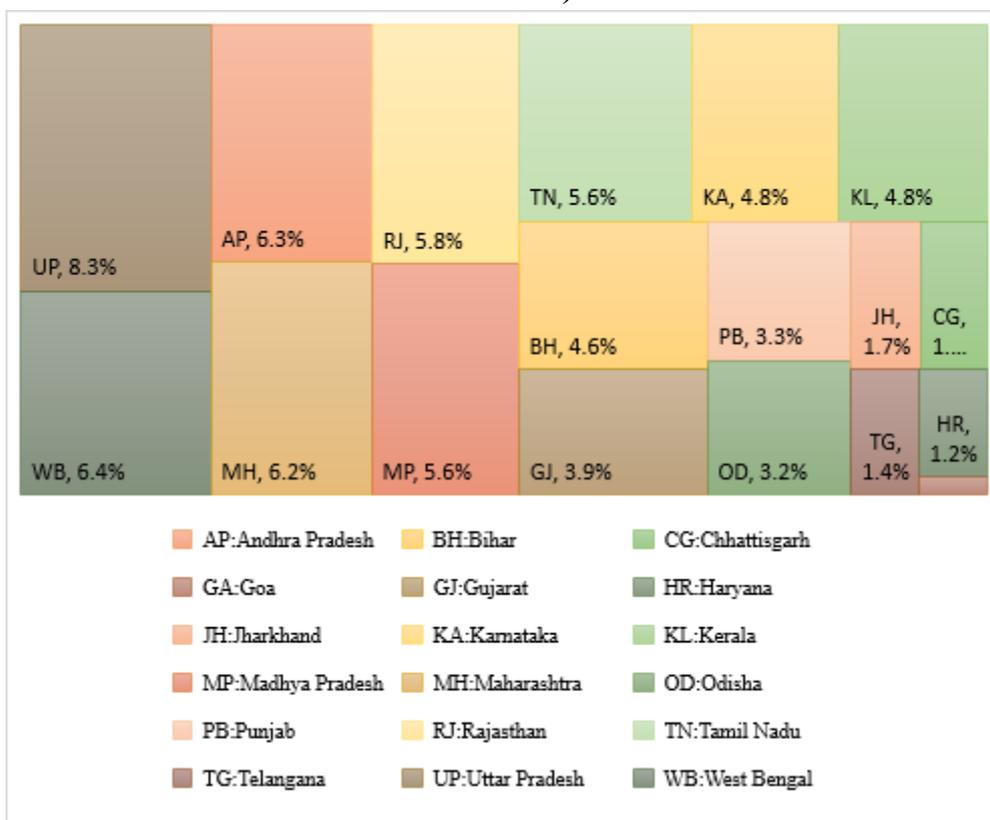
\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

Figure 2.25 displays the percentage share of ‘Grants from Centre’ of the state in the total grants from centre of Non-Special Category States (General Category States). The values correspond to 2021-22 account for the data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Uttar Pradesh and West Bengal have the highest share of ‘Grants from Centre’ at 8.3% and 6.4% respectively. Andhra Pradesh’s share (6.3%) is significantly higher than Telangana (1.4%).

**Figure 2.25: Grants from Centre of Non-Special Category States (2021-22 Accounts)**



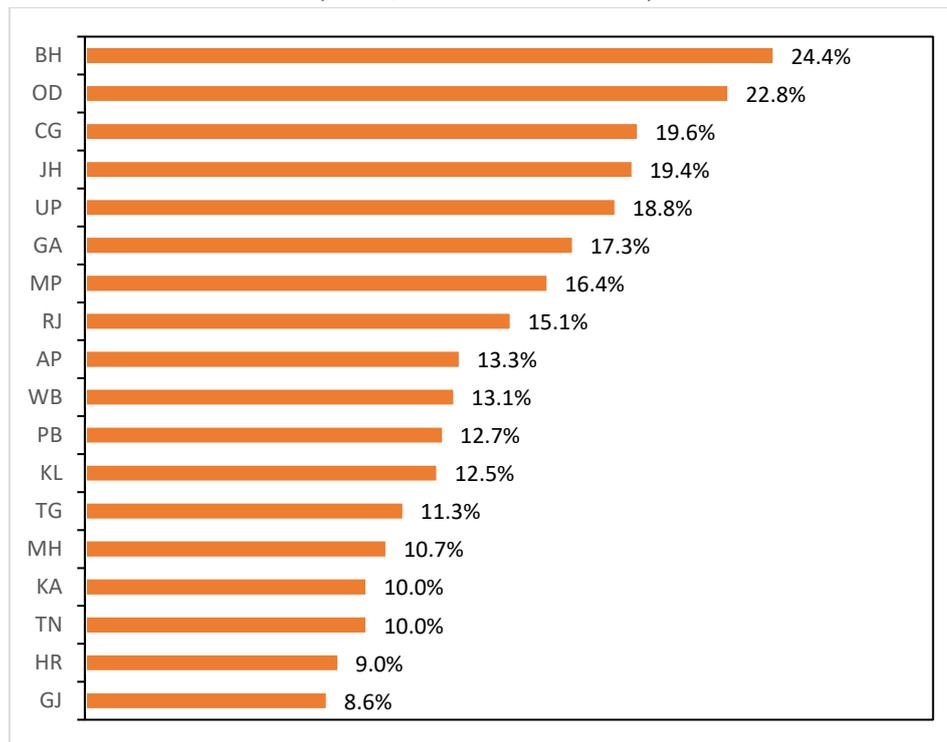
Source: State Finance: A Study of Budgets (2023), RBI.

### 2.1.13 Revenue Receipts relative to GSDP

Figure 2.26 displays the ratio of Revenue Receipts of the state to GSDP of Non-Special Category States (General Category States). The values correspond to 2021-22 account for the data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Bihar and Odisha have the highest share of revenue receipts relative to GSDP at 24.4% and 22.8% respectively. Andhra Pradesh’s share (13.3%) is higher than Telangana (11.3%)

**Figure 2.26: Ratio of Revenue Receipts to GSDP of Non-Special Category States  
(in %, 2021-22 Accounts)**



Source: State Finance: A Study of Budgets (2023), RBI.

## 2.2. Revenue Expenditure

Revenue expenditure could be understood as all expenditure that goes towards operation and maintenance, committed salary expenditure and does not create any asset.

Generally, expenditure incurred on regular activities of the government departments and maintenance of services is treated as revenue expenditure. Examples of revenue expenditure are salaries of government employees, interest payment on loans taken by the government, pensions, subsidies, grants, rural development, education and health services, etc.

Revenue expenditure includes expenses by the government under Developmental Expenditure, Non-Developmental Expenditure, and Grants-in-Aid and Contributions. Table 2.4 and Figure 2.27 show various components of revenue expenditure, whereas Figure 2.28 shows year wise growth rate of revenue expenditure depicting that revenue expenditure has been growing at 16.87% on average, over the past years (2014-15 to 2023-24).

Evidently, the Government of Telangana spends highest for developmental purposes followed by non- developmental purposes and lastly, in the form of grants.

Developmental Expenditure which includes ‘social services’ and ‘economic services’, has seen tremendous growth from 2014-15 to 2023-24. Non-Developmental Expenditure includes expenses on general services like organs of state, interest payments and servicing of debt, administrative services, pensions and miscellaneous general services, has also witnessed a moderate growth amount of 48% from 2018-19 to 2023-24. ‘Grants-in-Aid and contributions’ are consistently close to nil from 2018-2024 as depicted in figure 2.31.

**Table 2.4: Revenue Expenditure (in Cr INR)**

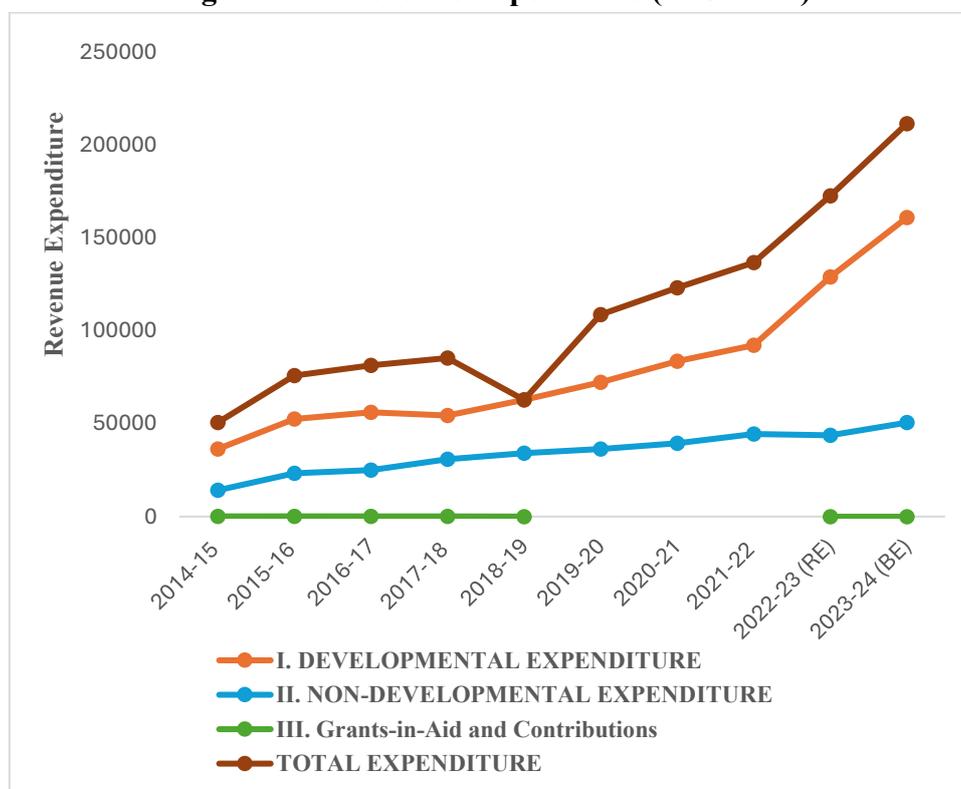
Components	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (RE)	2023-24 (BE)
I. Developmental Expenditure	36397.27	52508.88	56235.37	54459.51	62878.63	72357.55	83735.2	92370.63	129081.9	161068.4
II. Non-Developmental Expenditure	14164.26	23247.25	25124.99	30872.21	34199.18	36440.33	39477.18	44432.8	43730.25	50606.78
III. Grants-in-Aid and Contributions	111.6	139.61	71.84	32.998	5.2677	-	-	-	10.1	10.1
Total Expenditure	50673.13	75895.74	81432.2	85364.72	62883.9	108797.9	123212.4	136803.4	172822.3	211685.2

\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

**Figure 2.27: Revenue Expenditure (in Cr INR)**

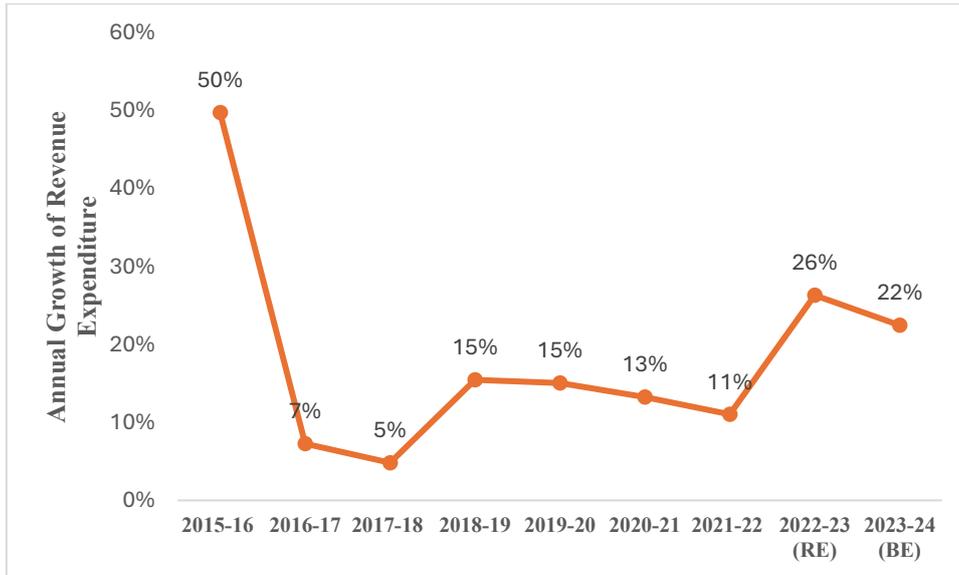


\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

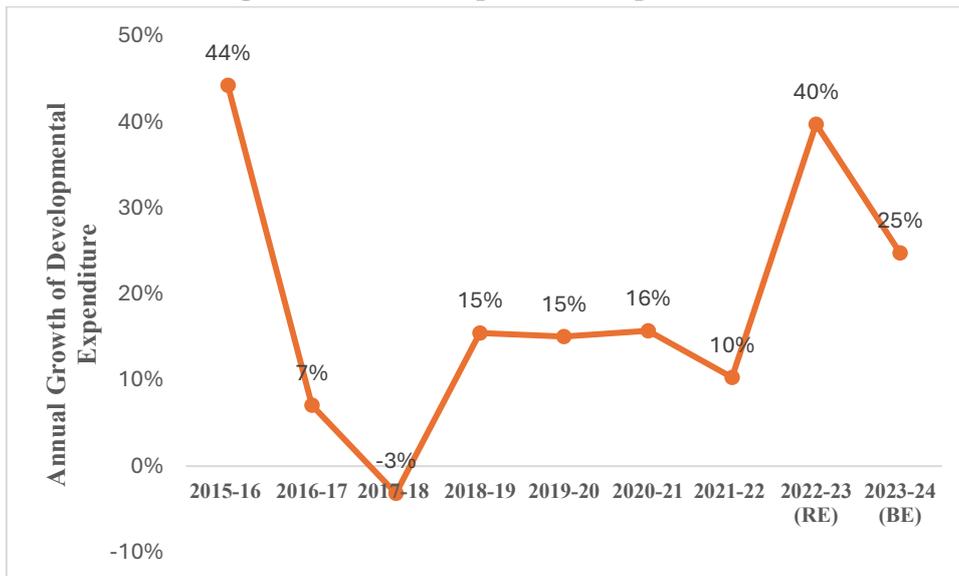
**Figure 2.28: Annual growth in Revenue Expenditure (in %)**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

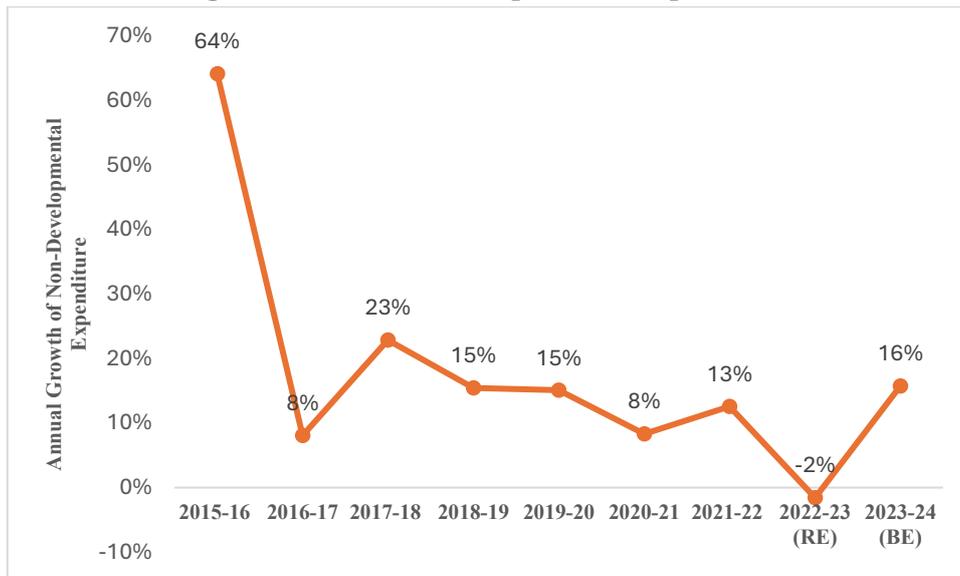
**Figure 2.29: Developmental Expenditure**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

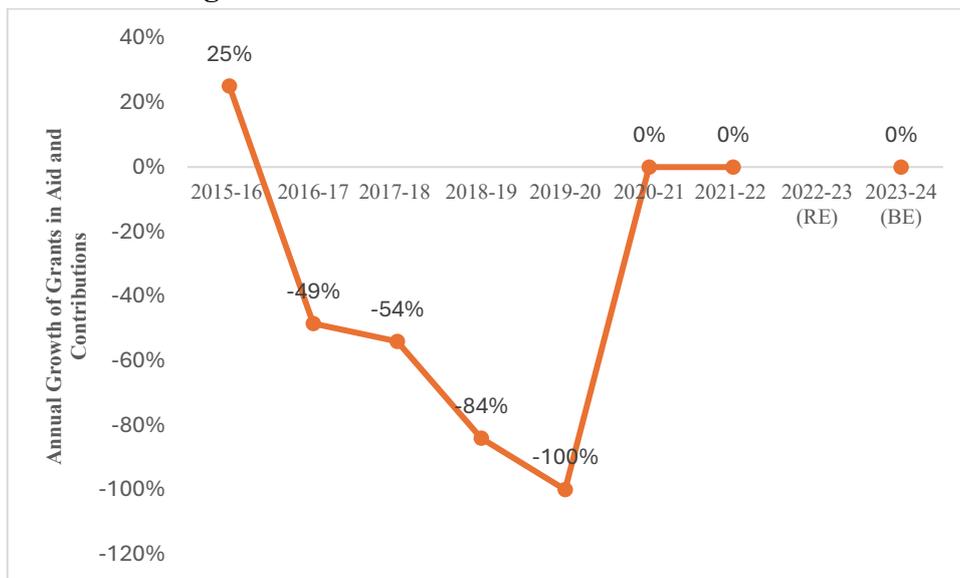
**Figure 2.30: Non-Developmental Expenditure**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

**Figure 2.31: Grants-in-Aid and Contributions**



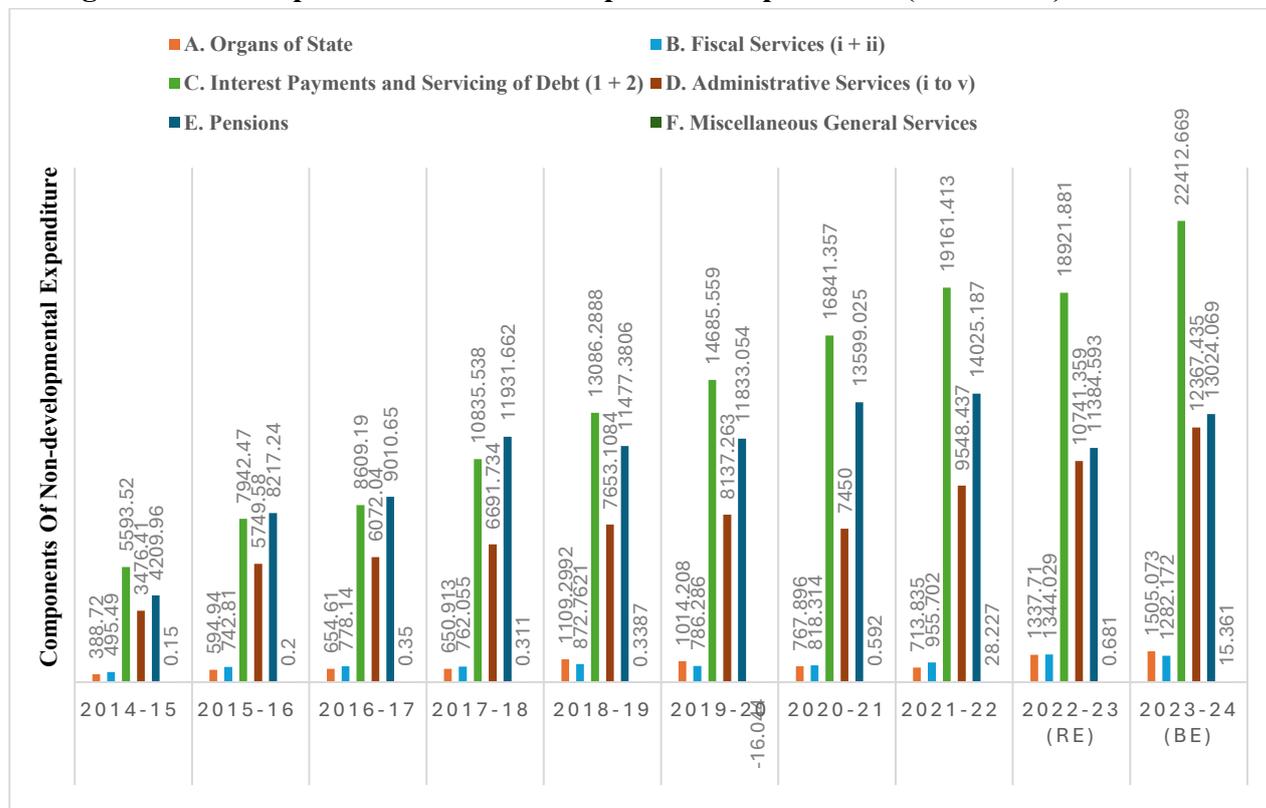
\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

Non-Development Expenditure can be attributed to salaries, pensions, interest payments etc. The following Figure 2.32 shows the amount being expensed on various components of Non-Developmental Expenditure, unveiling huge amount is being shelled out for ‘interest payments and servicing of debt’, ‘pensions’ and ‘administrative services’.

In the Non-Development Expenditure, pensions and interest payments alone comprise 70% to 75% of the total across the years (2014-15 to 2022-23).

**Figure 2.32: Components of Non-Developmental Expenditure (in Cr INR)**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

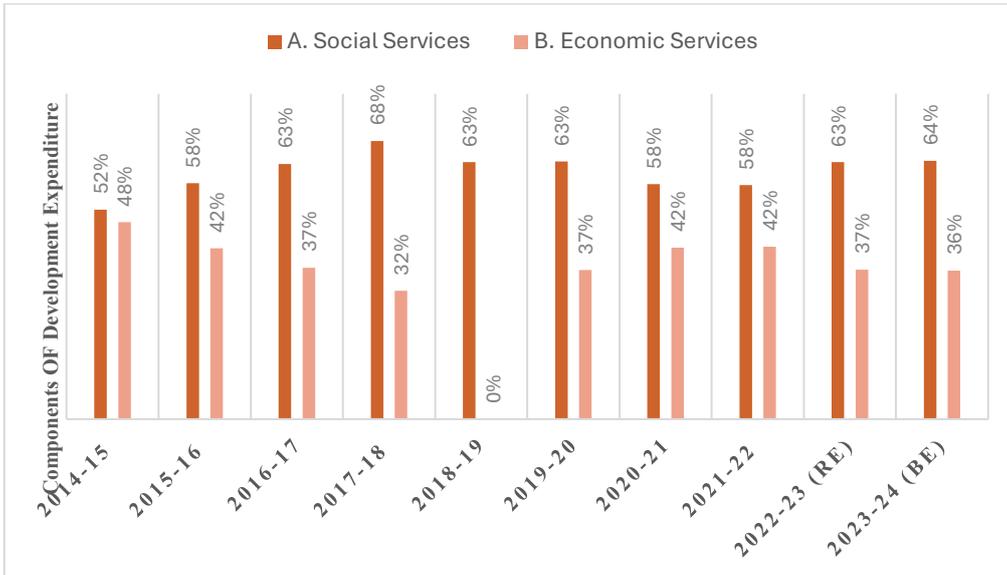
Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

Figure 2.33 exhibits the components of Development Expenditure namely, ‘Social Services’ and ‘Economic Services’ and their movement over the years 2014-15 to 2023-24. It clearly shows more expenditure incurred on ‘Social Services’ than ‘Economic Services’. While development expenditure on social services ranged from 52% in 2014-15 to 64% in 2023-24. Development expenditure on economic services ranged from 48% in 2014-15 to 36% in 2023-24.

The following figures 2.34 and 2.35, show two major constituents of ‘Developmental Expenditure’ namely, ‘social services’ and ‘economic services’ and display the percentage share of their sub-heads: ‘education, sports, art & culture’ and ‘welfare of SC, ST & OBC’ and a lesser percentage if allocated on ‘medical and public health’, ‘water supply and sanitation’, ‘urban development’ ‘labour welfare’, out of social services.

In Economic Services, more is being spent on ‘agriculture and allied activities’, ‘energy’ and ‘rural development’.

**Figure 2.33: Components of Developmental Expenditure**

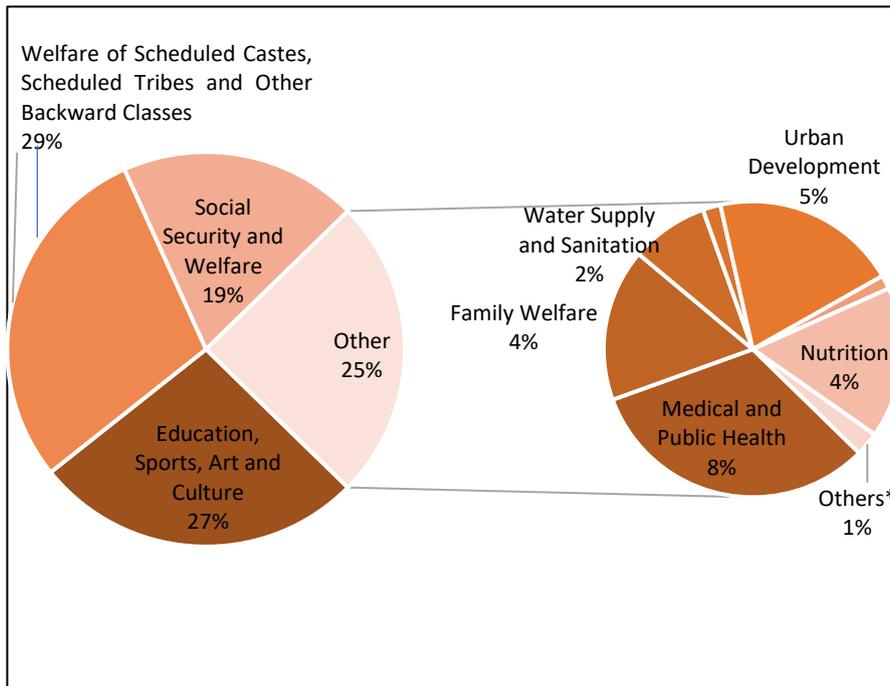


\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

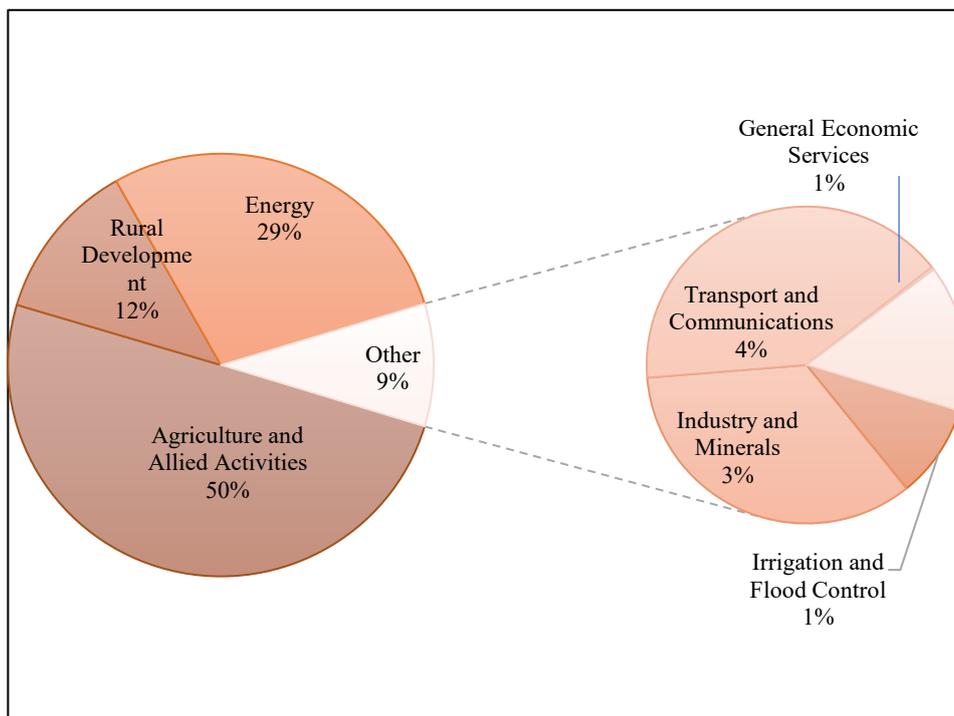
**Figure 2.34: Composition of Social Services (2023-24 Budget Estimates)**



\*BE: Budgeted Estimates,

Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

**Figure 2.35: Composition of Economic Services (2023-24 Budget Estimates)**



\*BE: Budgeted Estimates,

Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

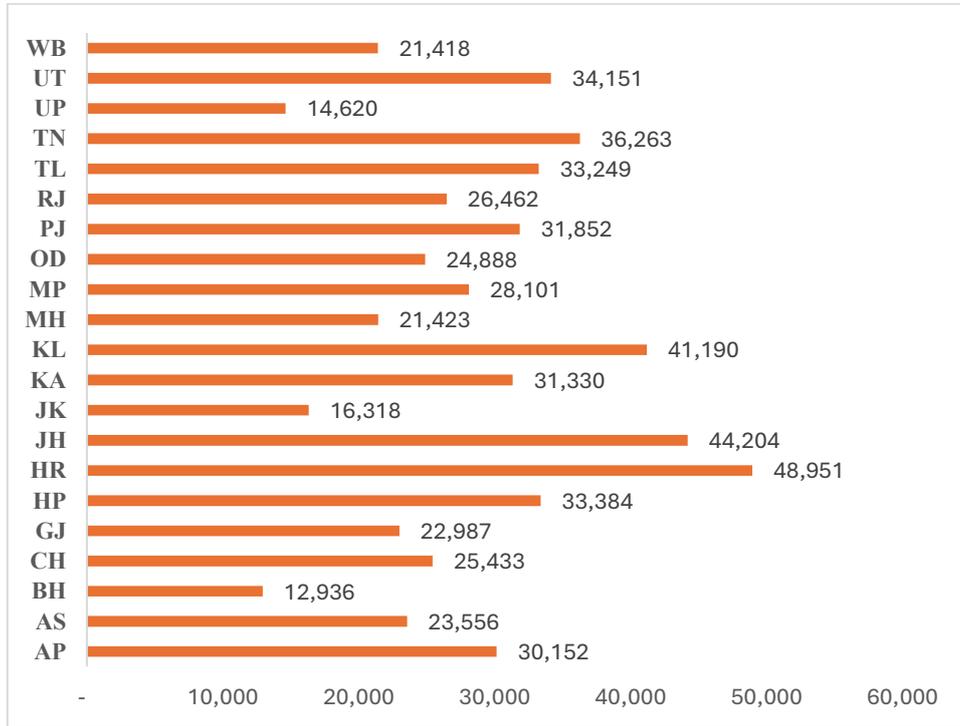
### 2.2.1 Comparison with Andhra Pradesh and other General Category states

Figure 2.36(i) represents the per capita revenue expenditure of the non-special category states. Evidently, per capita expenditure is the highest in Punjab with ₹48,951, Odisha with ₹44,204 and Telangana with ₹ 41,190. While the lowest per capita is observed in Andhra Pradesh with ₹ 12,936. A large gap does exist between per capita expenditure on social and economic services as evident from figures 2.36 (ii) and 2.36 (iii).

Figure 2.36 (iv) displays the ratio of revenue expenditure of the state to GSDP of Non-Special Category States (General Category States). The values correspond to 2021-22 account for the data taken from RBI (latest actuals available for all states).

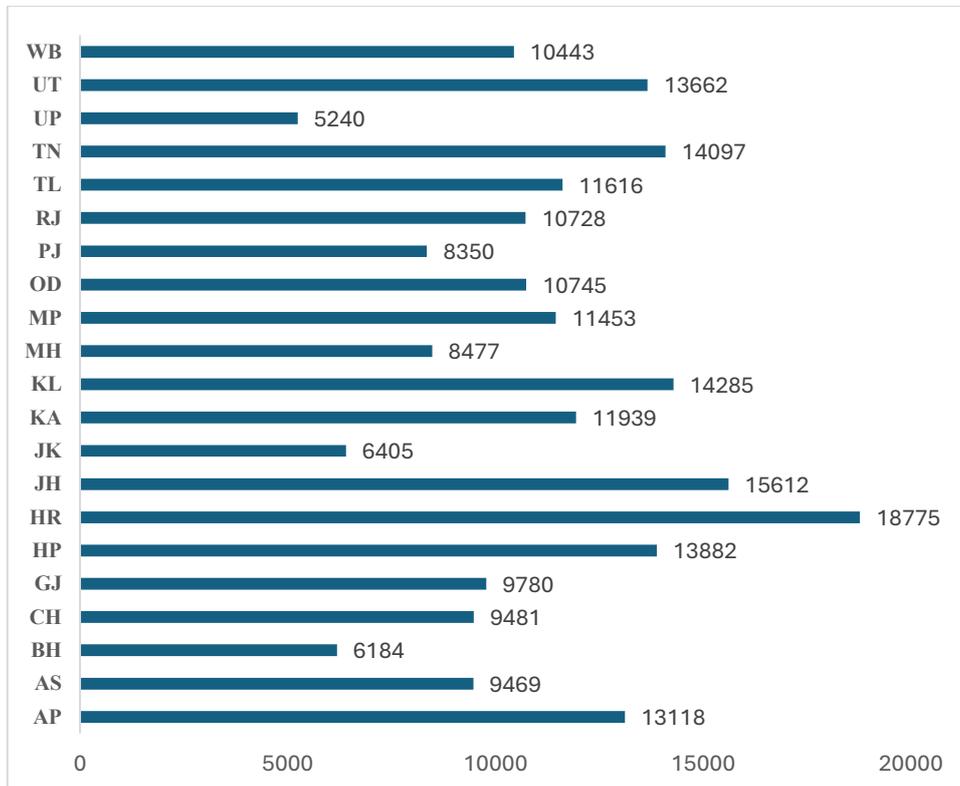
Among the Non-Special Category States, Bihar and Chhattisgarh have the highest share of revenue expenditure relative to GSDP at 24.5% and 18.5% respectively. Andhra Pradesh's share (14%) is higher than Telangana (12.1%).

**Figure 2.36 (i): Per Capita Revenue Expenditure of Non-Special Category States (in %) (2021-22 Accounts)**



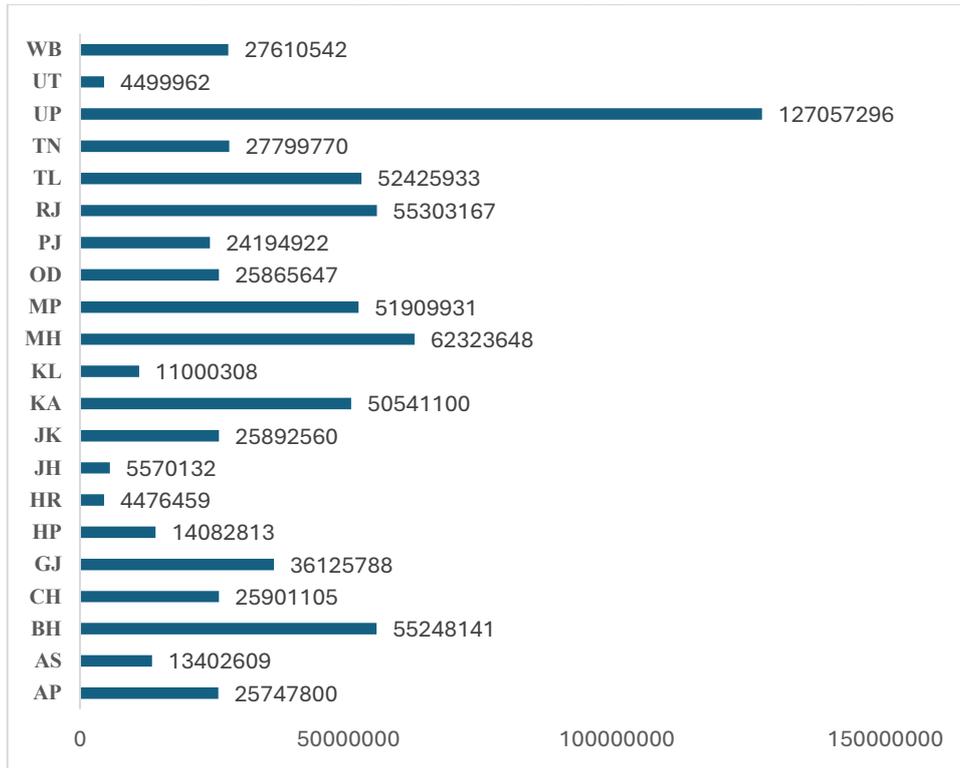
Source: State Finance: A Study of Budgets (2023), RBI.

**Figure 2.36 (ii): Per Capita Revenue Expenditure on Social Services in the Non-Special Category States (in %) (2021-22 Accounts)**



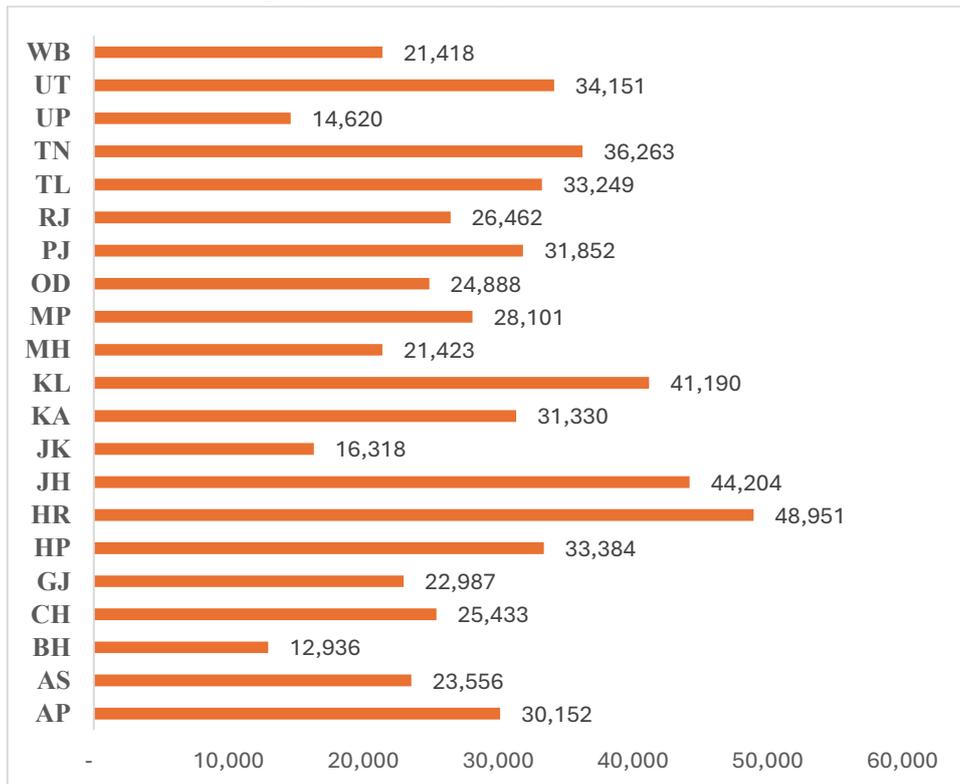
Source: State Finance: A Study of Budgets (2023), RBI.

**Figure 2.36 (iii): Per Capita Revenue Expenditure on Economic Services in the Non-Special Category States (in %) (2021-22 Accounts)**



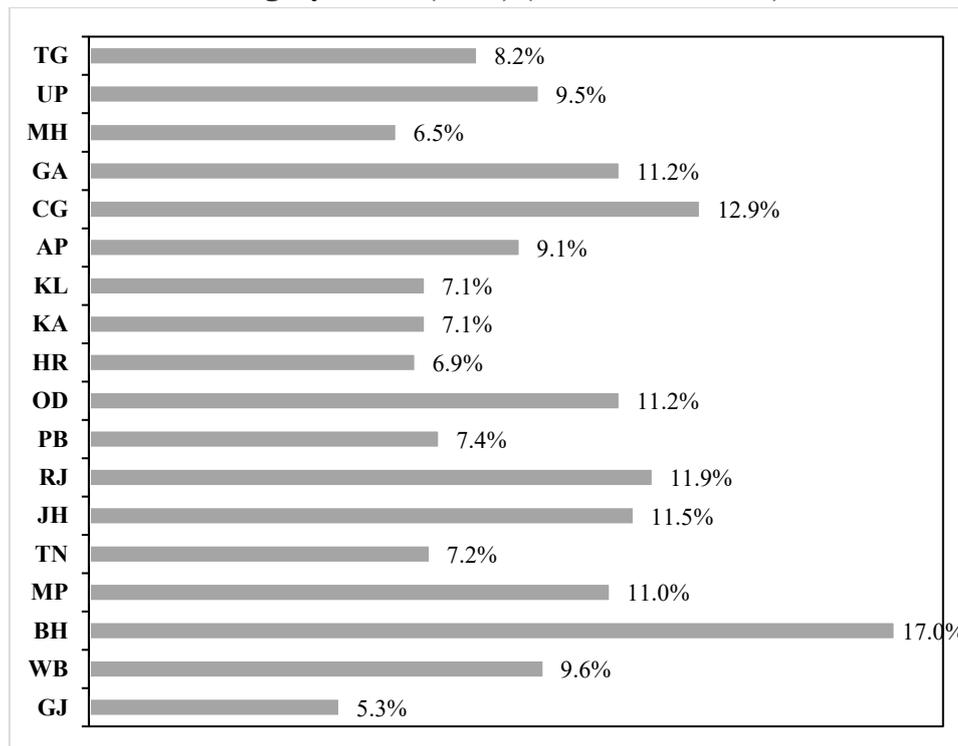
Source: State Finance: A Study of Budgets (2023), RBI.

**Figure 2.36 (iv): Ratio of Revenue Expenditure to GSDP of Non-Special Category States (in %) (2021-22 Accounts)**



Source: State Finance: A Study of Budgets (2023), RBI.

**Figure 2.37: Ratio of Developmental Expenditure to GSDP of Non-Special Category States (in %) (2021-22 Accounts)**



Source: State Finance: A Study of Budgets (2023), RBI.

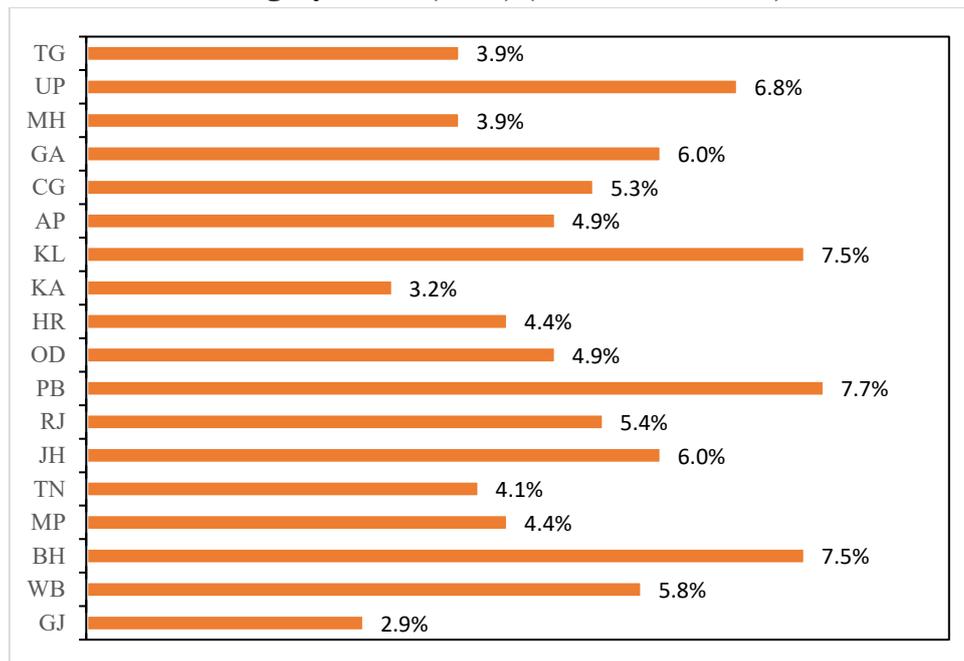
Figure 2.37 displays the ratio of Developmental Revenue Expenditure to GSDP of Non-Special Category States (General Category States). The values correspond to 2021-22 account for the data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Bihar and Chhattisgarh have the highest share of developmental revenue expenditure relative to GSDP at 17% and 12.9% respectively. Andhra Pradesh's share (9.1%) is slightly higher than Telangana (8.2%).

Figure 2.38 displays the ratio of Non-Development Revenue Expenditure to GSDP of Non-Special Category States (General Category States). The values correspond to 2021-22 account for the data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Punjab, Bihar and Kerala have the highest share of non-development revenue expenditure relative to GSDP at 7.7%, 7.5% and 7.5% respectively. Andhra Pradesh's share (4.9%) is slightly higher than Telangana (3.9%).

**Figure 2.38: Ratio of Non-Developmental Expenditure to GSDP of Non-Special Category States (in %) (2021-22 Accounts)**



Source: State Finance: A Study of Budgets (2023), RBI.

### 2.2.2 Budget Estimates vis-à-vis Accounts

The budget of a state government provides description of projections and estimations of revenue and expenditure over an ensuing fiscal year.

A comparison of budget estimates of the Revenue Expenditure of Telangana with respect to the expenditure over the period of last five years reflects an inefficient estimation in the budget process.

Table 2.5 below shows the budget estimates of revenue expenditure vis-à-vis actuals. For the year 2022-23, revised estimates have been taken as actuals for the analysis, due to the unavailability of actual figures.

It can be inferred that Telangana government has been successful in spending less than the planned estimates (Figure 2.39) and has been working towards adhering to the FRBM norms of fiscal prudence.

However, the percentage difference between Budget Estimates and Actuals is declining, as shown in Figure 2.40, from 23% in 2018-19 to 9% in 2023-24.

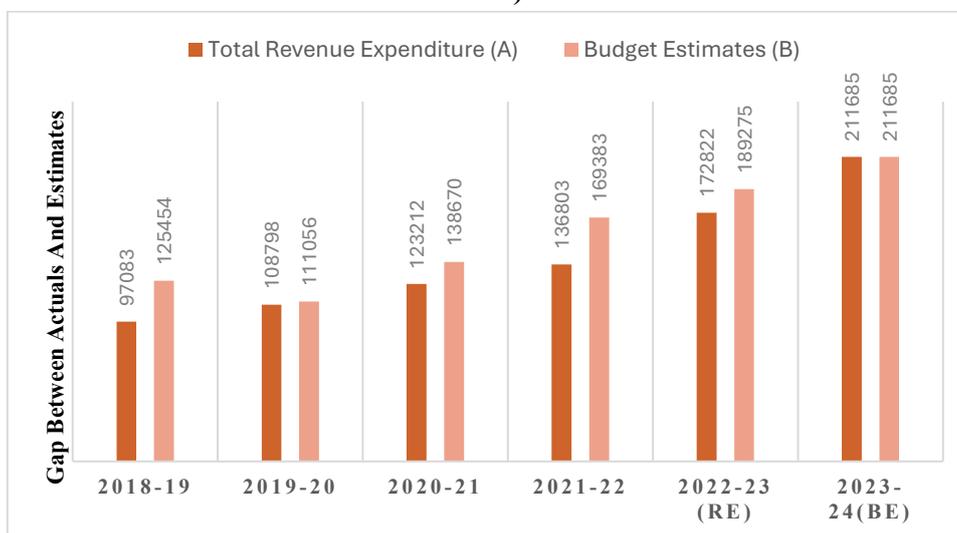
**Table 2.5: Revenue Expenditure - Budget Estimates vis-à-vis Actuals (In Cr INR)**

Components	2018-19	2019-20	2020-21	2021-22	2022-23 (RE)	2023-24(BE)
Total Revenue Expenditure (A)	97083	108798	123212	136803	172822	211685
Budget Estimates (B)	125454	111056	138670	169383	189275	211685
A-B	-28371	-2258	-15458	-32580	-16453	0
%	-23%	-2%	-11%	-19%	-9%	0%

\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

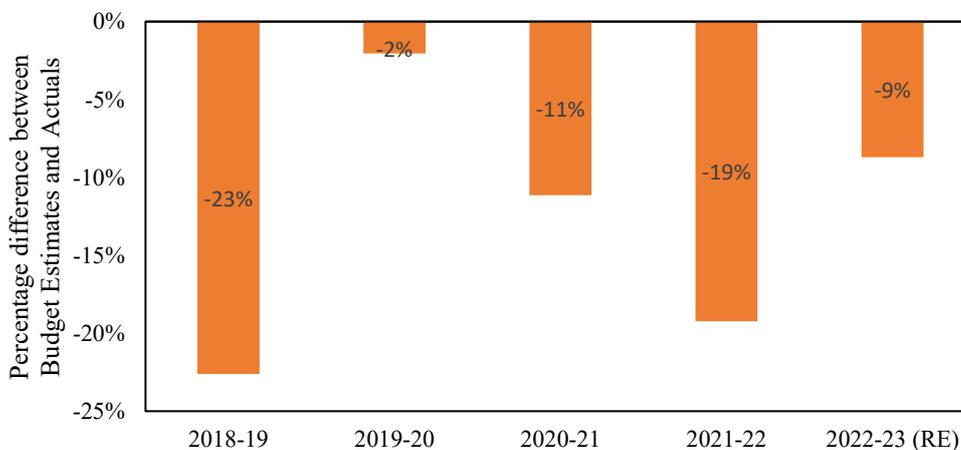
**Figure 2.39: Revenue Expenditure - Gap between estimates and actuals (in Cr INR)**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

**Figure 2.40: Percentage difference between estimates and accounts (in %)**



RE: Revised Estimates

Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

### 2.2.3 Revenue Receipts and Expenditure: Comparative Analysis

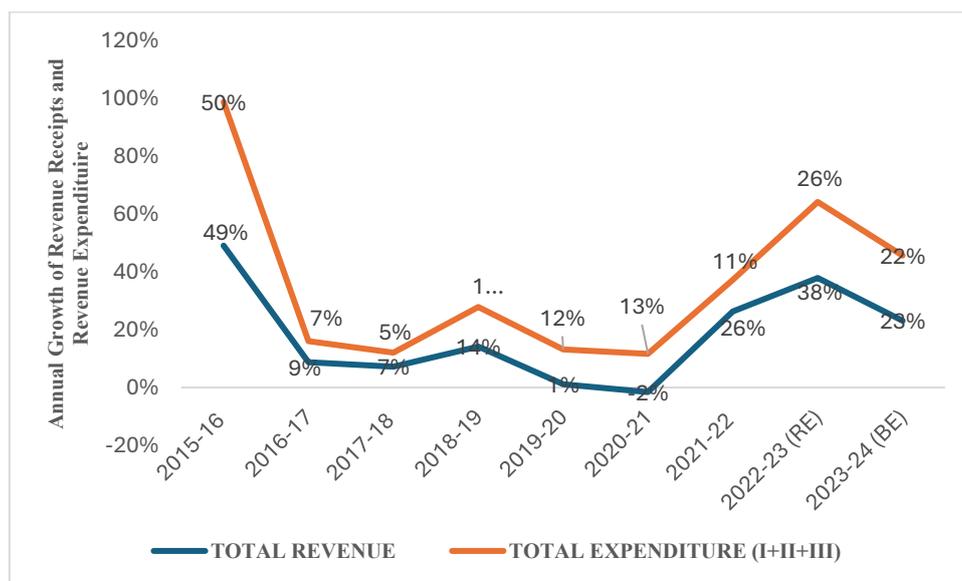
Figure 2.41 represents the annual growth in revenue receipts and revenue expenditure for a given period from 2015-16 to 2023-24 (BE). In 2015-16, revenue receipts experienced a sharp increase of 49%, significantly outpacing the 50% rise in total expenditure. However, in the following years, the growth in revenue receipts slowed, with only modest increases of 9% in 2016-17 and 7% in 2017-18. Expenditure growth also declined during this period, registering 7% and 5% respectively.

A notable rebound occurred in 2018-19, where both revenue receipts and expenditure recorded equal growth of 14%. However, 2019-20 witnessed a sharp divergence: while revenue growth was minimal at just 1%, expenditure growth surged to 12%, indicating a strain on fiscal balance.

The situation worsened in 2020-21 when revenue receipts contracted by 2%, even as total expenditure grew by 13%, likely reflecting the impact of the COVID-19 pandemic and associated government spending. Recovery was visible in 2021-22, as revenue grew by 26%, ahead of the 11% increase in expenditure.

This recovery gained momentum in 2022-23 (RE), with revenue receipts growing by 38% and expenditure by 26%, suggesting improved fiscal health. In 2023-24 (BE), the trend continues positively, though at a moderated pace, with revenue projected to grow by 23% and expenditure by 22%, indicating a relatively balanced fiscal approach.

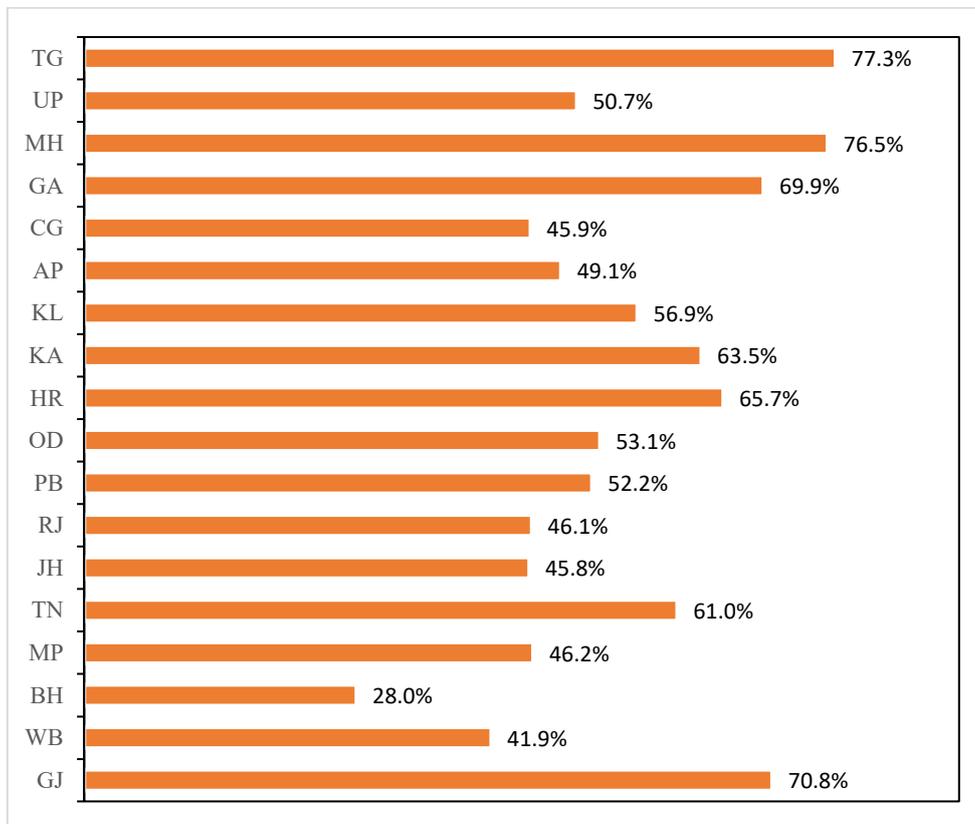
**Figure 2.41: Annual Growth in Revenue Receipts and Revenue Expenditure (in %)**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

**Figure 2.42: Ratio of Own Revenue to Revenue Expenditure of Non-Special Category States (in %) (2021-22 Accounts)**



Source: State Finance: A Study of Budgets (2023), RBI.

**2.2.4. Recommendations for Enhance Expenditure Efficiency.**

The Government of Telangana has implemented several strategic measures to improve the efficiency of public expenditure over the past five years. The most significant shift has been the substantial increase in developmental expenditure, which grew by 156% from 2018-19 to 2023-24, demonstrating a clear prioritization of productive spending over administrative costs. This reallocation of resources reflects a conscious effort to enhance allocative efficiency by directing funds toward activities that generate long-term socio-economic value.

In terms of social sector allocations, the government has maintained strategic focus on key areas. Education, sports, art & culture received 8.8% of total revenue expenditure, while health expenditure stood at 3.44%, urban development at 3.21%, and water supply and sanitation at 1.05%. This targeted approach to social sector spending indicates a measured strategy to develop human capital and essential infrastructure while ensuring optimal resource utilization.

The economic services sector has seen focused investments in agriculture and allied activities, energy sector, and rural development. This pattern suggests a deliberate effort to strengthen productive sectors and rural economy, potentially improving technical efficiency through modernization and infrastructure development in these areas.

A notable achievement in expenditure management has been the moderate growth of non-developmental expenditure, which increased by only 48% compared to the 156% growth in developmental expenditure during the same period. This controlled expansion of administrative and overhead costs while significantly increasing developmental spending demonstrates improved technical efficiency in resource allocation.

The management of debt servicing and pension costs, which comprise 70-75% of non-developmental expenditure, has remained relatively stable over the years. This consistency suggests effective measures to manage these mandatory expenses while maintaining fiscal sustainability. The near-zero grants-in-aid and contributions throughout 2018-2024 indicate a shift from direct transfers to more programmatic spending approaches.

Overall, the revenue expenditure has grown at an average rate of 16.87%, indicating a systematic and planned expansion of public spending. This controlled growth, combined with the significant shift toward developmental expenditure, suggests successful implementation of measures to enhance both allocative and technical efficiency in public expenditure.

These patterns indicate that the government has successfully implemented measures to redirect resources from non-productive to productive expenditure while maintaining fiscal discipline and promoting sustainable development. The focus on social and economic infrastructure development, combined with controlled administrative costs and debt management, suggests a well-structured approach to enhancing expenditure efficiency.

### **2.3 Capital Receipts**

Capital receipts are those receipts of the government which either: (a) reduce assets of the government (e.g. sale of share, disinvestment); or (b) create liabilities (e.g. government borrowings).

Capital receipts include funds received through ‘Internal Debt’, ‘Loans and Advances from the Centre’, ‘Recovery of loans and advances’, ‘Inter-state settlement’, ‘State Provident Funds’, Reserve Funds’, ‘Deposits and Advances’, ‘Suspense and Miscellaneous’, and ‘Remittances’

Table 2.6 and Figures 2.43, 2.44, 2.45 and 2.46, show the components of capital receipts over the years. It can be observed that although **suspense and miscellaneous** formed one of the major components showing high volatility, starting at ₹1,10,062.27 crore in 2014-15, peaking dramatically at ₹3,07,628.83 crore in 2016-17, and tapering off to zero by 2022-23 and 2023-24, possibly due to reforms or resolution of outstanding balances. ‘Suspense and Miscellaneous’ includes suspense (used when account for a particular transaction at the time when transaction was recorded, could not be found), cash balance investment accounts, deposits with RBI, and others.

Additionally, it can be observed that **‘Internal Debt’ and ‘Deposits & Advances’** form a significant part of total capital receipts with ₹9,494.11 crore in 2014-15 and surged steadily, peaking at ₹1,13,920.91 crore in 2020-21, largely due to pandemic-driven borrowing needs. This figure is projected to moderate to ₹42,215.68 crore in 2023-24, reflecting a shift towards fiscal consolidation.

While **‘Deposits and Advances’** include civil deposits, deposits of local funds, civil advances and others, internal debt (which includes market loans, loans from LIC, loans from banks, loans from NABARD, loans from NCDC, WMA from RBI, NSSF securities and others) recorded consistent growth from ₹23,614.87 crore in 2014-15 to ₹92,006.67 crore in 2023-24, making it a significant and reliable contributor to capital receipts.

Recovery of Loans and Advances showed a marginal trend early on but is projected to rise sharply from ₹47.7 crore in 2021-22 to ₹5,060 crore in 2023-24, indicating enhanced efforts in reclaiming outstanding dues. Inter-State Settlement did not record any transactions until 2022-23, when ₹7,500 crore was noted, followed by a significant increase to ₹17,828 crore in the 2023-24 budget estimate, possibly due to the adoption of new financial settlement mechanisms. The Contingency Fund had minimal use throughout the period, starting at ₹50 crore in 2014-15 and remaining unused in recent years, highlighting its role as a reserve measure. State Provident Funds, etc. showed steady growth from ₹1,319.07 crore in 2014-15 to ₹3,180.83 crore in 2023-24, likely due to expanding government employment and fund accruals. Reserve Funds began at

₹1,120.53 crore and peaked at ₹5,315.89 crore in 2019-20, though it has since stabilized around ₹1,600 crore.

**Table 2.6: Capital Receipts (in Cr INR)**

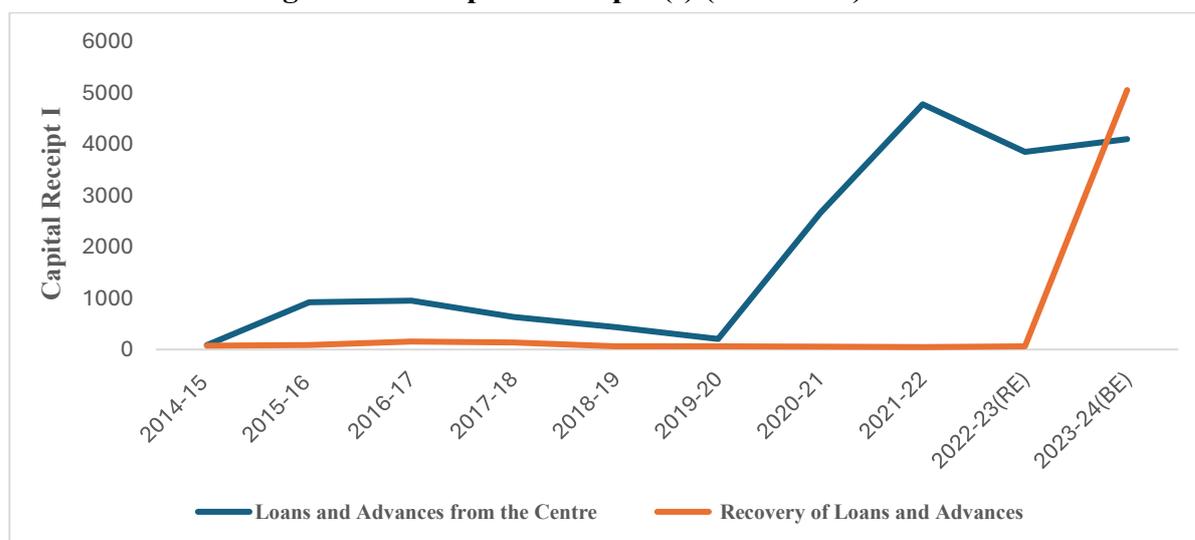
Year	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23(RE)	2023-24(BE)
<b>Internal Debt</b>	9494.11	16576.71	43863.17	48516.72	50528.5	75325.91	113920.9	114268.9	46570	42215.68
<b>Loans and Advances from the Centre</b>	86.37	920.88	956.12	636.679	433.4645	207.462	2665.342	4783.627	3852	4102
<b>Recovery of Loans and Advances</b>	76.6	87.65	156.02	137.966	65.8152	61.946	58.357	47.699	60	5060
<b>Inter-State Settlement</b>	0	0	0	0	0	0	0	0	7500	17828
<b>Contingency Fund</b>	50	0	0	0	0.0887	2.101	4.219	0	0	0
<b>State Provident Funds, etc.</b>	1319.07	2101.44	2416.31	2495.325	2427.205	2618.293	2635.61	2658.664	3006.739	3180.832
<b>Reserve Funds</b>	1120.53	1856.21	1457.61	1015.298	1771.766	5315.892	1388.293	1352.653	1665.952	1623.184
<b>Deposits and Advances</b>	23614.87	39840.32	43378.24	54048.46	62594.87	60402.36	66892.59	73308.9	77294.66	92006.67
<b>Suspense and Miscellaneous</b>	110062.3	93532.6	307628.8	66408.97	78379.28	36699.31	22040.06	22098.48	0	0
<b>Appropriation to Contingency Fund</b>	0	0	0	0	0	0	0	0	0	0
<b>Miscellaneous Capital Receipts</b>	0	0	0	0	0	0	0	0	0	0
<b>Remittances</b>	9027.57	16197.99	22637.83	20555.06	17860.31	13859.79	693.383	1129.596	0	0
<b>Total Capital Receipts</b>	154851.4	171113.8	422494.1	193814.5	214061.3	194493.1	210298.8	219648.6	139949.4	166016.4
<b>Growth</b>		11%	147%	-54%	10%	-9%	8%	4%	-36%	19%

\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

**Figure 2.43: Capital Receipts (I) (in Cr INR)**



\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

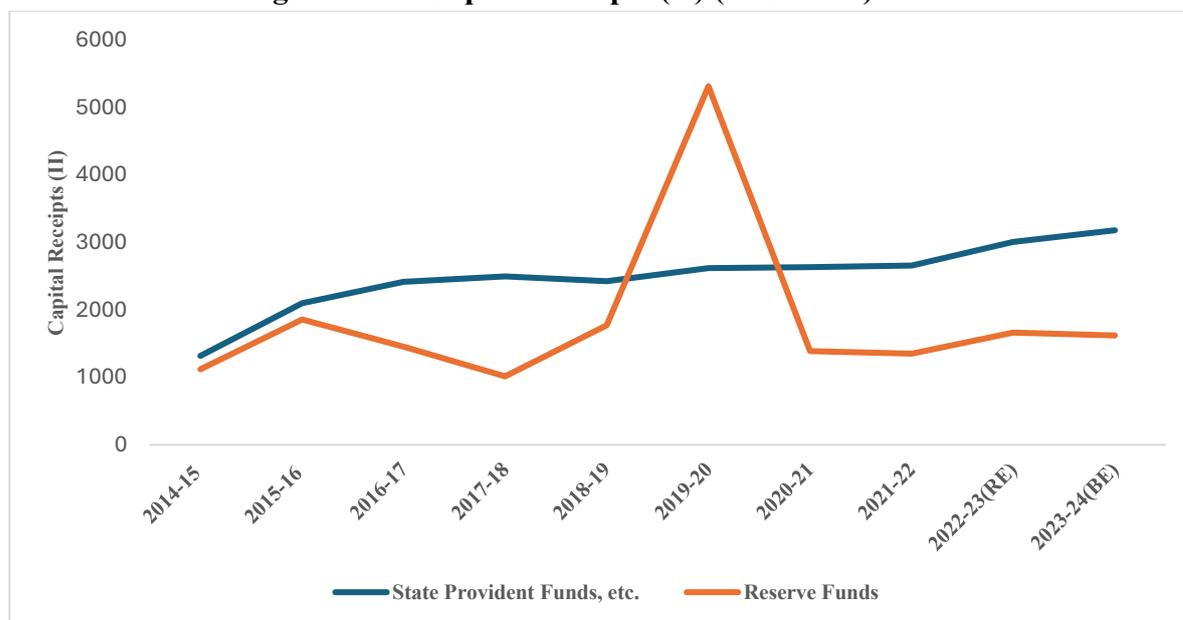
‘Loans and Advances from Centre’ refers to monetary assistance received from centre for state plan schemes, central plan schemes, centrally sponsored schemes, non-plan aid in case of calamities, WMA from RBI and loans for special schemes. ‘Loans and Advances from Centre’ which began at a modest ₹86.37 crore, reached a high of ₹4,783.63 crore in 2021-22 and are expected to stabilize at ₹4,102 crore in 2023-24.

It can be clearly inferred from Table 2.6 that the Government of Telangana raises more funds via internal debt than the funds it receives from centre.

Another observation is that the ‘Recovery of Loans and Advances’ is comparatively low. The component showed a marginal trend early on but is projected to rise sharply from ₹47.7 crore in 2021-22 to ₹5,060 crore in 2023-24, indicating enhanced efforts in reclaiming outstanding dues.

Figure 2.44 shows stability in the ‘Reserve Funds’, which began at ₹1,120.53 crore and peaked at ₹5,315.89 crore in 2019-20, though it has since stabilized around ₹1,600 crore. The ‘State Provident Funds’ increased continuously but a much moderate in the years 2018-19 and 2022-23. The component showed steady growth from ₹1,319.07 crore in 2014-15 to ₹3,180.83 crore in 2023-24, likely due to expanding government employment and fund accruals

**Figure 2.44: Capital Receipts (II) (in Cr INR)**

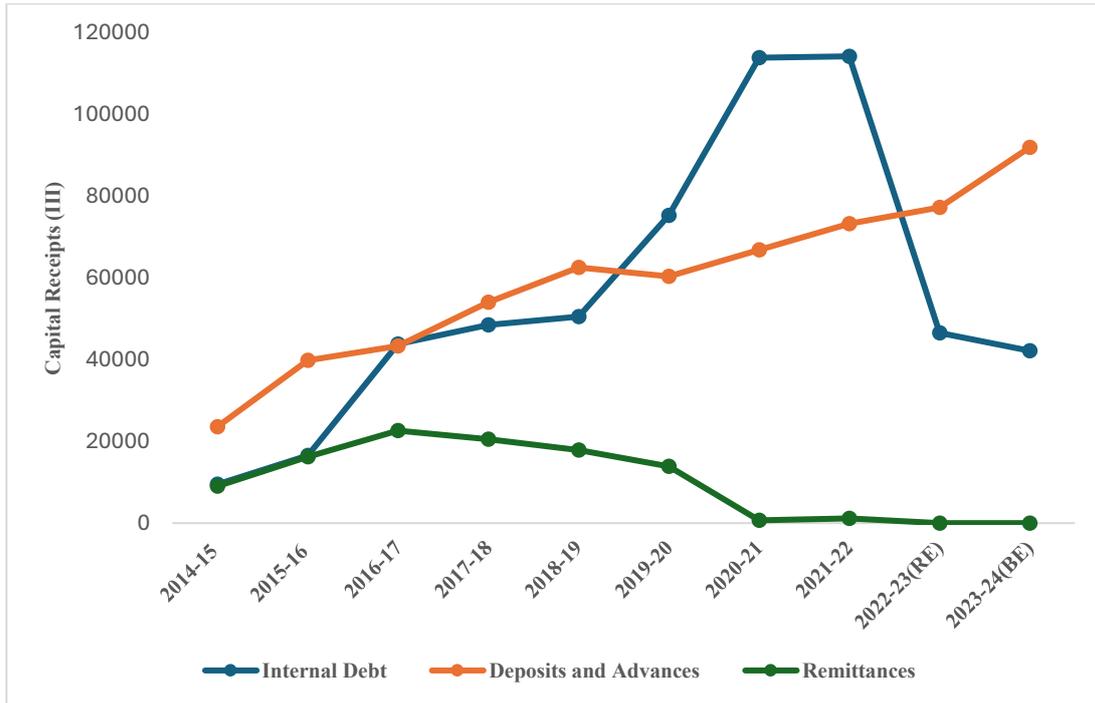


\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

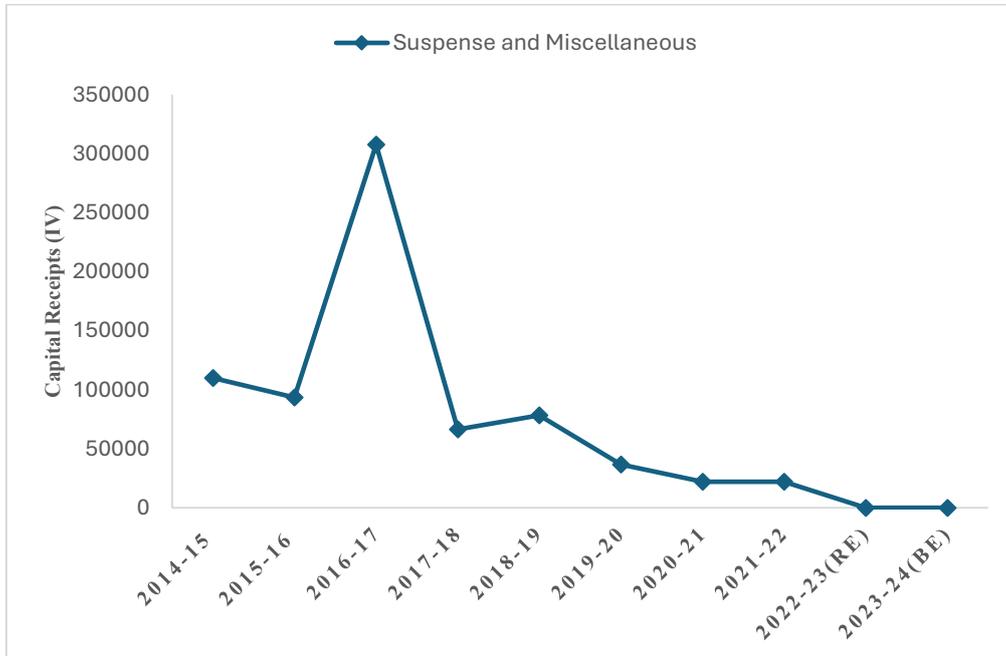
**Figure 2.45: Capital Receipts (III) (in Cr INR)**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

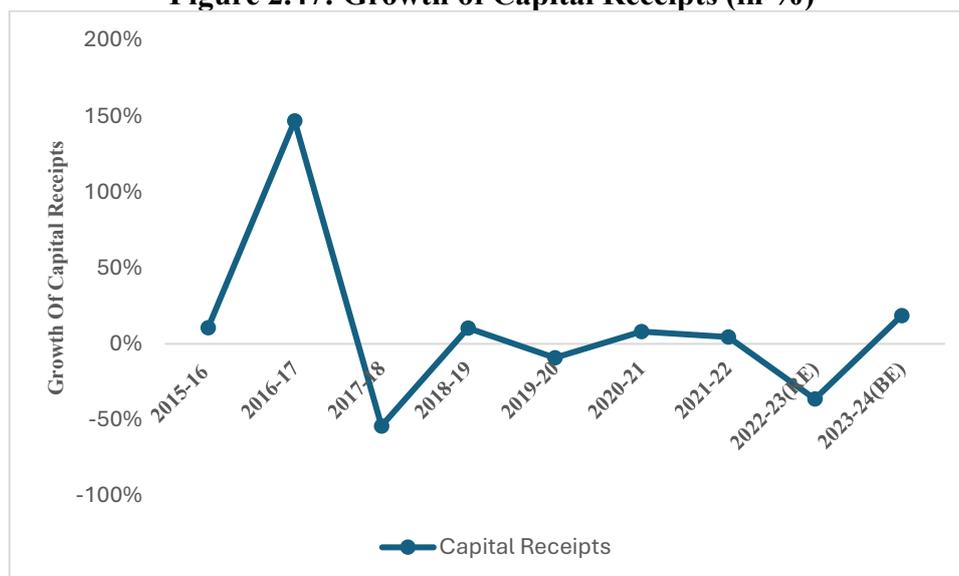
**Figure 2.46: Capital Receipts (IV) (in Cr INR)**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

**Figure 2.47: Growth of Capital Receipts (in %)**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

The growth trend in capital receipts from 2015-16 to 2023-24 has been marked by significant volatility (as depicted in figure 2.47). After a modest rise of 11% in 2015-16, capital receipts surged by a dramatic 147% in 2016-17, indicating a sharp increase in borrowings or inflows from capital sources. However, this was followed by a steep contraction of -54% in 2017-18, suggesting a major correction or reduction in capital inflows. The subsequent years saw more moderate fluctuations: a 10% increase in 2018-19, a -9% decline in 2019-20, and a slight recovery with 8% and 4% growth in 2020-21 and 2021-22, respectively. A sharp -36% fall in 2022-23 (RE) reflects a significant decline in capital receipts, possibly due to reduced borrowing or other capital sources, but the trend is expected to reverse with a projected 19% growth in 2023-24 (BE), signaling a cautious revival.

### 2.3.1 Internal Debt

Internal debt composes of market loans, loans from LIC, loans from banks, loans from NABARD, loans from NCDC, ways and means advances from RBI, NSSF securities and others.

Table 2.7 highlights various sources of borrowings under capital receipts from 2015-16 to 2023-24. Among these, market loans consistently represent the largest component, rising steadily from ₹8,201.14 crore in 2015-16 to a peak of ₹45,716 crore

in 2022-23 (RE), before a slight dip to ₹40,615.68 crore in 2023-24 (BE). This indicates a strong dependence on market borrowings for capital financing.

Another major contributor is the Ways and Means Advances (WMA) from RBI, which saw significant fluctuations, peaking dramatically at ₹69,453.90 crore in 2021-22. However, it drops sharply to just ₹100 crore in the 2023-24 projections, indicating a shift in strategy or liquidity management. The Telangana government has implemented several schemes to save debt ridden farmers. Despite the efforts, a recent report released by NABARD shows that 79% of farmers in Telangana are struggling to repay loans timely.

Conversely, the lowest or least consistent component is "Others," which showed erratic behavior with negligible or even negative values, such as -₹8.578 crore in 2018-19, and has remained at zero since 2020-21. Loans from entities like the LIC, NABARD, and the National Co-operative Development Corporation contributed marginally and inconsistently across the years.

**Table 2.7: Internal Debt (in Cr INR)**

Year	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23(RE)	2023-24(BE)
Market Loans	8201.14	13848.2	21861	24600	26741.8	37109	43784	45716	44970	40615.68
Loans from LIC	0	0	0	0	0	0				
Loans from SBI and other Banks	0	0	0	0	1361.776	965.931	676.747	1276.587	1500	1500
Loans from National Bank for Agriculture and Rural Development	498.39	1040.77	880	1000	0	0	0	0	0	0
Loans from National Co-operative Development Corporation	10.45	3.13	102.43	3.528	1.6576	3.39	6.266	1.943	0	0
WMA from RBI		112.31	12088.23	22921.77	21823.27	37247.59	69453.9	67274.4	100	100
Special Securities issued to NSSF	783.53	1061.65			0	0	0	0	0	0
Others	0.6	510.65	8931.51	-8.578	600	0	0	0	0	0

\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

### 2.3.2 Recovery of Loans and Advances

Table 2.8 exhibits ‘Recovery of Loans and Advances’ by the Government of Telangana. It displays a poor performance by the state in recovering loans, adding more to debt burden.

**Table 2.8: Components of 'Recovery of Loans and Advances' (in Cr INR)**

Component	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23(RE)	2023-24(BE)
1. Housing	0.41	–	7.17	–	–	–	–	–	6.85	6.85
2. Urban Development	–	–	–	–	–	–	–	–	–	5000
3. Crop Husbandry	–	–	–	–	–	–	–	–	–	–
4. Food Storage and Warehousing	–	–	–	–	–	–	–	–	–	–
5. Co-operation	2.75	3.37	3.16	19.519	0.7548	0.322	1.256	0.247	1.2	1.2
6. Minor Irrigation	–	–	–	–	–	–	–	–	–	–
7. Power Projects	48.51	34.27	72.96	48.642	–	–	–	–	–	–
8. Village and Small Industries	–	–	–	–	–	–	–	–	–	–
9. Industries and Minerals	–	–	–	–	–	–	–	–	3.37	3.37
10. Road Transport	–	–	–	–	–	–	–	–	–	–
11. Government Servants, etc.+	24.91	50.01	72.73	69.805	65.0604	61.625	57.102	47.452	48.56	48.56
12. Others**	0.02	–	–	–	–	–	–	–	0.02	0.02

\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

The Power sector absorbs the maximum share of loans and subsidies but unfortunately the loans repayment is comparatively low. Nonetheless, there is noticeable amount that is being budgeted to be recovered back for loans meant for urban development at ₹5000 crores in 2023-24 (BE).

Overall, it could be seen that the state government of Telangana is highly focused on various developmental welfare schemes, but limited attention has been given to develop strategies for loan recovery, which raises concern about allocative efficiency.

### 2.3.3 Remittances

Remittances can be classified into inward remittance and outward remittances. Inward remittances represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies.

Outward remittances refer to the process of sending money in foreign locations from the home country. In India, outward remittances are made mainly through banks and are regulated. This helps state governments in maintaining surplus in remittances.

Remittance is an important source of external finance and adds to the financial growth of the receiving states.

Remittances rose sharply from ₹9,027.57 crore in 2014-15 to a peak of ₹22,637.83 crore in 2016-17, then steadily declined to ₹693.38 crore by 2020-21. A recovery occurred in 2022-23 (₹1,129.60 crore) and 428.66 crores in 2022-23.

### 2.3.4 Budget estimates vis-à-vis Accounts

A comparison between budget estimates and actuals shows the robustness in fiscal and budget planning. Table 2. 9 and Figure 2.48 show the gap between the budget estimates and Actuals of Capital Receipts. The table shows a huge difference between budget estimates and actuals in the year 2018-19 and 2019-20, revealing flawed planning of the state. Although in the later years the gap has reduced, but it can still be considered as a significant difference. Due to the unavailability of data, the revised estimates have been compared with budget estimates pertaining to the year 2022-23, showing budget estimates being slightly more than accounts (Revised Estimates).

**Table 2.9: Capital Receipts: Budget estimates vis-a-vis Accounts (In cr INR)**

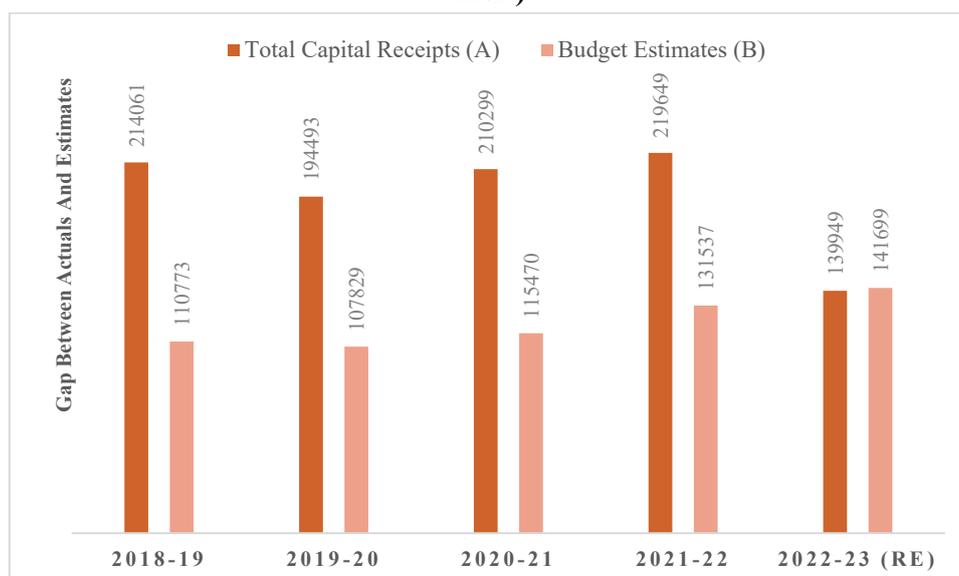
Components	2018-19	2019-20	2020-21	2021-22	2022-23 (RE)
Total Capital Receipts (A)	214061	194493	210299	219649	139949
Budget Estimates (B)	110773	107829	115470	131537	141699
A-B	103288	86664	94829	88112	-1750

\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

**Figure 2.48: Capital Receipts: Gap between Estimates and Accounts (in Cr INR)**



\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

## 2.4 Capital Expenditure

Capital Expenditure is incurred for the acquisition and creation of capital assets. It is non-recurring in nature and is a long-period expenditure.

It includes the expenses on the following leading to the creation of assets: expenditure on purchase of land, buildings, machinery, investment in shares, loans by central government to state government, and acquisition of valuables.

Such expenditures are incurred on long-period development programmes, real capital assets and financial assets. This type of expenditure adds to the capital stock of the economy and raises its capacity to generate assets. Capital expenditure also includes the 'repayment of loans; and 'discharge of internal debt' which is significant for reduction of the state's liability.

**Table 2.10: Total Capital Disbursements (in Cr INR)**

Components	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23(RE)	2023-24(BE)
Total Capital Outlay	8373	13590	33371	23902	22641	16859	15922	28874	26934	37525
Discharge of Internal Debt	1727	2694	14805	27059	27882	45301	76501	75607	11334	12279
Repayment of Loans to the Centre		151	764	412	834	439	490	510	368	427
Loans and Advances by State Governments	1483	5233	3402	6209	8706	8700	10868	8469	26253	28480
Inter-State Settlement		358	50	186	5	8	8	8	0	0
Contingency Fund		0	0		2	4	0	0	0	0
State Provident Funds, etc.	1051	1239	1348	1519	1583	1834	1691	1592	2186	2226
Reserve Funds	1028	1476	1337	1097	1324	2082	1172	2985	1406	3581
Deposits and Advances	21456	37619	41460	48188	59495	58996	61813	72086	74175	87003
Suspense and Miscellaneous	109863	92761	304723	69207	78351	41759	17128	19601	0	0
Appropriation to Contingency Fund	50				0	0	0	0	0	0
Remittances	10022	16336	22793	19249	17746	13853	725	513	0	0
Total Capital Expenditure	155053	171458	424053	197029	218568	189835	186317	210244	142656	171521

\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

Table 2.10 depicts general trend of CAPEX (Capital Expenditure) from 2014-15 to 2023-24. The key components of capital expenditure being analysed are total capital outlay, discharge of internal debt, repayment of loans to the Centre, loans and advances by the state government, interstate settlement, contingency funds, small savings and

state provident funds, reserve funds, deposits and advances, suspense and miscellaneous, appropriation to contingency fund, and remittances.

Figure 2.49 portrays components of capital expenditure over the years. The highest share is of ‘deposits and advances’ followed by ‘total capital outlay’ which includes expenditure on capital asset creation for development and non-development purposes.

The third major spending out of capital receipts is on ‘loans and advances by the state government’ for developmental and non-developmental purposes.

‘Repayment of loans; and ‘discharge of internal debt’ which is meant to reduce liability of the state government have decreased over the years especially in the years 2022-23 and 2023-24.

**Figure 2.49: Components of Capital Expenditure (partial) (in Cr INR)**

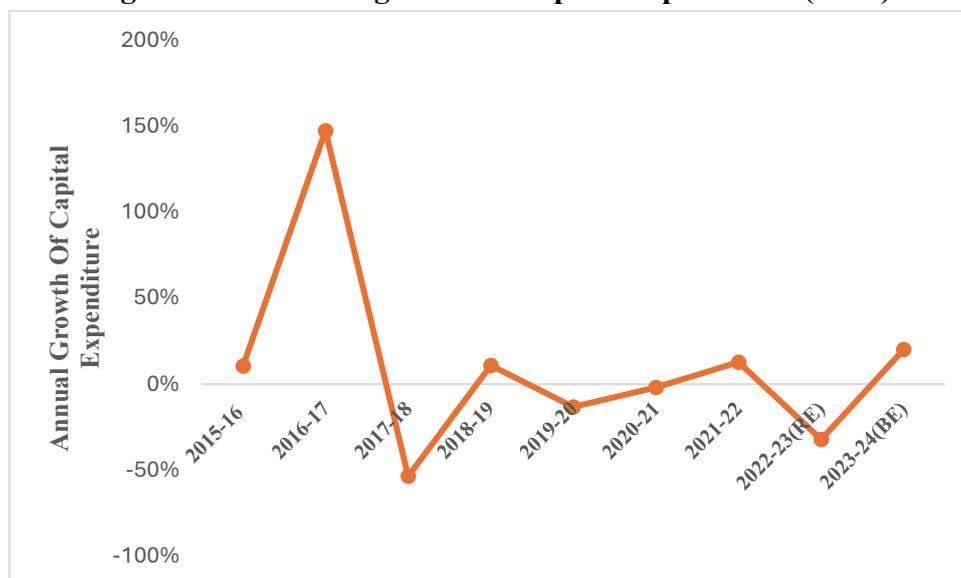


\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

**Figure 2.50: Annual growth in Capital Expenditure (in %)**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

Figure 2.50 shows the annual growth of capital expenditure from the period 2014-15 to 2023-24. The expenditure experienced significant volatility over this period. After a moderate increase of 11% in 2015–16, there was a sharp surge of 147% in 2016–17. However, this was followed by a steep decline of 54% in 2017–18. The following years saw mixed trends, with increases in 2018–19 (11%) and 2021–22 (13%), but contractions in 2019–20 (–13%), 2020–21 (–2%), and especially in 2022–23 (RE) (–32%). The Budget Estimate for 2023–24 indicates a recovery with a projected 20% increase, suggesting renewed focus on capital investment. Notable, in 2016-17, Telangana dramatically boosted its capital expenditure by 155% on irrigation projects, increasing spending from Rs 6,201 crore to Rs 15,970 crore, primarily for dams and irrigation infrastructure.

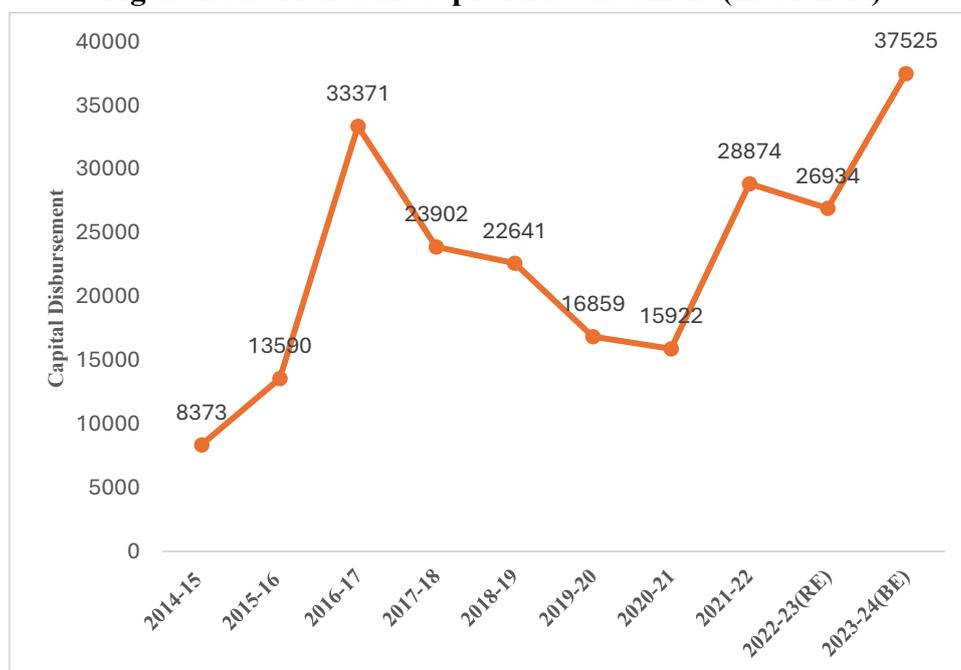
### 2.4.1 Total Capital Outlay

Total capital outlay comprises of Development Expenditure (Social services and Economic Services) Non- Development Expenditure (General Services). Under the capital disbursement, the figure 2.51 exhibited significant year-on-year fluctuations between 2014–15 and 2023–24 (BE). Starting at ₹8,373 crore in 2014–15, it rose sharply by 62.3% in 2015–16 and surged further by 145.6% in 2016–17 to ₹33,371 crore. This was followed by contractions in 2017–18 (–28.4%) and 2018–19 (–5.2%).

The declining trend continued in 2019–20 (–25.6%) and 2020–21 (–5.5%), reaching ₹15,922 crore. A strong recovery was seen in 2021–22 with an 81.3% increase, followed by a slight drop in 2022–23 (RE) by 6.7%. The 2023–24 Budget Estimate anticipates a robust growth of 39.4%, projecting a total outlay of ₹37,525 crore—highlighting a renewed policy focus on capital investment and infrastructure development.

Considering critical subcomponents under the capital outlay such as education, medical and public health, water supply and sanitation, welfare of SC/ST and OBC, irrigation, industry and minerals, transport, science and technology and environment, the increasing trend is a positive indicator vis-à-vis the overall progress of state.

**Figure 2.51: Trends in Capital Disbursement (in Cr INR)**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

Tables 2.11 and 2.12 show the subcomponents of ‘Economic Services’ and ‘Social Services’ and their contribution to ‘Total Capital Outlay’ over the years of study.

**Table 2.11: Economic Services (in Cr INR)**

Components	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23(RE)	2023-24(BE)
Agriculture and Allied Activities	35	151	680	514	1012	136	217	158	251	291
Rural Development	51	350	103	858	1996	1008	2479	2600	2771	2959
Special Area Programmes					0	0	0	0	0	0
Major and Medium Irrigation and Flood Control	5194	7776	13665	12596	9118	9488	8390	13536	7960	10150

Energy	348	524	10498	2721	2400	2000	0	0	0	0
Industry and Minerals (i to iv)	9	1	88	75	67	65	17	681	48	48
Transport	1145	1738	3180	2169	1024	958	1151	2700	3969	4552
Communications					0	0	0	0	0	0
Science, Technology and Environment					0	0	0	0	0	0
General Economic Services	280	625	1428	1552	701	794	742	1893	2933	11281
Total Economic Services	7063	11164	29641	20486	16317	14449	12996	21568	17932	29281

\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

**Table 2.12: Social Services (in Cr INR)**

Components	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23(RE)	2023-24(BE)
1. Education, Sports, Art and Culture	189	134	246	248	279	282	531	49	178	328
2. Medical and Public Health	81	104	350	262	463	232	259	498	3028	2773
3. Family Welfare				0	0	0	0	11	5	5
4. Water Supply and Sanitation	176	1473	2107	1831	4236	744	1042	5329	1875	1702
5. Housing	14	43	102	42	17	12	45	45	104	132
6. Urban Development		8			0	0	0	0	49	200
7. Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	418	346	318	408	618	481	254	399	1231	1171
8. Social Security and Welfare	25	37	32	40	7	5	7	9	6	19
9. Others *	2	7	6	20	1	9	10	5	0	0
Total Social Services	905	2152	3162	2851	5620	1765	2147	6345	6476	6332

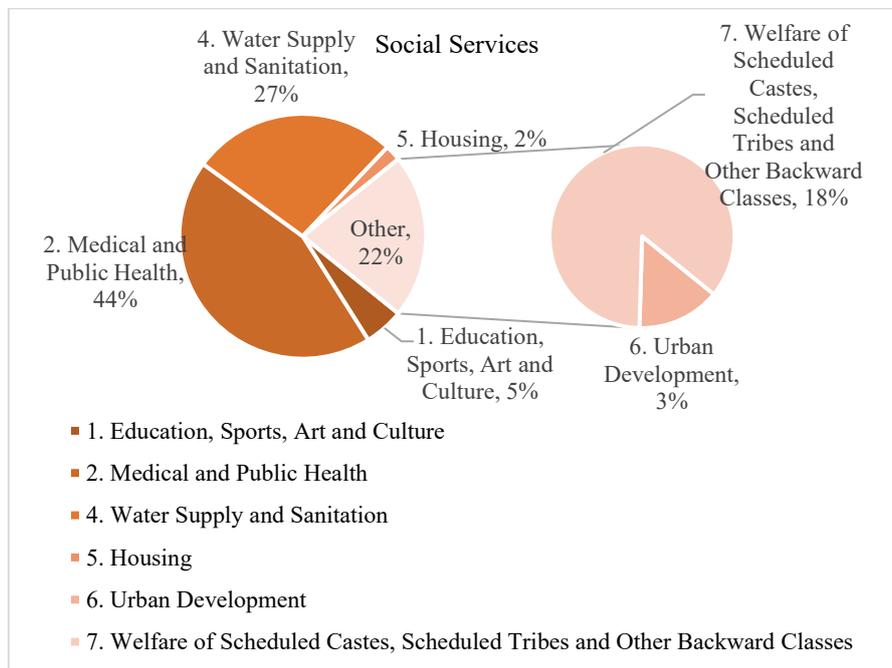
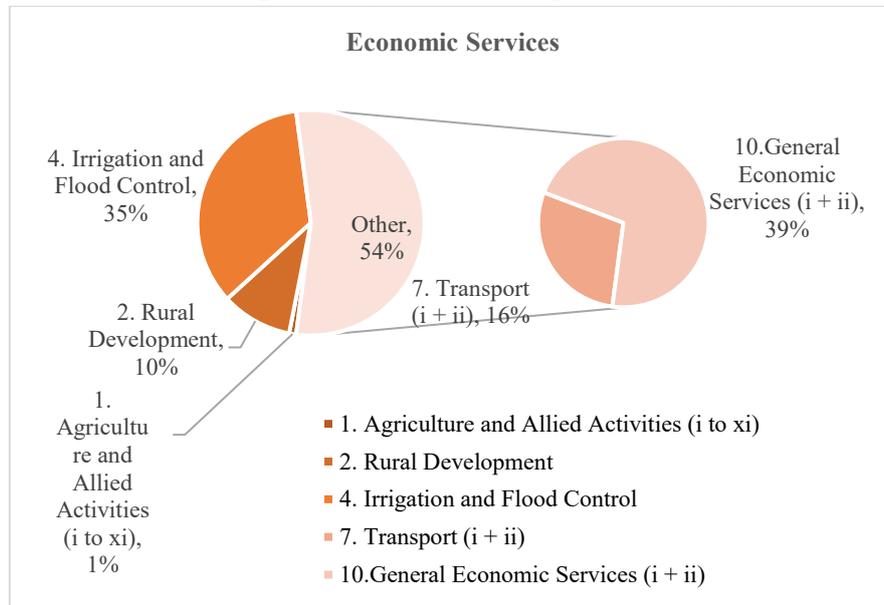
\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

Figure 2.52 shows percentage contribution of the subcomponents of ‘Economic Services’ and ‘Social Services’. Out of the total expenditure estimated for ‘Economic Services’, 35% is estimated on major and medium irrigation & flood control, and 39% on general economic services (2023-24).

Out of the total expenditure allocated for ‘Social Services’, 44% is estimated on medical & public health, 27% is estimated on water supply & sanitation, followed by 18% on welfare of SC/ST & other backward classes. It can be observed that very less is spent on capital asset creation for housing, urban development and education, art, sports & culture (2023-24).

**Figure 2.52: Composition of Total Capital Outlay for Economic and Social Development (2023-24 Budget Estimates)**



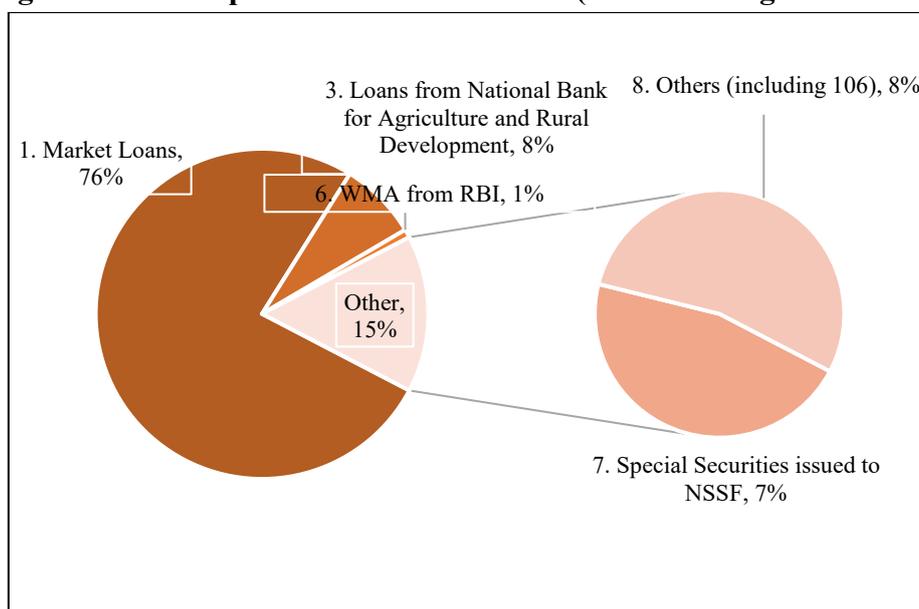
Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

### 2.4.2 Discharge of Internal Debt

Discharge of Internal Debt has been increasing steadily over the years 2014-15 to 2021-22 from ₹ 1727.29 crores to ₹ 12278.93 crores, respectively. It is an important component depicting an increasing debt burden of the state.

Since the government of Telangana raises more funds through ‘market loans’, out of total funds from capital expenditure meant for debt servicing of internal debt, 76% goes for market loans. 8% funds are used for servicing of ‘loans from NABARD’ (Figure 2.53).

**Figure 2.53: Composition of Internal Debt (2023-24 Budget Estimates)**

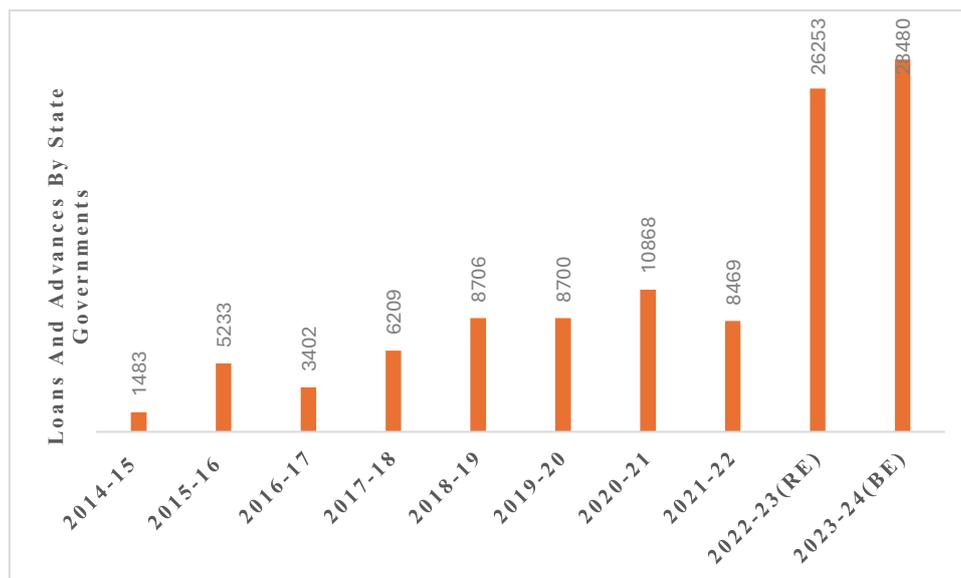


Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

### 2.4.3 Loans and Advances by State Government

State governments spend in the form of loans and advances for development and non-development purposes. The Government of Telangana provides almost 98% of loans under the component ‘loans and advances by state government’ for development purposes than non-development purposes.

**Figure 2.54: Composition of Loans and Advances by State Government (in Cr)**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

Under the component ‘development purposes’, almost 77% is spent on social services than economic services in the year 2018-19’. Table 2.13 and 2.14 show contribution of components of subheads ‘Social Services’ and ‘Economic Services’.

**Table 2.13: Loans and Advances on Social Services (in Cr INR)**

Components	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23(RE)	2023-24(BE)
Education, Sports, Art and Culture	7				0	0	0	0	0	0
Medical and Public Health	14		528	276	622	720	360	360	605	120
Family Welfare					0	0	0	0	0	0
Water Supply and Sanitation	344	2219	1300	2088	2442	3636	3593	2414	6214	6043
Housing	49	1937	530	317	978	992	875	1588	1551	1541
Government Servants (Housing)	9		36	32	18	19	7	11	152	152
Others	763	624	452	2728	2616	189	188	200	1700	1700

\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

In social services, 63% is expensed on water supply & sanitation, whereas in economic services, 83% is spent on major and medium irrigation projects. It is noteworthy that under social services, 18% is allocated and in economic services, 13% is allocated.

**Table 2.14: Loans and advances on Economic Services (in Cr INR)**

Components	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23(RE)	2023-24(BE)
Crop Husbandry	0	0	0	26	45	251	300	219	201	139

Soil and Water Conservation	0	0	0	0	0	0	0	0	0	0
Food Storage and Warehousing	0	0	0	0	0	0	0	0	0	0
Co-operation	0	1	0	0	0	0	0	0	0	0
Major and Medium Irrigation, etc.	0		0	0	0	688	2643	1884	11729	15700
Power Projects	0	274	175	294	250	345	628	443	1574	591
Village and Small Industries	0	0	0	0	0	0	0	0	0	0
Other Industries and Minerals	0	0	0	0	0	0	0	0	0	0
Rural Development	0	0	0	0	0	0	0	0	0	0
Others	271	86	315	396	1697	1805	2256	1333	2453	2419

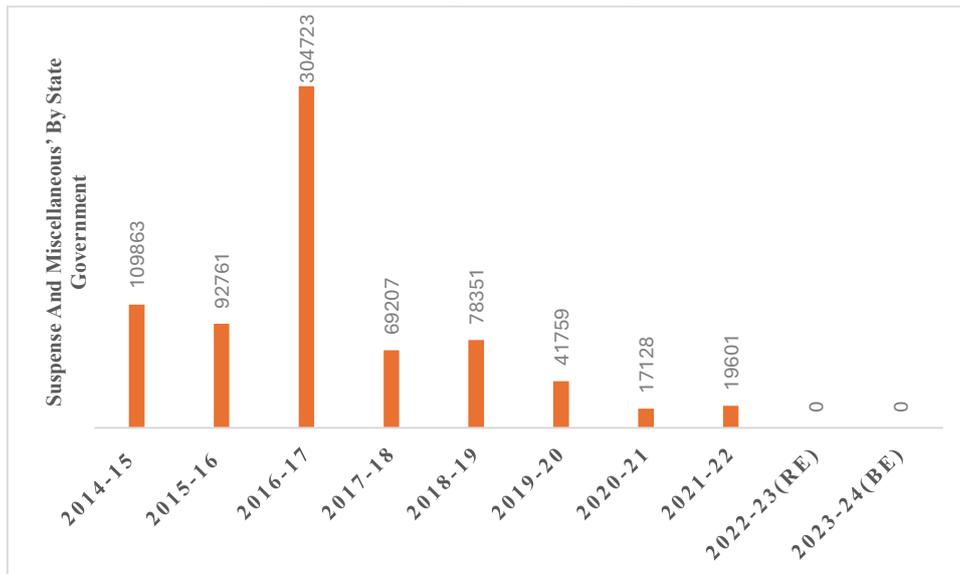
\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

### 2.4.4 Suspense and Miscellaneous

Disbursals through ‘suspense and miscellaneous’ include such a transaction whose account at the time when transaction was recorded, could not be found. It is surprising that 36% of total capital disbursals were done via ‘suspense and miscellaneous’ according to year 2018-19. However, it has reduced to under 10% according to accounts data of 2021-22.

**Figure 2.55: Composition of Suspense and Miscellaneous’ by State Government (2023-24 Budget Estimates) In Cr**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

### 2.4.5 Budget estimates vis-à-vis Accounts

Table 2.15 and Figure 2.56 (i) show the gap between budget estimates and accounts of capital expenditure. Closer the values of budget estimates and accounts would imply a sound the fiscal planning of a state. Whereas a large difference between the budget estimates and the accounts would imply inefficient fiscal planning of the government. Consistently over the years of evaluation, there has been a huge gap between budget estimates and actuals. Actuals being much more than budget estimates reveal overspending by the government and faulty planning.

For the year 2022-23, revised estimates have been considered as accounts because of unavailability of data. According to these estimates, accounts is less than the budget estimates.

**Table 2.15: Capital Expenditure: Budget estimates vis-a-vis Accounts(In Cr INR)**

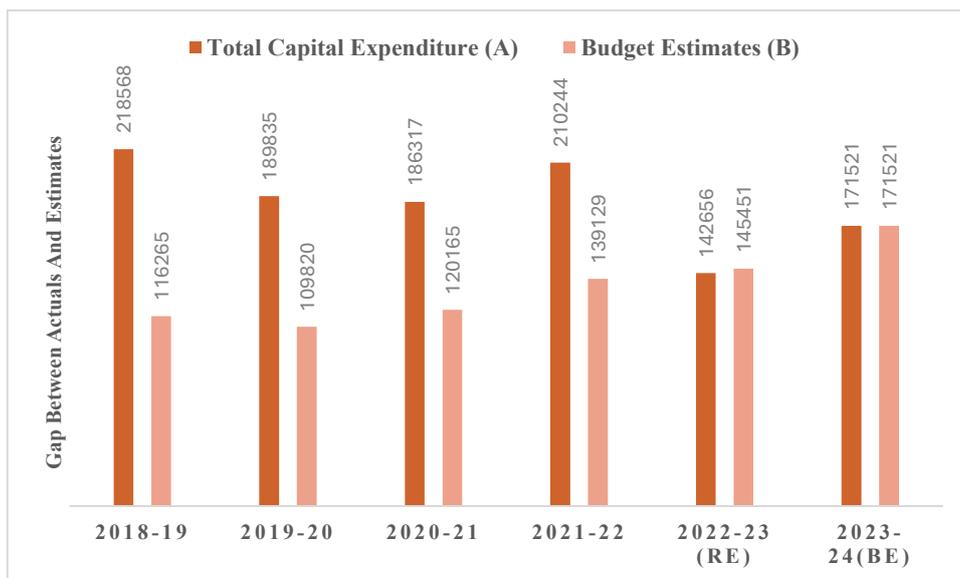
Years	2018-19	2019-20	2020-21	2021-22	2022-23 (RE)	2023- 24(BE)
Total Capital Expenditure (A)	218568	189835	186317	210244	142656	171521
Budget Estimates (B)	116265	109820	120165	139129	145451	171521
A-B	102303	80015	66152	71115	-2795	0
%	88%	73%	55%	51%	-2%	0%

\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

**Figure 2.56 (i): Capital Expenditure: Gap between Estimates and Actuals (in Cr INR)**



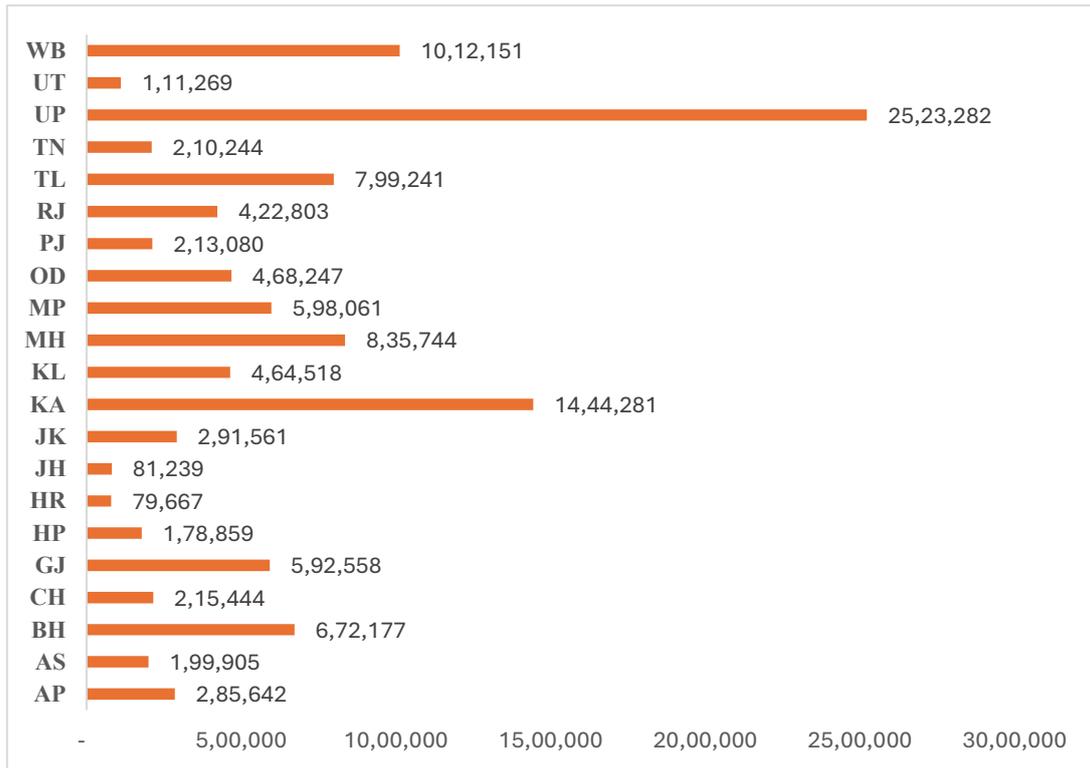
\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

**2.4.5 (ii) Capital disbursement: Comparison of Telangana with Andhra Pradesh and Non-Special Category States**

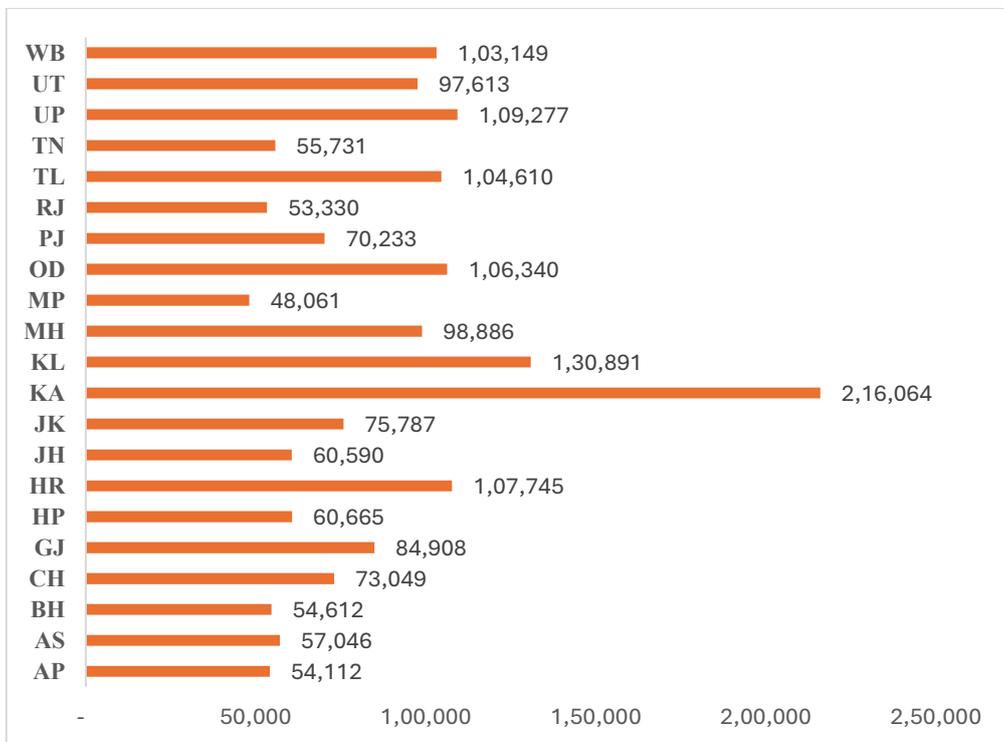
Figure 2.56 (ii) represents the capital disbursements of Telangana and the non-special category states of India. Evidently, Uttar Pradesh incurs the highest capital disbursement with an exceptional amount of ₹ 2523382 crores as per the accounts statement 2021-22. This is followed by Karnataka with ₹ 1444281 crores and West Bengal with ₹ 1012151 crores. While the impressive huge capital disbursement is witnessed in the above states, on the other hand, the lowest is observed in Jharkhand with ₹ 82,329 crores and Haryana with Haryana with ₹ 79667 crores.

**Figure 2. 56 (ii): Capital Disbursement of Non-Special Category States ((2021-22 Accounts) (in crores)**



Source: State Finance: A Study of Budgets (2023), RBI.

**Figure 2. 56(iii) : Per capita Disbursement of Telangana with Non-Special Category States (2021-22 Accounts)**

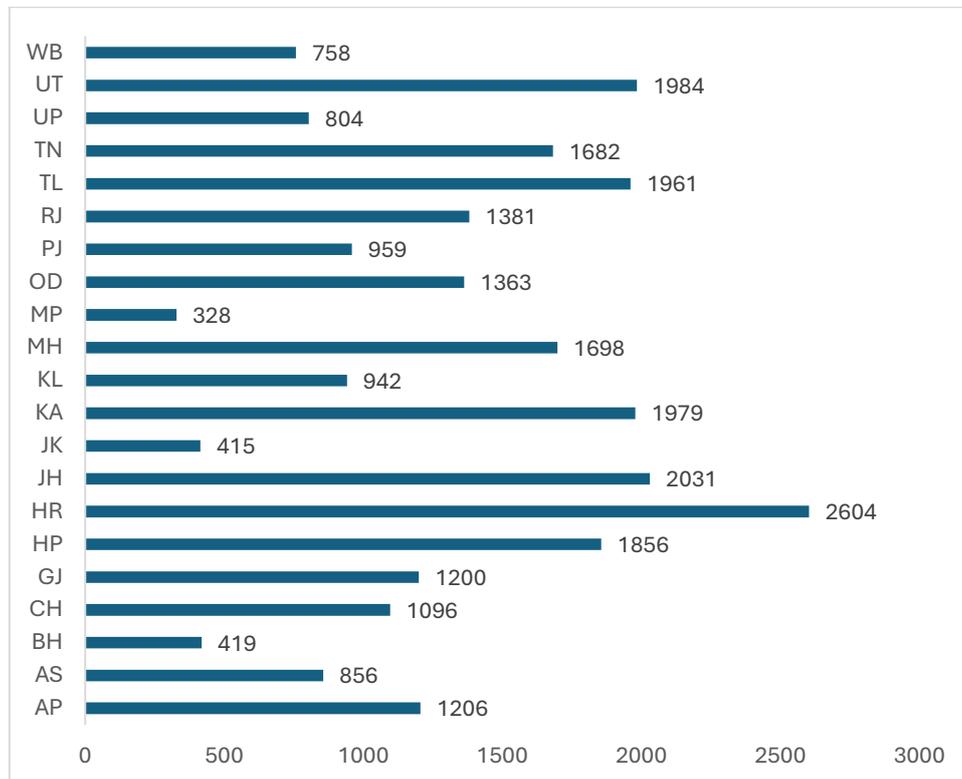


Source: State Finance: A Study of Budgets (2023), RBI.

Figure 2. 56 (iii) represents the per capita capital disbursement of Telangana and the non-special category states. Evidently, Karnataka incurs the highest per capita

disbursement with ₹2,16,064 and Kerela with ₹ 1,30,891. While few states such as West Bengal, Uttar Pradesh, Odisha and Haryana share an almost similar per capita disbursement. The lowest is observed in Madhya Pradesh with ₹ 48,061.

**Figure 2. 56 (iv): Per capita Capital Expenditure on Social Services in the Non-Special Category States (2021-22 Accounts)**

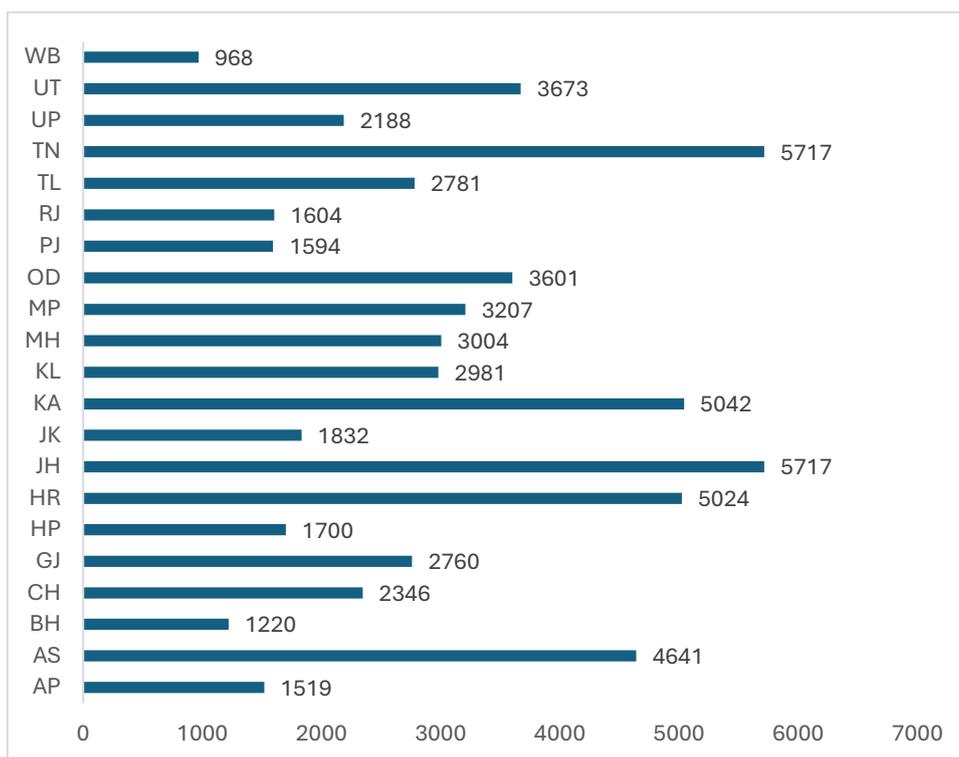


Source: State Finance: A Study of Budgets (2023), RBI

Figure 2.56 (iv) represents the per capita capital expenditure on social services among the non-special category states. Evidently, per capita capital expenditure on social services is highest in Haryana with ₹ 2604, followed by Jharkhand with ₹ 2031 and Uttar Pradesh with ₹ 1984. Whereas the lowest per capita capital expenditure on social services is evident in Jammu and Kashmir with figures as low as ₹ 415.

Figure 2.56(v) represents the per capita capital expenditure on economic services among the non-special category states. Evidently, per capita capital expenditure on social services is highest in Jharkhand and Tamil Nadu with an equivalent amount of ₹ 5717. Whereas the lowest per capita capital expenditure on social services is evident West Bengal with ₹ 968 and Bihar with ₹ 1220.

**Figure 2. 56 (v): Per capita capital expenditure on Economic Services in the Non-Special Category States (2021-22 Accounts)**



Source: State Finance: A Study of Budgets (2023), RBI

### 2.5 Developmental And Non-Developmental Expenditure of The State

The expenditure that the state incurs on activities directly related to economic development is called Developmental Expenditure, including expenditure incurred on education, health care, scientific research, infrastructure and so on. Development expenditures are broadly defined to include all items of expenditures that are designed directly to promote economic development and social welfare. It mainly includes spending on economic services like agriculture, industry, energy, communication, transport, science, technology and environment. Social services like education, health, employment, nutrition, housing and others.

Expenditure incurred on general essential services required for normal functioning of the government is termed as Non-Developmental Expenditure. Therefore, expenditure incurred on services relating to general administration, police, defence, judiciary etc. and the maintenance of the general organs of the government is Non-Developmental Expenditure.

Development and Non-Development Expenditure comprise expenditure on Revenue and Capital Accounts and Loans and Advances extended by the state of Telangana for development and non-development purposes.

Table 2.16 and Figure 2.57 shows the amount of Development and Non-Development Expenditure from year 2014-15 to 2023-24. We can infer that over these years, the proportion of development expenditure has increased in comparison to non-development expenditure; and there is a sizeable gap between development and non-development purposes by the Government of Telangana.

**Table 2.16: Developmental and Non-Developmental Expenditure (relative to GSDP) (in Cr INR)**

Component	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (RE)	2023-24 (BE)
Developmental Expenditure	45821.21	70964.74	92374.08	83953.43	93483.31	97215.98	109728.9	128735.3	179668.9	225086.7
Non-Developmental Expenditure	14596.05	23614.81	25758.83	31489.49	14596.05	37140.48	40273.83	45411.88	46330.64	52593.1
Developmental Expenditure/ GSDP	9%	12%	14%	11%	11%	10%	12%	11%	14%	15%
Non-Developmental Expenditure / GSDP	3%	4%	4%	4%	2%	4%	4%	4%	4%	4%

\*BE: Budgeted Estimates,

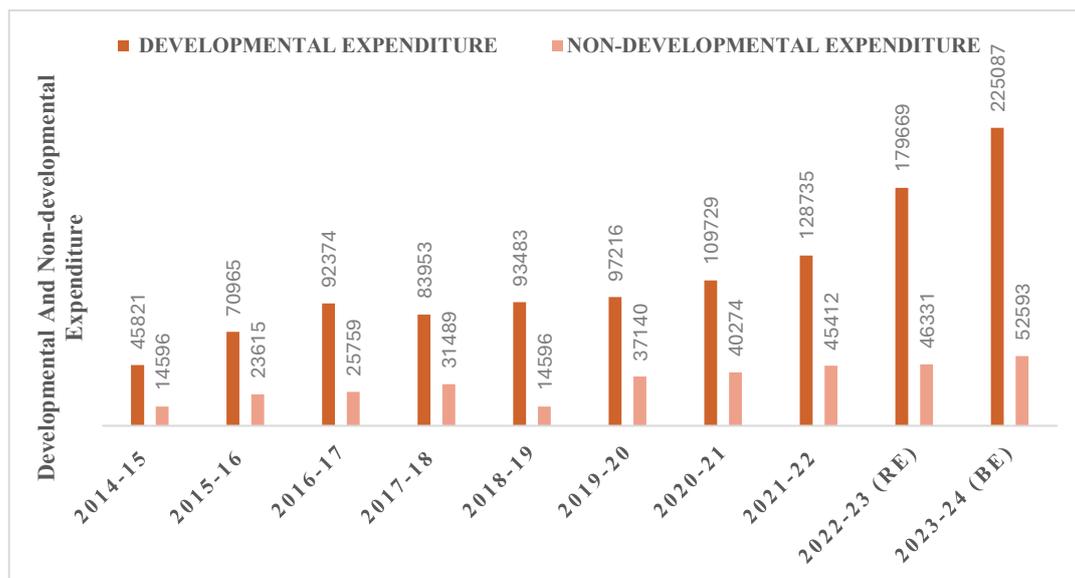
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

Out of the Total Developmental and Non-Developmental Expenditures, the government spends almost 75% on an average for developmental purposes. The rise in Development Expenditure could be possibly due to the vision of 'inclusive development' reforms of the state, including welfare schemes like Vaddi Leni Runalu (interest free loans), Rythu Bandhu, Bhagiratha, 2 BHK Housing, KCR kit, Mission Kakatiya, Haritha Haram, Kalyan Lakshmi, Arogya Lakshmi, etc. Evidently, Under Development expenditure, revenue development expenditure ranges between 72% b-79%, while capital development expenditure ranges between 14% -28%.

Whereas, under Non-Developmental Expenditure, revenue development expenditure ranges between 97% to 98%, while capital development expenditure ranges between 5% to 1%. Although, it could be seen an almost equivalent amount during the year 2018-19 wherein revenue expenditure amounted to 50 % and capital expenditure amounted to 47%.

**Figure 2.57: Developmental and Non-Developmental Expenditure (in Cr INR)**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

As per the budget estimates for 2023-24, the Development Expenditure spending is 15% relative to GSDP whereas the Non- Developmental Expenditure is 4% relative to GSDP.

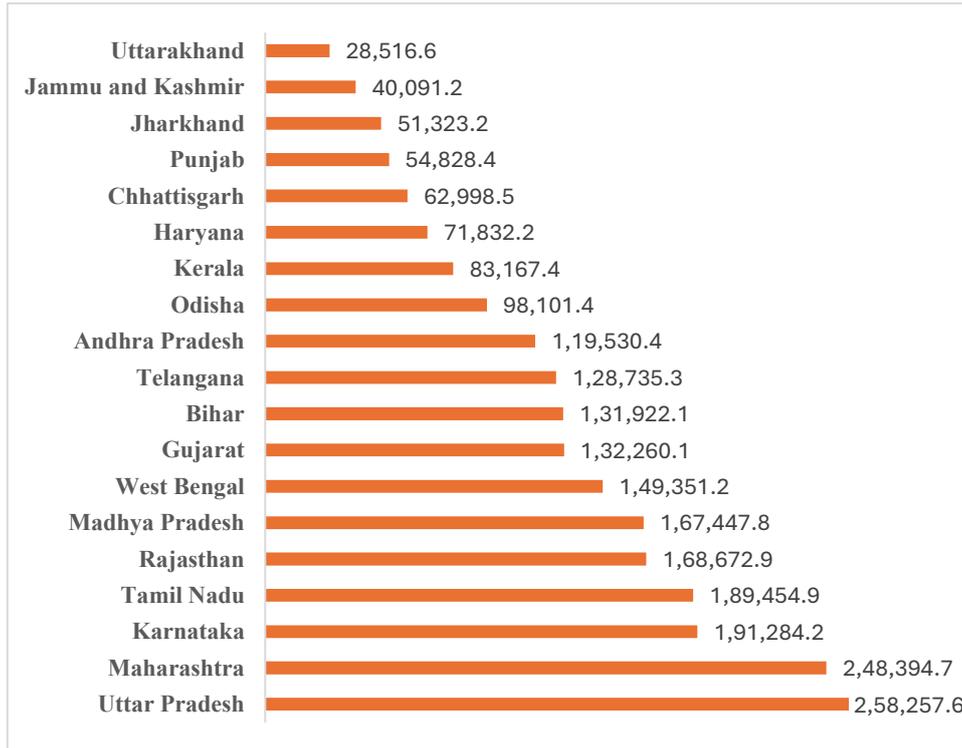
### 2.5.1 Comparison with Andhra Pradesh and General category states

Figure 2.58 (i) displays the Development Expenditure of Non-Special Category States (General Category States). It includes the expenditure through revenue and capital accounts and loans & advances by the states for developmental purposes. The values correspond to 2021-22 account for the data taken from RBI (latest accounts available for all states).

Among the Non-Special Category States, Uttar Pradesh and Maharashtra spend the highest on developmental purposes at ₹ 258257 crores and ₹ 248394 crores, respectively. Andhra Pradesh spends slightly less than Telangana, at ₹ 119530 crores and ₹ 128735 crores.

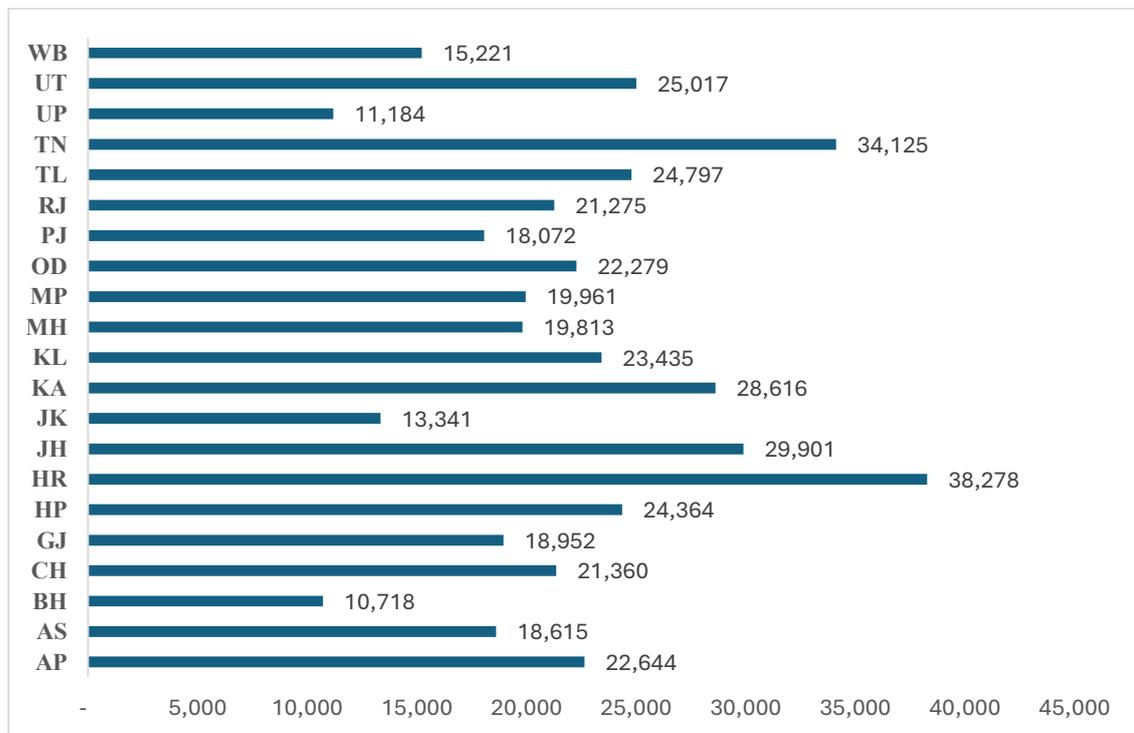
Figure 2. 58 (ii) represents the per capita developmental expenditure of non-special category states as per 2021-22 accounts statement. Evidently, the highest per capita developmental expenditure is observed in Haryana with ₹ 38,278 followed by Tamil Nadu with ₹ 34,125. On the other hand, the lowest is observed in Bihar with ₹ 10,718 and Uttar Pradesh with ₹ 11,184.

**Figure 2.58 (i): Developmental Expenditure of Non-special category states (2021-22 Accounts) (in Cr INR)**



Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

**Figure 2. 58 (ii): Per Capita Developmental Expenditure of Non-special category states (2021-22 Accounts)**



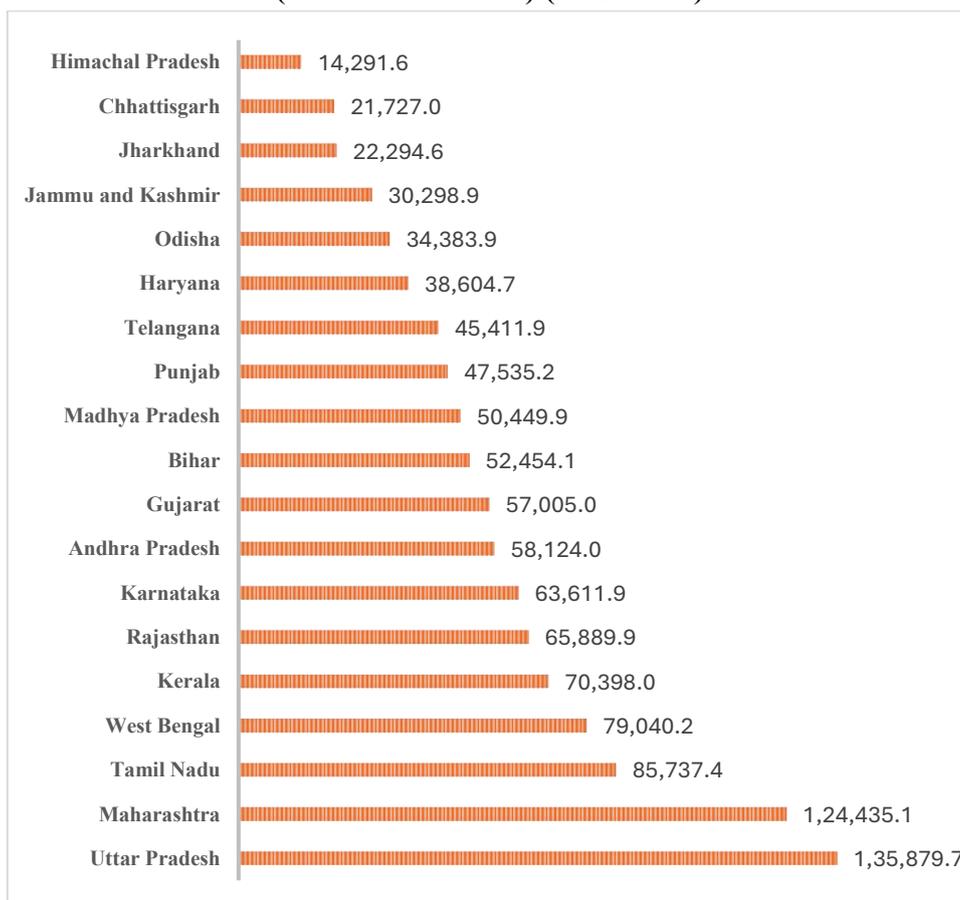
Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

Figure 2.59 (i) displays the Non-Development Expenditure of Non-Special Category States (General Category States). It includes the expenditure through revenue and

capital accounts, and loans & advances by the states for non-developmental purposes. The values correspond to 2021-22 account for the data taken from RBI (latest accounts available for all states). Among the Non-Special Category States, Uttar Pradesh and Maharashtra spend the highest on non-developmental purposes at ₹ 135879 crores and ₹ 124435 crores, respectively. Andhra Pradesh spends more than Telangana at ₹ 58124 crores and ₹ 45411 crores.

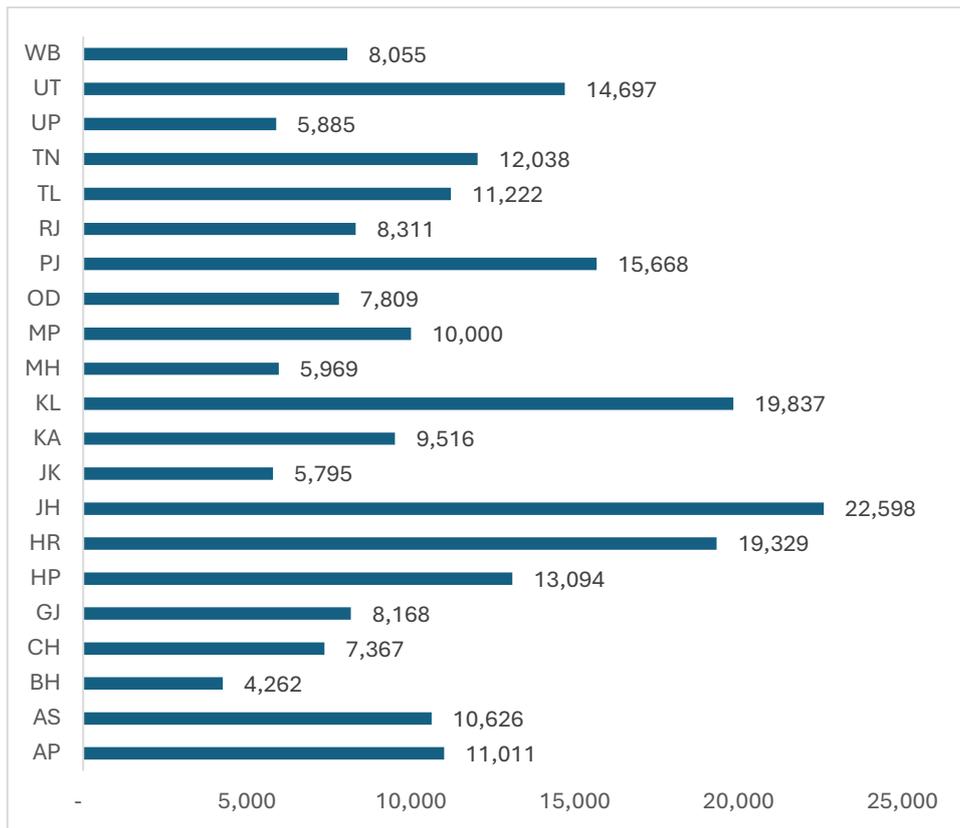
Figure 2.59 (ii) represents the per capita non-developmental expenditure of non-special category states. Evidently, the highest per capita non-developmental expenditure Jharkhand with ₹ 22,598, followed by Kerela with ₹ 19,837 and Haryana with ₹ 19,329. In contrast, the lowest per capita non-developmental expenditure is observed in Bihar with an amount as low as ₹ 4,262.

**Figure 2.59 (i) : Non-Developmental Expenditure of Non-special category states (2021-22 Accounts) (in Cr INR)**



Source: State Finance: A Study of Budgets (2023), RBI.

**Figure 2. 59(ii) : Per Capita Non-Developmental Expenditure of Non-special category states (2021-22 Accounts)**



**2.6 Committed Expenditure: Growth and Trends**

Comptroller and Auditor General of India defines committed expenditure as expenditure towards interest payments, subsidies, salaries and wages and pensions.

Such expenditure is a mandatory obligation of the state and under no circumstance Government can escape from it. Table 2.17 depicts the absolute composition of committed expenditure of the state of Telangana from the period 2015-16 to 2021-22. It could be clearly observed that ‘salaries and wages’ has the highest absolute share of committed expenditure throughout the timeline of the years of study beginning from 2015-16 which stood at ₹ 18350 crores and increased to ₹ 30256 crores in the year 2021-22.

It is a concern though that the committed expenditure increased by 22% in 2021-22 from 2020-21, in just one year. It is quite worrisome considering the fiscal prudence of fiscal stability of the state.

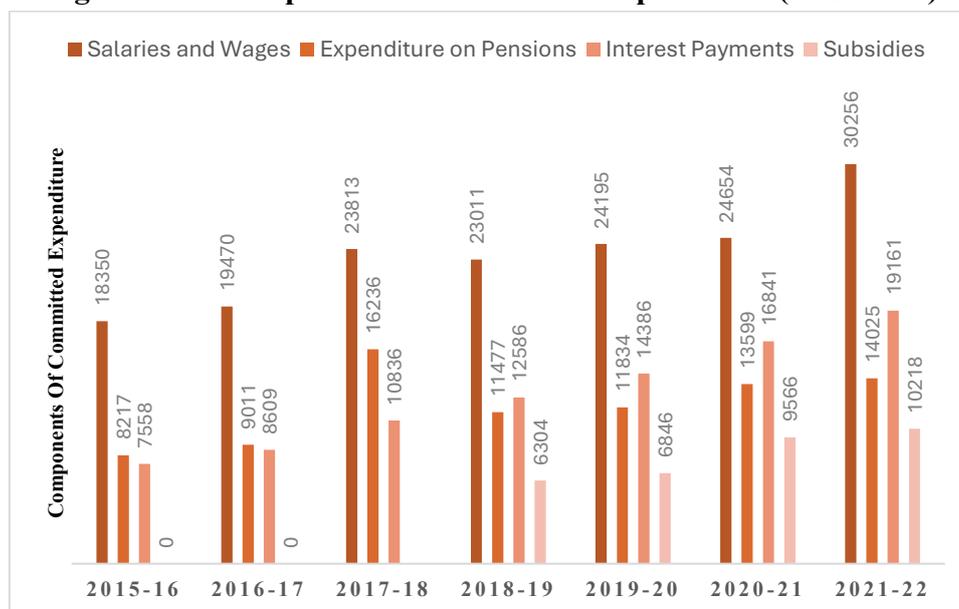
**Table 2.17: Components of Committed Expenditure (in Cr INR)**

Components	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Salaries and Wages	18350	19470	23813.3	23011	24195	24654	30256
Expenditure on Pensions	8217.24	9010.65	16235.87	11477	11834	13599	14025
Interest Payments	7557.54	8609.19	10835.54	12586	14386	16841	19161
Subsidies	0	0		6304	6846	9566	10218
Total Committed Expenditure	34124.78	37089.84	50884.7	53378	57261	64660	73660

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

Figure 2.60 displays the components of committed expenditure. The burden of all the four components has been increasing over the period of study, with ‘salaries & wages’ being the highest and almost equally followed by ‘pensionary charges’ and ‘interests’, with ‘subsidies’ slightly on the lower side. This depicts that the burden of inevitable committed expenditure is increasing.

**Figure 2.60: Components of Committed Expenditure (in Cr INR)**



Source: Report of CAG on state finances for the year ended 2023; State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

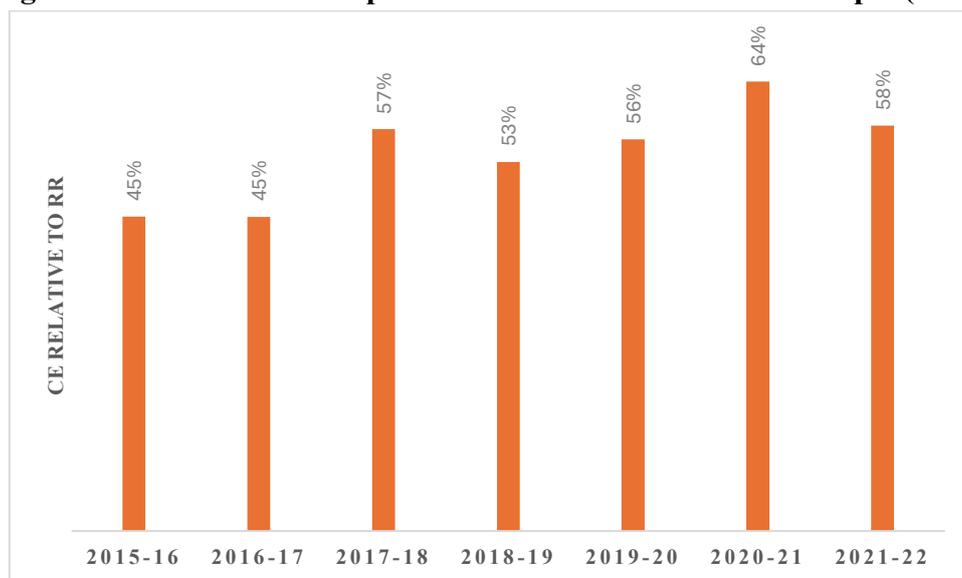
Table 2.18 and Figures 2.61 and 2.62 depict the burden of committed expenditure over the receipts of the State. It is observed that more than half of the revenue receipts are being absorbed by committed expenditure during the years 2017-18 to 2021-22. This indicates that State’s considerable resources are being tied to unavoidable commitments leaving little scope for other expenditures

**Table 2.18: Committed Expenditure relative to Receipts**

Components	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Committed Expenditure (CE)	34124.78	37089.84	50884.7	53378	57261	64660	73660
Revenue Receipts (RR)	76134	82818	88824	101420	102544	100914	127469
Capital receipts (CR)	171113.8	422494.1	193814.5	214061.3	194493.1	210298.8	219648.6
CC relative to RR	45%	45%	57%	53%	56%	64%	58%
CC relative to CR	20%	9%	26%	25%	29%	31%	34%

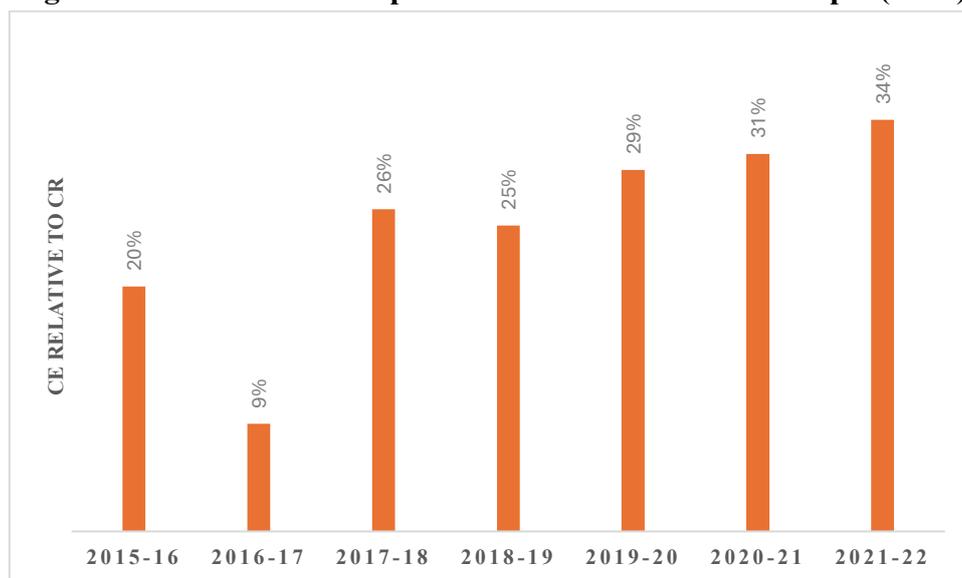
Source: Report of CAG on state finances for the year ended 2023; State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

**Figure 2.61: Committed Expenditure relative to Revenue Receipts (in %)**



Source: Report of CAG on state finances for the year ended 2023; State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

**Figure 2.62: Committed Expenditure relative to Total Receipts (in %)**



Source: Report of CAG on state finances for the year ended 2023; State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

## 2.7 Tax-GSDP Ratio

Tax Revenue is the predominant source of income for the state. Tax-GSDP ratio is an indicator of income generating capacity of the government as taxes are one of the major sources of government revenue.

High Tax-GSDP ratio is the reflection of richness of government treasury and strong fiscal position of a state government. On the contrary, low Tax-GSDP ratio incapacitates government's ability to spend on socio-economic development programmes, defence, salary and pensions, etc.

With the introduction of GST from 1<sup>st</sup> July 2017, a number of state taxes have been subsumed under GST. These are state VAT, central sales tax, purchase tax, luxury tax, entry tax (all forms), entertainment tax (not levied by local governments), tax on advertisements, taxes on lotteries, betting and gambling and state surcharges and cesses so far as they relate to supply of goods and services.

Table 2.19 and figure 2.63 reflect the Tax to Gross State Domestic Product ratio. The Tax/GSDP ratio increased from 7% to 10% over the years, showing stable tax effort. After a brief dip to 8–9%, it recovered and has remained steady at 10% in recent years, reflecting consistent revenue performance.

**Table 2.19: Tax Revenue to GSDP Ratio**

Component	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Tax Revenue	37476.88	52325.35	63284.34	72939.9	83234.95	83585.08	79341.99	109991.9	130260.4	152499.5
GSDP	505848.8	577902.1	658325.3	750050.3	857427.2	950090.5	943078	1124086	1311823	1501981
Tax/ GSDP	7%	9%	10%	10%	10%	9%	8%	10%	10%	10%

\*BE: Budgeted Estimates,

RE: Revised Estimates

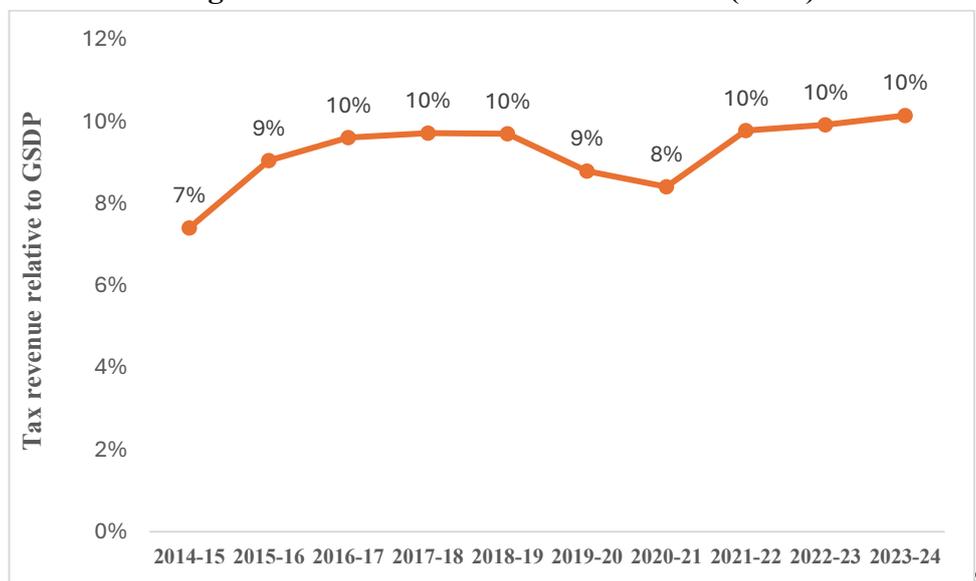
Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

According to figures for the financial years from 2018 to 2024, the CAGR growth rate in own tax revenue in the state is almost 13%. Though there was negative growth during 2020-21, the absolute increase has been close to 85% during the years.

The relative composition of tax revenue has implications for revenue growth and stability when it is considered that taxes are primarily mobilized to finance government expenditures. High revenue productivity is usually considered as one of the criteria of a good tax system. This productivity is traditionally measured by the concepts of tax buoyancy. A tax is considered buoyant, if the tax revenue increases

more than proportionately in response to a rise in state’s income or output. From the year 2018-19 to 2021-22, tax revenue has an increase of 32.1% and GSDP an increase of 31.7%. tax buoyancy in Telangana is close to 1%.

**Figure 2.63: Tax revenue to GSDP ratio (in %)**



\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

### 2.7.1 Measures to improve Tax-GSDP Ratio and revenue productivity of the States

Prior to GST, the government could refine tax structure, however, post-GST, the taxation capacity of the state government has altered due to limited autonomy to levy new taxes or restructure the same. However, the Government of Telangana has adopted and implemented various tax reforms and is one of the first state to implement State Goods & Services Tax Act.

The state has made significant progress in tax reforms by mandating e-registration for value-added tax, central sales tax, and other such taxes, and by allowing online payment and tax return filing. Introduction of E-way bills, abolition of check posts, computerization of processes helped in ensuring success of the new system.

The Government of Telangana can still improve their tax revenue by improving tax administration, plugging leakages and by expanding its tax base. An efficient tax buoyancy of the state opens doors for a reformist fiscal policy that can lead to greater tax collection, lower tax rates, and greater, and more efficient, tax redistribution

### 2.7.2 Impact of GST on state finances

Prior to the implementation of GST, states had the autonomy regarding the rates and manner for tax imposition. While states may lose some flexibility in deciding the tax rates on goods and services due to GST, the state have the decision over other indirect taxes.

Some of these taxes for which states can continue to decide the rates and the manner of levy include: (i) taxes on land and buildings, (ii) state excise duty on alcohol and narcotics, (iii) taxes on electricity, (iv) sales tax on alcohol and petroleum (till the GST Council decides to bring petroleum under GST), (v) taxes on the transport of goods and passengers, (vi) road tax, and (vii) tolls.

GST subsumes various taxes levied by states such as sales tax on goods (except alcohol and petroleum), and entertainment tax.

In the medium to long term, GST is likely to increase the tax buoyancy. The macroeconomic impact of GST could turn out to be significant in the future. Besides giving a major boost to tax revenue, the larger impact on the fiscal health would be from the reduction in the administrative compliance cost.

### 2.8 Deficit Indicators of The State

The deficit in the Government Account represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed, and the resources raised are important pointers to its fiscal health. A fiscal deficit is the excess of government expenditure over its receipts, excluding money from borrowings. A high fiscal deficit of a government implies a higher borrowing requirement in a financial year. Whereas Gross Fiscal Deficit includes money from borrowings. The excess of revenue expenditure over revenue receipts is defined as a Revenue Deficit while an excess of revenue receipts over revenue expenditure is defined as a Revenue Surplus. Both the deficits are usually financed by way of borrowings by the state.

Primary Deficit is gross fiscal deficit less interest payments.

Table 2.20 and Figure 2.64 show the Revenue Deficit and Gross Fiscal Deficit of Telangana for the years 2014-15 to 2023-24(BE). The data reveals revenue surplus during the year 2018-19, however revenue deficit consistently increased during the years 2019-20 to 2021-22. However, a revenue surplus was witnessed as per the estimates for 2022-23 and 2023-24.

It could also be put forth the Government has incurred colossal Gross Fiscal Deficit over the years with an increasing trend. This is daunting since gross fiscal deficit includes money from borrowings, consequent to increasing borrowings of the state, for welfare schemes like Vaddi Leni Runalu (interest free loans), Rythu Bandhu, Bhagiratha, 2 BHK Housing, KCR kit, Mission Kakatiya, Haritha Haram, Kalyan Lakshmi, Arogya Lakshmi etc.

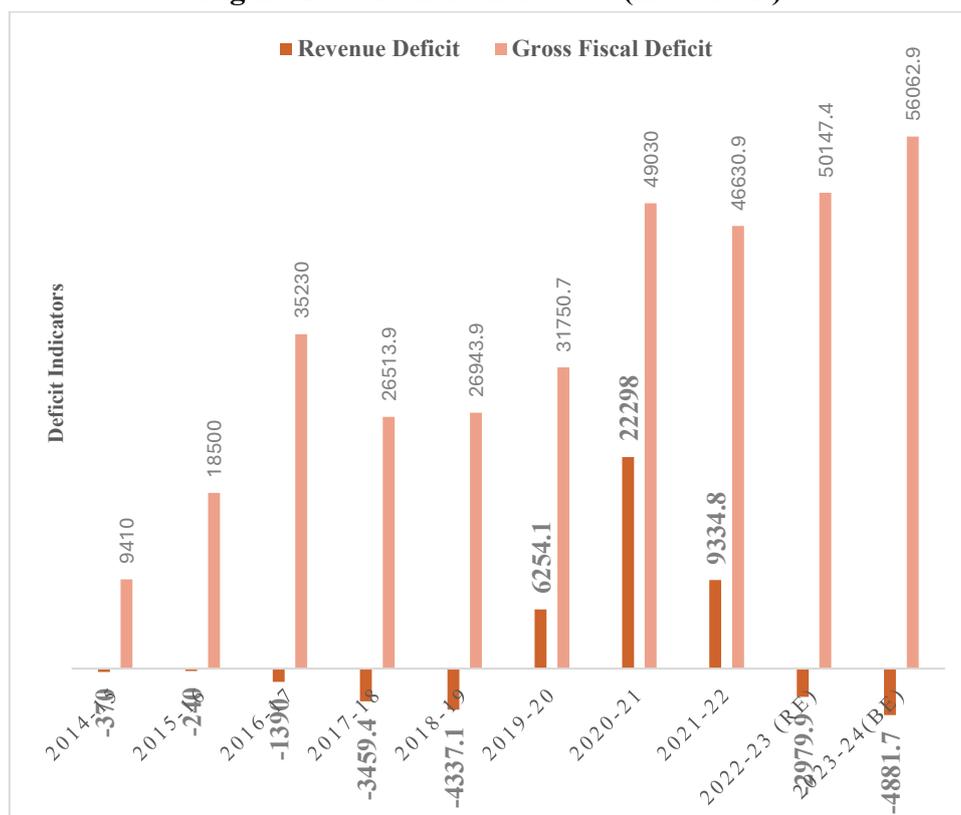
**Table 2.20: Deficit Indicators (in Cr INR)**

Years	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (RE)	2023-24 (BE)
Revenue Deficit	-370	-240	-1390	-3459.4	-4337.1	6254.1	22298	9334.8	-2979.9	-4881.7
Gross Fiscal Deficit	9410	18500	35230	26513.9	26943.9	31750.7	49030	46630.9	50147.4	56062.9

\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

**Figure 2.64: Deficit Indicators (in Cr INR)**



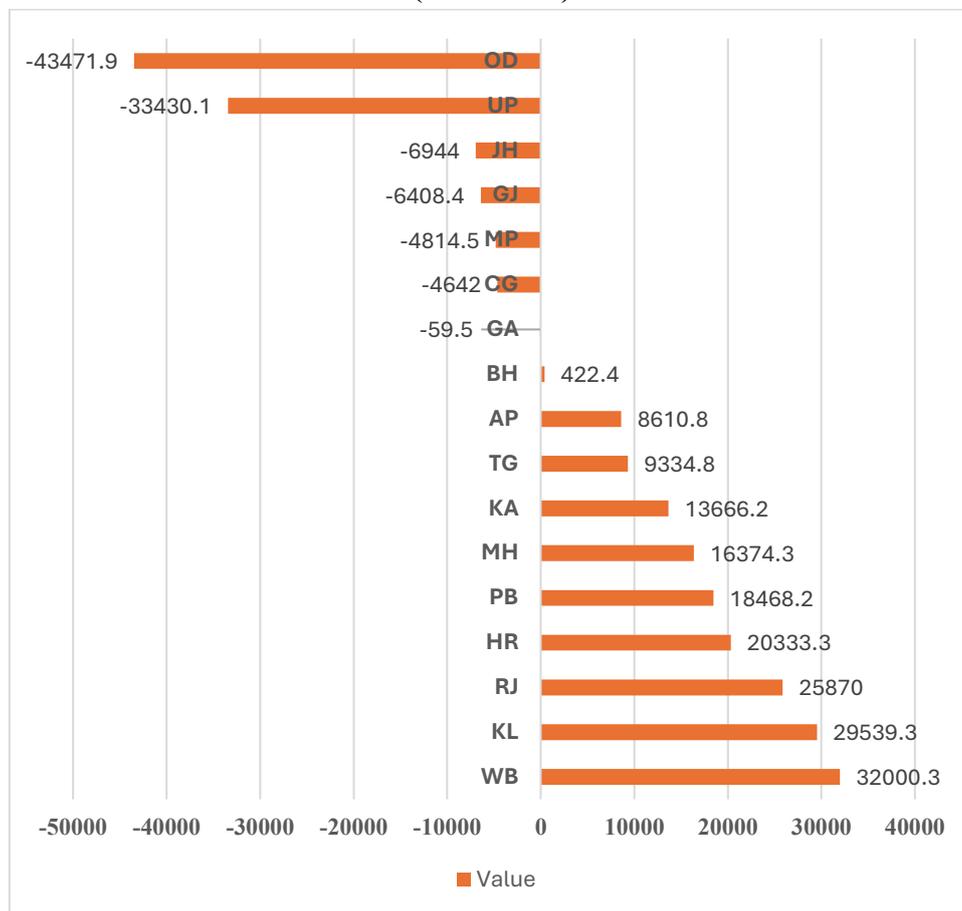
\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

Figure 2.65 and 2.66 show Revenue Deficit and Gross Fiscal Deficit of general category states (2021-22). Andhra Pradesh has a lesser revenue deficit as well as gross fiscal deficit than the state of Telangana. Andhra Pradesh’s revenue deficit is ₹ 8610.8 crores, whereas the Government of Telangana has revenue deficit amounting to ₹ 9334.8 crore.

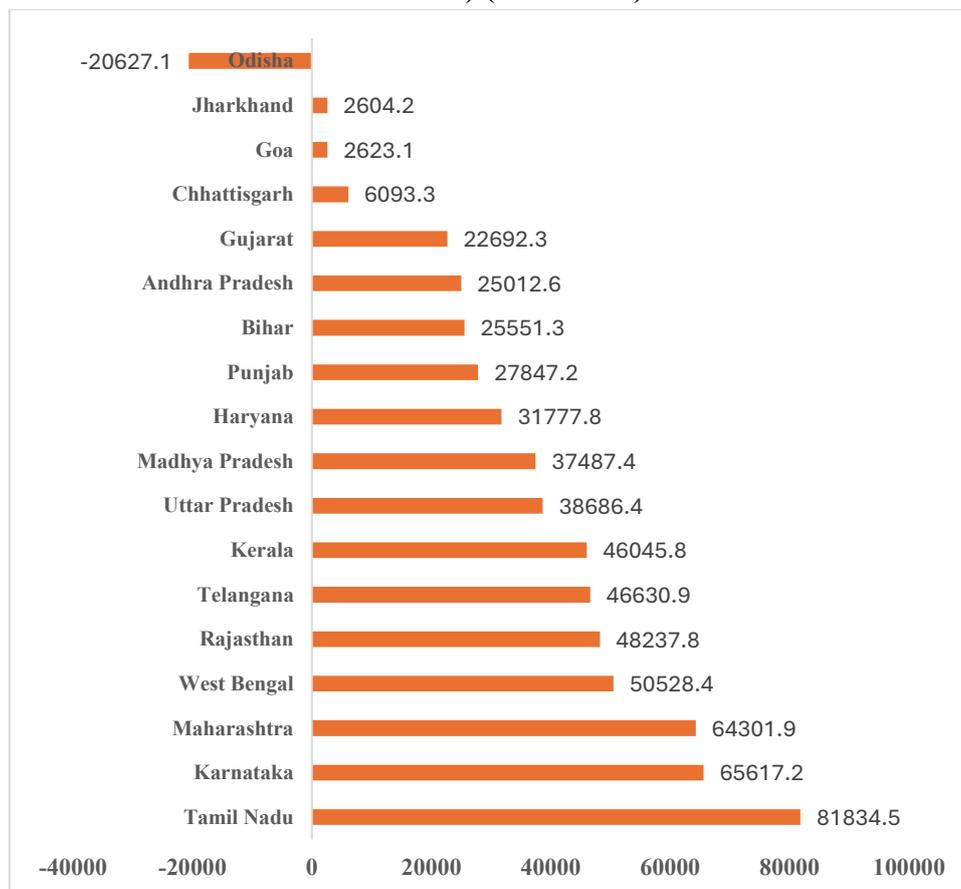
Both the states of Andhra Pradesh and Telangana have huge Gross Fiscal Deficit amounting to ₹ 25012.6 crores and ₹ 46630.9 crores respectively. Among other general category states, Tamil Nadu and West Bengal have the highest Revenue Deficit. Tamil Nadu and Karnataka have the highest Gross Fiscal Deficit.

**Figure 2.65: Revenue Deficit of Non-special category states (2021-22 Accounts) (in Cr INR)**



Source: State Finance: A Study of Budgets (2023), RBI.

**Figure 2.66: Gross Fiscal Deficit of Non-special category states (2021-22 Accounts) (in Cr INR)**



Source: State Finance: A Study of Budgets (2023), RBI.

Table 2.21 and Figure 2.67 exhibit key deficit indicators relative to GSDP depicting the fiscal strength of the state. The state's revenue position shows dramatic shifts throughout the decade. Starting with a revenue surplus of ₹370 crores in 2014-15, this improved slightly to ₹240 crores in 2015-16. However, the surplus increased substantially to ₹1,390 crores in 2016-17 before expanding dramatically by 149% to ₹3,459.4 crores in 2017-18 and further growing by 25.4% to ₹4,337.1 crores in 2018-19. A severe reversal occurred in 2019-20 when the state moved from surplus to a deficit of ₹6,254.1 crores, followed by an alarming 256.5% increase in deficit to ₹22,298 crores in 2020-21, representing the pandemic's peak impact at 2% of GSDP. Recovery began in 2021-22 with the deficit decreasing by 58.1% to ₹9,334.8 crores. By 2022-23, the state remarkably returned to a revenue surplus of ₹2,979.9 crores, with projections showing a further 63.8% improvement to ₹4,881.7 crores surplus in 2023-24.

The gross fiscal deficit expanded dramatically from ₹9,410 crores in 2014-15 to ₹18,500 crores in 2015-16, a 96.6% increase. This was followed by another 90.4%

surge to ₹35,230 crores in 2016-17, reaching 5% of GSDP—the highest percentage during this period. The deficit then decreased substantially by 24.7% to ₹26,513.9 crores in 2017-18 and remained relatively stable at ₹26,943.9 crores in 2018-19.

The pandemic period saw the deficit increase again, rising to ₹31,750.7 crores in 2019-20 and peaking at ₹49,030 crores in 2020-21 (a 54.4% year-over-year increase). Recent years show some stabilization, with the deficit projected at ₹56,062.9 crores for 2023-24, while remaining steady at 4% of GSDP despite the GSDP growing by nearly 14.5% from the previous year.

**Table 2.21: Deficit Indicators relative to GSDP (in Cr and %)**

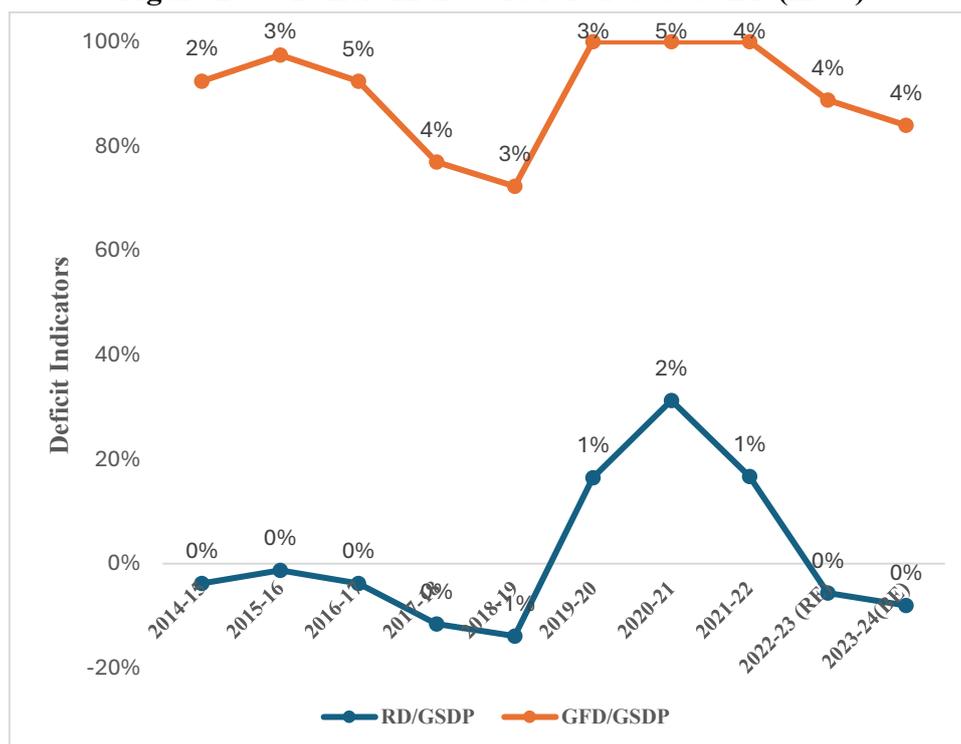
Years	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (RE)	2023-24 (BE)
Revenue Deficit (RD)	-370	-240	-1390	-3459.4	-4337.1	6254.1	22298	9334.8	-2979.9	-4881.7
Gross Fiscal Deficit (GFD)	9410	18500	35230	26513.9	26943.9	31750.7	49030	46630.9	50147.4	56062.9
GSDP	505848.79	577902.06	658325.34	750050.28	857427.15	950090.49	943078	1124086	1311823.02	1501981.41
RD/GSDP	0%	0%	0%	0%	-1%	1%	2%	1%	0%	0%
GFD/GSDP	2%	3%	5%	4%	3%	3%	5%	4%	4%	4%

\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

**Figure 2.67: Deficit Indicators relative to GSDP (in %)**



\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2014-15 to 2023-24), RBI.

The State of Telangana's mounting fiscal deficit presents a concerning financial scenario, primarily driven by its extensive welfare scheme commitments. The instability growth of the fiscal indicators is a reflection of the substantial financial burden of implementing numerous welfare programs.

The state's growing fiscal deficit is significantly influenced by major welfare initiatives including Rythu Bandhu, Vaddi Leni Runalu (interest-free loans), Mission Bhagiratha, 2 BHK Housing, KCR kit, Mission Kakatiya, Haritha Haram, Kalyan Lakshmi, and Arogya Lakshmi. These schemes, while serving crucial social objectives, have contributed to a substantial increase in the state's borrowing requirements, thereby expanding the deficit.

The severity of this fiscal deficit is further compounded by the significant debt servicing burden, with interest payments and pensions consuming 70-75% of non-developmental expenditure. This high debt servicing cost, a direct consequence of increased borrowings to fund welfare schemes, creates a cyclical pattern of deficit financing. The state's sectoral allocation pattern, with 3.44% for health, 8.8% for education, sports, art & culture, 3.21% for urban development, and 1.05% for water supply and sanitation, demonstrates the extensive financial commitments across various developmental areas, further straining the state's finances and contributing to the deficit.

This persistent fiscal deficit scenario is particularly daunting as it affects the state's long-term financial sustainability. The combination of multiple high-cost welfare schemes, their continuous expansion, growing beneficiary base, and substantial implementation costs creates a challenging fiscal environment. The resulting deficit not only impacts current financial management but also reduces the fiscal space available for other critical developmental activities, potentially affecting the state's future growth prospects.

The management of this fiscal deficit requires a delicate balance between maintaining social welfare commitments and ensuring fiscal prudence. This necessitates systematic review of scheme effectiveness, better targeting of beneficiaries, improved expenditure efficiency, and exploration of alternative financing mechanisms. Without

such measures, the growing deficit trend could pose significant challenges to the state's financial health and its ability to sustain these welfare initiatives in the long term.

### 3. DEBT AND LIABILITY PROFILE OF TELANGANA

#### 3.1 Outstanding Liabilities

The liabilities of the government are the amount that the state government owes to the central government or other financial institutions. When a government spends more than it earns, it incurs a fiscal deficit. To finance this deficit, governments typically borrow, and this debt represents the government's outstanding liability.

Unlike the Centre, all liabilities of the states are internal and there are no external liabilities. The total outstanding liabilities of the states are composed of internal debt, loans and advances from the Centre and, other liabilities.

Table 3.1 represents the components of outstanding liabilities of Telangana. Internal debt has seen fluctuations over the years. It increased from ₹50528 crores in 2018-19 to a peak of ₹1,14269 crores in 2021-22, before significantly decreasing to ₹42216 crores in 2023-24 (BE). The drop post-2021-22 may indicate efforts to reduce reliance on borrowing or a restructuring of debt.

Loans and advances from the Centre have remained a relatively minor component but have shown a sharp increase from ₹433 crores in 2018-19 to ₹4784 crores in 2021-22. Thereafter, it slightly reduced to ₹4102 crores in 2023-24 (BE). This component, though small, shows an increasing trend over the years, possibly reflecting a consistent reliance on central assistance or borrowings.

'Other liabilities,' which include provident funds, reserve funds, deposits, and advances, have steadily increased from ₹66794 crores in 2018-19 to ₹96810 crores in 2023-24 (BE). This consistent rise indicates growing obligations in these areas, which might be tied to employee benefits, public deposits, and other long-term financial commitments.

The total outstanding liabilities increased from ₹117756 crores in 2018-19 to a peak of ₹196373 crores in 2021-22. This was followed by a decrease to ₹143128 crores in 2023-24 (BE). The overall increase from 2018-19 to 2021-22 reflects growing fiscal pressures, while the subsequent decrease suggests potential fiscal consolidation or debt repayment strategies.

The data from 2018 to 2024 reflects an initial rise in total outstanding liabilities, driven primarily by internal debt and other liabilities. The peak in 2021-22 may indicate a period of high borrowing, possibly due to increased expenditure or reduced revenue, followed by a decline that could be associated with improved fiscal management or

repayment of debt. The consistent increase in 'other liabilities' suggests a growing burden in areas like provident funds and reserves, which could have long-term fiscal implications.

**Table 3.1: Components of outstanding liabilities (in Cr INR)**

Years	2018-19	2019-20	2020-21	2021-22	2022-23(RE)	2023-24(BE)
Internal Debt	50528.5	75325.9	113921	114269	46570	42215.68
Loans and Advances from the Centre	433.4645	207.462	2665.34	4783.63	3852	4102
Other liabilities	66793.93	68338.6	70920.7	77320.2	81967.353	96810.686
Total Outstanding Liabilities	117755.9	143872	187507	196373	132389.353	143128.366
Growth		22%	30%	5%	-33%	8%

\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

**Figure 3.1 Outstanding liabilities (in Cr INR)**

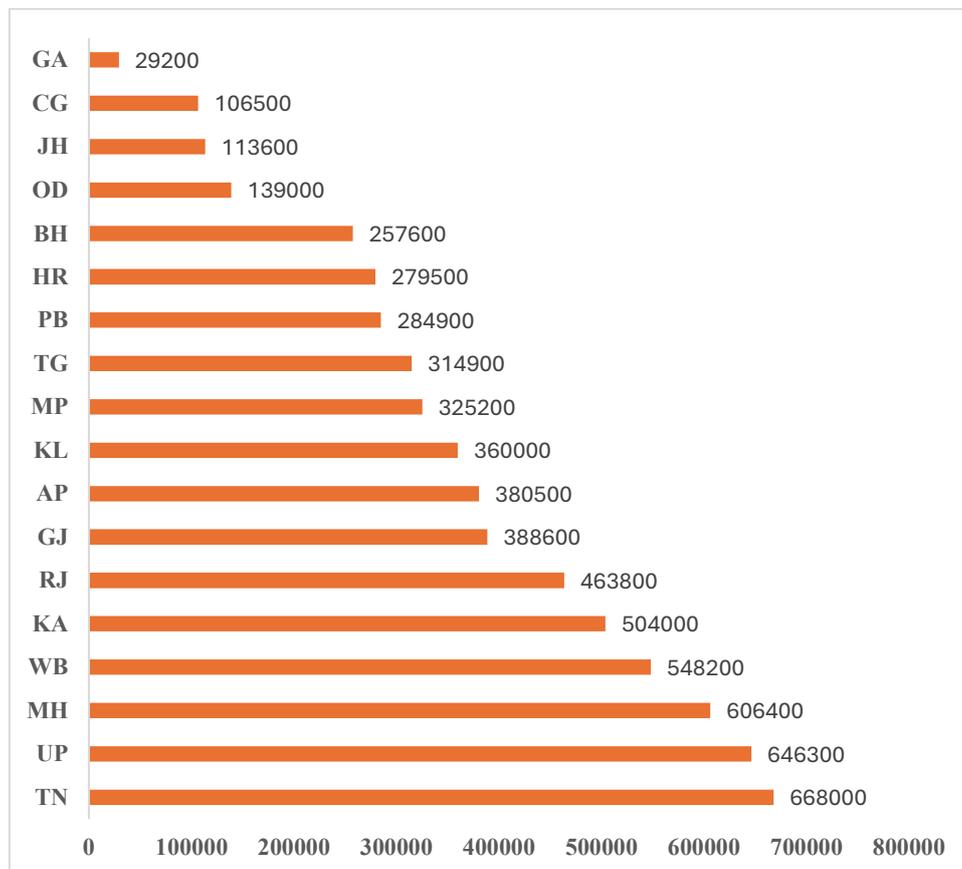


\*BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

Among the Non-Special Category States, Tamil Nadu and Uttar Pradesh have highest debt liabilities, at ₹ 668000 crores and ₹ 646300 crores respectively. Andhra Pradesh’s liabilities are more than Telangana, at ₹ 380500 crores and ₹ 314900 crores (Figure 2.69).

**Figure 3.2 Total outstanding liabilities of non-special category states 2021-22 (in Cr INR)**

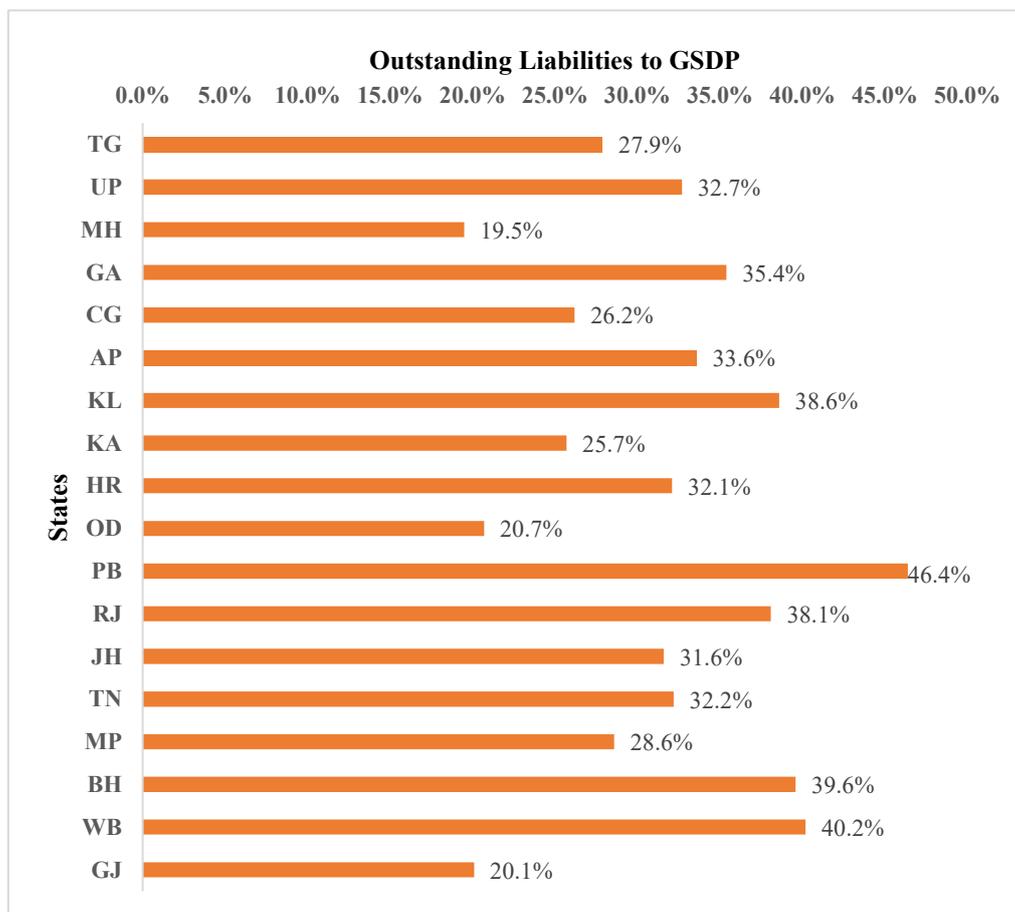


Source: State Finance: A Study of Budgets (2023), RBI.

Figure 3.3 displays the ratio of Total Outstanding Liabilities to GSDP of Non-Special Category States (General Category States). The values correspond to 2021-22 accounts data taken from RBI (latest actuals available for all states).

Among the Non-Special Category States, Punjab and West Bengal have the highest share of liabilities relative to GSDP at 46.4% and 40.2% respectively. Andhra Pradesh’s share (33.6%) is higher than Telangana (27.9%).

**Figure 3.3 Total outstanding liabilities relative to GSDP of Non-Special category states in 2021-22 (in %)**



Source: State Finance: A Study of Budgets (2023), RBI.

### 3.2 Debt to GSDP ratio

Table 3.2 provides a comprehensive overview of debt trends for a state or region over a five-year period from 2017-18 to 2021-22.

The outstanding overall debt has shown a consistent upward trend, growing from ₹1,65,849 crore in 2017-18 to ₹3,21,612 crore in 2021-22. This represents a nearly two-fold increase over the five-year period. The internal debt, which forms a significant portion of the public debt, has also risen steadily from ₹1,34,287 crore to ₹2,63,041 crore during this time frame.

One notable addition to the debt structure is the introduction of off-budget borrowings. Starting from ₹3,160 crore in 2018-19, these borrowings have increased dramatically to ₹1,18,955 crore by 2021-22, indicating a significant reliance on this form of financing.

The rate of growth of outstanding debt, while remaining high, has shown some fluctuation. It peaked at 23.09% in 2017-18 and has generally declined since then, reaching 15.68% in 2021-22. This suggests a slight moderation in the pace of debt accumulation in recent years.

The table also provides insights into debt management. Total debt receipts have grown from ₹1,06,641 crore to ₹1,96,373 crore over the five-year period. Correspondingly, debt repayments have also increased from ₹78,203 crore to ₹1,52,779 crore. The ratio of debt repayments to debt receipts has remained relatively stable, hovering around 75-78%, which suggests a consistent approach to debt servicing.

**Table 3.2: Component - Wise Debt Trends (in crore)**

Components		2017-18	2018-19	2019-20	2020-21	2021-22
Outstanding overall Debt		1,65,849	1,96,963	2,32,181	2,78,018*	3,21,612*
Public Debt	Internal Debt	1,34,287	1,56,933	1,86,959	2,24,379	2,63,041
	Loans from Government of India	8,631	8,231	7,999	10,174*	14,448*
Off-Budget Borrowings		NA	3,160	70,688	95,182	1,18,955
Public Account Liabilities		22,931	31,799	37,223	43,465	44,123
Rate of growth of outstanding debt over previous year (percentage)		23.09	18.76	17.88	19.74	15.68
Gross State Domestic Product (GSDP)		7,50,050	8,57,427	9,50,287	9,61,800	11,48,115
Total Outstanding Debt/GSDP (per cent)		22.11	22.97	24.43	28.91	28.01
Total Debt Receipts		1,06,641	1,17,715	1,43,870	1,87,503*	1,96,373*
Total Debt Repayments		78,203	91,080	1,08,652	1,41,666	1,52,779
Total Debt available		28,438	26,635	35,218	45,837	43,594
Debt Repayments/Debt Receipts (percentage)		73.33	77.37	75.52	75.55	77.80

Source: Telangana State Finance Accounts; NA- Not Applicable

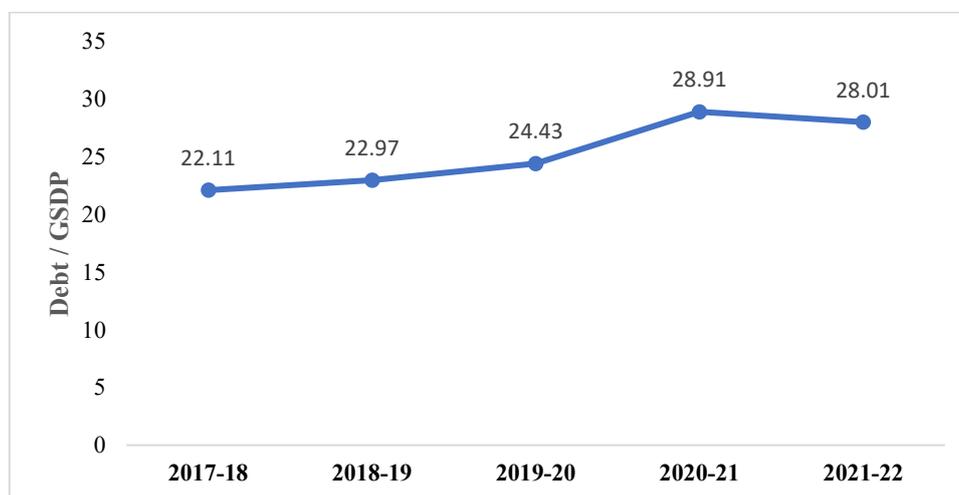
The Debt to GSDP Ratio is a critical measure that compares a state's debt to its Gross State Domestic Product (GSDP), reflecting the state's capacity to repay its obligations. A lower Debt to GSDP Ratio suggests a more robust economy, capable of repaying debt without needing to incur additional liabilities. However, if fiscal discipline is not maintained, the Debt to GSDP Ratio could rise, indicating potential financial distress.

The steady increase from 22.11% in 2017-18 to a peak of 28.91% in 2020-21 indicates that the state's debt has been growing faster than its GSDP. This trend, if not addressed, could signal fiscal challenges in the future.

By 2019-20, the ratio rose to 24.43%, indicating growing financial pressure. The trend continued with the ratio reaching 28.91% in 2020-21, highlighting the state's increasing reliance on borrowing. In 2021-22, the ratio saw a slight decrease to 28.01%, but it still indicated significant financial strain.

A lower Debt to GSDP ratio is preferable as it suggests that the state can manage its debt without resorting to further borrowing. However, the increasing trend from 2017-18 to 2020-21 demonstrates the state's growing fiscal challenges.

**Figure 3.4: Debt / GSDP 2017-18 to 2021-22**



Source: State Finance: A Study of Budgets (2018-19 to 2023-24), RBI.

### 3.3 Debt Growth Rate

The debt growth rate reflects the year-over-year increase in the state's outstanding debt. The data shows a significant rise in debt over the years, which has implications for fiscal health.

Although there has been a declining trend in the debt growth rate from 23.09% in 2017-18 to 15.68% in 2021-22, the levels remain high (Table 3.5). Telangana's debt growth rate has consistently been in double digits, suggesting that the state's debt is increasing at a rate that could eventually strain its financial resources if not controlled.

Comparatively, while the debt growth rate of Telangana has reduced, it remains above the desired levels of fiscal prudence, indicating potential concerns about the sustainability of the state's debt over time.

Overall, the state's financial situation has shown signs of strain, with a rising Debt to GSDP ratio and fluctuating debt growth rates. Although there is a slight improvement in 2021-22, the cumulative effect of previous years' borrowing still weighs heavily on the state's fiscal health.

### 3.3.1 Loans From the Centre

The government of Telangana has continued to rely on various borrowing options to manage its debt liabilities and fund developmental activities. The trends in loans from the Centre have shown significant variation in recent years, reflecting the state's changing fiscal needs.

As observed, the trend in loans from the Central government reflects the state's fluctuating borrowing requirements. The net loans mirror the gross loans for the respective years, indicating that repayments and fresh borrowings have been closely aligned. The sharp increase in both gross and net loans in 2020-21 and 2021-22 highlights a significant rise in the state's dependency on central loans to meet its financial obligations.

**Table 3.3: Loans from the center (in Cr INR)**

Year	Gross Loans	Net Loans
2017-18	22400	22400
2018-19	-40000	-40000
2019-20	-23200	-23200
2020-21	217500	217500
2021-22	427300	427300

Source: State Finance: A Study of Budgets (2018-19 to 2023-24), RBI.

### 3.3.2 Borrowings from international bilateral and multilateral lending agencies

Borrowings from international bilateral and multilateral lending agencies form a crucial component of central loans to states. Largely these loans cater to infrastructure needs of the state. However, States are forbidden to directly access foreign funds owing to 'foreign loans' being a matter within the exclusive legislative competence of the Central Government and therefore a matter beholden in the executive power of the Union. In the event of such borrowings, the Central Government must take on the loan

on behalf of the states and on-lend the funds to the states. Therefore, the Central Government is within its constitutional right to deny states that do not remain within their prescribed borrowing limits access to funding from external sources.

Such borrowings fall under ‘Additional Central Assistance for Externally Aided Projects (‘ACA for EAP’)’ of Article 293 (3) when applied to States. Article 293 (3) requires state governments that are indebted to the Central Government to seek the consent of the Central Government before raising further borrowings

### **3.3.3 Debt management and Sustainability**

#### **3.3.3.1 Indicators of debt sustainability**

Debt sustainability refers to the state's ability to manage its debt in such a way that it can maintain a stable debt-to-GSDP ratio over time. This requires that the growth in fiscal deficit is matched by the state's capacity to service the additional debt through increased revenue generated from the productive use of the borrowed funds.

The outstanding public debt of Telangana has shown a consistent increase, reaching ₹2,70,540 crore by 2021-22. The growth rate of outstanding public debt has fluctuated, with a significant decrease to 16.53% in 2021-22, compared to 19.09% in the previous year (Table 3.4).

The Debt-to-GSDP ratio has increased over the years, reaching 23.56% in 2021-22, indicating a rising burden of debt relative to the state's economic output. The interest payment to revenue receipt ratio has increased to 15.03% in 2021-22, which is significantly higher than the normative rate prescribed by the 14<sup>th</sup> Finance Commission. The percentage of public debt repayment to debt receipts stood at 59.32% in 2021-22, indicating that a substantial portion of borrowed funds is being used for debt repayment.

The net debt available to the state after meeting debt repayment and interest obligations was ₹19,205 crore in 2021-22, highlighting that some portion of borrowed funds is still available for other developmental expenditures. The state has shown an improvement with a positive debt stabilization value of ₹527 crore in 2021-22, indicating some degree of fiscal consolidation.

**Table 3.4 : Debt Sustainability: Indicators and Trends**

<b>Debt Sustainability Indicators</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>
Outstanding Public Debt*	1,42,918	1,65,164	1,94,958	2,32,173	2,70,540
Rate of Growth of Outstanding Public Debt	17.88	15.57	18.04	19.09	16.53
GSDP	7,50,050	8,57,427	9,50,287	9,61,800	11,48,115
Rate of Growth of GSDP	13.93	14.32	10.83	1.21	19.37
Public Debt/GSDP	19.05	19.26	20.52	24.14	23.56
Maturity profile of repayment of State Public Debt – including default history, if any for next seven years	65,740	76,262	89,228	1,06,468	1,05,242
Average interest Rate of Outstanding Public Debt (per cent)	8.20	8.17	7.99	7.89	7.62
Percentage of Interest payment to Revenue Receipt	12.20	12.41	14.03	16.69	15.03
Percentage of Public Debt Repayment to Public Debt Receipts	58.65	66.85	59.72	54.47	59.32
Net Public Debt available to the State#	10,846	9,660	15,407	20,374	19,205
Net Public Debt available as percentage to Public Debt Receipts	41.35	33.15	40.28	45.53	40.68
Debt Stabilisation (Quantum spread + Primary Deficit)	(-)8,146	(-)8,417	(-)13,649	(-)41,530	527

\*BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

In addition, an important indicator of debt sustainability is the trend of interest payments to the state's repayment capacity (state's revenue). While the states' own tax revenue of the Telangana is promising, interest payments/ state's own tax revenue has remained between the range 14-17% for the years 2014-15 to 2023-24.

These updated indicators highlight that while the state's borrowing is increasing, the sustainability of this debt hinges on prudent fiscal management and effective utilization of borrowed funds for productive investments that generate future revenue.

### 3.3.3.2 Debt maturity profile

As of 31 March 2022, the maturity profile of the state's debt indicates that a significant portion of the debt (estimated at ₹1,05,242 crore) will need to be repaid within the next seven years. This underscores the importance of devising a comprehensive debt repayment strategy to avoid additional borrowing during this critical period.

### 3.3.3.3 Off budget borrowings

Off-Budget Borrowings (OBB), also known as Extra-Budgetary Resources (EBR), refer to financial resources that are raised to meet the expenditure requirements of the government but are not reflected in the official government accounts. These borrowings are typically mobilized through government-owned or controlled Public Sector Undertakings (PSUs), Special Purpose Vehicles (SPVs), Autonomous Bodies (ABs), or Departmental Commercial Undertakings (DCUs). These entities borrow from the market on behalf of the government, with the government often responsible for repaying and servicing the debt from its budget.

The Fiscal Responsibility and Budget Management (FRBM) Act mandates the inclusion of such liabilities in the total liabilities of the state, as they impact the fiscal health of the government. The 15<sup>th</sup> Finance Commission (XV FC) has emphasized the need for transparency in reporting these liabilities. The Commission recommended that both the Union and State Governments should make full disclosure of extra-budgetary borrowings, clearly identify any outstanding OBB, and work towards eliminating them in a time-bound manner. The XV FC also advised against adding to the stock of off-budget transactions and contingent liabilities, which could undermine fiscal stability and transparency.

As of March 2022, the Government of Telangana had total Off-Budget Borrowings of ₹1,18,955 crore, involving 12 PSUs and 4 Autonomous Bodies. However, these borrowings were not specifically disclosed in the Telangana Government's budget documents for the financial year 2021-22. This lack of transparency in reporting OBBs raises concerns regarding the state's fiscal management and adherence to the norms of fiscal transparency as recommended by the XV FC.

To foster transparency and fiscal discipline, it is crucial that the government resists further additions to the stock of OBBs and ensures full disclosure of these liabilities in future budget documents.

#### **4. FISCAL CONSOLIDATION AND MANAGEMENT**

This chapter examines Telangana's fiscal consolidation and management strategies. Fiscal consolidation entails government policies to reduce a state's or nation's debt and fiscal deficit. The consolidated fund of the state is the primary financial repository for all the state government transactions. This fund encompasses a comprehensive range of financial inflows, including all revenue received by the state government, loans raised from various sources. These include market loans, bonds, central government loans, loans from financial institutions, special securities issued to the National Small Savings Fund, and ways and means advances extended by the Reserve Bank of India. This chapter examines the state's revenue enhancement and expenditure rationalization efforts and its performance in achieving mandated fiscal targets.

##### **4.1 Telangana Fiscal Responsibility and Budget Management Act, 2005**

As a relatively new state, Telangana has implemented fiscal policies to balance development needs with financial stability. The state's approach optimizes budget financing and debt refinancing while adhering to risk management principles. Telangana's fiscal policies are guided by the Telangana Fiscal Responsibility and Budget Management (FRBM) Act, 2005, adapted from the Andhra Pradesh FRBM Act, 2005, with amendments under section 101 of the A.P. Reorganization Act, 2014. This framework mandates the presentation of a Fiscal Policy Strategy Statement to the Legislature, outlining the state's approach to taxation, expenditures, borrowings, and fund management. The FRBM Act mandates that the state government eliminate the revenue deficit and reduce the fiscal deficit to 3% of GSDP. Building upon Telangana's fiscal framework established by the FRBM Act, the state has made significant strides in implementing and refining its fiscal policies. The budget allocation for Telangana in 2023-24 is INR 2,90,396 crores, which is a 13% increase from the previous year. This allocation demonstrates the state's commitment to balancing fiscal prudence with developmental needs. Key sector allocations include INR 26,831 crores for agriculture, with INR 15,075 crores specifically for the Rythu Bandhu scheme, INR 22,407 crores for irrigation, INR 19,093 crores for education, and INR 12,161 crores for health. These allocations reflect the state's prioritization of spending on critical developmental areas while maintaining fiscal discipline.

#### 4.1.1. Fiscal Consolidation Overview

Telangana's fiscal indicators from 2022-23 to 2024-25, with projections extending to 2026-27, reveal a consistent improvement in the revenue deficit, as depicted in Table 4.1. The deficit has decreased from 3.73% of Total Revenue Receipts (TRR) in 2022-23 to a projected 0.13% in 2024-25. This trend suggests enhanced revenue collection efforts and more effective expenditure management over the period.<sup>1</sup>

In terms of total outstanding liabilities, Telangana has consistently kept these below the targeted levels. While targets ranged from 33.30% to 32.80% of GSDP, actual figures have been significantly lower, between 24.91% and 27.45%. This indicates that the state has been managing its debt levels more conservatively than planned. The slight increase in liabilities from 24.91% Budget Estimate (BE) to 27.45% Revised Estimate (RE) in 2023-24 suggests additional borrowing or financial obligations incurred during that fiscal year. Overall the Medium-Term Fiscal Policy (MFTP) Statement suggests financial planning with built-in flexibility to accommodate unforeseen economic challenges. Telangana has maintained compliance with the revised FRBM Act guidelines while implementing fiscal consolidation measures. A significant feature is the enhanced quality of expenditure, focusing on productive sectors and capital formation, which contributes to the state's economic growth potential. The state's MFTP demonstrates strategic debt management practices. The debt position stability, consistently below target levels, has strengthened the state's credit profile and borrowing capacity. This conservative debt management approach provides fiscal space for countercyclical measures during economic downturns. In addition, the revenue mobilization efforts reflect in the steadily improving revenue deficit numbers. This improvement indicates successful implementation of tax reforms, better compliance mechanisms, and efficient revenue collection systems. Thus, showcasing capability in expanding its revenue base while maintaining fiscal prudence.

---

<sup>1</sup> Government of Telangana. (2024, July). Statement of Fiscal Policy Telangana, 2024

**Table 4.1: Medium-Term Fiscal Policy Statement (MTFPS) Rolling Targets**

Component			2022-23	2023-24 (Budget Estimate)	2023- 2024 (Revised Estimate)	2024-25 (Budget Estimate)	Targets for next two years	
							2025-26	2026-27
1	Revenue Deficit / Surplus as percentage of Total Revenue Receipts (TRR)		3.73	2.25	1.01	0.13		
2	Fiscal Deficit as percentage of GSDP	Target	3.50	3.00	3.00	3.00	3.00	3.00
		Achmt.	2.49	2.67	3.37	2.99		
3	Total outstanding Liabilities as percentage of GSDP	Target	33.30	33.10	33.10	32.80	32.50	
		Achmt.	27.25	24.91	27.45	27.38		

Source: Fiscal Policy Statement, Government of Telangana, July 2024

#### 4.1.2 Fiscal Deficit

Fiscal deficit, a critical indicator of a state's financial health, demonstrates a notable downward trend. Regarding fiscal deficit, Telangana has generally maintained levels close to the 3% GSDP target, with actual figures ranging from 2.49% to 3.37%. The 2023-24 revised estimate of 3.37% represents a deviation from the initial budget estimate of 2.67%, indicating some fiscal pressures during that financial year. However, the projection for 2024-25 at 2.99% suggests an expected return to target levels as shown in Table 4.2.

**Table 4.2 Telangana Budget (₹ in Cr)**

Particulars	Accounts 2022-23	BE 2023-24	RE 2023-24	BE 2024-25
(1)	(2)	(3)	(4)	(5)
<b>Opening Balance</b>	<b>63.83</b>	<b>336.86</b>	<b>34.79</b>	<b>-4,886.57</b>
<b>Revenue Receipts</b>	<b>1,59,350.29</b>	<b>2,16,566.97</b>	<b>1,69,089.59</b>	<b>2,21,242.23</b>
State Share in Central Taxes	19,668.15	21,470.84	23,742.04	26,216.38
Tax Revenue	1,06,948.94	1,31,028.65	1,11,798.14	1,38,181.26
Non-Tax Revenue	19,553.99	22,808.31	23,819.50	35,208.44
Grants-in-aid	13,179.21	41,259.17	9,729.91	21,636.15
<b>Capital Receipts</b>	<b>45,143.40</b>	<b>55,277.68</b>	<b>57,006.25</b>	<b>69,572.48</b>
Open Market Loans	40,150.00	40,615.68	49,618.00	57,112.48
Floating Debt (Net)	0.00	0.00	0.00	0.00
Loans from the GOI	2,500.98	4,102.00	1,948.34	3,900.00
Other Loans	1,409.98	1,500.00	910.22	1,000.00
Deposits Transactions etc. (Net)	453.56	4,000.00	4,500.00	4,000.00
Loans and Advances	628.84	5,060.00	35.97	3,560.00
Other Receipts (Loans showed in GOI Books GST Compensation)	0.00	0	0	0
Contingency Fund Net	0.05	0.00	-6.28	0.00
Interstate Settlement	0.00	17,828.00	0.00	0.00
<b>Total Receipts (II+III+13)</b>	<b>2,04,493.69</b>	<b>2,89,672.65</b>	<b>2,26,095.84</b>	<b>2,90,814.71</b>
<b>Revenue Expenditure</b>	<b>1,53,406.65</b>	<b>2,11,685.23</b>	<b>1,67,384.69</b>	<b>2,20,944.81</b>
Interest Payments	21,821.21	22,407.67	23,337.40	17,729.77
<b>Capital Expenditure</b>	<b>17,880.58</b>	<b>37,524.70</b>	<b>44,252.68</b>	<b>33,486.50</b>
<b>Loans and Advances</b>	<b>21,248.41</b>	<b>28,479.98</b>	<b>6,860.77</b>	<b>19,626.32</b>
<b>Capital Disbursements (15 to 18)</b>	<b>11,987.09</b>	<b>12,606.09</b>	<b>12,519.05</b>	<b>17,001.37</b>
Public Debt Repayment	8,336.00	9,341.17	9,341.17	13,117.60
Loans Form GOI	515.73	427.16	324.70	397.66
Other Loans	3,135.36	2,837.76	2,852.93	3,486.10
Interstate Settlement	0.00	0.00	0.24	0.00
<b>Total Expenditure</b>	<b>2,04,522.73</b>	<b>2,90,296.00</b>	<b>2,31,017.19</b>	<b>2,91,059.00</b>
<b>Overall Transactions</b>	<b>-29.04</b>	<b>-623.35</b>	<b>-4,921.36</b>	<b>-244.29</b>
<b>Closing Balance</b>	<b>34.79</b>	<b>-286.49</b>	<b>-4,886.57</b>	<b>-5,130.86</b>
<b>Revenue Surplus</b>	<b>5,943.64</b>	<b>4,881.74</b>	<b>1,704.89</b>	<b>297.42</b>
<b>Fiscal Deficit</b>	<b>32,556.51</b>	<b>38,234.94</b>	<b>49,372.84</b>	<b>49,255.41</b>
<b>Primary Deficit</b>	<b>10,735.29</b>	<b>15,827.27</b>	<b>26,035.44</b>	<b>31,525.63</b>

Source: Telangana Budget in Brief 2024-25, Government of Telangana<sup>2</sup>

#### 4.1.3 A Critical Analysis of Rising Liabilities and Fiscal Challenges

The data in Table 4.2 reveals a concerning trend in the government's fiscal situation. The primary deficit, which represents the fiscal deficit minus interest payments, is projected to increase significantly from ₹10,735.29 crores in 2022-23 to ₹31,525.63 crores in 2024-25 (BE). This sharp rise indicates that the government's operations, excluding past debt burdens, are necessitating increased borrowing. Despite this, the narrowing gap between the fiscal deficit and primary deficit, due to a projected decrease in interest payments for 2024-25, suggests that the fiscal deficit should theoretically decrease. However, the rising primary deficit highlights deeper fiscal challenges.

The increasing primary deficit implies that the government's current expenditure is surpassing its revenue generation, even before accounting for interest payments. This trend suggests potential difficulties in fiscal management and could be indicative of either an expansionary fiscal policy or underlying economic pressures. A persistently high primary deficit raises concerns about debt sustainability, as it signals that new debt is being incurred not only to service old debt but also to finance current operations. To address this, the government may need to implement measures to increase revenue or reduce non-interest expenditures, such as introducing tax reforms, improving tax collection efficiency, or rationalizing expenditure.

#### 4.1.4 Revenue Balance

Telangana has maintained a revenue surplus since its inception, though this surplus has been declining sharply in recent years. In 2022-23, the state recorded a robust revenue surplus of ₹5,943.64 crores, indicating that revenue receipts exceeded expenditure. This surplus provided opportunity for capital investments and debt reduction. However, the situation has changed dramatically since then. The Budget Estimate for 2023-24 projected a lower surplus of ₹4,881.74 crores, which the Revised Estimate further reduced to ₹1,704.89 crores. The Budget Estimate for 2024-25 anticipates a further reduction to just ₹297.42 crores.

This drastic decline in the revenue surplus suggests that Telangana is facing significant fiscal pressures. The shrinking surplus could be attributed to various factors, including the impact of economic slowdown, increased welfare expenditures, lower than expected tax collections, or changes in central government transfers. Given Telangana's strong IT sector, numerous welfare

---

<sup>2</sup> Government of Telangana, Finance Department. (2024). Budget in Brief 2024-25. <https://www.telangana.gov.in/wp-content/uploads/2024/07/Budget-in-Brief.pdf>

schemes, and ongoing infrastructure needs, the declining surplus may indicate that expenditure growth is outpacing revenue growth, which could be unsustainable in the long term.

#### 4.1.5 Debt Management

**Table 4.3 Components of State Government Liabilities (₹ in Crores)**

Year	Open Market Loans	Loans From Central Govt.	Loans From Autonomous bodies, etc.	Special Securities (Small Savings) & Provident Fund, etc.	Reserve Funds and Deposits	Total	% of GSDP
2021-22	2,42,455	14,448	14,208	19,290	31,210	3,21,612	28.6%
2022-23	2,74,269	16,434	13,310	20,512	31,962	3,56,486	27.3%
R.E 2023-24	3,14,546	18,057	13,095	20,673	35,473	4,01,844	27.4%
B.E 2024-25	3,58,541	21,559	11,098	20,162	39,558	4,50,918	27.4%

Source: Telangana Budget in Brief 2024-25, Government of Telangana

As presented in Table 4.3, the state's total debt has increased from ₹3,21,612 crores in 2021-22 to a projected ₹4,50,918 crores in 2024-25, a 40% rise over four years. This significant rise indicates a heavy reliance on borrowing for financing expenditures and development projects. However, relative to the state's economic output, the debt-to-GSDP ratio has slightly decreased from 28.6% in 2021-22 to 27.4% in 2024-25. This suggests that while absolute debt is growing, the state's economic growth is helping keep the debt burden relatively stable.

The composition of Telangana's debt shows a growing reliance on Open Market Loans, which have increased from ₹2,42,455 crores to a projected ₹3,58,541 crores, indicating good access to capital markets but also exposing the state to market risks. Loans from the Central Government have nearly doubled, potentially reflecting increased central support or participation in national schemes. Meanwhile, the loans from autonomous bodies are decreasing, and special securities and provident fund borrowings remain stable. Reserve funds and deposits have shown significant growth, potentially providing a financial buffer. This debt management approach allows Telangana to invest in growth-promoting activities without significantly increasing its debt burden relative to GSDP.

## **5. TRANSFER TO URBAN LOCAL BODIES AND PANCHAYATI RAJ INSTITUTIONS**

Decentralization of governance has been a critical focus in India's administrative reforms, aiming to bring decision-making closer to the people and enhance the responsiveness and efficiency of governance. The 73rd and 74th Constitutional Amendments of 1992 were landmark changes in this context, introducing a structured framework for Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs) to assume greater responsibilities in local governance. These amendments mandated the establishment of a three-tier system of local governance for rural areas, comprising Gram Panchayats, Mandal Parishads, and Zilla Parishads, and a similar structure for urban areas, including Municipalities and Municipal Corporations.

The Telangana Panchayati Raj Act, 2018, was a significant legislative step in this direction, providing a detailed framework for the functioning and empowerment of Gram Panchayats in Telangana. Similarly, Urban Local Bodies in the state are governed by specific laws and regulations designed to facilitate urban governance and development.

This chapter provides a comprehensive analysis of the financial mechanisms underpinning the functioning of PRIs and ULBs in Telangana. It delves into the sources and application of funds, evaluates the effectiveness of transfers from the State Finance Commission, and assesses the impact of these financial flows on the operational capabilities of local bodies. The analysis draws on data from various fiscal years to highlight trends, challenges, and opportunities in local governance finance.

### **5.1 Telangana Panchayati Raj Act, 2018**

The state of Telangana enacted the Telangana Panchayati Raj Act, 2018 to provide for the constitution of Gram Panchayats and matters related to it. The legislature confers various responsibilities on Gram Panchayats such as maintenance of proper sanitation, upkeep of various plantations, ensure working of streetlights and collection of revenue generated through taxes and non- taxes.

Besides, Gram panchayats are duty bound to prepare a Gram Panchayat Development Plan to transform the village into an ideal village. The state of Telangana issued guidelines to Panchayati Raj and Rural Development Department for the preparation of decentralized development plans along with launching an exclusive program 'Gram Jyoti' to empower gram panchayats. Seven key areas including drinking water and

sanitation, health and nutrition, education, infrastructure, natural resources management, agriculture, social security and poverty reduction were identified as critical areas necessary for the holistic development of Gram Panchayat.

Various sources of outlay for these plans constitute funds from Mahatma Gandhi National Rural Employment Guarantee Scheme, Central Finance Commission, State Finance Commission, Swachh Bharat Mission, Member of Parliament Local Area Development Scheme, Assembly Constituency Development Programme, Own Source Resources, and Corporate Social Responsibility.

Under PRI Act, Gram Panchayats are supposed to perform the duty of providing basic services at village level under 29 subjects namely maintenance of roads, construction and maintenance of drains, cleaning streets, rural electricity, housing, drinking water, sanitation, agriculture, animal husbandry, fisheries, minor irrigation, watershed management, land reform measures including consolidation of holdings and cooperative management of community lands, social forestry, minor forest products, non-conventional energy, primary health, education – primary and secondary, family welfare, welfare of women, child, weaker sections – SC & STs, etc.

To perform the numerous functions enlisted in the Act, the extent of resource devolution should be adequate. In Telangana, out of the 29 subjects of PRIs, only 17 subjects have been transferred to PRIs by the state government. Out of the total subjects, six subjects including agriculture, drinking water supply, minor irrigation tanks, social forestry, primary and secondary education and khadi and village industries are provided funds and only two subjects: drinking water supply and minor irrigation tanks have functionaries. Still, there are many subjects along with either functions (12) or funds (23) or functionaries (27) yet to be transferred to PRIs in the State.

## **5.2 Receipts & Expenditure of PRIs**

### **5.2.1 Sources of Funds**

In Telangana, PRIs generate revenue through three major channels: assigned revenues, grants-in-aid, and revenue sharing. Key sources of PRI revenue include local taxes such as house tax, vehicle tax, and land cess. However, despite their larger tax base, GPs depend overwhelmingly on government grants - development and general grants from the State and Union Commissions and Backward Regional Grant Fund (BRGF).

It is noteworthy that grants constitute more than half of the total income of the GPs in the State.

Table 5.1 depicts the receipts of PRI's generated out of different sources of funds. The table presents a breakdown of receipts for the years 2014-15, 2015-16, and 2016-17, measured in crores.

'Own Revenue Receipts' comprise of 'own revenue' generated by collection of taxes such as property tax, advertisement fee & Non-Tax Revenue such as water tax, rents from markets, shops and other properties, auction proceeds etc., which stood at 26.29% of total receipts for the year 2015-16. 'Other Receipts' include donations, interest on deposits etc.

It can be observed that 'GOI Grants' have been considerably reduced by 17.56% in 2016-17 with respect to 2014-15 which is further reflected in the drop of total revenue receipts by 16.72% from the year 2014-15 to 2016-17. Assigned Revenue: Seigniorage fee and surcharge on stamp duty collected by Departments of Mines and Geology and Stamps and Registration are apportioned to the Local Bodies in the form of assigned revenue.

**Table 5.1: Sources of Funds of PRIs (in Cr INR)**

Receipts	2014-15	2015-16	2016-17
Own Revenue	17 <sup>^</sup>	307 <sup>^</sup>	-
Assigned Revenue	11	-	-
State Government Grants	20	56	49
GOI Grants	1131	696	933
Other Receipts	-	108	-
<b>Total</b>	<b>1179</b>	<b>1167</b>	<b>982</b>

<sup>^</sup>: data pertains to only 4 ZPPs and GPs of Adilabad district

Source: Report of the Comptroller & Auditor General of India on Local Bodies for the year ended 31st March, 2017

### 5.2.2 Application of Funds

The utilization of funds by PRIs is categorized into revenue expenditure and capital expenditure. Revenue expenditure includes routine operational costs, while capital expenditure involves investments in infrastructure and development projects. Table 5.2 depicts the 'Revenue Expenditure' & 'Capital Expenditure' of PRIs. It could be observed that while Revenue Expenditure ballooned by 293.42%; Capital expenditure in 2016-17 became 35 times of the amount in 2014-15.

**Table 5.2: Application of Funds by PRIs (in Cr INR)**

Types of Expenditure	2014-15	2015-16	2016-17
Revenue Expenditure	134#	615	528
Capital Expenditure	032^	781	1155
Total	166	1396	1683

#: data pertains to only 4 ZPPs and GPs of Adilabad district

^: data pertains to only 3 ZPPs and GPs of Adilabad district

Source: Report of the Comptroller & Auditor General of India on Local Bodies for the year ended 31st March, 2017.

### 5.2.3 Assistance by State Finance Commission

Table 5.3 depicts the Financial Assistance to PRIs by the State Government. It may be observed that the actual release in 2016-17 was 32 times the amount in 2014-15. Simultaneously the expenditure also jumped to an equivalent level. Furthermore, the amount released in the year 2016-17 is entirely expended by PRIs.

**Table 5.3: Financial Assistance to PRIs by State Government (in Cr INR)**

Years	2014-15	2015-16	2016-17
Budget	203	819	962
Actual Release	30	752	958
Expenditure	30	622	958

Source: Report of the Comptroller & Auditor General of India on Local Bodies for the year ended 31st March 2017

### 5.2.4 Prevailing mechanism of auditing of PRIs

Eleventh Finance Commission recommended State Governments to entrust (August 2004) CAG with the responsibility for providing Technical Guidance and Supervision (TGS) pertaining to the accounts and audit of Local Bodies under Section 20(1) of CAG's (DPC) Act.

Accordingly, a TGS note was prepared at the end of each financial year and forwarded to the DSA for improving the quality of their reports. The audit process begins with assessment of risk based on the following parameters:

- i. Expenditure incurred
- ii. Criticality/complexity of activities
- iii. Priority accorded for the activity by the government
- iv. Level of the delegated financial powers
- v. Assessment of internal controls
- vi. Concerns of stakeholders

Besides, audit findings of previous years were also considered in this process. Consequent to the risk assessment; frequency and extent of audit was decided, and an

annual audit plan was formulated to conduct audit. For the audit exercise of the year 2016-17, 38 PRIs (2 ZPPs, 17 MPPs and 19 GPs), falling under the department of Panchayat Raj and Rural Development, were covered.

### 5.3 Receipts and Expenditure of Urban Local Bodies (ULBs)

#### 5.3.1 Source of Funds

Table 5.4 depicts receipts of Urban Local Bodies generated out of different sources of funds. ‘Own Revenue Receipts’ have been the highest revenue generating component throughout the years ranging from 2014-15 to 2016-17. Own revenue receipts comprise of own revenue generated by collection of taxes such as property tax, advertisement fee & Non-Tax Revenue such as water tax, rents from markets, shops and other properties, auction proceeds etc. ‘Other Receipts’ include donations, interest on deposits etc.

It could be observed that ‘own revenue’ has considerably increased by 593.72% in 2016-17 with respect to 2014-15, which is further reflected in the escalation of total revenue receipts by 942.21% from the year 2014-15 to 2016-17.

Assigned Revenue: Seigniorage fee and surcharge on stamp duty collected by the Departments of Mines and Geology; and Stamps and Registration are apportioned to the Local Bodies in the form of assigned revenue. It has also witnessed a substantial increase over the years.

**Table 5.4: Sources of Funds of ULBs (in Cr INR)**

Types of Receipts	2014-15	2015-16	2016-17
Own Revenue	371	1617	2576
Assigned Revenue	66	418	255
State Government Grants	-	-	813
Government of India Grants*	-	-	8.07
Other Receipts <sup>^</sup>	2	203#	318

\* Includes Scheme Funds and 14th Finance Commission

<sup>^</sup> Other receipts include loans, accrued interest, penalties received, forfeited security deposits, et cetera

# Data pertains to only GHMC, as the information of other ULBs was not furnished by DMA

Source: Report of the Comptroller & Auditor General of India on Local Bodies for the year ended 31st March 2017

The notable point observed here is that while ULB’s have been more efficient in generating ‘own revenue’, on the contrary, PRIs rely on Government Grants to meet their expenditure. This could be attributed to the low level of decentralization efforts made to strengthen the functional capacities of PRI’s.

### 5.3.2 Application of Funds

Table 5.5 depicts the ‘Revenue Expenditure’ & ‘Capital Expenditure’ of ULBs. It can be observed that while revenue expenditure ballooned by 954.14%; capital expenditure jumped by 695.92% from the year 2014-15 to 2016-17.

**Table 5.5: Application of Funds by ULBs (in Cr INR)**

Types of Expenditures	2014-15	2015-16	2016-17
Capital Expenditure	149	1234	1182
Revenue Expenditure	254	1820	2676
Total	402	3053	3858

Source: Report of the Comptroller & Auditor General of India on Local Bodies for the year ended 31st March, 2017

### 5.3.3 Financial Assistance by State Finance Commission

Table 5.6 depicts the Financial Assistance to ULB’s by the State Government by way of grants and loans. It can be observed that actual release in the year 2016-17 has become more than three times the amount in the year 2014-15 while budgeted estimate became more than seven times for the same period.

**Table 5.6: Financial Assistance to ULBs by State Government (in Cr INR)**

Details	2014-15	2015-16	2016-17
Budget	287	547	2178
Actual Release	250	012	857

Source: Report of the Comptroller & Auditor General of India on Local Bodies for the year ended 31st March, 2017

### 5.3.4 Prevailing mechanism of auditing of ULBs

Similar audit mechanisms such as the PRIs are being adopted by ULB’s. The risk assessment is based on the selected parameters such as expenditure incurred, criticality/complexity of activities, priority accorded for the activity by government, level of delegated financial powers, assessment of internal controls and concerns of stakeholders.

Additionally, the previous year’s audit findings were also referred. It was observed that during the audit exercise of 2016-17, 6 ULBs fall under the department of Municipal Administration and Urban Development.

## 5.4 14<sup>th</sup> Finance Commission: Assistance to PRIs & ULBs

To enhance financial autonomy for local bodies and improve their capacity to deliver essential services, the 14<sup>th</sup> Finance Commission recommended substantial financial assistance to both Rural Local Bodies (PRIs) and Urban Local Bodies for the period from 2015 to 2020. The Commission allocated a total Basic Grant of ₹4,837.75 crores

for Rural Local Bodies and ₹2,711.12 crores for Urban Local Bodies, to be released over a period of five years (2015-20). As per the recommendation, such grants should be directed towards strengthening and supporting the primary functions of the local bodies to deliver basic services, which would eventually increase the willingness of citizens to pay for services. The basic services intended to be covered under the grant include water supply, sanitation including septic management, sewage and solid waste management, storm water drainage, maintenance of community assets, roads, footpaths, street-lighting, burial and cremation grounds.

Further, the commission also recommended a Performance Grant of ₹ 537.53 crores to Rural Local Bodies and ₹ 677.78 crores to Urban Local Bodies to be released over a period of four years (2016-2020). To devolve financial accountability, the 14<sup>th</sup> Finance Commission observed that merely increasing the share of public money to local bodies without dispensing responsibility and accountability of the shared money is neither conceivable nor desirable.

Therefore, performance grants are designed to serve the objective of ensuring reliable data and audited accounts of the local bodies. The 14<sup>th</sup> Finance Commission has recommended a detailed procedure and criteria to make the local bodies eligible for the performance grant.

**Eligibility criteria for PRI's:**

- Submission of audited accounts pertaining to the year not before two years preceding the year in which the PRI's seek to claim the performance grant.
- Depicting increase in their own revenue over the previous year as revealed by audited accounts.

**Eligibility criteria for ULB's:**

- Submission of audited accounts pertaining to the year not before two years preceding the year in which the ULB's seek to claim the performance grant.
- Depicting increase in their own revenue over the previous year as revealed by audited accounts excluding proceeds from octroi and entry tax.
- Measuring and publishing service level Benchmark pertaining to basic urban services each year for the period of the award.

The allocation of grants is structured to balance the focus on basic services and performance improvements:

**For PRI's:** 90% of the grant will be the Basic Grant and 10% will be the Performance Grant.

**For ULB's:** 80% of the grant will be the Basic Grant and 20% will be the Performance Grant.

Based on the allocation of grants, the amounts allocated for both rural and urban local bodies have shown a significant upward trend, as highlighted in Table 5.7. From 2015-16 to 2019-20, rural local bodies saw their grants increase from 580.34 to 1451.3, while urban local bodies experienced an increase from 325.23 to 813.32 during the same period. In terms of the Performance grants, the data from 2016-17 to 2019-20 shows a gradual increase in performance grants (depicted in table 5.8). Rural local bodies saw their grants rise from 105.41 to 177.38, while urban local bodies experienced an increase from 132.91 to 223.66.

**Table 5.7: Basic Grants (in Cr INR)**

Years	2015-16	2016-17	2017-18	2018-19	2019-20
Rural Local Bodies	580.34	803.58	928.47	1074.07	1451.3
Urban Local Bodies	325.23	450.33	520.32	601.92	813.32

Source: Guidelines for Release and Utilization of Grant recommended by the 14<sup>th</sup> Finance Commission for Rural Local Bodies and Urban Local Bodies

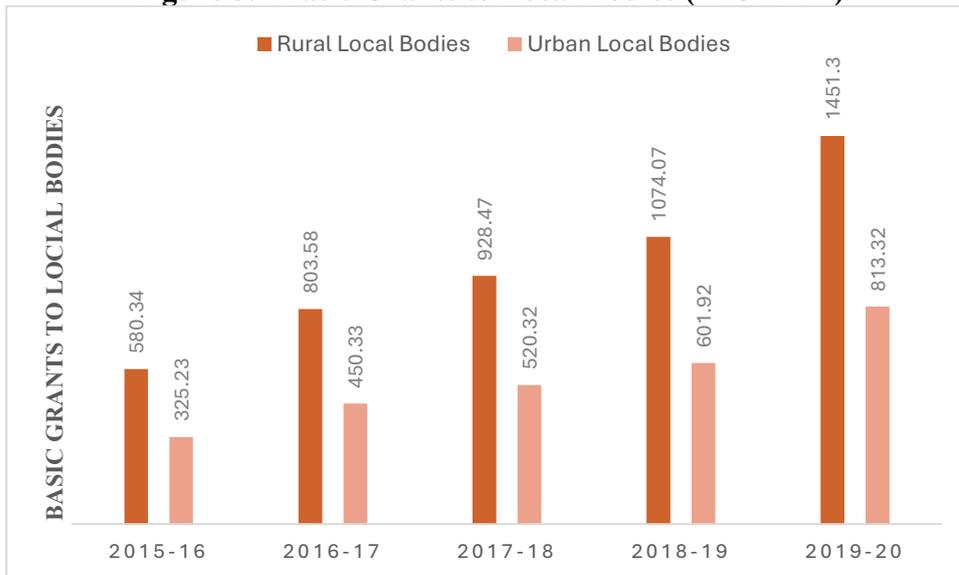
**Table 5.8: Performance Grants (in Cr INR)**

Years	2016-17	2017-18	2018-19	2019-20
Rural Local Bodies	105.41	119.28	135.46	177.38
Urban Local Bodies	132.91	150.41	170.81	223.66

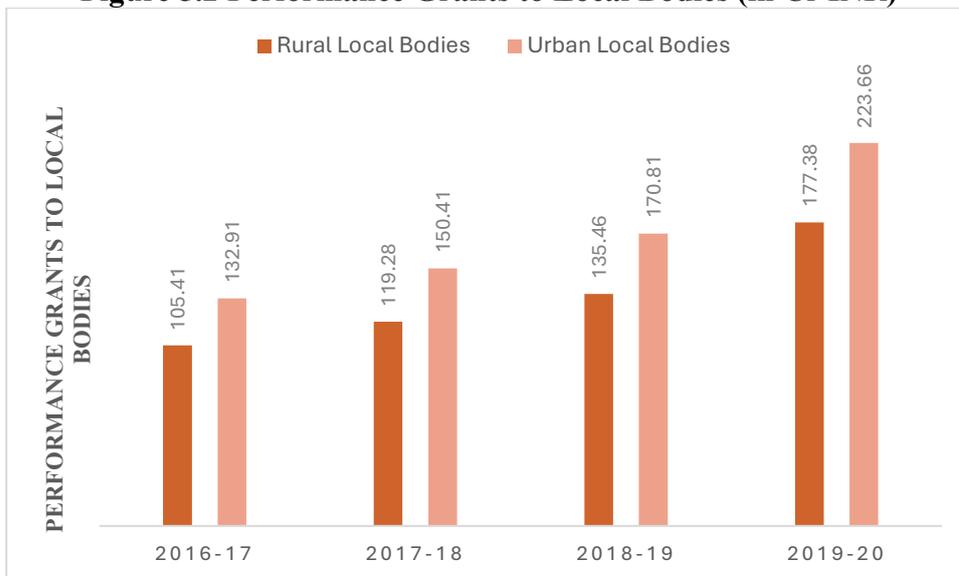
Source: Guidelines for Release and Utilization of Grant recommended by the 14<sup>th</sup> Finance Commission for Rural Local Bodies and Urban Local Bodies

Figure 5.1 and 5.2 illustrates the distribution of basic and performance grants for both urban and rural local bodies from 2016-17 to 2019-20. In the ULBs, the basic grant shows a steady increase over the years, rising from 450.33 in 2016-17 to 813.32 in 2019-20. The performance grant for ULBs was not present in 2016-17 but was introduced in 2017-18 at 50.41, then increased significantly to 601.92 in 2018-19, before adjusting to 223.66 in 2019-20.

**Figure 5.1 Basic Grants to Local Bodies (in Cr INR)**



**Figure 5.2 Performance Grants to Local Bodies (in Cr INR)**



Source: Guidelines for Release and Utilization of Grant recommended by the 14<sup>th</sup> Finance Commission for Rural Local Bodies and Urban Local Bodies

For the RLBs, the basic grant demonstrates a consistent upward trend, starting at 803.58 in 2016-17 and reaching 1177.38 in 2019-20. The performance grant for rural areas fluctuates over the years, starting at 132.91 in 2016-17, increasing to 150.41 in 2017-18, then increased significantly to 170.81 in 2018-19, before decreasing to 145.13 in 2019-20.

Overall, both ULBs and RLBs witnessed an increase in basic grants over the years, with RLBs consistently receiving higher basic grants compared to ULBs throughout

the period. The total allocation (basic + performance grants) for both ULBs and RLBs areas increases substantially from 2016-17 to 2019-20, with the most significant year-on-year increase occurring between 2017-18 and 2018-19. This data suggests a growing emphasis on both urban and rural development, with a particular focus on performance-based funding in urban areas in recent years. The introduction and subsequent increase of performance grants, especially in ULBs, indicate a shift towards incentivizing specific outcomes in local governance and development.

## 6. FISCAL POSITION OF STATE ENTERPRISES IN TELANGANA

Public Sector Undertakings (PSUs) are established to carry out commercial activities while simultaneously addressing the welfare of the public. These enterprises are designed to drive economic development and provide essential services, balancing profitability with public service.

In Telangana, the public sector has been integral to the state's economic strategy, reflecting the government's commitment to balancing economic development with social objectives. This chapter provides a comprehensive analysis of the fiscal position of state enterprises in Telangana, examining the government's stake, budgetary support, performance, and the ongoing efforts to streamline non-working PSUs.

### 6.1. Stake of Government of Telangana

The Government of Telangana holds a significant stake in its Public Sector Undertakings (PSUs), reflecting its commitment to driving economic growth and providing essential services. As of March 31, 2022, the state's total investment in PSUs was ₹45,672 crore, comprising ₹20,552 crore in equity and ₹25,120 crore in long-term loans<sup>3</sup>. This investment is distributed across 74 PSUs, showcasing a diverse portfolio with 52 PSUs under 100% government ownership, 16 PSUs with majority stake (51% to 99%), and 6 PSUs with minority stake, primarily joint ventures<sup>9</sup>.

The sectoral breakdown of PSUs is represented in Table 6.1, reflects the state's economic priorities:

**Table 6.1: Sectoral Distribution of Telangana PSUs**

Sector	Number of PSUs
Power	7
Infrastructure Development	12
Manufacturing	15
Finance	8
Services	22
Agriculture and Allied	10

Source: Report on Public Sector Undertakings for the year ended March 2022, Government of Telangana.

<sup>3</sup> Comptroller and Auditor General of India. (2023). Report on Public Sector Undertakings for the year ended March 2022, Government of Telangana.

The power sector accounts for the largest share of investment, and key entities include Telangana State Power Generation Corporation (TSGENCO)<sup>4</sup> and Telangana State Transmission Corporation (TSTRANSCO). The infrastructure sector invests significantly in entities like Telangana State Industrial Infrastructure Corporation (TSIIC) and Hyderabad Metro Rail Limited<sup>5</sup>.

The state's investment strategy has increasingly focused on consolidation and enhancing the efficiency and profitability of existing PSUs rather than creating new ones. The state has also introduced policies aimed at optimizing its stakes, such as the "Strategic Investment Framework for PSUs" which encourages partial disinvestment in profit-making PSUs while retaining management control (Government of Telangana, 2023).

## 6.2. Budgetary Support to PSUs

The Government of Telangana provides substantial budgetary support to its PSUs, ensuring their financial stability and enabling them to fulfil their mandates effectively. For the fiscal year 2021-22 as depicted in table 6.2, the total budgetary support extended to PSUs amounted to ₹12,567 crore (CAG, 2023). This support can be categorized into three main components:

**Table 6.2: Budgetary Support to Telangana PSUs (2021-22)**

Type of Support	Amount (in crores)	Percentage
Equity Capital Outlay	3770	30%
Loans	5655	25%
Grants/Subsidies	3142	45%
Total	12567	100%

Source: Budget Analysis, Public Sector Enterprises, 2022-23<sup>6</sup>.

The sectoral distribution of this budgetary support provides insights into the government's priorities. The power sector received the largest share at 45% (₹5,655 crore), followed by transportation at 20% (₹2,513 crore) and infrastructure development at 15% (₹1,885 crore).

<sup>4</sup> Telangana State Power Generation Corporation (TSGENCO). (2023). Annual Report 2022-23.

<sup>5</sup> Government of Telangana, Department of Industries and Commerce. (2023). Annual report 2022-23. <https://industries.telangana.gov.in/annual-reports/2022-23.pdf>

<sup>6</sup> Government of Telangana, Finance Department. (2023). Budget analysis: Public Sector Enterprises 2022-23. <https://finance.telangana.gov.in/budget-documents/2022-23/pse-analysis.pdf>

A notable development in recent years has been the introduction of the "Performance-Linked Budgetary Support Mechanism". Under this system, 20% of the budgetary support to PSUs is linked to achieving predetermined performance targets. This mechanism aims to enhance accountability and improve the overall efficiency of PSUs<sup>7</sup>.

### 6.3. Performance of PSUs

Public Sector Undertakings (PSUs) performance in Telangana for the fiscal year 2021-22 presents a mixed picture. According to the Comptroller and Auditor General report, out of the 74 PSUs in Telangana, 41 reported profits totalling ₹4,872 crore, while 28 PSUs incurred losses amounting to ₹2,315 crore. The remaining 5 PSUs reported a break-even position. The aggregate net profit of all PSUs stood at ₹2,557 crore, marking a significant improvement from previous years (CAG, 2023).

**Table 6.3: Number Of PSUs Incurring Losses**

Year	Number of loss-making PSUs	Net Loss for the Year	Accumulated Loss	Net Worth
<b>Power Sector PSUs</b>				
2019-20	2	(-)6,056.55	(-)42,292.99	(-)24,605.86
2020-21	2	(-)6,686.33	(-)48,982.22	(-)31,095.09
2021-22	2	(-)830.83	(-)49,815.88	(-)31,928.75
<b>Non-Power Sector PSUs</b>				
2019-20	15	(-)1,780.17	(-)12,843.32	(-)12,291.07
2020-21	15	(-)3,235.05	(-)18,333.31	(-)17,815.24
2021-22	16	(-)3,234.42	(-)19,375.26	(-)18,314.00
<b>Total</b>				
2019-20	17	(-)7,836.72	(-)55,136.31	(-)36,896.93
2020-21	17	(-)9,921.38	(-)67,315.53	(-)48,910.33
2021-22	18	(-)4,065.25	(-)69,191.14	(-)50,242.75

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings for the year ended March 2022

As depicted in Table 6.5, the financial performance of Public Sector Undertakings (PSUs) in Telangana from 2019-20 to 2021-22 shows a mixed trend with notable

<sup>7</sup> Government of Telangana. (2023). Policy Note on Strategic Investment in PSUs 2022-23.

improvements in certain areas. The overall net loss position improved significantly, decreasing from ₹6,275.71 crore in 2019-20 to ₹2,109.42 crore in 2021-22. This improvement was largely driven by a remarkable turnaround in the power sector, which shifted from a loss of ₹4,681.39 crore in 2019-20 to a profit of ₹878.80 crore in 2021-22, indicating successful restructuring or improved operational efficiency. However, non-power sector PSUs continued to face challenges, with losses increasing from ₹1,594.32 crore in 2019-20 to ₹2,988.22 crore in 2021-22. Both sectors showed negative shareholders' funds throughout the period, suggesting accumulated losses exceeding equity, although the power sector saw a slight improvement in 2021-22. The significant increase in losses from 2019-20 to 2020-21 in both sectors likely reflects the economic impact of the COVID-19 pandemic, with 2021-22 data suggesting the beginning of a recovery phase, particularly in the power sector.

As depicted in Table 6.4, the key performance indicators include return on Investment 2.3%, return on equity 5.6%, debt to equity ratio 1.23% and debt to turnover ratio at 0.39%.

**Table 6. 4: Key Performance Indicators**

Return on Investment (in percentage)	2.3%
Return on Equity (in percentage)	5.7%
Debt to Equity Ratio	1.23
Debt to Turnover Ratio	0.39

Source: Government of Telangana, Finance Department (2023)<sup>8</sup>

Above all PSUs, the power sector continues to be the largest contributor to both turnover and profits among PSUs, with a total turnover of ₹62,845 crore and a net profit of ₹1,885 crore. TSGENCO has shown improved operational efficiency with a Plant Load Factor (PLF) of 84.82% against the national average of 58.76% (TSGENCO, 2023). The infrastructure sector, including entities like TSIIC and Hyderabad Metro Rail Limited, reported a turnover of ₹15,711 crore and a net profit of ₹628 crore. The manufacturing sector showed steady performance with a turnover of ₹18,854 crore and a net profit of ₹377 crore. The services sector, particularly TSRTC, remains a concern due to continued losses. However, recent

<sup>8</sup> Government of Telangana, Finance Department. (2023b). Economic survey 2022-23: Chapter on Public Sector Enterprises. <https://finance.telangana.gov.in/economic-survey/2022-23/chapter-pse.pdf>

initiatives for fleet modernization and route optimization are expected to improve its financial health<sup>9</sup>.

**Table 6.5: Return on Equity of PSUs**

<b>Year</b>	<b>Net Profit/ Loss</b>	<b>Share holders' Fund</b>
<b>Power Sector PSUs</b>		
2019-20	(-)4,681.39	(-)13,183.85
2020-21	(-)5,970.01	(-)18,989.39
2021-22	878.80	(-)17,672.44
<b>Non-Power Sector PSUs</b>		
2019-20	(-)1,594.32	(-)11,466.88
2020-21	(-)3,008.88	(-)17,031.59
2021-22	(-)2,988.22	(-)17,335.86
<b>Total</b>		
2019-20	(-)6,275.71	(-) 24,650.73
2020-21	(-) 8,978.89	(-)36,020.98
2021-22	(-)2,109.42	(-)35,008.30

Source: Report of the Comptroller and Auditor General of India on Public Sector Undertakings for the year ended March 2022.

#### **6.4. Dissolution and Winding Up of Non-Working PSUs**

The government of Telangana is actively addressing the issue of non-performing PSUs as part of its broader strategy to improve fiscal health and optimize resource allocation. As of March 2022, there were 12 non-working PSUs, with seven already undergoing the liquidation process (CAG, 2023).

The process of dissolving and winding up non-working PSUs is governed by the Companies Act, 2013. It involves several complex steps including identification of non-viable PSUs, decision-making at the highest levels of state government, initiation of the liquidation process, asset valuation and disposal, settlement of liabilities, and legal proceedings.

<sup>9</sup> Telangana State Road Transport Corporation (TSRTC), Performance Report (2023).

In FY 2023-24, the government has taken proactive steps to accelerate the winding-up process, including initiating the dissolution of 7 non-working PSUs and planning to merge 3 PSUs with better-performing entities to optimize resource utilization.

The Telangana government is implementing a dual-faceted strategy to enhance the efficiency of its PSUs. This strategy encompasses both expediting the dissolution of non-viable PSUs and investigating potential avenues for the revival or merger of PSUs with latent potential but currently non-operational status. This approach is anticipated to alleviate the fiscal burden on the state and promote a more effective allocation and utilization of public resources.

## 7. POWER SECTOR REFORMS & SUBSIDIES: IMPACT ON STATE’S FISCAL HEALTH

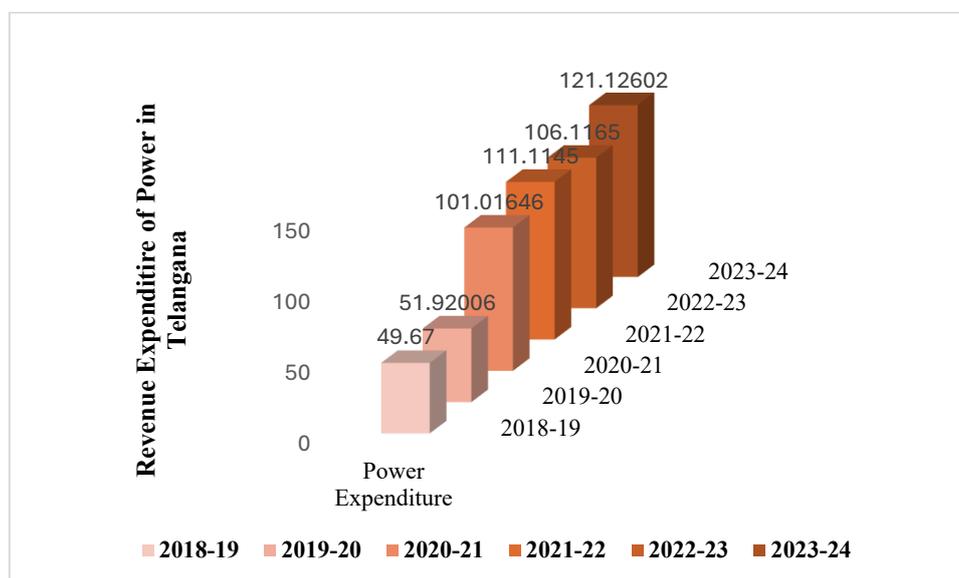
To secure the long-term viability and drive the advancement of the power sector within the state, the Telangana government has undertaken a series of strategic reforms, leveraging critical fiscal mechanisms such as subsidies, targeted investments, and debt management strategies. The following is a comprehensive analysis and evaluation of these reforms, with a focus on the aforementioned fiscal components.

### 7.1 Revenue Expenditure on Power Sector in Telangana

Figure 7.1 represents the revenue expenditure on power for a government organization over a six-year period from 2018-19 to 2023-24.

The power expenditure has shown a significant increase during the period, rising from ₹49.67 crores in 2018-19 to ₹121.12 crores in 2023-24, representing a compound annual growth rate of approximately 19.5%. This substantial growth in power expenditure can be attributed to factors such as the rising cost of electricity, increased energy consumption, and the expansion of operations.

**Figure 7.1 Revenue Expenditure on Power in Telangana (in crore)**



\*BE: Budgeted Estimates, (2023-24)

RE: Revised Estimates (2022-23)

Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

Table 7.1 presents the revenue expenditure on power over a six-year period from 2018-19 to 2023-24. The table includes three key metrics: power expenditure, total revenue expenditure, and the share of power expenditure to total revenue expenditure.

The total revenue expenditure has also increased steadily, growing from ₹970.83 crores in 2018-19 to ₹2,116.85 crores in 2023-24, a compound annual growth rate of around 16.8%. This indicates a significant expansion in the overall operations and activities during the period.

The share of power expenditure to total revenue expenditure has fluctuated over the years, reaching a high of 8.20% in 2020-21 and a low of 4.77% in 2019-20. In the latest year, 2023-24, the share stands at 5.72%, suggesting that while the power expenditure has increased, its relative proportion to the total revenue expenditure has moderated.

This data highlights the growing importance of power expenditure within the overall budget and the need for effective management of energy costs to maintain financial sustainability. They may need to explore strategies to optimize power consumption, leverage renewable energy sources, and implement energy-efficient measures to control the rising power expenditure and maintain a balanced expenditure profile.

**Table 7.1: Revenue Expenditure on Power Sector of Telangana (In Cr)**

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Power Expenditure	49.67	51.92006	101.01646	111.1145	106.1165	121.12602
Total Expenditure	970.83	1087.98	1232.12	1368.03	1728.22	2116.85
Share of Power Expenditure to Total Expenditure	5.12%	4.77%	8.20%	8.12%	6.14%	5.72%

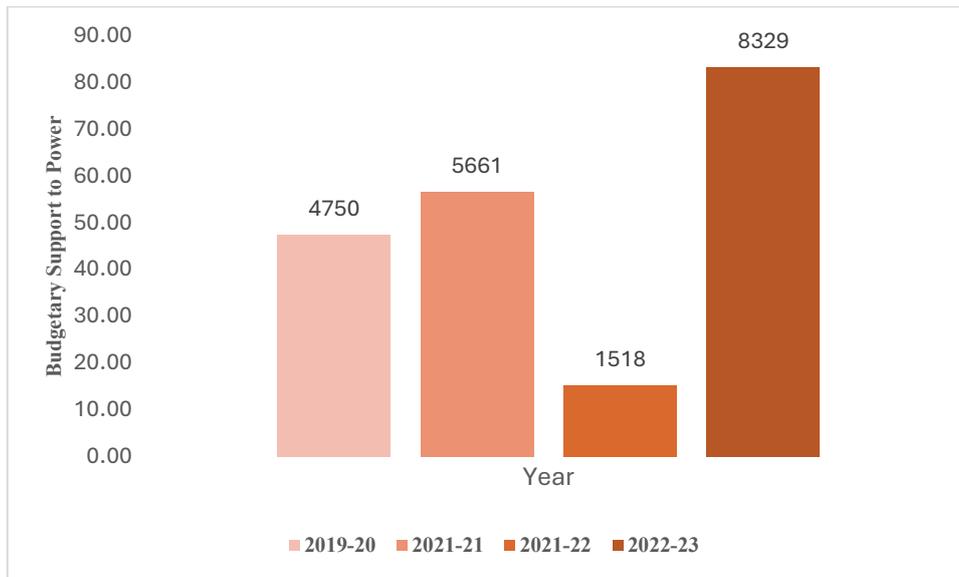
\*BE: Budgeted Estimates, (2023-24)

RE: Revised Estimates (2022-23)

Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

## 7.2 Budgetary Assistance: Grant-in-Aid

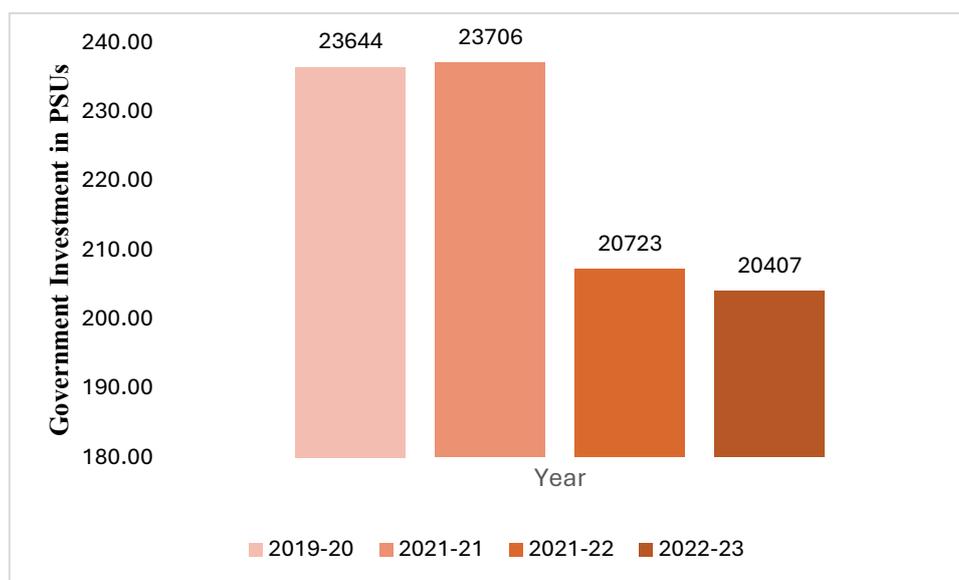
Furthermore, budgetary assistance was extended through Grants-in-aid for the Power Sector, offered as grants-in-aid. The specifics of these Grants-in-aid for the fiscal years 2019-20, 2020-21, 2021-22 and 2022-23 are illustrated in Figure 7.2. Evidently, the budgetary assistance has increased over the years with ₹4750 crores in 2019-20 to ₹8329 crores in 2022-23.

**Figure 7.2: Budgetary Support to Power (In Cr. INR)**

Source: State Finances Audit Report for the year ended March 2023.

### 7.3 Government Investment in the Power Sector PSUs.

To enhance the viability and performance of the power sector PSUs, the Government of Telangana has made substantial investments in the sector. Evidently, Figure 7.3 depicts a decrease trend. In the year 2019-20, the government investment stood at ₹23643 crores and ₹23706 crores in 2020-21 and government investment has declined to ₹20722 crores in 2021-22 and ₹20407 crores in 2022-23. While the total investment has declined, it is observed that the percentage share of government investment to power sector to total government investment have not changed drastically. Rather, the share on power sector stands the highest. While the share was 70.93 % in 2019-20, which increased to 85.06% in 2020-21; there was a decline to 76.32% in 2021-22 and 75.16% in 2022-23.

**FIGURE 7.3: GOVERNMENT INVESTMENT IN THE POWER SECTOR PSUs (IN CR INR)**

Source: State Finances Audit Report for the year ended March 2023.

#### 7.4 Financial Turnaround of DISCOMs (UDAY Scheme): Debt Management & Progress

The Government of India introduced the Ujwal DISCOM Assurance Yojana (UDAY) in November 2015 with the primary objective of facilitating the financial turnaround of State Power Distribution Companies (DISCOMs). The scheme mandates that participating states achieve operational and financial turnaround of their respective DISCOMs in accordance with the UDAY scheme guidelines. In January 2017, the Government of Telangana entered into a tripartite Memorandum of Understanding (MoU) with the Government of India and the State DISCOMs, formalizing its participation in the UDAY scheme.

##### Key Provisions of the MoU

###### Debt Takeover

As per the terms of the MoU, the Government of Telangana was obligated to assume 75 percent of the outstanding debt of the DISCOMs as of September 30, 2015. This amounted to ₹8,923 crore out of the total outstanding debt of ₹11,897 crore.

###### Progressive Loss Absorption

The MoU further stipulated that the State Government would absorb a portion of the DISCOMs' losses over a four-year period, according to the following schedule:

1. Fiscal Year 2017-18: 5 percent of the losses incurred in 2016-17
2. Fiscal Year 2018-19: 10 percent of the losses incurred in 2017-18

3. Fiscal Year 2019-20: 25 percent of the losses incurred in 2018-19
4. Fiscal Year 2020-21: 50 percent of the losses incurred in the previous year 2019-20

This progressive loss absorption mechanism was designed to incentivize operational improvements and financial discipline within the DISCOMs while gradually reducing the fiscal burden on the state government.

In accordance with the tripartite agreement executed between the Government of Telangana, the Distribution Companies (DISCOMs), and the Union Government, the state was obligated to assume the financial liabilities of the DISCOMs under the auspices of the Ujwal DISCOM Assurance Yojana (UDAY). This arrangement was designed to ameliorate the fiscal health of the power distribution sector.

### **Fiscal Year 2022-23: Budgetary Anomalies and Unauthorized Expenditure**

The fiscal year 2022-23 witnessed a significant deviation from established budgetary protocols. Despite the absence of any allocation in the Original Budget Estimates for the fulfilment of UDAY-related commitments, the state government effectuated an expenditure of ₹7,061 crore. This substantial outlay was channelled through Grant No. XXXV – Energy, specifically under the minor head 'Assistance to Public Sector and Other Undertakings'.

### **Procedural Lapses and Statutory Non-Compliance**

The crux of the irregularity lies in the government's failure to secure legislative sanction for this unforeseen expenditure. Given that the financial outlay was not incorporated in the Original Budget Estimates and was executed in two tranches (June and December 2022), it was incumbent upon the Energy and Finance Departments to procure approval via Supplementary Provisions from the State Legislature. The absence of such approval renders the entire expenditure of ₹7,061 crore ultra vires, or beyond the government's legal authority (State Finances Audit Report for the year ended March 2023).

### **Official Acknowledgment and Implications**

In response to an audit inquiry, the Finance Department disclosed in November 2022 that it had already disbursed ₹6,646 crore in June 2022 towards 'taking over losses of DISCOMs under UDAY'. This admission is particularly damning as it unequivocally demonstrates the Finance Department's cognizance of the need for retroactive legislative authorization for the already-incurred expenditure through Supplementary Demands.

This illuminates a significant lapse in fiscal discipline and statutory compliance. The failure to adhere to established budgetary procedures not only contravenes financial regulations but also undermines the principle of legislative oversight in fiscal matters. The absence of documented justification for bypassing these crucial procedural safeguards further exacerbates the gravity of this fiscal impropriety.

### **7.5 Performance of Power Distribution Companies**

Power generation entities produce electricity and supply it to transmission companies. The transmission companies then transmit this electrical energy through their network to distribution utilities (DISCOMs). The primary objective of the distribution sector is the effective provision of reliable, high-quality, and affordable electricity to consumers.

Electricity distribution in the Indian state of Telangana is managed by two distribution companies-

- i. Northern Power Distribution Company of Telangana Limited (TSNPDCL),
- ii. Southern Power Distribution of Telangana Limited (TSSPDCL).

These two DISCOMs are responsible for the last-mile connectivity and delivery of electricity to the end-users within their respective geographical jurisdictions.

The key role of these distribution utilities is to ensure that the electrical energy generated by the power plants is efficiently distributed to households, industries, and other consumers in their service areas. This involves various critical activities such as:

- i. Maintaining and upgrading the distribution infrastructure, including power lines, transformers, and substations, to minimize grid losses and enhance reliability.
- ii. Procuring adequate power from generators to meet the growing electricity demand in their service territories.
- iii. Implementing innovative tariff structures and subsidy programs to provide affordable electricity, especially for underprivileged and agricultural consumers.
- iv. Adopting smart grid technologies and digital solutions to improve operational efficiency, reduce losses, and enhance customer service.
- v. Promoting energy conservation initiatives and renewable energy integration to support the overall sustainability of the power sector.

By effectively executing these responsibilities, the DISCOMs in Telangana play a crucial role in ensuring universal access to reliable and quality power, which is essential for the state's economic and social development. The performance and financial health of these distribution

companies are critical in determining the overall efficiency and affordability of the power supply in Telangana.

### **7.5.1 Northern Power Distribution Company of Telangana Limited (TSNPDCL)**

The Northern Power Distribution Company of Telangana Limited (TSNPDCL) is one of the major distribution companies of Telangana's power sector. Operating under the Department of Energy, Government of Telangana, TSNPDCL is responsible for power distribution across five districts in the state's northern region. The company's performance is evaluated through various parameters that reflect its operational efficiency, financial health, and service quality. These metrics include technical and commercial losses, revenue collection efficiency, power supply reliability, and consumer satisfaction levels. TSNPDCL's operations are crucial in meeting the region's electricity needs and supporting the state's overall power infrastructure development. The table below portrays the financial performance of TSNPDCL.

#### **7.5.1.1 Operational Performance**

Table 7.2 provides insights into the electricity supply and consumption patterns in the region, highlighting the trends in peak demand, consumption, sales, and energy losses over the 5-year period, from 2018-19 to 2022-23.

Table 7.2 provides a comprehensive overview of the electricity supply and consumption patterns in the region over a 5-year period from 2018-19 to 2022-23. The peak demand of the day has steadily increased from 4,350 MW in 2018-19 to 5,944 MW in 2020-21, indicating a growing electricity demand in the region. Similarly, the maximum consumption of the day has also risen from 80.03 MU in 2018-19 to 110.9 MU in 2020-21.

The annual energy input during the year has remained relatively stable, ranging from 19,119.32 MU in 2018-19 to 21,199.16 MU in 2022-23. The metered sales during the year have also fluctuated, with the highest sales of 11,605.03 MU recorded in 2022-23. Agriculture consumption, on the other hand, has decreased from 8,200.54 MU in 2018-19 to 7,868.02 MU in 2022-23.

The energy losses during the year, including Extra High Tension (EHT) sales, have decreased from 1,893.49 MU in 2018-19 to 1,726.11 MU in 2022-23. The percentage of energy losses, excluding EHT sales, has also declined from 11.23% in 2018-19 to 10.7% in 2022-23, indicating improved efficiency in the electricity distribution system.

**Table 7.2: Operational Performance of The Northern Power Distribution Company of Telangana Limited (TSNPDCL)**

S. No	Particulars	Unit	2018-19	2019-20	2020-21	2021-22	2022-23
1	Peak demand of a day	Mega Watts (MW)	4350	5,659.00	5,944.00	-	-
2	Maximum consumption of a day	Million Units (MU)	80.03	97.78	110.9	-	-
3	Annual Energy Input during the year	Million Units (MU)	19119.32	20,504.08	20,681.16	20,570.14	21,199.16
4	Metered sales during the year	Million Units (MU)	9025.75	11,510.14	10,912.70	11,349.40	11,605.03
6	Agriculture consumption during the year	Million Units (MU)	8200.54	7,140.27	7,904.02	7,419.51	7,868.02
7	Energy losses during the year (Incl. EHT Sales)	Million Units (MU)	1893.49	1,853.66	1,864.45	1,801.23	1,726.11
8	Percentage of Energy losses (Excl. EHT Sales)	%	9.9	9.04	9.02	8.76	8.14
9	EHT Sales	Million Units (MU)	2263.76	4,109.33	3,260.62	3,246.52	3,081.56
10	Percentage of Energy losses (Excl. EHT Sales)	%	11.23	11.06	10.81	10.8	10.7

Sources: Northern Power Distribution Company of Telangana Limited Annual Reports 2018-19, 2019-20, 2020-21, 2021-22, 2022-23.

### 7.5.1.2 Financial Performance

Table 7.3 provides a comprehensive overview of the company's financial performance, highlighting the need for operational improvements and cost optimization to improve its profitability.

Table 7.3 presents the financial performance of the Northern Power Distribution company over a six-year period from 2018 to 2023. The key performance indicators include revenue from operations, other income, total revenue, various expense categories, profit/loss before tax, tax expense, and earnings per equity share. The revenue from operations has fluctuated over the years, with the highest revenue of ₹15,731.34 crores recorded in 2023 and the lowest of ₹8,850.95 crores in 2018, resulting in a mean revenue of ₹12,443.15 crores and a standard deviation of ₹2,518.45 crores. The total revenue, which includes other income, has also followed a similar trend, reaching a maximum of ₹15,880.03 crores in 2023 and a minimum of ₹9,000.45 crores in 2018, with a mean of ₹12,632.07 crores and a standard deviation of ₹2,479.11 crores.

However, the company has consistently incurred losses during the period, with the highest loss of ₹2,955.96 crores recorded in 2023 and the lowest loss of ₹204.03 crores in 2022, resulting in a mean loss of ₹1,497.60 crores and a standard deviation of ₹1,187.21 crores. The power purchase cost, which is the largest expense, has increased from ₹9,009.17 crores in 2018 to ₹15,116.42 crores in 2023, with a mean of ₹11,618.78 crores and a standard deviation of ₹2,086.90 crores. The employee benefits expense has ranged from ₹664.34 crores in 2018 to ₹2,053.82 crores in 2023, with a mean of ₹1,455.14 crores and a standard deviation of ₹520.85 crores. The finance costs have increased from ₹364.17 crores in 2018 to ₹970.94 crores in 2023, with a mean of ₹595.02 crores and a standard deviation of ₹230.21 crores.

The earnings per equity share have declined from ₹19.74 in 2018 to -₹5.04 in 2023, with a mean of ₹-2.83 and a standard deviation of ₹9.16, reflecting the company's financial challenges.

**Table 7.3: Financial Performances of the Northern Power Distribution Company of Telangana Limited (TSNPDCL)(in crore)**

S.No	Particulars	2018	2019	2020	2021	2022	2023
1	Revenue from operations	8850.95	10,395.01	12,848.57	11,538.12	15295.88	15,731.34
2	Other income	149.51	175.83	167.56	160.6	130.38	148.69
3	Total Revenue (I+II)	9000.45	10,570.84	13,016.13	11,698.72	15,426.27	15,880.03
	<b>Expenses:</b>						
4	Power purchase cost	9009.17	10,921.13	11,326.08	11,110.09	12,329.29	15,116.42
5	Employee benefits expense	664.34	1,624.84	1,429.65	1,808.09	1,749.93	2,053.82
6	Finance costs	364.17	535.29	626.73	695	977.48	970.94
7	Depreciation and amortization expense	335.45	379.91	444.87	322.62	328.65	348.89
8	Other expenses	188.04	169.32	305.09	201.43	244.94	345.92
9	Total Expenses	10,561.17	13,630.49	14,132.42	14,139.36	15,630.29	18,835.99
10	Profit/(Loss) before tax (III- V)	1560.72	-3,059.65	-1,116.30	-2,440.65	-204.03	-2,955.96
	<b>Tax expense:</b>						
11	Current tax	-	-	-	--	0	0
12	Deferred tax	0.2	-8.22	-	-0.28	0	0
13	Profit/(Loss) for the year (VI-VII)	1560.51	-3,051.43	-1,116.30	-2,440.37	-204.03	-2,955.96
	Earnings per equity share:						
14	1. Basic	19.74	-26.07	-2.15	-4.19	-0.35	-5.04
15	2. Diluted	19.74	-26.07	-2.15	-4.19	-0.35	-5.04

Sources: Northern Power Distribution Company of Telangana Limited Annual Reports 2018-19, 2019-20, 2020-21, 2021-22, 2022-23.

## 7.5.2 Southern Power Distribution Company of Telangana Limited (TSSPDCL)

Southern Power Distribution Company of Telangana Limited (TSSPDCL), established on June 2, 2014, is committed to meeting the expectations of the government by providing affordable electricity to the people. Headquartered in Hyderabad, TGSPDCL serves 11.1 million consumers across 15 districts, including Mahabubnagar, Narayanpet, Nalgonda, Yadadri Bhuvanagiri, Suryapet, Siddipet, Medchal, Wanaparthy, Nagarkarnool, Jogulamba Gadwal, Sangareddy, Medak, Hyderabad, Vikarabad, and Rangareddy.

TGSPDCL boasts extensive infrastructure in its service area, comprising 1,733 substations (33/11 KV), 3,297 power transformers, 1,366 feeders (33 KV), 8,248 feeders (11 KV), and approximately 546,125 distribution transformers of various capacities. Having electrified 6,489 villages, 5,600 general hamlets, 2,059 tribal hamlets, 12,105 dalit communities, and 5,806 weaker section colonies, TGSPDCL is poised to meet future challenges. The company's philosophy is to continually enhance its performance, emerging stronger each day to deliver exceptional value and service to its customers through innovative programs.

### 7.5.2.1 Operational Performance

Table 7.4 provides a comprehensive overview of the company's operational performance, highlighting the trends in peak demand, consumption, sales, and energy losses over the five-year period (2018-19 to 2022-23).

Table 7.4 presents the key operational performance indicators of the Southern Power Distribution Company of Telangana Limited over a five-year period from 2018-19 to 2022-23. The peak demand of the day has shown a steady increase from 6,961 MW in 2018-19 to 9,360 MW in 2022-23, with a mean peak demand of 8,174 MW and a standard deviation of 930 MW. Similarly, the maximum consumption of the day has fluctuated, reaching a high of 188.60 MU in 2022-23, with a mean of 167.64 MU and a standard deviation of 14.64 MU.

The annual energy input during the said years has remained relatively stable, ranging from 44,492.99 MU in 2020-21 to 51,242.69 MU in 2022-23, with a mean of 46,554.70 MU and a standard deviation of 2,588.59 MU. The metered sales during the year have shown an upward trend, increasing from 27,704.72 MU in 2018-19 to 34,760.32 MU in 2022-23, with a mean of 30,601.39 MU and a standard deviation of 2,433.80 MU.

The agriculture consumption during the year has fluctuated, with the highest consumption of 12,637.78 MU in 2018-19 and the lowest of 10,818.40 MU in 2019-20, resulting in a mean of 11,810.17 MU and a standard deviation of 623.25 MU. The percentage of energy losses, excluding extra high tension (EHT) sales, has decreased from 10.34% in 2018-19 to 8.50% in 2022-23, with a mean of 9.35% and a standard deviation of 0.70%.

The energy sales, including lower tension and high tension, have fluctuated, reaching a high of 46,887.54 MU in 2022-23, with a mean of 41,598.81 MU and a standard deviation of 3,453.16 MU.

**Table 7.4: Operational Performances Southern Power Distribution Company of Telangana Limited, (TSSPDCL) (Values in MW and %)**

Particulars	Units	2018-19	2019-20	2020-21	2021-22	2022-23
Peak demand of a day	Mega Watt (MW)	6961	7284	8474	8792	9360
Maximum consumption of a day	Million Units (MU)	154.48	152.38	180.51	178.43	188.60
Annual Energy Input during the year	Million Units (MU)	44997.10	45247.02	44492.99	46793.72	51242.69
Metered sales during the year	Million Units (MU)	27704.72	30162.87	28585.10	30793.95	34760.32
Agriculture consumption during the year	Million Units (MU)	12637.78	10818.40	11744.84	11724.6	12127.22
Percentage of Energy losses (Excl. EHT Sales)	In %	10.34%	9.43%	9.36%	9.14%	8.50%
Energy Sales (including Lower tension and High Tension)		40342.5	39909.31	38274.67	42580.02	46,887.54

Source: Southern Power Distribution Company of Telangana Limited Annual Reports 2018-19, 2019-20, 2020-21, 2021-22, 2022-23.

### 7.5.2.2 Financial Performance

The financial performance table for the Southern Power Distribution Company showcases the company's key financial indicators over a five-year period from 2018-19 to 2022-23.

Table 7.5 showcases the company's key financial indicators of the Southern Power Distribution Company over a five-year period from 2018-19 to 2022-23. The revenue from operations has fluctuated during this time, reaching a high of ₹33,957.03 crores in 2022-23 and a low of ₹23,899.76 crores in 2018-19, resulting in a mean revenue of ₹27,115.32. The total income, which includes other income, has a similar trend, with a maximum of ₹34,254.70 crores in 2022-23 and a minimum of ₹24,131.08 crores in 2018-19, averaging ₹27,270.08 crores with a standard deviation of ₹4,404.63 crores.

On the expense side, the power purchase cost remains the largest expenditure, ranging from ₹23,703.06 crores in 2020-21 to ₹35,510.71 crores in 2022-23, with a mean of ₹27,397.61 crores. The employee benefit expense has increased from ₹1,994.96 crores in 2021-22 to ₹3,081.10 crores in 2022-23, with a mean of ₹2,353.23 crores and a standard deviation of ₹441.74 crores. The interest and finance charges have shown an upward trend, rising from ₹1,296.09 crores in 2018-19 to ₹2,500.58 crores in 2022-23, with a mean of ₹1,707.48 crores and a standard deviation of ₹496.32 crores.

Despite the company's efforts, it has consistently reported net losses during the period, with the highest loss of ₹8,147.48 crores in 2022-23 and the lowest of ₹626.8 crores in 2021-22, resulting in a mean loss of ₹4,365.55 crores and a standard deviation of ₹2,810.84 crores. The exceptional items have also contributed to the company's financial challenges, with significant variations across the years. Overall, the data provides in table provides insights into the company's financial performance, highlighting the need for strategic initiatives to improve profitability and reduce operational costs.

**Table 7.5: Financial Performance of the Southern Power Distribution Company of Telangana Limited, (TSSPDCL) (in crore)**

S.No	Particulars	2018-19	2019-20	2020-21	2021-22	2022-23
1	Revenue from Operations	23899.76	24600.87	24073.41	29,045.55	33,957.03
2	Other Income	231.32	46.78	70.6	127.41	297.67
	<b>Total Income</b>	<b>24131.08</b>	<b>24647.65</b>	<b>24144.01</b>	<b>29,172.96</b>	<b>34,254.70</b>
3	Power Purchase Cost	24837.33	24907.26	23703.06	28,029.68	35,510.71
4	Employee Benefit expense	2134.86	2314.44	2240.77	1,994.96	3,081.10
5	Operation and Other Expenses	269.16	261.68	288.47	312.77	348.71
6	Interest and Finance Charges	1296.09	1489.51	1905.46	2,345.77	2,500.58
7	Depreciation	855.8	986.56	1066.58	1,126.23	801.9
8	Exceptional items	16.94	148.66	-437.74	-4,217.55	1.72
	<b>Total Expenses</b>	<b>29410.18</b>	<b>30108.11</b>	<b>28766.61</b>	<b>29,591.86</b>	<b>42,244.72</b>
9	Profit/(Loss) Before Tax	-5279.1	-5460.46	-4622.6	-418.9	-7,990.02
10	Provision for Income Tax	-	-	-	-	-
11	Deferred Tax Income Provision	311.83	520.21	376.64	-207.9	-157.46
12	<b>Net Profit/(Loss)</b>	<b>-4967.27</b>	<b>-4940.25</b>	<b>-4245.96</b>	<b>-626.8</b>	<b>-8,147.48</b>

Source: Southern Power Distribution Company of Telangana Limited Annual Reports 2018-19, 2019-20, 2020-21, 2021-22, 2022-23.

## 7.6 Disruption to the Fiscal Health of the State.

A. The power sector's financial patterns in Telangana reveal several concerning trends that significantly impact the state's fiscal health:

1. Escalating Revenue Expenditure: The power sector's revenue expenditure has grown dramatically, increasing from ₹49.67 crores in 2018-19 to ₹121.12 crores in 2023-24, representing a compound annual growth rate of 19.5%. This growth significantly outpaces the overall revenue expenditure growth rate of 16.8%, which reached ₹2,116.85 crores in 2023-24. This accelerated increase suggests mounting operational costs within the power sector that may strain state finances.

2. **Budgetary Support Burden:** Grants-in-aid to the power sector have shown a substantial rise, growing from ₹4,750 crores in 2019-20 to ₹8,329 crores in 2022-23. This increasing budgetary support indicates growing dependency on state finances and represents a mounting fiscal burden. The significant allocation to power utilities reveals potential operational inefficiencies that require additional government support, creating pressure on the state's overall fiscal resources.
3. **Investment Patterns and Concerns:** Despite commanding 75.16% of total government investment in 2022-23, government investment in power sector PSUs shows a concerning downward trend, decreasing from ₹23,706 crores in 2020-21 to ₹20,407 crores in 2022-23. This declining investment pattern, coupled with the sector's continued dominance of state investments, indicates a challenging imbalance in resource allocation.

#### Critical Implications for Fiscal Health:

1. **Fiscal Sustainability Concerns:** The fiscal sustainability of current power sector spending patterns raises serious concerns, as the high growth rate of power expenditure (19.5%) consistently exceeds overall revenue expenditure growth (16.8%). The increasing grants-in-aid point to operational inefficiencies, while the large portion of investment locked in the power sector limits the state's ability to diversify its economic development priorities.
2. **Resource Allocation Impact:** The power sector's consumption of significant state resources creates limited fiscal space for other developmental priorities. With such concentration of investments, other crucial sectors may face funding constraints, representing a high opportunity cost for the state's development agenda. This imbalance in resource allocation may impede balanced economic growth and public service delivery.
3. **Long-term Financial Risks:** The growing expenditure trend indicates a potential future burden on state finances. The declining investments could negatively impact infrastructure development and modernization efforts in the power sector. Additionally, the high sectoral concentration poses substantial risks to state finances, potentially limiting flexibility during economic downturns or emergencies and creating vulnerabilities in the overall fiscal framework.

B. The implementation of the UDAY scheme and management of DISCOMs has significantly impacted Telangana's fiscal health in several critical ways:

1. **Substantial Debt Burden:** The state government has shouldered a substantial debt burden by assuming ₹8,923 crore, representing 75% of the DISCOMs' outstanding debt as of September 2015. The total DISCOM debt stood at a staggering ₹11,897 crore, clearly indicating massive financial stress within the power distribution sector. This significant debt assumption has directly increased the state's fiscal liabilities, creating long-term pressure on public finances and potentially affecting the state's credit rating and borrowing capacity.
2. **Unauthorized Fiscal Burden (2022-23):** The fiscal year 2022-23 witnessed an alarming case of unauthorized fiscal burden, with expenditure of ₹7,061 crore occurring without proper budgetary allocation. Of this amount, ₹6,646 crore was disbursed in June 2022 specifically to cover DISCOM losses. The lack of legislative approval for this substantial expenditure represents a serious breach of financial governance protocols. This unplanned and unapproved financial outlay created sudden pressure on state finances, disrupting fiscal planning and potentially displacing other budgeted priorities.
3. **Progressive Loss Absorption Impact:** The government has implemented a progressive loss absorption mechanism that has created escalating fiscal pressure over successive years. Beginning with 5% of DISCOM losses in 2017-18, the state's responsibility increased to 10% in 2018-19, followed by a sharp rise to 25% in 2019-20, and ultimately reaching 50% in 2020-21. This structured but increasingly burdensome approach has resulted in mounting fiscal strain year after year, effectively transferring the inefficiencies of the power sector directly onto state finances.
4. **Institutional and Governance Concerns:** The handling of DISCOM finances has raised serious institutional and governance concerns, including the systematic bypassing of established budgetary protocols. The lack of legislative oversight on significant financial decisions undermines democratic accountability, while non-compliance with financial regulations threatens fiscal discipline. These governance failures weaken the overall financial management framework and create precedents that could undermine fiscal responsibility across other sectors.
5. **Long-term Fiscal Implications:** The long-term fiscal implications of ongoing DISCOM support present significant challenges to state financial health. The recurring financial support requirement creates an ongoing drain on resources, while reducing fiscal space

for other development priorities such as education, healthcare, and infrastructure. The increased state liabilities affect overall fiscal health through higher debt servicing costs and reduced investment capacity. Collectively, these factors pose a substantial risk to the state's fiscal sustainability and undermine the government's ability to engage in effective long-term financial planning.

C. The impact of the Northern Power Distribution Company of Telangana Limited (TSNPDCL) on the state's fiscal health:

1. Escalating Losses: The power utility has experienced escalating losses over recent years, with figures ranging from ₹204.03 crores in 2022 to a staggering ₹2,955.96 crores in 2023. With an average loss of ₹1,497.60 crores and high volatility (standard deviation of ₹1,187.21 crores), this progressive deterioration in financial health has created a significant impact on state resources, requiring increasing support from the government treasury.
2. Rising Operational Costs: Operational costs have risen dramatically across multiple categories. Power purchase costs surged from ₹9,009.17 crores in 2018 to ₹15,116.42 crores in 2023, while employee benefits expenses tripled from ₹664.34 crores to ₹2,053.82 crores during the same period. Similarly, finance costs increased substantially from ₹364.17 crores to ₹970.94 crores, indicating growing debt servicing requirements and putting additional pressure on the utility's financial stability.
3. Financial Burden Indicators: Several key financial indicators point to a worsening fiscal position. The earnings per share have declined dramatically from +₹19.74 in 2018 to -₹5.04 in 2023, signaling a fundamental shift from profitability to loss. This trend is further evidenced by the growing gap between revenue and expenses, with total expenses consistently outpacing revenue growth, creating an unsustainable financial trajectory that threatens the utility's long-term viability.
4. Impact on State Finances: The utility's financial struggles have created significant ripple effects on state finances. The requirement for continuous budgetary support diverts resources from other critical developmental priorities and infrastructure investments. This ongoing financial drain affects the state's borrowing capacity and potentially threatens its credit rating, as rating agencies consider state-owned enterprise liabilities when evaluating sovereign creditworthiness.

5. **Operational Inefficiencies:** Despite some operational improvements, such as the reduction of energy losses to 10.7%, the utility continues to grapple with significant inefficiencies. High power purchase costs suggest procurement inefficiencies and potential issues with contract management or energy mix optimization. Meanwhile, the dramatic rise in employee costs points to operational inefficiencies that continue to burden the utility despite modernization efforts, indicating the need for comprehensive structural reforms beyond simple financial support.

#### D. The impact of the Southern Power Distribution Company of Telangana Limited (TSSPDCL) on the state's fiscal health

1. **Financial Deterioration:** The power utility has experienced significant financial deterioration, with net losses increasing by 64% from ₹4,967.27 crores in 2018-19 to ₹8,147.48 crores in 2022-23. This decline occurred despite revenue growth of 42% over the five-year period, as expense growth outpaced it at 44%. Power purchase costs, which rose by 43% to reach ₹35,510.71 crores, represent an increasingly unsustainable financial burden on the utility's operations.

2. **Operational Challenges:** Despite operational improvements such as reduced energy losses from 10.34% to 8.50%, the utility's financial performance continued to worsen. Peak power demand increased by 34% (from 6,961 MW to 9,360 MW), necessitating additional infrastructure investment. Agricultural consumption remains elevated at 12,127.22 MU, likely driven by subsidized rates that further strain the utility's finances.

3. **Impact on State Finances:** The utility's struggles have created substantial impacts on state finances. A growing interest burden of ₹2,500.58 crores in 2022-23 adds to the state's debt obligations, while mounting losses require ongoing government bailouts and support. Employee benefit expenses increased by 44% to ₹3,081.10 crores, and the absence of tax provisions throughout the period indicates an inability to generate taxable profits.

4. **Long-term Implications:** These financial challenges pose serious long-term implications, including reduced fiscal space for other development priorities and potential negative impacts on the state's credit rating and borrowing costs. The situation necessitates either meaningful tariff reforms or increased subsidies to maintain operations, while raising concerns that infrastructure maintenance may suffer due to ongoing financial constraints.

The persistent losses and growing power expenditure of the state's DISCOMs pose a significant risk to Telangana's fiscal health. The state government's decision to assume a substantial portion of the DISCOMs' debt under the UDAY scheme, coupled with the ongoing financial support through grants-in-aid, has resulted in a significant fiscal burden. This, in turn, diverts resources away from other critical areas of public spending, such as healthcare, education, and infrastructure development.

Moreover, the unauthorized expenditure of ₹7,061 crore towards the UDAY scheme in the fiscal year 2022-23, without the necessary legislative approval, highlights a worrying lapse in fiscal discipline and statutory compliance. This could potentially undermine the state's credibility and erode investor confidence, ultimately affecting its ability to secure favorable financing terms for future development projects.

To address these challenges and safeguard the state's fiscal health, Telangana must adopt a comprehensive strategy that focuses on improving the operational efficiency and financial sustainability of its power distribution sector. This may involve measures such as reducing energy losses, implementing cost-saving initiatives, and exploring alternative revenue streams. Strengthening the regulatory framework and ensuring greater transparency and accountability within the DISCOMs will also be crucial in realigning the sector's financial trajectory and mitigating fiscal risks faced by the state government.

## **7.7 Conclusion**

The analysis of the power sector reforms and subsidies in Telangana reveals both encouraging trends and significant challenges. The state government has undertaken various initiatives to drive the advancement of the power sector, including strategic investments, debt management strategies, and the implementation of the Ujwal DISCOM Assurance Yojana (UDAY) scheme.

The data presented showcases the increasing power expenditure, which has grown from ₹49.67 crores in 2018-19 to ₹121.12602 crores in 2023-24, representing a compound annual growth rate of approximately 19.5%. This substantial surge in power expenditure can be attributed to factors such as the rising cost of electricity, increased energy consumption, and the expansion of operations. The government has also extended budgetary assistance through grants-in-aid, which have increased from ₹4750 crores in 2019-20 to ₹8329 crores in 2022-23.

However, the financial performance of the state's power distribution companies (DISCOMs) paints a concerning picture. Both the Northern Power Distribution Company of Telangana Limited (TSNPDCL) and the Southern Power Distribution Company of Telangana Limited

(TSSPDCL) have consistently reported net losses during the period under review. The highest loss recorded by TSNPDCL was ₹2,955.96 crores in 2023, while TSSPDCL reported a staggering loss of ₹8,147.48 crores in 2022-23.

## 8. CONTINGENT LIABILITIES OF TELANGANA

Contingent liabilities, as defined by the Reserve Bank of India, refer to potential obligations that arise from uncertain events which may or may not occur. These are categorized into Explicit Contingent Liabilities, which are legally recognized, and Implicit Contingent Liabilities, which are not legally recognized until a failure occurs and often reflect public expectations.

This chapter analyses the contingent liabilities of the state of Telangana, focusing on the nature and scale of these liabilities, the management of guarantees provided by the state, and associated fiscal risks. It also examines the impact of these liabilities on the state's fiscal health and compliance with regulatory requirements.

### 8.1. Explicit Contingent Liabilities

Explicit contingent liabilities for Telangana primarily encompass financial guarantees and insurance schemes provided by the state government:

- **Guarantees on Behalf of Public Enterprises and Private Sector:** These include financial guarantees provided by the state government to ensure the financial stability or borrowing capabilities of public enterprises and private sector entities.
- **State Insurance Schemes:** These are insurance programs backed by the state government, guaranteeing compensation or benefits under specific conditions.

### 8.2. Implicit Contingent Liabilities

Implicit contingent liabilities are less formalized and often arise from policy decisions or unexpected circumstances:

- **Default of Public Entities on Non-Guaranteed Debt or Other Obligations:** This includes the potential financial responsibilities the state might have to bear if public entities fail to meet their non-guaranteed debt obligations.
- **Liability Clean-Up in Entities Being Privatized:** When state-owned entities are privatized, there may be a need for the state to address outstanding liabilities or debts before the privatization process is complete.
- **Failures of Inadequately Funded Pension Funds:** If pension funds managed by the state are underfunded, the state may be obligated to cover the shortfall.
- **Natural Calamities:** In the event of natural disasters, the state might incur expenses that were not originally budgeted, creating implicit liabilities.

### 8.3 Analysis of Telangana's Contingent Liabilities

For Telangana, the major contingent liabilities consist of guarantees provided by the state government to support public enterprises and private sector entities. This is a common practice across Indian states, where such guarantees form a significant part of their contingent liabilities.

Table 8.1 provides a detailed overview of the explicit contingent liabilities of Telangana in terms of guarantees provided over several years. These guarantees, which are commitments made by the state government to back loans taken by public-sector undertakings (PSUs) and other entities, have shown a significant increase over the years, reflecting the government's ambitious developmental programs.

**Table 8.1: Guarantees given by the Government of Telangana**

Years	2017-18	2018-19	2019-20	2020-21	2021-22
Maximum amount guarantees (in Crore INR)	41892	77713	77715	89601	105007
Outstanding amount of guarantees (in Crore INR)	41892	77713	89601	105007	135283
Total Revenue Receipts (in Crore INR)	88824	101420	102544	100914	127469
Percentage of Maximum amount guaranteed relative to Total Revenue Receipts (in %)	47.2%	76.6%	75.8%	88.8%	82.4%
Percentage of Outstanding amount guaranteed relative to Total Revenue Receipts (in %)	47.2%	76.6%	87.4%	104.1%	106.1%

Source: CAG Report 2023

The maximum amount of guarantees given by the government of Telangana has seen a substantial increase from ₹41892 crores in 2017-18 to ₹105007 crores in 2021-22. The outstanding guarantees, which represent the actual amount still at risk, have grown exponentially from ₹41892 crores in 2017-18 to ₹135283 crores in 2021-22.

During the same period, the state's total revenue receipts have also increased, albeit at a slower pace, from ₹88824 crores in 2017-18 to ₹127469 crores in 2021-22.

The percentage of the maximum amount guaranteed relative to total revenue receipts has risen significantly, reaching 82.4% in 2021-22. More critically, the percentage of outstanding guarantees relative to total revenue receipts has surpassed 100%, reaching 106.1% by 2021-22, indicating that the guarantees exceed the state's annual revenue, which presents a financial risk.

#### 8.4. Fiscal Risks and Compliance Challenges

The FRBM Act mandates that annual incremental risk-weighted guarantees should not exceed 90% of the state's total revenue receipts in the preceding year. However, the outstanding guarantees at the end of 2021-22 amounted to 106.1% of the previous year's revenue receipts, which breaches this ceiling. This could signal potential financial instability if the state's revenue generation does not keep pace with the rising guarantees.

The sharp increase in guarantees is largely driven by Telangana's ambitious state programs, such as the Vaddi Leni Runalu (interest free loans), Rythu Bandhu, Bhagiratha, 2 BHK Housing, KCR kit, Mission Kakatiya, Haritha Haram, Kalyan Lakshmi, Arogya Lakshmi etc, and initiatives to promote horticulture and urban development. To finance these programs, the state has established various public-sector undertakings, which have borrowed funds with the state government providing guarantees on these loans.

While these guarantees enable the state to pursue large-scale development projects, they also expose the government to significant financial risk. If the revenues generated from these programs fall short or if the PSUs fail to service their debt, the state government would be obligated to fulfil these guarantees, potentially straining its finances.

This situation highlights the importance of careful fiscal management and monitoring to ensure that the state does not become over-leveraged, which could compromise its ability to finance other critical areas or respond to unforeseen events.

**Major Guarantees:** Out of the total guarantees, 77% pertained to three entities:

1. Kaleshwaram Irrigation Project Corporation Limited (₹66,854 crore)
2. Telangana Drinking Water Supply Corporation Limited (₹24,364 crore)
3. Telangana State Water Resources Infrastructure Development Corporation Limited (₹13,412 crore)

Other factors include the following.

##### i) **Off-Budget Borrowings:**

Out of the 19 guarantees worth ₹1,35,283 crore disclosed by the State Government to the Legislature, 14 guarantees worth ₹1,23,708 crore (91%) are related to Off-Budget Borrowings.

**ii) Completeness of Guarantees Statement:**

The State Government's Statement of Guarantees, presented to the Legislature, did not include guarantees extended to certain entities such as the Telangana State Civil Supplies Corporation and Telangana State Markfed, amounting to ₹66,162 crore. The Government justified this exclusion on the grounds that these guarantees were temporary, but this explanation does not align with the Indian Government Accounting Standards (IGAS) requirements.

Furthermore, there were discrepancies in the reported values of guarantees for some entities, with significant differences between the figures provided by the institutions and those included in the Budget documents.

**iii) Compliance with Guarantee Instructions:**

The erstwhile Government of Andhra Pradesh issued instructions in 2003 to be followed when providing guarantees, including analyzing the financial performance of the borrowing entity and evaluating the fiscal risk. However, these instructions were not always adhered to. For example, guarantees were extended to the Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB) despite its annual accounts being in arrears for more than a decade.

Additionally, the classification of guarantees by risk, as presented by the Finance Department, did not fully align with the actual risk. Most guarantees were classified as medium to very low risk, while a significant portion, especially those related to Off-Budget Borrowings, should have been classified as direct liability.

**iv) Guarantee Commission:**

The State Government was supposed to receive a Guarantee Commission of ₹676.42 crore by March 2022. However, only one entity, the Telangana State Horticulture Development Corporation, remitted ₹17.48 crore as Guarantee Commission during 2021-22. The Statement of Guarantees did not disclose the Guarantee Commission receivable and received, as required by IGAS 1. The Government's rationale for this omission, citing the cash basis of Government Accounts is not acceptable, as the disclosure is mandatory under IGAS 1 to ensure proper tracking of receivables and prevent potential revenue loss.

**v) Guarantee Redemption Fund:**

As per the guidelines of the Reserve Bank of India, the Government of Telangana established the Guarantee Redemption Fund (GRF) in June 2014 to meet its

obligations pertaining to the guarantees given by the Government on the borrowings of bodies such as Public Sector Undertakings (PSUs), Special Purpose Vehicles (SPVs), etc., in case of default by the borrower.

**vi) Contributions to the Fund:**

The state government is expected to contribute 0.50% of the guarantees outstanding as of 31<sup>st</sup> December each year, aiming to achieve a minimum level of 3% over the next five years and gradually increase to a desirable level of 5%. However, the contributions to the GRF have been irregular, and no contribution was made in 2021-22, despite ₹676.41 crore being required on the outstanding value of ₹1,35,283 crore of Guarantees. The available amount in the GRF has been insufficient to meet the minimum required levels, resulting in a shortfall of ₹2,627 crore.

**vii) Transfers to the Fund:**

In addition to the income accrued to the fund, the accretions by way of Guarantee Commission realized during the preceding year from the institutions to which the guarantee was issued should also be transferred to the Fund Account. However, the state government has not transferred the amounts received as Guarantee Commissions in 2018-19 and 2020-21, amounting to ₹340 crore and ₹6 crore, respectively, to the GRF.

The government has indicated that contributions are made after considering the Ways and Means position and efforts are underway to reach the desirable level as per the fund guidelines.

## 9. SUBSIDIES GIVEN BY TELANGANA

Subsidies are a crucial component for the state government to incentivize economic growth and promote its welfare policies. The Government of Telangana has provided ample resources towards subsidies from the very year of inception of the state.

### 9.1 Key Subsidy Programs in Telangana: An Overview

**Rythu Bandhu Scheme:** This flagship scheme provides financial assistance to farmers at the rate of ₹10,000 per acre per year to cover input costs. The scheme has provided significant relief to small and marginal farmers by reducing their dependency on loans for purchasing seeds, fertilizers, and other inputs. It has also contributed to increased agricultural productivity. As of March 2024, the government has successfully disbursed ₹5,500 crore to 64.75 lakh farmers for the Rabi season. The disbursement strategy shows clear targeting, with ₹5,700 crore allocated to farmers owning five or less acres, who constitute 92% of eligible beneficiaries, followed by ₹2,200 crore for the remaining 8% (4.5 lakh farmers) who own five or more acres. The scheme's effectiveness is further enhanced by its responsiveness to agricultural emergencies, as evidenced by the additional release of ₹15.81 crore as input subsidy to 15,246 farmers whose crops were damaged across 15,814.03 acres in ten districts due to adverse weather conditions in March. The districts covered include Kamareddy, Nizamabad, Rajanna-Sircilla, Siddipet, Medak, Adilabad, Nirmal, Mancherial, Karimnagar, and Sangareddy. The scheme is set to evolve with the proposed Rythu Bharosa scheme planning to increase the input subsidy from ₹10,000 to ₹15,000 per acre for two crops, beginning from the upcoming Kharif season, indicating a strengthened commitment to agricultural support. However, few issues such as irrigational facilities, market accessibility, and equal benefits are yet to be addressed

**KCR Kits Scheme:** This initiative provides financial assistance and a kit containing essential items to mothers after childbirth. The scheme aims to reduce infant and maternal mortality rates and encourage institutional deliveries. Telangana government has shown significant expansion under the 2023-24 budget allocation of ₹12,161 crore, up from ₹11,237 crore in the FY 2022-2023 year. The scheme's reach has been extended through KCR Nutritional Kits to benefit approximately 4 lakh pregnant women across all 33 districts. This expansion is supported by the establishment of 100 additional Basthi Dawakhana (community clinics) in urban areas and the introduction of para-medical courses and nursing colleges in teaching hospitals. The scheme combines essential post-

childbirth care items with financial assistance, aiming to improve maternal and child health outcomes. Through integration with urban healthcare facilities, the initiative ensures comprehensive healthcare access, demonstrating the government's commitment to enhancing maternal and child healthcare services across Telangana. However, the state has faced certain implementation-related challenges, such as delays in distribution and lack of awareness in some areas, have been noted.

**Aasara Pensions:** The Aasara provides monthly pensions to the elderly, widows, differently abled, and other vulnerable groups to ensure social security. The scheme has notably improved the livelihoods of vulnerable populations, reduced poverty and enhanced social security. The consistent financial assistance provided by Aasara enables beneficiaries to meet their basic needs more effectively. The scheme offers monthly pension amounts of ₹4,016 for most beneficiaries and ₹6,016 for differently-abled individuals, helping to reduce dependency on external support and stabilize income for families living below the poverty line. It not only eases financial burdens but also enhances dignity, mental and physical well-being, and social inclusion. With significant budget allocations, the scheme plays a vital role in strengthening the state's social safety net, improving the lives of marginalized communities, and ensuring basic living standards for those facing economic hardships.

**Industrial Subsidy Scheme:** Telangana's industrial policy framework is guided by the vision "Research to Innovation". The state has implemented several groundbreaking initiatives, including creating India's largest industrial land bank of 2.50 lakh acres and the innovative TS-iPASS system that enables self-certification and rapid approvals for industrial projects. Telangana offers various subsidies to industries, including capital investment subsidies, power tariff concessions, and tax incentives, under its TS-iPASS policy to attract investments. The industrial policy framework for Telangana includes unique features such as a dedicated power grid for industries, reservation of 10% water from irrigation sources, and ready-to-occupy industrial parks. Special emphasis is placed on supporting SMEs and SC/ST entrepreneurs through financial assistance and dedicated industrial plots. Six industrial corridors and the Research and Innovation Circle of Hyderabad (RICH) have been established to foster industry-academia collaboration. The success of these initiatives is evident in the approval of 2,991 industries with an investment of Rs. 50,827 crores, creating employment potential for 198,896 people, with 1,138 industries already in commercial production (Industries and Commerce Department, Government of Telangana, n.d.). The State has seen substantial industrial

growth, with Telangana emerging as a preferred investment destination. The subsidies have created jobs and contributed to the State's economic development. However, there are concerns about the environmental impact of rapid industrialization and whether the benefits of these subsidies are being equitably distributed.

**Mission Bhagiratha:** This project aims to provide safe drinking water to every household in Telangana. The government subsidises the cost of water supply infrastructure. The scheme has significantly improved access to potable water, particularly in rural areas, reducing waterborne diseases and improving quality of life. However, high project costs and implementation delays have been criticised.

Telangana's subsidy programs have significantly contributed to the state's socio-economic progress, benefiting farmers, enhancing healthcare, bolstering social security, and attracting industrial investments. While these initiatives have driven substantial growth, the state stands to achieve even greater outcomes by addressing key challenges. Focusing on inclusivity ensures that benefits reach all segments of society, especially marginalized groups. Addressing structural issues will streamline implementation, reducing delays and inefficiencies. Moreover, ensuring the sustainability of these programs is crucial for their continued success. By concentrating on these areas, Telangana can further strengthen its subsidy programs, leading to more equitable and enduring development across the state.

### 9.1 Analysis of Five-Year Subsidy Expenditure and Revenue Receipt Trends

Table 9.1 provides a clear view of the expenditure on subsidies over five years, highlighting a few trends. There's a noticeable increase in subsidy amounts from ₹5,89,900 crores in 2017-18 to ₹10,21,800 crores in 2021-22. This indicates a growing financial commitment towards subsidies over the said period. The percentage of subsidies relative to revenue receipts fluctuated slightly, peaking at 9% in 2020-21, likely due to increased spending during the pandemic.

**Table 9.1: Expenditure on Subsidies (in Cr INR)**

Components	2017-18	2018-19	2019-20	2020-21	2021-22
Subsidies (in Cr. INR)	5900	6300	6850	9570	10220
Subsidies as % of Revenue Receipts	7%	6%	7%	9%	8%
Subsidies as % of Revenue Expenditure	7%	6%	6%	8%	7%

Source: Report of CAG on state finances for the year ended 2023

The trajectory of subsidies, when examined as a proportion of revenue expenditure, exhibited remarkable stability with only minor fluctuations. This trend suggests that despite the absolute growth in subsidy allocations, their relative share within the overall expenditure framework remained largely consistent.

A marginal decline was observed in subsidies when measured as a percentage of both revenue receipts and revenue expenditure. This subtle shift indicates a slight rebalancing of fiscal priorities, albeit on a modest scale.

Notably, two sectors dominated the subsidy landscape: Power and Civil Supplies. The Power sector commanded a substantial 79 percent of the total subsidy outlay, while Civil Supplies accounted for 12 percent. Collectively, these two sectors absorbed 91 percent of the aggregate subsidies, amounting to a significant ₹9,331 crore. This concentration underscores the State government prioritizing energy accessibility and food security in its fiscal policy.

### 9.3 Summary of Subsidy and Grants-in-Aid Expenditure

**Table 9.2: Summary of Subsidy and Grants-in-Aid Expenditure by the Telangana State Government**

Category	Amount for 2021-22 (₹ in crore)	Increase/Decrease from previous year (₹ in crore)	Comments
<b>Subsidies under Power</b>	8,061	642	Assistance to Transmission Corporation of Telangana Limited for Agricultural and allied Subsidy
<b>Subsidies under Roads, Buildings, and Ports</b>	790	190	Assistance to Telangana State Road Transport Corporation towards Reimbursement of concessions extended to various categories of citizens
<b>Subsidy on Rice (Human Resources Development)</b>	1,271	-178	Decrease in subsidy
<b>Grants-in-Aid for Special Component Plan</b>	1,867	-	Assistance to Transmission Corporation of Telangana Limited for Agriculture and

<b>for Scheduled Castes</b>			allied subsidy (classified as Grants-in-Aid)
<b>Grants-in-Aid for Tribal Area Sub-plan</b>	1,098	-	Assistance to Transmission Corporation of Telangana Limited for Agriculture and allied subsidy (classified as Grants-in-Aid)
<b>Total Expenditure on Assistance to Transmission Corporation of Telangana Limited</b>	8,061 (Subsidy) + 2,965 (Grants-in-Aid)	-	Treated partly as subsidies and partly as Grants-in-Aid
<b>Managerial Subsidy to Telangana Scheduled Castes Co-operative Development Corporation</b>	50	-	Other forms of subsidies (Grants-in-Aid)
<b>Power Subsidy for Industries</b>	7	-	Other forms of subsidies (Grants-in-Aid)
<b>Managerial Subsidy to Telangana State Vikalangula Co-operative Corporation</b>	4	-	Other forms of subsidies (Grants-in-Aid)

Source: Report of CAG on state finances for the year ended 2023

Table 9.2 provides a comprehensive overview of the Telangana State government's fiscal allocations towards subsidies and Grants-in-Aid, with a particular focus on critical sectors such as power and transportation.

A substantial increase in subsidy allocation was observed, with significant portions directed to two key entities: i) The Transmission Corporation of Telangana Limited, primarily to bolster agricultural support; ii) The Telangana State Road Transport Corporation, to facilitate concessions for citizens.

One notable aspect of the government's financial strategy is the dual classification of certain expenditures as both subsidies and Grants-in-Aid. This approach was particularly evident in allocations supporting Scheduled Castes and Tribal Area sub-

plans. However, the rationale behind this dual categorization remains ambiguous and warrants further clarification.

In addition to these major allocations, the government disbursed smaller subsidies to a diverse range of development corporations and industries. This distribution reflects a broader strategy of supporting various sectors of the state's economy and social development initiatives.

The financial assistance, predominantly in the form of Grants-in-Aid, has been increasing consistently and it doubled over the last five years (2018-19 to 2022-23). The overall increase was mainly due to the increase in the Telangana Dalit Bandhu Scheme by ₹4,442 crore, State Finance Commission Grants to Gram Panchayats by ₹843 crore, Mission Bhagiratha – Urban scheme by ₹550 crore, etc. The decrease in financial assistance to Urban Local Bodies was mainly due to Finance Commission Grants, which decreased by ₹1,138 crore.

**Table 9.3: Summary of Releases Classified as ‘Other Grants-in-Aid’ under Detailed Head 310 (in Cr INR)**

<b>Sub-Head Description</b>	<b>Object Head Description</b>	<b>Amount (₹ in crore)</b>
Investment Support Scheme	Other GIA	14,779
Aasara Pensions	Other GIA	5,415
Telangana Dalit Bandhu	Other GIA	4,442
Assistance to Transmission Corporation of Telangana Ltd. for Agricultural and allied Subsidy	Other GIA	2,965
Kalyana Lakshmi	Other GIA	2,070
Aasara Pensions to old age persons & widows	Other GIA	1,685
Insurance to Farmers	Other GIA	1,465
National Health Mission (NHM)	Other GIA	1,275
SFC Grants to Gram Panchayats	Other GIA	1,030
Incentives for Industrial Promotion	Other GIA	1,014

Source: Report of CAG on state finances for the year ended 2023

Grants-in-Aid during the year 2021-22 (₹61,400 crore) constitutes 45 per cent of the total revenue expenditure (₹1,36,804 crore) of the State. ‘Investment Support Scheme (Rythu Bandhu)’ a flagship programme to support the farmers, with an expenditure of

₹14,779 crore, constituted 24 per cent of the GIA and 11 per cent of the revenue expenditure.

Table 9.3 provides an overview of significant expenditures classified as "Other Grants-in-Aid" under detailed head 310. The largest allocations were made to the Investment Support Scheme (₹14,779 crore) and Aasara Pensions (₹5,415 crore). Other key allocations include funding for Telangana Dalit Bandhu, agricultural subsidies via the Transmission Corporation of Telangana Ltd., and various social welfare schemes like Kalyana Lakshmi and the National Health Mission (NHM). These allocations reflect the state's focus on supporting agriculture, social welfare, and industrial promotion

#### **9.4 Conclusion**

The Telangana government has demonstrated a robust commitment to foster growth through a diverse array of subsidies, as evidenced by the significant financial allocations across various sectors. The state's subsidy expenditure has shown a consistent upward trend, rising from ₹5,899 crore in 2017-18 to ₹10,218 crore in 2021-22, reflecting an increased focus on subsidies as a tool for economic stimulation and social welfare.

Key programs such as the Rythu Bandhu Scheme, which provides ₹10,000 per acre per year to farmers, have played a crucial role in supporting agriculture. The scheme's allocation of ₹14,779 crore in 2021-22, constituting 24% of Grants-in-Aid and 11% of revenue expenditure, underscores its significance in the State's growth strategy.

The State Government's commitment to social welfare is evident in programs like Aasara Pensions, which received ₹5,415 crore, and the Telangana Dalit Bandhu scheme with an allocation of ₹4,442 crore. These initiatives have significantly contributed to improving social security and reducing poverty among vulnerable populations.

In the industrial sector, subsidies under the TS-iPASS policy have attracted investments and created jobs, although the exact figures were not provided in the given data.

The Power sector received the largest share of subsidies at 79% (approximately ₹8,061 crore), followed by Civil Supplies at 12%, together accounting for 91% (₹9,331 crore) of total subsidies.

Overall, Grants-in-Aid during 2021-22 amounted to ₹61,400 crore, constituting 45% of the total revenue expenditure of ₹1,36,804 crore, indicating the substantial role of government assistance in the state's economy.

While these subsidies have largely been successful in stimulating growth and improving citizens' welfare, there is room for enhancement. Addressing challenges such as unequal distribution of benefits, implementation delays, and sustainability issues could further maximize the impact of these programs. By fine-tuning these initiatives and ensuring their equitable reach, the Telangana government can continue to leverage subsidies as a powerful tool for fostering comprehensive and sustainable growth across all segments of society.

## **10. RECOMMENDATION OF THE 15<sup>th</sup> AND 14<sup>th</sup> FINANCE COMMISSION: AN OUTCOME EVALUATION**

The Finance Commission is a constitutional body formed by the President of India to give suggestions on centre-state financial relations. The 15<sup>th</sup> Finance Commission (Chair: Mr. N. K. Singh) was required to submit two reports. The first report, consisting of recommendations for the financial year 2020-21, was tabled in the Parliament in February 2020. The final report with recommendations for the 2021-26 period was tabled in the Parliament on February 1, 2021.

### **10.1 15<sup>th</sup> FINANCE COMMISSION**

Overall, the share of states in the central taxes for the 2021-26 period is recommended to be 41%, same as that for 2020-21. This is less than the 42% share recommended by the 14<sup>th</sup> Finance Commission for 2015-20 period. The Outcome Evaluation of State Finances of the Government of Telangana as per recommendations of the 15<sup>th</sup> Finance Commission is mentioned below:

#### **i) Functions Devolved:**

In the context of decentralization and local governance in India, Rural Local Bodies (RLBs) and Urban Local Bodies (ULBs) have seen varying degrees of devolution of functions as mandated by the Constitution. Specifically, RLBs have had 10 out of the 29 functions listed in the Eleventh Schedule devolved to them. These functions typically pertain to areas like agriculture, rural development, health, and education, among others. On the other hand, ULBs have been entrusted with 17 out of the 18 functions outlined in the Twelfth Schedule, which generally cover urban planning, public health, sanitation, and infrastructure development.

#### **ii) Auditing Status:**

The audit of accounts for RLBs and ULBs has been completed up to the financial year 2017–18.

#### **iii) Property Tax Board:**

The Government of Telangana has not established the Property Tax Board (PTB) recommended by the Thirteenth Finance Commission (FC-XIII).

#### **iv) Devolution Index Rank (across all states):**

In the Devolution Index, which assesses the extent of decentralization across Indian states, the rankings for various aspects of devolution reflect the state's performance in empowering local bodies. The state holds the 6<sup>th</sup> rank in the devolution of functions, indicating a

relatively strong delegation of responsibilities to local governments. However, it ranks 12th in the devolution of functionaries, suggesting that the transfer of personnel and administrative capacity to local bodies is less robust. In terms of finances, the state is positioned at the 4th rank, highlighting a solid financial devolution, which is crucial for the effective functioning of local governance. Overall, the state achieves an aggregate rank of 5th in policy devolution, reflecting a balanced but varied approach to decentralization across these key dimensions.

### **10.1.1 Strengths and Opportunities**

#### **i) Low Dependence on Central Transfers:**

In the fiscal year 2018-19, Telangana demonstrated low dependence on central transfers, with such transfers constituting less than 27% of its Total Revenue Receipts (TRR). This indicates that the state relies significantly on its own resources for revenue generation. Telangana's financial strength is further evidenced by its impressive Own Tax Revenue to Gross State Domestic Product (OTR–GSDP) ratio of 7.5%, showcasing the state's effective tax collection and economic performance.

#### **ii) Health Indicators:**

Telangana has made significant strides in improving health outcomes, consistently outperforming the national average across several key health indicators. The state's Under-5 Mortality Rate, as recorded in the Sample Registration System (SRS) 2018, stands at 30 per 1,000 live births, notably lower than the national average of 36. Additionally, Telangana has achieved a basic vaccination coverage rate of 68% among children aged 12–23 months, surpassing the national average of 62%. The state's child wasting rate is also lower at 18.1%, compared to the national average of 21.0%. Furthermore, Telangana's Maternal Mortality Rate (MMR) is 63 per 100,000 deliveries, significantly better than the national average of 113, reflecting the state's effective healthcare interventions for mothers and children. Telangana outperforms the national average in several key health indicators:

#### **iii) Ranking on the SDG Index of NITI Aayog (2019):**

In the 2019 SDG Index released by NITI Aayog, Telangana ranks fifth among Indian states, reflecting its strong commitment to sustainable development. The state excels as a frontrunner in SDG–3 (Good Health and Wellbeing), SDG–8 (Decent Work and Economic Growth), and SDG–10 (Reduced Inequality), showcasing its progress in enhancing public health, economic opportunities, and social equity. However, there are areas where improvement is needed, particularly in SDG–1 (No Poverty), SDG–2 (Zero Hunger), SDG–

6 (Clean Water and Sanitation), SDG–9 (Industry, Innovation, and Infrastructure), and SDG–16 (Peace, Justice, and Strong Institutions). Addressing these challenges will be crucial for Telangana to further elevate its standing in achieving the Sustainable Development Goals.

**iv) Ease of Doing Business:**

Telangana has positioned itself as a leading destination for business and investment by implementing investor-friendly policies like TS-iPASS, which streamlines the process of obtaining clearances through a single window system, and T-HUB, an initiative aimed at fostering innovation and supporting startups. These proactive measures have propelled the state to the third position in the 2019 Ease of Doing Business (EoDB) rankings among all Indian states, just behind Andhra Pradesh, which ranks first. To further strengthen its industrial development and maintain its competitive edge, Telangana is encouraged to continue these efforts and build on its successes in creating a conducive environment for businesses.

**v) Updated Land Records:**

Telangana has made remarkable progress in land record management, achieving over 99% computerization of its land records data, a feat shared with Maharashtra. This comprehensive digitization of land records plays a crucial role in ensuring the accuracy and efficiency of direct benefit transfers, as it allows for precise identification and verification of land ownership. Additionally, by providing public access to online land records, Telangana has significantly reduced the risk of fraud and deception in land transactions, promoting transparency and enhancing trust in the system. This initiative marks a significant step toward modernizing land administration and ensuring the security of land ownership rights.

### **10.1.2 Risks and Challenges**

**i) Fiscal Discipline:**

Telangana's fiscal discipline has experienced fluctuations over recent years, as reflected in its Fiscal Deficit to Gross State Domestic Product (FD–GSDP) ratio. The ratio initially rose from 3.3% in 2015-16 to 5.4% in 2016-17, before declining to 3.1% in 2018-19, indicating a period of fiscal consolidation. However, the fiscal deficit increased again, reaching 5.7% in 2020-21. According to the budget estimates for 2023-24, the fiscal deficit is projected to further rise to 6.5%. These trends highlight the challenges Telangana faces in maintaining fiscal discipline while balancing developmental expenditures with sustainable budget management.

**ii) Debt to GSDP Ratio:**

Telangana's Debt to Gross State Domestic Product (Debt to GSDP) ratio has seen a consistent upward trend in recent years, rising from 17% in 2015-16 to 22.9% in 2018-19. This increasing trend continued, with the ratio reaching 24.43% in 2019-20 and further escalating to 28.01% during 2021-23. The growing debt levels reflect the state's intensified developmental activities and investments, which necessitated additional borrowings under Article 293(3) of the Constitution during 2016-17, 2017-18, and 2018-19. While these borrowings have supported the state's initiatives, they also emphasise the importance of careful debt management to ensure long-term fiscal sustainability.

**iii) FRBM Compliance:**

The Fiscal Responsibility and Budget Management (FRBM) Act, originally established by Andhra Pradesh, has been in effect in Telangana since its formation and was amended in 2016-17 to align with the state's fiscal policies. During the period from 2015-16 to 2017-18, Telangana struggled to meet the FRBM targets for its Fiscal Deficit to Gross State Domestic Product (FD-GSDP) ratio, indicating challenges in maintaining fiscal discipline. However, despite these shortfalls, the state managed to keep its Debt to GSDP ratio within the prescribed limits during the same period, reflecting a degree of fiscal prudence in managing its overall debt levels.

**iv) Summary of Fiscal Targets Achieved:**

Telangana's performance in meeting fiscal targets has been mixed over recent years. Regarding the Debt to Gross State Domestic Product (Debt to GSDP) ratio, the state exceeded its targets: in 2015-16, it achieved 17% against a target of 25%, in 2016-17 it reached 20.5% versus a target of 25%, and in 2017-18 it achieved 22% against the same target. However, the state faced challenges in meeting Fiscal Deficit to GSDP (FD to GSDP) ratio targets. In 2015-16, the target was 3% but the state achieved 3.3%. For 2016-17, the target was 3.5%, yet the actual achieved ratio was 5.4%. By 2017-18, the target was again 3.5%, and the state achieved 3.6%. These figures highlight the state's struggle to adhere to fiscal deficit targets while maintaining a relatively controlled debt ratio.

### 10.1.3 Observations by Auditor General, Telangana:

#### i) Critical Fiscal Challenges and Discrepancies in 2016-17

- If off-budget borrowings of ₹ 29,965 crore in 2016-17 were included, the Debt-GSDP ratio would rise above 24.9%.
- The state's reported revenue surplus of INR1,386 crore in 2016-17 was overstated by ₹ 6,778 crore due to incorrect accounting.
- The state had a fiscal deficit of ₹ 5,392 crore in 2016-17.
- Fiscal deficit was understated by ₹ 2,500 crore due to misclassification of borrowings as revenue receipts.
- High investment in irrigation projects has not yet yielded commensurate returns.
- There are significant downside risks to the state's fiscal stability.

#### ii) High Cost of Kaleswaram Project:

- Estimated cost: ₹ 80,000 crore.
- Aims to serve over 18 lakh acres of farmland.
- The project led to a significant increase in the state's electricity bill due to lift irrigation, raising concerns about the financial viability of the project without a guaranteed revenue stream.

#### iii) Intrastate Development Disparity:

- Economic Concentration: Four districts (Rangareddy, Hyderabad, Medchal–Malkajgiri, and Sangareddy) contribute 52% of the GSDP, with secondary and tertiary activities concentrated here.

#### iv) Unemployment Rate:

- Telangana had the fifth highest incidence of unemployment (usual principal and subsidiary status) among persons aged 15 and above in 2017–18.
- Recommendation: Promote labor-intensive sectors to increase employment opportunities.

#### v) Education:

- Telangana's educational outcomes are below the national average or have deteriorated over time. For instance, the percentage of Grade III children who can read a Grade II text decreased from 18.6% in 2016 to 18.1% in 2018, while those who can do subtraction decreased from 42.2% to 34.5% during the same period.
- Expenditure on Education: In 2016–17, the expenditure on education as a percentage of GSDP was 1.8%, compared to the GS average of 2.6%.

**vi) Backwardness:**

- Aspirational Districts: Three districts in Telangana are identified as aspirational, with one being severely affected by left-wing extremism, which hinders development.
- Recommendation: Focus on the development of the bottom 20% blocks as aspirational blocks to address disparities.

**vii) Power Sector:**

- Fiscal Risk: The state needs to enhance performance on UDAY barometers, smart metering, and feeder segregation to avoid fiscal risks.
- Recommendation: Implement robust systemic reforms to ensure power subsidies reach the intended beneficiaries without leakage.

**viii) Local Bodies:**

- Devolution of Functions: Measures should be taken to devolve remaining functions to local bodies.
- SFC Report: The first State Finance Commission (SFC), constituted in 2015, has not yet submitted its report despite a lapse of more than four years.

**10.2 14<sup>th</sup> FINANCE COMMISSION**

The report of the 14<sup>th</sup> Finance Commission, chaired by Y.V. Reddy, was tabled in the Parliament on February 24, 2015.

The Outcome Evaluation of State Finances of the Government of Telangana as per the recommendations of the 14th Finance Commission is mentioned below:

**10.2.1 Devolution of taxes to states:**

The 14<sup>th</sup> Finance Commission recommended devolution of share of taxes from centre to states to be increased from 32% to 42%. This increase in devolution share has resulted in boosting state revenue from Central taxes with a substantial growth of 23.51% in 2015-16 and 48.76% in 2016-17 with respect to preceding years.

The share in Central taxes of Telangana in the year 2014-15 stood at ₹ 8189 crores, post recommendation the figure went up to ₹ 14876 crores in the year 2016-17, showing growth of 81.89% within two years.

**10.2.2 Fiscal Deficit:**

The 14<sup>th</sup> Finance Commission recommended that fiscal deficit of the states should be targeted at 3% of the GSDP during the period 2015-20. However, Telangana Government was eligible for relaxation of 0.25% over this limit on account of their Debt-GSDP ratio

being less than or equal to 25% in the previous year. Besides, Telangana received a further relaxation of 0.25% of GSDP in the event of interest payments falling short of or equal to 10% of the revenue receipts in the previous year. Against the targets, Telangana exceeded the deficit limits as reported by CAG. The gross fiscal deficit of the state stood at 3.32% and 5.46% for the year 2015-16 and 2016-17 respectively.

### **10.2.3 Grants to Local governments of Telangana:**

In pursuance of the objective of providing financial autonomy to Local Bodies, the 14<sup>th</sup> Finance Commission has recommended a Basic Grant of ₹. 4837.75 Crores to Rural Local Bodies and ₹ 2711.12 Crores to Urban Local Bodies to be released over a period of five years (2015-20).

Further, the commission also recommended a Performance Grant of ₹ 537.53 Crores to Rural Local bodies and ₹ 677.78 Crores to Urban Local Bodies to be released over a period of four years (2016-2020). While the Basic Grant would cater to delivering basic services, Performance Grant would develop a sense of accountability among the local bodies by ensuring their compliance with maintenance, audit and disclosure of books of accounts.

For the year 2016-17, the cumulative grants (Basic & Performance) for Rural Local Bodies stood at ₹ 908.99 Crores and for Urban Local Bodies amounted to ₹ 583.24 Crores. Comparing the recommendations with actuals, the audit findings of CAG reveal that Grants were released under two recommended components, i.e., Basic grant and Performance grant in the ratio of 90:10. The Government of India released ₹ 908.99 crore during 2016-17 to Rural Local Bodies. The entire amount was expended as of November 2017. With respect to Urban Local Bodies; Grants of ₹ 583.624 were released under two components, i.e., Basic grant and Performance grant in the ratio of 80:20. Recommendations were duly met for the year 2016-17 for both Rural & Urban Local Bodies.

## **11. RECOMMENDATION FOR ESTABLISHING A SUSTAINABLE DEBT ROADMAP**

The issue of debt and fiscal sustainability across Indian states has fluctuated in prominence, with proposals for a debt management office and fiscal council sparking debates about their potential mandates and designs. A critical concern is the increasing use of off-budget borrowing and expenditure through parastatals across all government levels, bypassing legislative and institutional scrutiny. This trend has significant implications for debt and fiscal governance, potentially hampering both current and future development indicators.

The complexity is amplified at the sub-national level due to varying levels of accumulated public debt and economic development across states. The FRBM Act 2003, amended in 2018, allows states to hold public debt of 20% of GDP, but the effectiveness of such limits is questioned given the prevalence of off-budget mechanisms.<sup>1</sup>

These practices raise macroeconomic concerns, potentially distorting true fiscal deficits and credit risk assessments. They also undermine fiscal accountability and governance, potentially eroding investor confidence and increasing borrowing costs. Addressing these challenges requires a comprehensive approach, including strengthening fiscal oversight, enhancing budgetary transparency, and developing sophisticated fiscal risk management tools. Greater coordination between central and state governments in fiscal policy and debt management is also crucial for maintaining robust fiscal federalism conducive to sustainable economic development.

### **11.1 Evaluating Telangana's Fiscal Health: Positive Revenue Growth Amidst Fiscal Deficit Challenges**

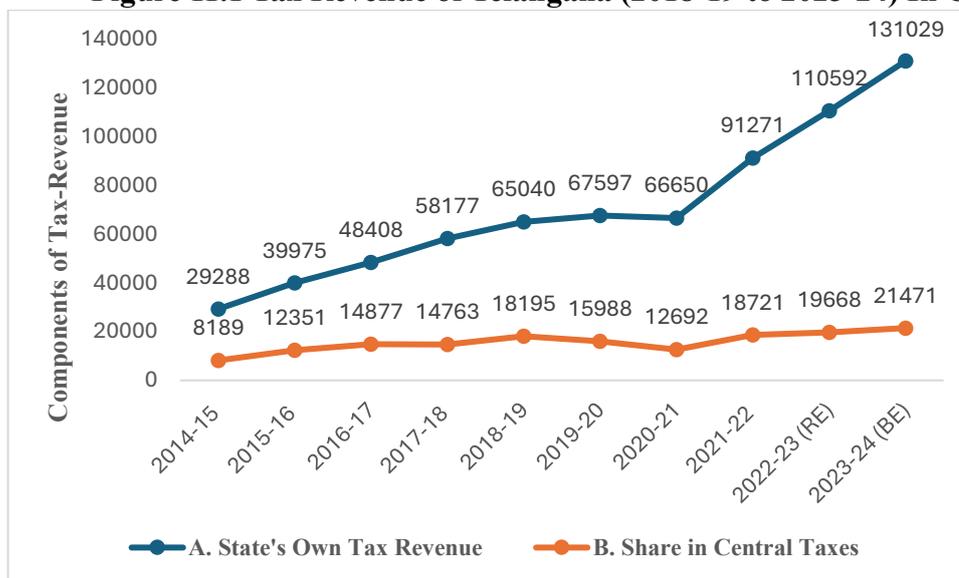
#### **A. Telangana's Tax Revenue: Trends and Analysis (2019-20 to 2023-24)**

Figure 11.1 illustrates the trends in two key components of tax revenue from 2014-15 to 2023-24(BE): State's Own Tax Revenue and Share in Central Taxes. Over this period, both sources show growth, but with markedly different trajectories and magnitudes.

State's Own Tax Revenue demonstrates a strong and consistent upward trend, particularly accelerating from 2020-21 onwards. It began at ₹29,288 crore in 2014-15 and is projected to reach an impressive ₹1,31,029 crore by 2023-24. This represents a doubling of the state's self-generated tax income over the six-year period. The most dramatic increase occurred between 2020-21 and 2021-22, where it jumped from ₹66650 crores to ₹ 91271 crores, indicating a significant boost in the state's ability to generate its own tax revenue.

In contrast, the share in central taxes shows a more modest and fluctuating pattern of growth. Starting at ₹8,189 crore in 2014-15, it is expected to reach ₹ 21471 crores by 2023-24. This revenue source experienced a notable dip in 2020-21, falling to ₹ 12692, crores before recovering and resuming its growth trajectory. The overall increase in central tax share is much less pronounced compared to the state's own tax revenue.

**Figure 11.1 Tax Revenue of Telangana (2018-19 to 2023-24) In Cr**



BE: Budgeted Estimates,  
RE: Revised Estimates

Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

**B. Telangana's Non-Tax Revenue: Trends and Analysis (2019-20 to 2023-24)**

Figure 11.2 illustrates the trend of Non-Tax Revenue from 2014-15 to 2023-24(BE). The data reveals a fluctuating but overall increasing trend over the years. Starting ₹13,564.91 crore in 2014-15, followed by a more substantial rise to ₹ 21572 crores in 2020-21. However, a notable drop to ₹ 17477 crores occurs in 2021-22, possibly due to the economic impacts of the COVID-19 pandemic.

The most striking feature of this data is the sharp increase projected for the final two years. The revenue is expected to more than double from the previous year, reaching ₹45542 crores in 2022-23 (RE), and then climb even further to ₹ 64067 crores in 2023-24 (BE). This projected figure for 2023-24 is more than triple the amount from 2021-22, indicating a dramatic anticipated growth in Non-Tax Revenue sources.

While these projections suggest a positive outlook for Non-Tax Revenue, they also raise some concerns. The sudden and substantial jump in estimates warrants careful consideration. Such a dramatic increase might be based on optimistic assumptions about economic recovery, new

revenue streams, or policy changes. However, if these projections are overly ambitious, it could lead to significant budgetary challenges if the actual are less than the estimated figures.

**Figure 11.2: Non-Tax Revenue (in Cr INR)**



Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

### C. Fiscal Deficits of Telangana: Analysis from 2018-19 to 2022-23

The 15<sup>th</sup> Finance Commission permitted ceiling of additional 3.5% borrowing in the FY 2022-23. The Commission recommended a borrowing limit of 3.0% for states from 2023-24 to 2025-26, with an extra borrowing of 0.5% related to power sector reforms.

Table 11.1 presents a comprehensive view of Revenue Deficit and Gross Fiscal Deficit from 2018-19 to 2023-24(BE), with 2022-23 marked as Revised Estimates (RE) and 2023-24 as Budget Estimates (BE). This data reveals significant fluctuations and trends in the fiscal health of the entity in question.

The Revenue Deficit exhibits notable volatility over the period. The state's revenue position shows dramatic shifts throughout the decade. Starting with a revenue surplus of ₹370 crores in 2014-15, this improved slightly to ₹240 crores in 2015-16. However, the surplus increased substantially to ₹1,390 crores in 2016-17 before expanding dramatically by 149% to ₹3,459.4 crores in 2017-18 and further growing by 25.4% to ₹4,337.1 crores in 2018-19. A severe reversal occurred in 2019-20 when the state moved from surplus to a deficit of ₹6,254.1 crores, followed by an alarming 256.5% increase in deficit to ₹22,298 crores in 2020-21, representing the pandemic's peak impact at 2% of GSDP. Recovery began in 2021-22 with the deficit

decreasing by 58.1% to ₹9,334.8 crores. By 2022-23, the state remarkably returned to a revenue surplus of ₹2,979.9 crores, with projections showing a further 63.8% improvement to ₹4,881.7 crores surplus in 2023-24.

In contrast, the Gross Fiscal Deficit The gross fiscal deficit expanded dramatically from ₹9,410 crores in 2014-15 to ₹18,500 crores in 2015-16, a 96.6% increase. This was followed by another 90.4% surge to ₹35,230 crores in 2016-17, reaching 5% of GSDP—the highest percentage during this period. The deficit then decreased substantially by 24.7% to ₹26,513.9 crores in 2017-18 and remained relatively stable at ₹26,943.9 crores in 2018-19. The pandemic period saw the deficit increase again, rising to ₹31,750.7 crores in 2019-20 and peaking at ₹49,030 crores in 2020-21 (a 54.4% year-over-year increase). Recent years show some stabilization, with the deficit projected at ₹56,062.9 crores for 2023-24, while remaining steady at 4% of GSDP despite the GSDP growing by nearly 14.5% from the previous year.

The relationship between Revenue Deficit and Gross Fiscal Deficit provides additional insights. The gap between these two measures varies considerably over time. It's widest in 2018-19, where a revenue surplus coexists with a substantial fiscal deficit. This gap narrows significantly in 2020-21 when both deficits reach their peak. In the projected years, the gap widens again as revenue deficit turns into a surplus while fiscal deficit continues to grow.

**Table 11.1 Fiscal Indicators of Telangana (2014-15 to 2023-24)**

Years	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (RE)	2023-24 (BE)
Revenue Deficit (RD)	-370	-240	-1390	-3459.4	-4337.1	6254.1	22298	9334.8	-2979.9	-4881.7
Gross Fiscal Deficit (GFD)	9410	18500	35230	26513.9	26943.9	31750.7	49030	46630.9	50147.4	56062.9
GSDP	505848.79	577902.06	658325.34	750050.28	857427.15	950090.49	943078	1124086	1311823.02	1501981.41
RD/GSDP	0%	0%	0%	0%	-1%	1%	2%	1%	0%	0%
GFD/GSDP	2%	3%	5%	4%	3%	3%	5%	4%	4%	4%

BE: Budgeted Estimates,

RE: Revised Estimates

Source: State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.

Overall, the trend paints a picture of a period of fiscal stress, particularly evident in 2020-21, followed by a gradual recovery and projected improvement in revenue generation. However, the persistent and growing Gross Fiscal Deficit indicates ongoing financial challenges. The

projections for 2022-23 and 2023-24 present an optimistic outlook for revenue generation but also anticipate continued growth in overall fiscal deficit. This suggests a complex financial landscape with both positive trends in revenue management and concerning patterns in overall fiscal balance, highlighting the multifaceted nature of financial management in this context.

While the state maintained an acceptable RD/GSDP and GFD/GSDP ratio during the years 2018-19 and 2019-20, the years from 2020-21 to 2022-23 had depicted a shift from the FRBM target. Clearly the government has incurred colossal Gross Fiscal Deficit over the years, with an increasing trend. This is daunting since gross fiscal deficit includes money from borrowings, consequent to increasing borrowings of the state, for welfare schemes like Vaddi Leni Runalu (interest free loans), Rythu Bandhu, Bhagiratha, 2 BHK Housing, KCR kit, Mission Kakatiya, Haritha Haram, Kalyan Lakshmi, and Arogya Lakshmi etc.

#### **D. Impact of the Power Sector on Fiscal Instability and FRBM Targets in Telangana**

The RBI Study on State Finances 2023-24 observed that “Power distribution has strained state finances due to persistent operational inefficiencies and significant under recoveries. Receipts from the power sector constitute less than a tenth of the corresponding revenue expenditure incurred by the States. In the state of Telangana, power distribution in Telangana paints an alarming picture of the state's fiscal health. The study highlights a deeply concerning trend where power sector expenditures have been escalating at an unsustainable rate, far outpacing the corresponding revenues. This widening gap poses a severe threat to the state's financial stability and long-term economic prospects.

For instance, the data presented is particularly troubling. Power expenditure has skyrocketed from ₹49.67 crores in 2018-19 to a staggering ₹121.13 crores in 2023-24, representing a compound annual growth rate of approximately 19.5%. This exponential increase is deeply worrying, as it suggests a rapidly growing financial burden that the state may struggle to bear in the coming years.

Even more distressing is the financial performance of the state's power distribution companies (DISCOMs). Both the Northern and Southern Power Distribution Companies of Telangana have been consistently reporting substantial net losses. The magnitude of these losses is truly alarming, with TSNPDCL recording a loss of ₹2,955.96 crores in 2023 and TSSPDCL reporting an even more catastrophic loss of ₹8,147.48 crores in 2022-23. These figures indicate a systemic failure in the power distribution sector that requires immediate and drastic intervention.

The state government's attempts to address this crisis through increased budgetary assistance and grants-in-aid, while well-intentioned, may be exacerbating the problem in the long run. The increase in grants-in-aid from ₹4750 crores in 2019-20 to ₹8329 crores in 2022-23 represents a significant drain on state resources that could have been allocated to other critical areas of development.

Perhaps most concerning is the potential long-term impact on Telangana's overall fiscal health. The decision to assume a substantial portion of the DISCOMs' debt under the UDAY scheme, combined with ongoing financial support, is creating an unsustainable fiscal burden. This approach is not only diverting crucial resources away from essential public services like healthcare, education, and infrastructure development but also risks pushing the state towards a fiscal crisis.

The situation demands urgent and comprehensive reform of the power sector. Without swift and decisive action to address the operational inefficiencies and under-recoveries in power distribution, Telangana faces the very real risk of severe fiscal distress. This could have far-reaching consequences for the state's ability to provide basic services, invest in future growth, and maintain economic stability. The gravity of this situation cannot be overstated, and it requires immediate attention from policymakers to prevent a potential fiscal catastrophe.

## **11.2. Strategic Roadmap for Enhancing Telangana's Fiscal Health: Addressing Challenges and Securing Financial Stability**

### **11.2.1 Forecasting a Sustainable Debt Roadmap (2026-31)**

Telangana's debt situation presents a concerning picture of fiscal management challenges. The state has experienced a significant rise in total liabilities, which increased from ₹1,17756 crores in 2018-19 to peak at ₹1,96373 crores in 2021-22, before slightly decreasing to ₹1,43128 crores in 2023-24 (BE). This rising debt burden is reflected in the critical Debt-to-GSDP ratio, which grew from 22.11% in 2017-18 to 28.91% in 2020-21, indicating that debt has been growing faster than the state's economy. Particularly troubling is the dramatic increase in off-budget borrowings from just ₹3,160 crore in 2018-19 to ₹1,18,955 crore in 2021-22, which were not properly disclosed in budget documents, raising serious transparency concerns about the true extent of the state's financial obligations.

The sustainability of Telangana's debt is increasingly questionable despite a slight improvement in 2021-22. With interest payments consuming 15.03% of revenue receipts, exceeding recommended levels, a substantial portion of the state's income is diverted away from

development priorities. Compounding this issue is the fact that 59.32% of new borrowings are being used to repay existing debt, potentially creating a debt trap. The looming challenge of repaying approximately ₹1,05,242 crore within the next seven years creates significant medium-term fiscal pressure that could severely constrain the state's financial flexibility.

To address the possible outcome of debt in the state, an analysis is provided below. The analysis represents a forecasting debt growth rate based on historical trends.

- **Computing Historical Debt Growth Rate**

$$\text{Debt CAGR (\%)} = \left( \frac{143128}{143872} \right)^{\frac{1}{9}} - 1 = 3.31\%$$

The CAGR for the period 2018-19 to 2022-23 is 3.31%. While we assume the CAGR to remain constant in the following years, debt of the state is expected to increase approximately to 191831 crores in 2030-31

- **Computing Historical Debt to GSDP Growth Rate:**

$$\text{Debt-to-GSDP Ratio } \left( \frac{\text{Debt}}{\text{GSDP}} \right) \times 100$$

While the CAGR for the period 2018-19 to 2021-22 is 4.84%. The state could expect the Debt to GSDP ratio to increase to approximately 42.85% in the year 2030-31.

The fiscal health of Telangana can be significantly improved through a comprehensive set of strategic measures. Capitalizing on the state's impressive growth in tax revenue is crucial, with a focus on strengthening collection mechanisms, expanding the tax base, and leveraging data analytics and technology to enhance compliance and reduce leakages. This approach should be complemented by urgent reforms in the power distribution sector to address the substantial losses incurred by DISCOMs. Implementing smart metering, improving billing efficiency, gradually reducing subsidies, and investing in renewable energy can contribute to long-term cost reduction and improved fiscal stability.

Debt management and fiscal consolidation should be prioritized through the development of a clear debt reduction strategy aimed at bringing the fiscal deficit within FRBM targets. This involves prioritizing high-return capital expenditures, reducing non-essential spending, and implementing a medium-term fiscal framework with definitive deficit reduction targets. Enhancing non-tax revenue sources is equally important, requiring the identification and development of new sustainable revenue streams and improving efficiency in public services to increase user charges where appropriate.

Transparency in fiscal reporting, particularly concerning off-budget borrowings, needs significant improvement. The state should gradually phase out off-budget borrowings, bring all liabilities on-budget, and strengthen legislative oversight of public finances. Expenditure rationalization is critical, involving a thorough review of welfare schemes to improve targeting and efficiency, implementing outcome-based budgeting, and leveraging technology to reduce administrative costs and enhance service delivery.

Focusing on policies that sustain and accelerate economic growth, promoting industrial diversification, and investing in skill development are essential for creating a more resilient economy and improving workforce productivity. Telangana should also work closely with the central government to optimize its share in central taxes and advocate for a fair allocation of resources based on its developmental needs.

### **11.3 Determinants for A Sustainable Debt Roadmap for 2026-31: Taking into account Tax and Non-Tax Trends.**

Establishing a robust fiscal risk assessment and management framework, including the creation of contingency reserves to manage unforeseen economic shocks, is crucial for long-term fiscal stability. Finally, exploring public-private partnership models for infrastructure development can help reduce the fiscal burden, provided proper risk allocation and value for money are ensured in these projects. By implementing these comprehensive measures, Telangana can significantly strengthen its fiscal position and create a more sustainable economic future.

**Historical Trends:** Telangana's fiscal landscape presents a mix of promising developments and significant challenges. The state has demonstrated remarkable growth in its own tax revenue, with figures nearly doubling from ₹65040 crores in 2018-19 to a projected ₹131029 crores by 2023-24, reflecting robust economic activity and improved tax administration. Additionally, non-tax revenue is expected to surge from ₹17477 crores in 2021-22 to ₹64067 crores in 2023-24, indicating diverse revenue streams.

- **Tax Revenue Growth Projections**

$$\text{Non - Tax Revenue} = \left( \frac{109992}{37476} \right)^{\frac{1}{8}} - 1 = 14\%$$

The CAGR of tax revenue for the period 2014-15 to 2021-22 is 14%. At this rate the tax revenue of the state is expected to increase to approximately 357685 crores in 2030-31. It could be noted that the growth of tax revenue has fluctuated during the years 2014-15 to 2021-22. Notably, a huge growth was evident during 2020-21 and 2021-22 from -5% to 39%.

- **Non-Tax Revenue Projections**

$$\text{Non - Tax Revenue} = \left( \frac{17477}{13565} \right)^{\frac{1}{8}} - 1 = 3\%$$

The CAGR of tax revenue for the period 2014-15 to 2021-22 is 3%. At this rate the non-tax revenue of the state is expected to increase to approximately 22803 crores in 2030-31. This could be noted that Non-tax revenue increase by 161% from 2021-21 to 2022-23 (RE) and 41% in 2023-24 (BE).

The projected revenue account surplus by 2023-24 further suggests improving fiscal management. However, these positive trends are offset by persistent challenges. The gross fiscal deficit has been steadily increasing, from ₹26944 crores in 2018-19 to an estimated ₹56063 crores in 2023-24, consistently exceeding FRBM targets. This is exacerbated by unsustainable losses in the power sector, with DISCOMs reporting staggering losses (TSSPDCL alone reported a loss of ₹8,147.48 crores in 2022-23). The state's increasing reliance on borrowings for welfare schemes and development projects is concerning, particularly given the prevalence of off-budget borrowings. These off-budget mechanisms, while providing short-term fiscal flexibility, pose long-term risks by potentially distorting true fiscal deficits, undermining fiscal accountability, and eroding investor confidence. The complex interplay of these factors underscores the need for comprehensive fiscal reforms to ensure Telangana's long-term financial sustainability.

### **11.3 Outlook for 2026-2030**

With focused implementation of the above measures, Telangana has the potential to significantly improve its fiscal health by 2030. The strong revenue growth provides a solid foundation, but controlling expenditure and addressing sectoral inefficiencies, particularly in power distribution, will be crucial. By maintaining fiscal discipline, rationalizing subsidies, and promoting sustainable economic growth, Telangana can aim to bring its fiscal deficit within FRBM targets and create a more resilient financial position by 2030.

## 12. SUGGESTIONS FOR IMPROVING THE FINANCIAL PERFORMANCE OF TELANGANA

The suggestions for improving the financial performance of Telangana have been focused on four major heads. These include:

1. Strategic Approaches To Enhance Revenue Receipts Of Telangana
2. Strategic Approaches For Optimizing Revenue Expenditure In Telangana
3. Strategic Approaches For Optimizing Capital Receipts In Telangana
4. Strategies To Improve Capital Expenditure Of Telangana

### 12.1 STRATEGIC APPROACHES TO ENHANCE REVENUE RECEIPTS OF TELANGANA

#### 1. Improving Tax Collection Efficiency

##### Current Performance Analysis:

- Telangana consistently overestimated revenue receipts from 2018-19 to 2022-23, with an average variance of -20% between budget estimates and actuals
- The gap was highest during pandemic years: -30% in 2020-21 and -28% in 2021-22
- Despite improvements in 2022-23 (-9% variance), forecasting accuracy remains a challenge

##### Strategic Interventions:

- **Expand Digital Tax Base:** With taxes on commodities and services contributing 85% of State's Own Tax Revenue (₹1,11,691.60 crore in 2023-24 BE), digitizing informal sectors can significantly boost collections
- **Enhance GST Compliance:** Given that Sales Tax accounts for 57% of commodity taxes, strengthening GST enforcement through data analytics and cross-verification systems is critical
- **Improve Forecasting Models:** Implement advanced econometric models to reduce the persistent 20% gap between estimates and actuals, enabling better fiscal planning

#### 2. Reforming State Taxes

##### Current Tax Structure Analysis:

- State's Own Tax Revenue grew at a CAGR of 16.9% (2014-15 to 2023-24), reaching ₹1,31,029 crore

- Telangana leads Non-Special Category States with 8.1% own tax revenue to GSDP ratio (2021-22)
- Property taxes show high volatility: 134% growth in 2021-22 followed by -23% decline in 2020-21

#### **Reform Priorities:**

- **Stabilize Property Tax Collection:** Address the extreme volatility in stamps and registration fees (₹18,687.05 crore in 2023-24 BE) through systematic property valuation updates
- **Progressive Tax Structure:** Introduce wealth-based taxation tiers, especially given the minimal contribution of taxes on income (₹650 crore or 0.5% of total tax revenue)
- **Inflation-Indexed Rates:** Regularly adjust tax rates to maintain real value, particularly for excise duties which contribute 30% of commodity tax revenue

### **3. Monetizing Government-Owned Assets**

#### **Current Asset Performance:**

- Dividends and profits remain dismally low at ₹223.7 crore (2023-24 BE), contributing only 1% to State's Own Non-Tax Revenue
- This represents poor utilization of government enterprises and investments

#### **Asset Monetization Strategy:**

- **Divestment of Loss-Making Units:** With negligible dividend returns over the decade, the state needs to identify and divest non-performing state enterprises
- **PPP Infrastructure Development:** Leverage the state's strong revenue growth (CAGR 12.1%) to attract private partners for infrastructure projects
- **Land Monetization:** Utilize government land assets more effectively, particularly given the volatility in land revenue collections

### **4. Maximizing Central Grants and Aids**

#### **Current Central Transfer Analysis:**

- Share in Central Taxes stagnated at ₹21,471 crore (2023-24 BE) while own tax revenue surged

- Telangana's share in central taxes (2.1%) is significantly lower than Andhra Pradesh (4.0%) among Non-Special Category States
- Grants from Centre increased substantially to ₹41,259 crore (2023-24 BE)

#### **Enhancement Strategies:**

- **Improve Tax Effort Metrics:** With 15th Finance Commission incorporating tax effort in devolution formula, maintain the leading position in own tax-GSDP ratio
- **Targeted Scheme Proposals:** Capitalize on the 41% increase in "Other Grants" by developing comprehensive project proposals aligned with central priorities
- **Performance-Based Funding:** Leverage the state's strong fiscal performance to negotiate better terms for central assistance

### **5. Attracting Private Investment**

#### **Economic Growth Indicators:**

- Total Revenue increased from ₹51,042 crore (2014-15) to ₹2,16,567 crore (2023-24 BE)
- Strong recovery post-pandemic with 26.3% growth in 2022-23 and projected 23% in 2023-24

#### **Investment Attraction Framework:**

- **Sector-Specific Incentives:** Focus on industries that boost State Excise (30% of commodity taxes) and vehicle taxes (11% share)
- **Infrastructure-Led Growth:** Use the robust revenue growth trajectory to co-invest with private sector in revenue-generating infrastructure
- **Tourism Revenue Enhancement:** Develop comprehensive tourism policy to increase entertainment tax collections, currently negligible at <0.05%

### **6. Strengthening Non-Tax Revenue Streams**

#### **Current Non-Tax Performance:**

- Non-Tax Revenue projected to reach ₹64,067.48 crore (2023-24 BE), showing substantial growth
- State's Own Non-Tax Revenue at ₹22,808 crore with high volatility across components
- Economic Services peaked at 73% share in 2017-18 but declined to 28% in 2023-24

**Revenue Stream Optimization:**

- **Stabilize Economic Services:** Address the volatility in economic services revenue (₹6,482.5 crore in 2023-24 BE) through diversified service portfolio
- **Enhance User Charges:** Systematically review and adjust user charges for public services, considering the state's inflation-adjusted fiscal capacity
- **Medical Services Revenue:** Capitalize on Medical and Public Health contributing 43% of Social Services revenue

**7. Leveraging Public-Private Partnerships****Infrastructure Financing Strategy:**

- **Revenue-Sharing Models:** Structure PPPs to generate consistent revenue streams, addressing the current volatility in non-tax receipts
- **Utility Sector Partnerships:** Focus on power and water sectors where user charges can be optimized without compromising social objectives
- **Transport Infrastructure:** Develop toll-based revenue models for road infrastructure, complementing vehicle tax collections

**8. Exploring Innovative Financing Mechanisms****Fiscal Capacity Analysis:**

- Strong creditworthiness indicated by consistent revenue growth and leading tax-GSDP ratio
- Compound annual growth rate of 12.1% in total revenue provides solid foundation for debt servicing

**Innovation Opportunities:**

- **State Development Bonds:** Issue sector-specific bonds for infrastructure development, backed by projected revenue streams
- **Green Financing:** Tap into environmental financing for sustainable development projects
- **Digital Revenue Platforms:** Develop technology-based revenue collection systems to reduce leakages and improve efficiency

## Implementation Roadmap

### Short-term (1-2 years):

- Reduce budget estimation variance from current -20% to -10%
- Digitize tax collection systems for commodity and service taxes
- Conduct comprehensive asset audit for divestment decisions

### Medium-term (3-5 years):

- Achieve 10% own tax revenue to GSDP ratio (from current 8.1%)
- Increase non-tax revenue contribution to 35% of total revenue
- Establish 5-7 major PPP projects in infrastructure

### Long-term (5+ years):

- Maintain position as leading state in tax efficiency metrics
- Achieve ₹5,00,000 crore total revenue target through diversified streams
- Establish Telangana as a model for fiscal management among Indian states

## 12.2 STRATEGIC APPROACHES FOR OPTIMIZING REVENUE EXPENDITURE IN TELANGANA

To enhance the efficiency and sustainability of Telangana's revenue expenditure, the state government must adopt a comprehensive approach that leverages data-driven insights while maintaining fiscal discipline. The following strategies are grounded in the detailed expenditure analysis and comparative performance metrics.

### 1. Streamlining Administrative Expenditures

Administrative services constitute a significant component of Telangana's non-developmental expenditure, which has grown moderately by 48% from 2018-19 to 2023-24. With non-developmental expenditure reaching ₹50,606.78 crores in 2023-24 (BE), there is substantial scope for optimization through digital transformation and administrative consolidation.

**Data-Driven Rationale:** The state's non-developmental expenditure accounts for approximately 24% of total revenue expenditure, indicating room for efficiency improvements without compromising service delivery. Implementing streamlined processes could reduce this burden while maintaining administrative effectiveness.

## 2. Addressing Critical Debt Servicing Challenges

Interest payments and debt servicing represent 70-75% of total non-developmental expenditure across the years 2014-15 to 2022-23, making this the most pressing fiscal challenge. This heavy debt burden significantly constrains the state's ability to allocate resources to developmental activities.

**Strategic Imperative:** Given that debt servicing consumes three-quarters of non-developmental spending, implementing debt restructuring and refinancing strategies could free up substantial resources. The state should prioritize securing favorable borrowing terms and explore innovative financial instruments to reduce the debt servicing burden.

## 3. Pension System Reform

Pensions, along with interest payments, comprise 70-75% of non-developmental expenditure, indicating an urgent need for systematic reform. The analysis reveals that pension outlays have become a major fiscal constraint that requires immediate attention.

**Reform Framework:** With pension expenditure consuming such a large portion of non-developmental spending, implementing actuarially sound pension schemes, means testing, and hybrid contribution models becomes critical. This reform could significantly reduce long-term fiscal pressures while ensuring adequate retirement security.

## 4. Optimizing Developmental Expenditure Allocation

Developmental expenditure, which increased from ₹36,397.27 crores in 2014-15 to ₹161,068.4 crores in 2023-24 (BE), represents the largest component of revenue expenditure. Within this, social services account for 64% and economic services 36% of developmental spending in 2023-24.

### Strategic Focus Areas:

- **Social Services:** With education, sports, art & culture, and welfare of SC, ST & OBC receiving the highest allocations, the state should enhance outcome measurement and efficiency in these sectors
- **Economic Services:** Agriculture and allied activities, energy, and rural development receive priority funding and require performance-based allocation mechanisms

## 5. Enhancing Fiscal Efficiency Through Better Budget Management

The analysis reveals improving budget accuracy, with the gap between estimates and actuals narrowing from 23% in 2018-19 to 9% in 2023-24. This improvement demonstrates enhanced fiscal discipline but also indicates potential for further optimization.

**Budget Optimization Strategy:** The state has successfully spent less than planned estimates, showing adherence to FRBM norms. However, the narrowing gap suggests the need for more sophisticated forecasting models to maximize resource utilization while maintaining fiscal prudence.

## 6. Leveraging Comparative Advantages

Telangana's per capita revenue expenditure of ₹41,190 ranks third among non-special category states, significantly higher than Andhra Pradesh's ₹12,936. However, the state's revenue expenditure to GSDP ratio of 12.1% is lower than Andhra Pradesh's 14%.

**Benchmarking Insights:** While Telangana demonstrates higher per capita spending efficiency, there is scope to optimize the expenditure-to-GSDP ratio. The state should focus on maximizing developmental impact per rupee spent, particularly given its relatively favorable fiscal position.

## 7. Revitalizing Grant Utilization

Grants-in-Aid and Contributions have remained consistently near zero from 2018-2024, representing a missed opportunity for resource mobilization. This component was ₹111.6 crores in 2014-15 but dropped to negligible amounts in recent years.

**Resource Mobilization Strategy:** The dramatic decline in grant utilization suggests inadequate alignment with central government priorities. Proactive engagement with central schemes and improved project proposal mechanisms could significantly augment available resources without increasing state fiscal burden.

## 8. Implementing Performance-Based Resource Allocation

With developmental expenditure showing an average growth rate of 16.87% over the past years, the state must ensure this growth translates into proportional developmental outcomes. The substantial increase from ₹50,673.13 crores to ₹211,685.2 crores in total revenue expenditure demands rigorous performance monitoring.

**Outcome Optimization:** Given the massive scale of expenditure growth, implementing robust monitoring and evaluation frameworks becomes critical. Performance-based budgeting can ensure that the 317% increase in total revenue expenditure over the decade translates into measurable developmental impact.

## 9. Public-Private Partnership Integration

With developmental expenditure accounting for approximately 76% of total revenue expenditure in 2023-24, there is significant potential to leverage private sector participation.

This is particularly relevant given the state's high per capita expenditure ranking among non-special category states.

**PPP Strategy:** The state's strong fiscal position and high developmental spending create favorable conditions for PPP implementation. Strategic partnerships in infrastructure, healthcare, and education can amplify the impact of the state's substantial developmental expenditure.

### 10. Strengthening Financial Management Systems

The improvement in budget estimation accuracy from 23% variance to 9% demonstrates the state's commitment to fiscal discipline. Building on this foundation, advanced financial management systems can further enhance expenditure efficiency.

**System Enhancement:** The consistent improvement in budget accuracy indicates existing systems are functioning well. Investing in real-time expenditure tracking and predictive analytics can maintain this trajectory while identifying new optimization opportunities across the ₹211,685.2 crore revenue expenditure envelope.

## 12.3 STRATEGIC APPROACHES FOR OPTIMIZING CAPITAL RECEIPTS IN TELANGANA

To strengthen Telangana's capital receipts framework and ensure sustainable fiscal growth, the state must adopt data-driven strategies that address current weaknesses while leveraging existing strengths. The analysis of capital receipts trends from 2014-15 to 2023-24 reveals critical insights that inform these strategic recommendations.

### 1. Diversifying and Optimizing Internal Debt Management

Internal debt represents the backbone of Telangana's capital receipts, growing consistently from ₹9,494.11 crores in 2014-15 to ₹92,006.67 crores in 2023-24 (BE). Within this, market loans dominate at ₹40,615.68 crores in 2023-24, while Ways and Means Advances (WMA) from RBI peaked dramatically at ₹69,453.90 crores in 2021-22 before dropping to ₹100 crores in 2023-24.

**Strategic Imperative:** The heavy reliance on volatile WMA financing indicates liquidity management challenges. The state should diversify borrowing instruments by issuing long-term infrastructure bonds, exploring green bonds for sustainable projects, and reducing dependence on short-term WMA. The consistent growth in market loans from ₹8,201.14 crores to ₹40,615.68 crores demonstrates market confidence, which can be leveraged for more favorable borrowing terms.

## 2. Dramatically Improving Loan Recovery Mechanisms

The analysis reveals a concerning pattern in loan recovery, with amounts remaining consistently low across sectors. Recovery of Loans and Advances stood at merely ₹47.7 crores in 2021-22, though it's projected to surge to ₹5,060 crores in 2023-24, primarily due to a planned ₹5,000 crore recovery from urban development.

**Critical Need for Reform:** The power sector, which absorbs maximum loans and subsidies, shows virtually no recovery after 2018-19, creating a significant fiscal drain. With 79% of farmers in Telangana struggling to repay loans according to NABARD data, the state must implement: Sector-specific recovery strategies, particularly for power and agriculture, asset-backed recovery mechanisms; incentive structures for timely repayments and digital tracking systems for loan monitoring

## 3. Stabilizing Volatile Capital Receipt Components

Capital receipts show extreme volatility, with growth ranging from +147% in 2016-17 to -54% in 2017-18, primarily due to the erratic "Suspense and Miscellaneous" component that peaked at ₹3,07,628.83 crores in 2016-17 before dropping to zero by 2022-23.

**Stabilization Strategy:** The elimination of the volatile suspense component demonstrates improved financial management. Building on this foundation, the state should:

- Maintain the disciplined approach that eliminated suspense account volatility
- Focus on predictable revenue streams like steady growth in State Provident Funds (from ₹1,319.07 crores to ₹3,180.83 crores)
- Leverage the consistent performance of Deposits and Advances, which grew from ₹23,614.87 crores to ₹92,006.67 crores

## 4. Maximizing Central Government Funding

Loans and Advances from the Centre remain underutilized, growing from ₹86.37 crores in 2014-15 to ₹4,102 crores in 2023-24 (BE). This represents a missed opportunity given the state's development needs and the availability of central schemes.

**Enhancement Strategy:** The analysis clearly shows that Telangana raises significantly more funds via internal debt than it receives from the centre. To optimize this:

- Align state projects with national priorities to access higher central funding
- Improve proposal quality for schemes like PMGSY, NHDP, and infrastructure initiatives

- Establish dedicated cells for monitoring and accessing central schemes
- Leverage the state's strong fiscal position to negotiate better terms

### 5. Capitalizing on Inter-State Settlement Opportunities

Inter-State Settlement emerged as a new significant component, jumping from zero to ₹7,500 crores in 2022-23 and further to ₹17,828 crores in 2023-24 (BE), indicating successful adoption of new financial settlement mechanisms.

**Strategic Expansion:** This dramatic increase from zero to ₹17,828 crores represents a major opportunity. The state should:

- Actively pursue inter-state revenue-sharing agreements
- Negotiate favorable terms for shared infrastructure projects
- Develop frameworks for water-sharing and other cross-border initiatives
- Build on the success demonstrated by the recent settlements

### 6. Revitalizing Remittance Flows

Remittances showed significant volatility, peaking at ₹22,637.83 crores in 2016-17 before declining to near-zero levels by 2020-21. The component recovered to ₹1,129.60 crores in 2021-22 but requires strategic intervention.

**Revival Strategy:** The dramatic decline from ₹22,637.83 crores to negligible amounts indicates lost potential. To revive this:

- Enhance diaspora engagement programs
- Create investment-friendly policies for NRI investments
- Develop digital platforms for easy remittance processing
- Market Telangana's IT and industrial strengths internationally

### 7. Optimizing Reserve Fund Management

Reserve Funds showed significant fluctuation, from ₹1,120.53 crores in 2014-15 to a peak of ₹5,315.89 crores in 2019-20, before stabilizing around ₹1,600 crores. This volatility indicates suboptimal fund management.

**Fund Optimization:** The peak of ₹5,315.89 crores in 2019-20 suggests potential for higher accumulation. Strategic fund management through:

- Professional portfolio management for higher yields

- Strategic partnerships with financial institutions
- Low-risk, high-return investment strategies
- Transparent fund utilization policies

### **8. Strengthening Deposit and Advance Mechanisms**

Deposits and Advances represent the most consistent growth component, increasing from ₹23,614.87 crores to ₹92,006.67 crores, making it the largest component after internal debt.

**Expansion Strategy:** This 290% growth demonstrates strong potential. To further optimize:

- Develop specialized financial products for different sectors
- Enhance transparency in fund handling to attract more deposits
- Create competitive interest structures
- Establish dedicated customer service for institutional depositors

### **9. Implementing Performance-Based Capital Planning**

Total capital receipts fluctuated from ₹154,851.4 crores in 2014-15 to ₹166,016.4 crores in 2023-24 (BE), with significant volatility in between. The projected 19% growth in 2023-24 after a -36% decline in 2022-23 indicates recovery potential.

**Strategic Planning Framework:** The extreme volatility (from +147% to -54% growth rates) necessitates:

- Predictive modeling for capital receipt forecasting
- Diversified funding strategies to reduce volatility
- Quarterly monitoring and adjustment mechanisms
- Contingency planning for revenue shortfalls

### **10. Leveraging Technology for Financial Management**

The successful reduction of suspense accounts from ₹3,07,628.83 crores to zero demonstrates the impact of improved financial management systems.

**Digital Enhancement Strategy:** Building on this success:

- Implement real-time capital receipt tracking systems
- Develop automated loan recovery mechanisms
- Create digital platforms for investor engagement

- Establish predictive analytics for capital planning

## 11. Addressing Sectoral Imbalances

The analysis reveals significant sectoral imbalances, particularly in loan recovery where power sector loans show zero recovery despite maximum absorption of funds, while urban development shows planned recovery of ₹5,000 crores in 2023-24.

**Sectoral Optimization:** Given the poor recovery performance across sectors:

- Implement sector-specific recovery strategies
- Create performance-linked funding mechanisms
- Establish clear accountability frameworks
- Develop asset monetization strategies for non-performing loans

## 12.4 STRATEGIES TO IMPROVE CAPITAL EXPENDITURE OF TELANGANA

Improving capital expenditure (CAPEX) is essential for accelerating Telangana's economic development, particularly through the creation of long-term assets and infrastructure. The state's capital expenditure has shown significant volatility, with dramatic fluctuations ranging from a 147% surge in 2016-17 to a 32% contraction in 2022-23. With a projected 20% recovery in 2023-24 (BE) totaling ₹171,521 crores, strategic optimization of CAPEX is crucial for sustained growth.

### 1. Prioritizing High-Impact Infrastructure Projects

**Strategic Focus:** Accelerate economic development through targeted infrastructure investments in roads, highways, power plants, industrial parks, and smart cities.

**Current Performance Analysis:**

- Total Capital Outlay has fluctuated dramatically from ₹8,373 crores (2014-15) to a projected ₹37,525 crores (2023-24 BE), indicating inconsistent infrastructure investment patterns
- Transport infrastructure receives only 16% of Economic Services allocation (₹4,552 crores in 2023-24 BE), suggesting room for expansion
- The state's remarkable 155% boost in irrigation projects during 2016-17 (from ₹6,201 crores to ₹15,970 crores) demonstrates capacity for large-scale infrastructure scaling

**Implementation Strategy:** Establish consistent annual growth targets of 15-20% for infrastructure CAPEX, prioritizing transport and connectivity projects that currently receive relatively lower allocations compared to irrigation investments.

## 2. Expanding Education and Healthcare Infrastructure

**Strategic Focus:** Substantially increase investments in education and healthcare infrastructure to support population growth and human capital development.

### Current Performance Analysis:

- Education, Sports, Art and Culture receives merely 5% of Social Services allocation (₹328 crores in 2023-24 BE), indicating severe underinvestment
- Medical and Public Health dominates Social Services with 44% allocation (₹2,773 crores), showing strong healthcare focus but requiring expansion
- Total Social Services allocation of ₹6,332 crores represents only 18% of total capital outlay, suggesting significant scope for enhancement

**Implementation Strategy:** Double education infrastructure spending to ₹650 crores by 2025-26 while maintaining robust healthcare investments. Target achieving 25% of total capital outlay for Social Services within three years.

## 3. Focusing on Renewable Energy and Green Infrastructure

**Strategic Focus:** Position Telangana as a sustainable development leader through renewable energy and green infrastructure investments.

### Current Performance Analysis:

- Energy sector allocation dropped to zero from 2020-21 onwards after significant investments of ₹10,498 crores in 2016-17
- Current energy infrastructure gap represents a critical opportunity for renewable energy expansion
- Power Projects under Loans and Advances shows modest allocation of ₹591 crores (2023-24 BE), indicating potential for scaling

**Implementation Strategy:** Reintroduce dedicated Energy sector allocation of at least ₹2,000 crores annually, focusing on solar and wind projects. Leverage the previous high investment capacity demonstrated in 2016-17 for green energy transition.

## 4. Improving Financial Management of Capital Expenditures

**Strategic Focus:** Enhance financial management systems to ensure efficient resource utilization and reduce expenditure volatility.

**Current Performance Analysis:**

- Suspense and Miscellaneous category peaked at 36% of total capital disbursements (₹78,351 crores in 2018-19), indicating poor financial tracking
- This category has been reduced to zero by 2022-23, showing improvement but highlighting past inefficiencies
- Annual growth volatility ranges from -54% to +147%, demonstrating need for better financial planning

**Implementation Strategy:** Implement real-time financial tracking systems and maintain Suspense and Miscellaneous at under 2% of total CAPEX. Establish rolling 3-year capital expenditure plans to reduce annual volatility to  $\pm 15\%$ .

## 5. Accelerating Asset Creation in Rural and Non-Urban Areas

**Strategic Focus:** Bridge urban-rural divide through targeted rural infrastructure investments and agricultural asset creation.

**Current Performance Analysis:**

- Rural Development allocation has grown substantially from ₹51 crores (2014-15) to ₹2,959 crores (2023-24 BE), showing 10% of Economic Services
- Major and Medium Irrigation receives the largest Economic Services allocation at 35% (₹10,150 crores), demonstrating rural infrastructure priority
- Agriculture and Allied Activities receives minimal allocation of only ₹291 crores, representing just 1% of Economic Services

**Implementation Strategy:** Increase Agriculture and Allied Activities allocation to ₹1,000 crores by 2025-26. Maintain strong irrigation investments while expanding rural connectivity and agro-processing infrastructure.

## 6. Enhancing the Loan and Advances System

**Strategic Focus:** Streamline developmental loan processes and improve fund utilization efficiency.

**Current Performance Analysis:**

- Loans and Advances by State Government has grown from ₹1,483 crores (2014-15) to ₹28,480 crores (2023-24 BE), representing 17% of total capital expenditure

- 98% of loans are allocated for development purposes, indicating strong developmental focus
- Within development loans, 63% goes to Water Supply & Sanitation and 83% of Economic Services loans to irrigation projects

**Implementation Strategy:** Diversify loan portfolio by allocating 20% to technology and manufacturing sectors. Establish clear performance metrics and repayment frameworks to ensure sustainable lending practices.

### 7. Leveraging Public-Private Partnerships (PPPs) for Funding

**Strategic Focus:** Attract private sector investment through strategic PPP frameworks to supplement government CAPEX.

#### Current Performance Analysis:

- Total Capital Expenditure of ₹171,521 crores (2023-24 BE) indicates substantial funding requirements
- Industry and Minerals receives minimal allocation of ₹48 crores, suggesting potential for private sector collaboration
- Transport sector allocation of ₹4,552 crores could benefit from PPP models for highway and metro projects

**Implementation Strategy:** Target private sector co-investment of ₹15,000 crores annually through PPPs in transport, energy, and industrial infrastructure. Focus on sectors with current low public investment but high growth potential.

### 8. Optimizing Internal Resources for Capital Expenditure

**Strategic Focus:** Maximize utilization of existing state assets and create sustainable funding mechanisms.

#### Current Performance Analysis:

- Discharge of Internal Debt has fluctuated significantly, reaching ₹76,501 crores in 2020-21 before declining to ₹12,279 crores (2023-24 BE)
- 76% of internal debt servicing goes to market loans, indicating heavy reliance on borrowing
- Reserve Funds allocation shows inconsistent patterns, ranging from ₹1,028 crores to ₹3,581 crores

**Implementation Strategy:** Establish a sovereign wealth fund targeting ₹5,000 crores within three years from revenue surpluses. Optimize underutilized state assets to generate additional ₹2,000 crores annually for infrastructure investment.

### 9. Balancing Debt Sustainability with Increased Capital Expenditure

**Strategic Focus:** Maintain fiscal health while scaling up capital investments through strategic debt management.

#### Current Performance Analysis:

- Internal debt discharge patterns show high volatility, indicating inconsistent debt management
- Market loans dominate debt structure at 76%, suggesting over-reliance on commercial borrowing
- NABARD loans represent only 8% of debt composition, indicating underutilization of concessional funding

**Implementation Strategy:** Increase concessional borrowing from NABARD and multilateral agencies to 25% of total debt. Maintain debt service ratio below 20% of total capital expenditure while targeting annual CAPEX growth of 15%.

### 10. Ensuring Transparency and Accountability in Capital Expenditure

**Strategic Focus:** Build public trust through transparent CAPEX management and stakeholder engagement.

#### Current Performance Analysis:

- Historical reduction of Suspense and Miscellaneous from ₹78,351 crores to zero demonstrates improved transparency
- Complex expenditure categories across 15+ components require better public communication
- Revised Estimates often differ significantly from Budget Estimates, indicating need for better forecasting

**Implementation Strategy:** Publish quarterly CAPEX performance reports with variance analysis. Implement citizen feedback mechanisms for major projects above ₹100 crores. Establish predictive analytics to improve budget estimation accuracy by 90%.

## CONCLUDING REMARKS

Telangana has exhibited remarkable fiscal buoyancy and economic resilience in recent years, positioning itself as a paradigm of robust subnational economic management. The state's own tax revenue has demonstrated exceptional elasticity, doubling from ₹65040 crores in FY 2018-19 to a projected ₹131029 crores in FY 2023-24. This fiscal proficiency has catapulted Telangana to the apex of Non-Special Category States in terms of tax-to-GSDP ratio, boasting an impressive 8.1%. This enhanced fiscal capacity provides substantial headroom for expansionary fiscal policies and developmental initiatives. A salient feature of Telangana's fiscal strategy is its pronounced emphasis on developmental expenditure. The state has allocated a preponderance of its budget towards social and economic services, with developmental outlay experiencing a staggering 156% growth from FY 2018-19 to FY 2023-24. This substantial increase in public investment is indicative of a commitment to augmenting the state's human capital and physical infrastructure. Such targeted expenditure has the potential to catalyse inclusive growth by ameliorating rural-urban disparities and fostering economic convergence across the state. Telangana's fiscal consolidation efforts are evident in its projected transition from a revenue deficit to a revenue surplus position in FY 2022-23 and FY 2023-24. This fiscal correction, if realized, would signify improved allocative efficiency and adherence to fiscal responsibility norms. While the Gross Fiscal Deficit exhibits an upward trajectory, it appears to be calibrated within the bounds of fiscal prudence, striking a delicate balance between growth-inducing expenditure and macroeconomic stability. The state's expenditure composition reveals a judicious equilibrium between developmental and non-developmental outlays, potentially engendering a virtuous cycle of growth and development. Notably, the minimal dependence on grants-in-aid underscores a drive towards fiscal self-reliance and endogenous growth stimuli. This approach not only enhances fiscal autonomy but also incentivizes efficient resource mobilization and utilization. In the power sector, Telangana has demonstrated a substantial commitment to infrastructural enhancement, as evidenced by the significant increase in power sector expenditure from ₹49.67 crores in FY 2018-19 to ₹121.13 crores in FY 2023-24. While this increase signifies a focus on augmenting power infrastructure, it also underscores the imperative for comprehensive sectoral reforms. Implementing a rationalized tariff structure could improve the financial health of DISCOMs, potentially mitigating the long-term fiscal burden on the state exchequer. Evaluation of State Finances: A Study of Telangana 178 To capitalize on these fiscal strengths and ensure sustainable growth, Telangana should consider a multi-pronged strategy. Continued focus on

enhancing own tax revenue through improved tax buoyancy and widening of the tax base will help maintain fiscal autonomy. Implementing targeted developmental programs can further address spatial and sectoral disparities, promoting balanced regional development. Developing a comprehensive roadmap for power sector reforms, including tariff rationalization and efficiency improvements in DISCOMs, is crucial for long-term fiscal sustainability. Furthermore, maintaining an optimal balance between countercyclical fiscal expansion and fiscal consolidation will be key to ensuring long-term macroeconomic stability. Telangana can leverage its strong fiscal performance to advocate for more favorable devolution formulae from the Finance Commission, potentially leading to enhanced vertical and horizontal equity in resource allocation. In conclusion, Telangana's fiscal management and growth trajectory exhibit significant promise for inclusive and sustainable development. By building on its strengths in revenue mobilization and developmental focus, while addressing structural challenges in sectors like power, the state is well-positioned to achieve balanced and equitable growth. The state's fiscal strategy, if sustained, has the potential to create a robust framework for economic resilience and shared prosperity in the coming years

## REFERENCES

- i. Budget Analysis, Public Sector Enterprises, 2022-23
- ii. Comptroller and Auditor General of India. (2023). Report on Public Sector Undertakings for the year ended March 2022, Government of Telangana.
- iii. Directorate of Economics and Statistics, Government of Telangana (Provisional Estimates 2023).
- iv. Finance Commission in Covid Times, Report for 2021-26:  
<https://fincomindia.nic.in/asset/doc/commission-reports/XV-FC-Volume%20IV-The%20States.pdf>
- v. Fiscal Policy Statement, Government of Telangana, July 2024
- vi. Fourteen Finance Commission Report:  
<https://fincomindia.nic.in/asset/doc/commission-reports/14th-FC/14thFCReport.pdfs>
- vii. Fifteen Finance Commission Report:  
<https://fincomindia.nic.in/asset/doc/commission-reports/XVFC%20VOL%20I%20Main%20Report.pdf>
- viii. Government of Telangana, Department of Industries and Commerce. (2023). Annual report 2022-23. <https://industries.telangana.gov.in/annual-reports/2022-23.pdf>
- ix. Government of Telangana, Finance Department. (2023). Budget analysis: Public Sector Enterprises 2022-23. <https://finance.telangana.gov.in/budget-documents/2022-23/pse-analysis.pdf>
- x. Government of Telangana, Finance Department. (2023b). Economic survey 2022-23: Chapter on Public Sector Enterprises.  
<https://finance.telangana.gov.in/economic-survey/2022-23/chapter-pse.pdf>
- xi. Government of Telangana. (2023). Policy Note on Strategic Investment in PSUs 2022-23.
- xii. Government of Telangana. (2024, July). Statement of Fiscal Policy Telangana, 2024
- xiii. Guidelines for Release and Utilization of Grant recommended by the 14<sup>th</sup> Finance Commission for Rural Local Bodies and Urban Local Bodies

- xiv. Ministry of Home Affairs, Government of India: [Home | Government of sIndia \(censusindia.gov.in\)](#)
- xv. Northern Power Distribution Company of Telangana Limited Annual Reports 2018-19, 2019-20, 2020-21, 2021-22, 2022-23
- xvi. Report of CAG on state finances for the year ended 2023
- xvii. Report of CAG on state finances for the year ended 2023; State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.
- xviii. Report of the Comptroller & Auditor General of India on Local Bodies for the year ended 31st March, 2017
- xix. Southern Power Distribution Company of Telangana Limited Annual Reports 2018-19, 2019-20, 2020-21, 2021-22, 2022-23.
- xx. State Finance: A Study of Budgets (2019-20 to 2023-24), RBI.
- xxi. State Finances Audit Report for the year ended March 2023
- xxii. Telangana Budget in Brief 2024-25, Government of Telangana
- xxiii. [Telangana Population 2024 \(worldpopulationreview.com\)](#)
- xxiv. Telangana Population 2024: [Telangana Population 2024 \(indiacensus.net\)](#)
- xxv. Telangana State Power Generation Corporation (TSGENCO). (2023). Annual Report 2022-23.
- xxvi. Telangana State Road Transport Corporation (TSRTC), Performance Report (2023).

---

<sup>i</sup> Bhattacharya, R., Prasanth, C., Rao, R. K., Pandey, R., Mehta, M., Ramakrishnan, B., ... & Watal, K. (2024). *How much Debt is Optimal for the Major Indian States? Economic Growth vs. Debt Sustainability* (No. 24/411).