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PUBLIC FINANCES OF TELANGANA

Trends, Challenges and Policy Priorities

CENTRE FOR ECONOMIC AND SOCIAL STUDIES
(Planning Dept, Govt. of Telangana & ICSSR-Ministry of Education, Govt. of India)
July, 2026

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Venna Vijay Kumar

CENTRE FOR ECONOMIC AND SOCIAL STUDIES
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Chairman's Message



It is with a sense of pride as well as pleasure that we are submitting this Report on Telangana's Finances to the Government of Telangana. The CESS has continuously striven to bring academic rigour and detailed data exploration to bear upon issues of national, state and local importance in a variety of socio-economic and political contexts. This Report is very much in the spirit of this tradition. Carefully and painstakingly prepared by Dr. Vijay Kumar under the experienced and professional mentorship of Dr. G.R. Reddy, it attempts to take stock of the issues confronting the state's finances in the decade since its formation. Among the major issues discussed are (i) the rising public debt burden and its servicing costs (ii) slowdown in revenue collections (iii) rising burden of subsidies and (iv) the rationale for the state's representations to the 16th Finance Commission to increase its share from 41% to 50% in the vertical devolution, to move away from the "income criterion" in the horizontal devolution and to permit restructuring of its public debt.

On behalf of CESS, I convey my heartfelt appreciation to Dr. Vijay Kumar and Dr. G.R. Reddy for their massive effort in preparing this Report and express the hope that it will be viewed as a useful perspective on the policy options available to this State to place its finances on a sound footing.

Dilip M. Nachane
Chairman
Centre for Economic and Social Studies

Foreword



This study on the public finances of Telangana State since its formation in June, 2014 by Dr. V. Vijay Kumar is comprehensive in its coverage and timely. Though State finances have stabilised to an extent in the post-COVID period, there are serious concerns regarding elevated levels of off-budget borrowings, growing expenditure on welfare schemes, interest payments and other committed expenditure on salaries and pensions. When the State came into being, it faced numerous problems, which few new States have had to address. The neglect of Telangana region in the erstwhile State of Andhra Pradesh and its backwardness had been brought out vividly in a study entitled, "Pattern of Development-A Study of Andhra Pradesh" conducted by none other than the erstwhile Planning Commission, an expert body entrusted with the task of ensuring balanced development. The study observed that, "Due to lop sided developmental strategies pursued from time to time, balanced development of the State has become casualty and regional imbalances went on widening".

The Government of India identified 250 districts across the country on the basis of low human development index, poor infrastructure facilities, high concentration of rainfed farm lands etc., for implementation of the Backward Regions Grant Fund (BRGF) launched in the year 2007. Nine out of ten districts in the State of Telangana were covered under BRGF. The Expert Group on Agricultural Indebtedness (2007) identified 100 agriculturally less developed and distressed districts in the country. These included seven out of the then 10 districts of Telangana. Farmers were in dire straits because of their dependence on rainfed agriculture. As crop failures were frequent, the incidence of farmers' suicide was one of the highest in Telangana. The State of Telangana was faced with a power deficit of nearly 1000 MW, adversely impacting both agriculture and industry.

Telangana had to address problems on multiple fronts like meeting power shortages, provision of irrigation facilities and the overall backwardness of the State on almost all the fronts. In addition, fulfilling the expectations of people which remained suppressed in the combined State was a major challenge before the government in 2014. The manner in

which the State built its own revenue base to meet expenditure on infrastructure and welfare with the discipline that public finance demands is a fascinating case study. And there are questions as to how it planned for a future — power, irrigation, urban infrastructure and welfare while managing the debt.

This study takes up those questions directly, and it does so at a moment when they matter more than ever. Telangana's finances over the past decade have been a study in contrasts: a State that has outperformed national averages on revenue growth and per capita income, while also drawing scrutiny for the scale of its borrowing and the sustainability of its flagship welfare schemes. Hyderabad's emergence as a magnet for investment sits alongside persistent questions about regional balance within the State itself.

The study begins with macroeconomic trends in revenue and expenditure since the State's formation — tracing how Telangana's own tax and non-tax revenues have grown relative to Central transfers, how the composition of spending has shifted between revenue and capital account, and what these reveal about the state's evolving fiscal capacity. It then turns to the question of debt: the pace at which Telangana's borrowings have risen, how these compare with Fiscal Responsibility and Budget Management targets and with other States, and — more importantly — whether current debt levels are sustainable given the State's revenue trajectory and repayment obligations. Finally, the report undertakes a close analysis of Telangana's welfare schemes, examining not only their fiscal footprint but also their design, targeting, and the trade-offs they impose on the space available for capital investment and other priorities. The concluding chapter besides summarising the findings of the study suggests a way forward.

For students of public finance, this is a valuable case study in the fiscal challenges facing a young, ambitious State. For policymakers, it offers a sober accounting of choices made and their consequences, useful well beyond Telangana's borders as other States weigh similar trade-offs between welfare commitments and fiscal discipline. And for the interested citizen, it offers something rarer still: a clear-eyed, well-documented account of where public money in Telangana has actually gone, and why.

G. R. Reddy
Founder Member
Centre for Economic and Social Studies

Preface



The formation of Telangana in 2014 as India's 29th State marked a watershed moment in Indian federalism, initiating a decade of profound transformation in the State's economic and fiscal architecture. This report, "Public Finances of Telangana: Trends, Challenges and Policy Priorities" offers a comprehensive analysis of the State's journey over the past ten years, examining how it has navigated the complexities of reorganisation, economic growth, and fiscal management.

The report highlights that the State's macroeconomic performance over this decade has been characterised by expansion, recording a nominal GSDP growth rate of 11.4% and a real growth rate of 6.2% per annum. These gains are reflected in the State's rising prosperity; by 2023-24, Telangana climbed to the second position among general category states in nominal per capita income. Services sector contributed 67% to Telangana's GSVA. However, this economic structure is accompanied by a paradox, as the agriculture sector remains the State's largest employer despite its lower contribution to GSVA.

The report further highlights that Telangana showed fiscal self-reliance, distinguished by its ability to mobilise internal resources, and relatively low dependence on central transfers compared to other general category states. Despite this strength, the State faces an emerging trend of fiscal stress, evidenced by a decline in revenue buoyancy, limitations in certain non-recurring revenue streams, decline in state's share in tax devolution, and falling central grants.

The report emphasises that the fiscal scenario is further complicated by the impact of welfare interventions and outstanding total liabilities, which are estimated to have exceeded statutory fiscal limits. While the state's expenditure towards creation of capital assets has increased, and social welfare schemes have expanded to provide vital social safety nets but have also placed significant pressure on the state's budget, necessitating a shift toward better targeting. Yet, the absence of outcome budgets or social impact assessments, makes it difficult to evaluate whether these interventions have achieved their intended objectives and desired social and economic outcomes.

As Telangana moves toward its "Telangana Rising-2047 Vision," the focus must shift toward sustainable debt management and strategic investment in human capital, particularly in education. We express our sincere gratitude to the Reserve Bank of India for its generous financial support, which made this study possible. We are deeply indebted to Dr. G.R. Reddy for his constant guidance, invaluable insights, and meticulous review of the study throughout its course. It is our hope that the findings presented in this report will provide a data-driven foundation for researchers, academics, and policymakers, contributing to informed decision-making and supporting Telangana's continued progress towards inclusive and sustainable development.

E. Revathi
Director
Centre for Economic and Social Studies

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Abbreviations

₹/Rs.	Indian Rupees
AP	Andhra Pradesh
ASI	Annual Survey of Industries
ASUSE	Annual Survey of Unincorporated Sector Enterprises
B2B	Back-to-back
BR	Bihar
CAG	Comptroller and Auditor General
CGST	Central Goods and Services Tax
CO	Capital Outlay
CS/CSS	Central Sector/Centrally Sponsored Schemes
CTs	Central Transfers (financial)
CT	Chhattisgarh (State)
DE	Development Expenditure
DES	Directorate of Economics and Statistics
DISCOM	Distribution Company
FC	Finance Commission
FD	Fiscal Deficit
FRBM	Fiscal Responsibility and Budget Management
GA	Goa
GSA	Gross Sown Area
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GJ	Gujarat
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
GSVA	Gross State Value Added
GVA	Gross Value Added
HR	Haryana
ID	Internal Debt
IGST	Integrated Goods and Services Tax
IND	India
IP	Interest Payments

IT & ITES	Information Technology and Information Technology Enabled Services
JH	Jharkhand
KA	Karnataka
KL	Kerala
kWh	Kilowatt-hour
MH	Maharashtra
MoSPI	Ministry of Statistics and Programme Implementation
MP	Madhya Pradesh
MTFPS	Medium Term Fiscal Policy Statement
NDE	Non-Development Expenditure
NEHS	North-East and Himalayan States
NGO	Non-government organisation
NNI	Net National Income
NSAP	National Social Assistance Programme
NSA	Net Sown Area
NSDP	Net State Domestic Product
NSSO	National Sample Survey Office
NTR	Non-Tax Revenue
OBB	Off-Budget Borrowing
OBC	Other Backward Class
OD	Odisha
PCI	Per Capita Income
PJ	Punjab
PLFS	Periodic Labour Force Survey
PRI	Panchayat Raj Institution
PS+SS	principal status + subsidiary status
PSU	Public Sector Undertaking
RBI	Reserve Bank of India
RJ	Rajasthan
RR	Revenue Receipts
RS/RD	Revenue Surplus/Revenue Deficit
SASCI	Special Assistance to States for Capital Investment
SC	Scheduled Caste

SUT	Share in Union Taxes and Duties
SDF	Special Drawing Facility
SGST	State Goods and Services Tax
SOR	State's Own Revenue
SOTR	State's Own Tax Revenue
SPV	Special Purpose Vehicle
ST	Scheduled Tribe
T-Hub	Technology Hub
TASK	Telangana Academy for Skill and Knowledge
TG	Telangana
TN	Tamil Nadu
TRANSCO	Transmission Corporation
TG-bPASS	Telangana Building Permission Approval & Self-Certification System
TG-iPASS	Telangana Industrial Project Approval & Self-Certification System
TGFRBM	Telangana Fiscal Responsibility and Budget Management
UDAY	Ujwal DISCOM Assurance Yojana
ULB	Urban Local Body
UP	Uttar Pradesh
UTs	Union Territories
VAT	Value Added Tax
WB	West Bengal
WMA	Ways and Means Advances

CHAPTER 1

Public Finances of Telangana

1.0 Introduction

It has been a decade since the formation of the Telangana State. The formation of the State is a major development of federalism in India. Since the formation, the State has undergone various transformations, including its public finances. This study is on the decadal changes in the public finances of the State.

1.1 A Brief History and Profile of the State

Telangana was part of Hyderabad State under the Nizam's Dominion until it acceded to India in 1948, and subsequently integrated into the Indian Union. Post 1948, Hyderabad State existed as a separate state for about 8 years till 1956. Conversely, Andhra region had been carved out of the Madras Presidency, but lacked a permanent capital city. In 1956, India's first linguistic State was formed with the integration of Andhra State with Telugu-speaking Telangana districts. However, the merger of the two States was a negotiated agreement with provisions for autonomy and safeguarding the interests of Telangana region, which was referred to as the Gentlemen's Agreement in 1956. The agreement mandated equitable distribution of river water resources, utilisation of revenue surplus in Telangana for the development of Telangana region, and regional reservations in jobs. However, over the period, regional inequalities had increased, autonomy was compromised, and the agreement was violated (Rao, 1969; Jayashankar, 2007; Melkote, et. al., 2010; Vithal, 2012).

The demand for Telangana statehood centred on five issues viz., Nidhulu (finances), Neellu (irrigation water), Niyaamakaalu (employment), Niluva Needa (livelihood) and Nirnayaadhikaaram (decision making power) (Rao, 2001). The second phase of the movement for separate statehood which began in the mid-nineties culminated in the bifurcation of the State of Andhra Pradesh into the two States of Andhra Pradesh and Telangana. Thus, Telangana as the 29th State of India was formed on 2nd June 2014, referred to as the "Appointed Day". The bifurcation led to redrawing of the State boundaries and the subsequent division of assets and liabilities. The assets and liabilities were apportioned on the basis of population in the ratio of 58.21:41.68 for Andhra Pradesh and Telangana, respectively. Further, as per agreed terms, Hyderabad, the capital city, was to remain a combined capital for a period of ten years.

As per 2011 census, Telangana State's population was 3.5 crore, that is, 2.97% of India's population (all States). The State's geographical area comprises 3.41% of All India geographical area. As per the State of Forest Report 2023, the State's forest area was 24.69% of its geographical area (Forest Survey of India, 2024, p. 8). The State has 33 districts, 620 mandals (sub-districts) and 12,769 Gram Panchayats (Telangana State at a Glance, 2024, pp. 1-2).

1.2 Real Economic Growth in the Pre- and Post-Bifurcation Period

From 2005-06 to 2011-12, the economic trajectories of the Andhra and Telangana regions exhibited distinct patterns of growth. The Andhra region reached its peak performance early in 2006-07 and 2007-08, but witnessed a sharp deceleration thereafter, hitting a low of 2.1% in 2008-09 before a modest recovery began the following year. In contrast, the Telangana region maintained robust

double-digit growth from 2005-06 through 2008-09, though it suffered a contraction to 1.1% in 2009-10. While Telangana experienced a rapid rebound in 2010-11, its subsequent growth through 2013-14 remained below its earlier growth rates (Table 1.1). Despite these fluctuations, Telangana's growth rate throughout this period, in general, was higher than both the Andhra region and the national average.

In the post-bifurcation period, growth trajectories are distinct for the two States. Andhra Pradesh recorded several strong years between 2014–15 and 2018–19, but growth slowed from 2018–19 onward as five consecutive years of deficit rainfall culminated in negative growth within the agriculture sector. Telangana experienced, its own, high-growth phase from 2015–16 to 2018–19. Since its formation, Telangana's real economic growth rate has remained higher than the national average, reflecting a sustained performance relative to All-India.

The COVID-19 pandemic significantly disrupted GSDP growth trends in both the States, beginning with a deceleration in 2019-20 and a sharp decline in 2020-21. During 2020-21, Telangana's economy contracted, witnessing a growth rate of -6%. Although both the States show a recovery the following year, the growth momentum since 2021-22 has remained lower than in the pre-pandemic period. Throughout the post-COVID period leading up to 2023-24, Telangana generally maintained a higher growth rate relative to Andhra Pradesh; however, Telangana's growth rate has witnessed a consistent downward trend in the post-COVID period. By 2024-25, this decline resulted in Telangana's growth rate falling below that of Andhra Pradesh.

Table 1.1: Annual Real GSDP Growth Rate (%)

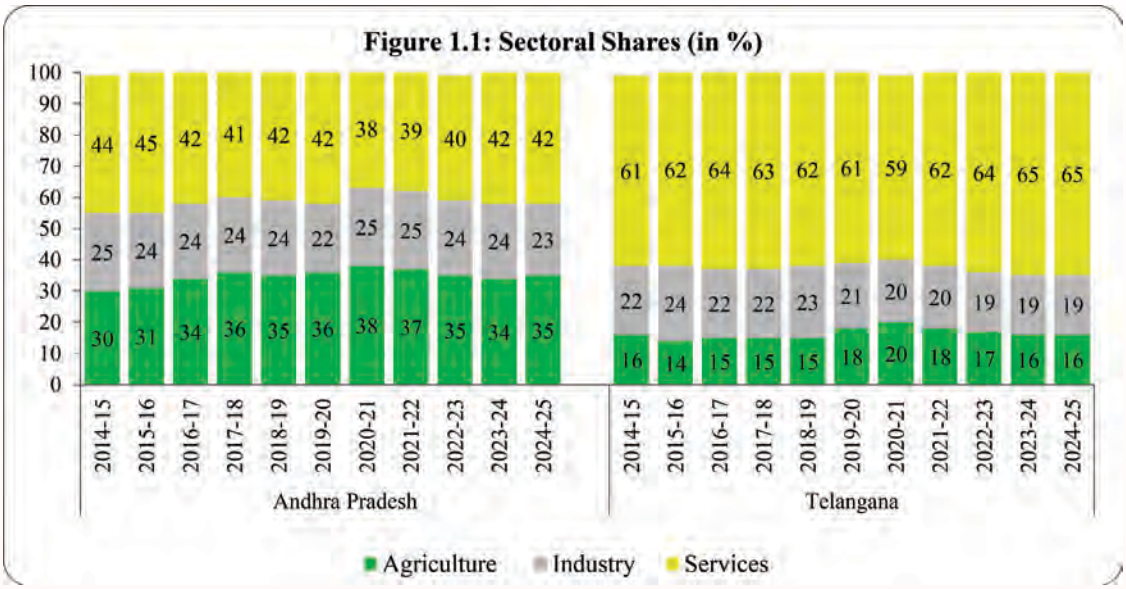
2004-05 prices				2011-12 prices			
Year	Andhra	Telangana	All India	Year	Andhra Pradesh	Telangana	All India
2005-06	5.3	15.9	9.3	2014-15	9.2	6.8	7.4
2006-07	10.9	11.6	9.3	2015-16	12.2	11.6	8.0
2007-08	13.1	10.6	9.8	2016-17	8.3	9.3	8.3
2008-09	2.1	13.4	3.9	2017-18	10.1	9.7	6.8
2009-10	7.2	1.1	8.5	2018-19	5.4	9.1	6.5
2010-11	6.8	18.0	10.3	2019-20	3.7	5.4	3.9
2011-12	6.2	8.7	6.6	2020-21	1.5	-6.0	-5.8
2012-13	4.0	4.1	4.7	2021-22	7.1	11.1	9.7
2013-14	7.2	4.8	5.0	2022-23	6.5	6.9	7.6
				2023-24	6.2	7.4	9.2
				2024-25	9.2	6.5	6.5

Source: MoSPI, Socio-Economic Outlook of Telangana (2026), Socio-Economic Survey (2025-26), Economic Survey 2025-26.

The economic profiles of Telangana region and the Andhra region present a sharp contrast in structural composition and urbanisation. While Andhra Pradesh remains characterised by a significant agricultural base and a larger rural population, Telangana is a services-led economy with high levels of urbanisation. In 2023-24, the services sector accounted for 65% of Telangana's

Gross State Value Added (GSVA). However, a structural paradox remains, as the agriculture and allied sectors continue to employ a larger share of the workforce than any other sector in the State.

In 2023-24, among the general category states, while Telangana accounted for only 2.7% of India's population, it contributed 4.9% to the national real GDP.



Source: Socio Economic Survey of Andhra Pradesh (2026), Telangana Socio Economic Outlook (2025; 2026).

Since its formation in 2014-15, Telangana has seen several notable sectoral shifts and milestones, including (but not limited to):

- Agricultural Transformation: The agriculture and allied sectors grew by 176% between 2014-15 and 2024-25. This was driven by a 131% increase in crop production value addition and a 231% increase in allied sectors. This growth is underpinned by expansion in cropped area and irrigation: the gross sown area increased from 131 lakh acres to 222 lakh acres (2022-23), while the gross irrigated area more than doubled, increasing from 62 lakh acres to 135 lakh acres (2021-22) (Socio Economic Outlook 2023; 2026).
- Industrial and Services Sectors Growth: During the same period, the industrial sector expanded by 169%, while the services sector grew by 248%. Although the relative shares of agriculture and services in the GSVA increased marginally, the industrial share saw a slight decline (Socio Economic Outlook 2023; 2025).
- Infrastructure: Reflecting increased economic activity, per capita power consumption rose from 1,356 kWh in 2014-15 to 2,140 kWh by 2022-23 (Telangana State at a Glance, 2024).
- Income Ranking: These gains are reflected in the State's rising prosperity. In 2014-15, Telangana ranked 8th among the general category states in nominal per capita income; by 2023-24, it climbed to 2nd place, surpassed only by Goa.

1.3 Financial Profile of the State

The fiscal trajectory of Telangana between 2014-15 and 2024-25 is characterised by a significant expansion in financial capacity, with total receipts (excluding Ways and Means Advances - WMA

hereafter) rising by 145% to reach ₹2,29,024 crore (Table 1.2). Over the same period, revenue receipts grew by 120%, primarily driven by the State's Own Tax Revenue (SOTR), which increased by 173%. The state collects substantial revenue from State's Own Non-Tax Revenue (NTR), and it accounted for 11% of cumulative revenue receipts. The state's cumulative receipts from fiscal transfers were 24%. This heavy reliance on internal tax mobilisation underscores the State's fiscal autonomy. Further, capital receipts accounted for 25% of cumulative total expenditure from 2015-16 to 2024-25.

Telangana's total expenditure (excluding WMA) has increased from ₹97,452 crore in 2015-16 to ₹2,36,318 crore in 2024-25 (Table 1.2), an increase of 142%. Revenue expenditure in the State has increased from ₹75,896 crore in 2015-16 to ₹1,77,224 crore in 2024-25, a change by 134%. Committed expenditure, comprising salaries, interest payments and pensions, grew at 10% per annum, broadly driven by growth in interest payments. During 2015-16 to 2023-24, total capital outlay, i.e., expenditure on creation of capital assets, accounted for 16% of cumulative total expenditure, and debt repayments and loans and advances accounted for 5% each of cumulative total expenditure.

The State has witnessed notable growth in GSDP, receipts and expenditure. The state generally maintained a revenue surplus, with the exception of three years due to COVID-19 (2019-20, 2020-21 and 2021-22), and in 2024-25. From 2015-16 to 2024-25, the state has exceeded TGFRBM fiscal deficit limits in six out of ten years. Further, the accumulated public debt of the state as on 31st March 2025 was ₹3,89,941 crore, that is 24.2% of State's GSDP. As on 31st March 2025, including liabilities on public account, the outstanding total liabilities stand at 27.7% of GSDP.

1.4 Fiscal Marksmanship

On average, the accuracy of state's forecast of revenue receipts (difference between budget estimates and actuals) was 79%. The forecast of SOTR was close to 90%. However, the state's poor forecasts of non-tax revenue and grants-in-aid from the Union government have impacted the state's overall fiscal marksmanship. Consequently, the forecast of central grants to the State was wide off the mark. For instance, for the year 2024-25, the actual receipts of grants were only 37% of the budget estimates (Table 1.3). The state's forecasts impact its expenditure commitments, creating a lag between actual expenditure and actual receipts.

1.5 Organisation of the Study

The study is organised into 8 chapters, including this chapter. The objective of this study is to analyse the state of Telangana's economy and finances since 2014-15. The following chapter is titled "Telangana Economy since 2014-15". It gives a macroeconomic overview of the State since its formation. The chapter analyses economic growth, per capita income trends, interstate comparison of economies, detailed sectoral analysis and impact of COVID-19 on states' economic growth. The chapter ends with concluding remarks.

The third chapter is titled "Trends in Revenue Receipts in Telangana". This chapter analyses the revenue receipts of the state with a comparison of general category states. The chapter provides a detailed analysis of tax and non-tax revenues of the state. Further, the chapter analyses revenue buoyancy of the state's revenues. The chapter ends with concluding remarks.

Table 1.2: Telangana Budget Profile (*in ₹ Crore*)

Sl. No.	Item	2014-15#	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	Receipts											
A	Revenue Receipts	51,042	76,134	82,819	88,824	1,01,420	1,02,540	1,00,914	1,27,468	1,59,386	1,69,294	1,67,804
1	SOTR	29,288	39,975	48,408	56,520	64,674	67,594	66,650	91,271	1,06,985	1,11,798	1,09,233
2	NTR	6,447	14,414	9,782	7,825	10,007	7,360	6,101	8,857	19,554	23,820	23,608
3	SUT	8,189	12,351	14,877	16,420	18,561	15,988	12,692	18,721	19,668	23,742	27,050
4	Central Grants	7,118	9,394	9,752	8,059	8,178	11,598	15,471	8,619	13,179	9,934	7,913
B	Capital Receipts	9,657	17,473	32,887	26,370	29,204	38,347	47,190	51,827	44,690	52,512	61220
1	Internal Debt	9,494	16,464	31,775	25,595	28,705	38,078	44,467	46,995	41,560	50,528	56,968
2	Central Loans	86	921	956	637	433	207	2,665	4,784	2,501	1,948	2,727
3	Recovery of Loans & Adv.	77	88	156	138	66	62	58	48	629	36	1,525
	Total Receipts	60,699	93,607	1,15,706	1,15,194	1,30,624	1,40,887	1,48,104	1,79,295	2,04,076	2,21,806	2,29,024
	Expenditure											
C	Revenue Expenditure	50,673	75,896	81,432	85,365	97,083	1,08,798	1,23,212	1,36,803	1,53,407	1,68,514	1,77,224
1	Salaries	8,553	14,506	15,412	15,952	16,240	17,042	17,379	21,651	25,179	27,884	30,189
2	Interest	5,594	7,942	8,609	10,836	13086	14,686	16,841	19,161	21,821	24,347	27,803
3	Pension@	4,210	8,217	9,011	11,932	11,477	11,834	13,595	13,999	15,804	16,835	16,942
D	Capital Expenditure	11,583	21,556	40,254	34,660	38,240	34,052	34,326	46,186	51,116	63,298	59,094
1	Capital Outlay	8,373	13,590	33,371	23,902	22,641	16,859	15,922	28,874	17,881	43,918	36,072
2	Loans and Advances	1,483	5,233	3,402	6,209	8,706	8,700	10,868	8,469	21,248	6,861	4,855
3	Public Debt Repayments	1,727	2733	3481	4549	6893	8,493	7,536	8,843	11,987	12,519	18,167
	Total Expenditure	62,256	97,452	1,21,686	1,20,025	1,35,323	1,42,850	1,57,538	1,82,989	2,04,523	2,31,812	2,36,318
	Fiscal Indicators											
E	*Revenue Surplus (+)/ Deficit (-)*	369	238	1,386	3,459	4,337	-6,254	-22,298	-9,335	5,943	779	-9420
F	*Fiscal Deficit*	9410	18,856	35,280	26,700	26,949	31,759	49,038	46,639	32,557	49,977	48,922
G	*Fiscal Deficit to GSDP Ratio (%)*	1.86	3.26	4.22*	3.56	3.14	3.19**	5.20	4.15	2.47	3.10	3.04

*Note: Total Receipts and Total Expenditure exclude WMA/SDF/Overdraft. #the period is from 2nd June 2014 to 31st March 2015. @of MH-2701 only *FD to GSDP ratio is estimated without UDAY bonds, as per norms). ** FD to GSDP ratio estimated after excluding ₹1435 crore (one-time special dispensation). Figures are rounded off to the nearest whole number or decimal point.*

Source: CAG (Finance Accounts, various years), MoSPI.

Table 1.3 Fiscal Marksmanship: Actuals to Budget Estimates (%)

Year	Revenue Receipts	Share in Union Taxes & Duties	State's Own Tax Revenue	Non-Tax Revenue	Grants-in-aid & Contributions	Capital Receipts
2015-16	78	96	86	64	76	101
2016-17	82	107	88	56	67	172
2017-18	79	97	90	119	30	151
2018-19	77	97	88	112	28	128
2019-20	91	81	98	46	142	227
2020-21	70	76	78	20	147	147
2021-22	72	134	98	29	22	103
2022-23	83	107	99	77	32	71
2023-24	78	111	85	104	24	111
2024-25	76	103	79	67	37	112

Note: Figures are rounded to the nearest whole number.
Source: Telangana Budgets at a Glance (various years).

The fourth chapter is titled "Fiscal Transfers from the Union to the State". The chapter analyses transfers through finance commissions, i.e., share in Union taxes and FC grants. The chapter reviews the methods adopted by FCs. The chapter then analyses grants-in-aid by the Union government to the State. The final section is concluding remarks.

The fifth chapter is titled "Expenditure Trends in Telangana". In this chapter, expenditure is analysed across eight distinct sections. The chapter begins with an overview of expenditure trends in Telangana followed by interstate comparison. The chapter analyses expenditure by function, interstate comparison of development and non-development expenditure, and committed and non-committed expenditure. The following section is an analysis of capital outlay and loans and advances given by the state government. The next section is on the analysis of quality of public expenditure in Telangana. The chapter then discusses the position of pending bills relating to completed projects. The final section is a brief summary.

The sixth chapter is titled "Debt, Deficits, and Debt Sustainability". The chapter begins with analysis of components of liabilities and interstate comparison. The chapter then discusses public debt of Telangana, contingent liabilities, and interstate comparison. The chapter discusses trends in interest burden, and estimates of interest payments on OBBs. The chapter then moves to the debt servicing burden of total liabilities. The next section is on fiscal indicators, and debt sustainability. Final section is concluding remarks.
The seventh chapter is titled "Subsidies and Transfer Payments". The chapter is on the analysis of expenditure met out of state schemes. The chapter ends with concluding remarks.

The eighth chapter is on Findings, Policy Implications and Way Forward.

CHAPTER 2

Telangana Economy since 2014-15

2.0 Introduction

This chapter presents an overview of the subnational macroeconomy, analysing the State's economy since its formation. It seeks to analyse economic growth, per capita income, economic structure, and makes interstate comparisons. The data are sourced from MoSPI, NSSO, States' Socio-Economic Surveys, and Directorate of Economics and Statistics of the state governments.

In this and the following chapters, we will refer to the years 2019-20 and 2020-21 as COVID-19 years due to the economic impact of the pandemic in these two years.

2.1 Reorganisation and Residual States' Economic Growth

Since the reorganisation in 2014-15, both Andhra Pradesh and Telangana have demonstrated robust economic expansion, outpacing the national average. Andhra Pradesh's nominal Gross State Domestic Product (GSDP) grew by 206%, rising from ₹5,24,975 crore in 2014-15 to ₹16,06,109 crore by 2024-25. During the same period, Telangana exhibited a slightly higher growth trajectory of 219%, with its nominal GSDP increasing from ₹5,05,484 crore to ₹16,09,902 crore. Comparatively, India's nominal GDP grew by 165% over these eleven years, placing both the States well above the national benchmark. While Telangana's real growth rate has generally exceeded that of Andhra Pradesh since 2015-16, it has been lower since 2020-21. Further, Telangana has experienced a widening divergence between nominal and real growth figures (Table 2.1).

The COVID-19 pandemic disrupted economic activity in both Telangana and Andhra Pradesh, leading to a marked deceleration in growth. Telangana experienced negative growth during the peak of the pandemic. However, in this context, Andhra Pradesh's economic slowdown actually predated the crisis. Specifically, in 2018-19, Andhra Pradesh faced negative agricultural growth, reduced cropping intensity, and a decline in gross irrigated area following five years of deficit rainfall (Socio Economic Survey 2018-19, pp. 35, 114-115). Although both the States have seen a recovery in the post-pandemic period, their growth rates have remained lower than their pre-pandemic growth rates. Two notable shifts have occurred:

i. While both the States outperformed the national average before the pandemic, the All-India real growth rate has surpassed those of Telangana and Andhra Pradesh in the years following the crisis.

ii. Telangana's growth rate has declined since 2020-21.

2.2 Real Per Capita Income (NSDP)

Between 2015-16 and 2023-24, per capita income (PCI) grew significantly across both the States and the nation. Telangana's PCI rose by 68% (from ₹1,12,267 to ₹1,88,436), outperforming Andhra Pradesh, which saw a 63% increase (from ₹88,069 to ₹1,43,176). Both the States exceeded the national average growth of 48%.

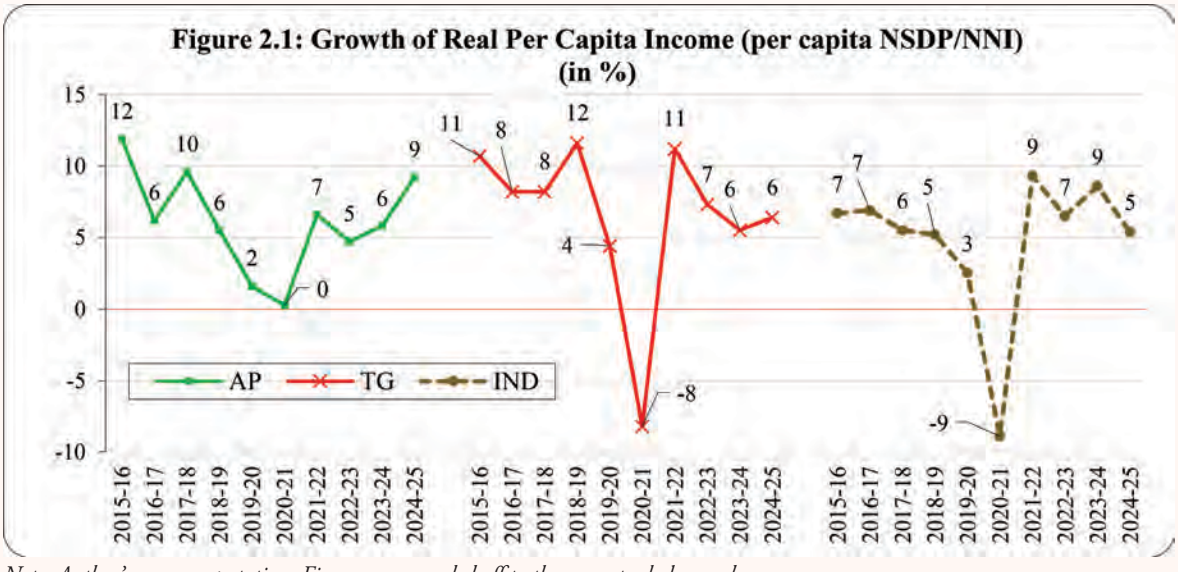
Table 2.1: Annual Growth Rates (*year on year*) in %

Year	*2015-16*	*2016-17*	*2017-18*	*2018-19*	*2019-20*	*2020-21*	*2021-22*	*2022-23*	*2023-24*	*2024-25*	*Sparkline*
Real Growth (2011-12 prices)											
AP	12.6	8.3	10.1	5.4	3.7	1.5	7.1	6.5	6.2	9.2	
TG	11.6	9.3	9.7	9.1	5.4	(-)6.0	11.1	6.9	7.4	6.5	
IND	8.0	8.3	6.8	6.5	3.9	(-)5.8	9.7	7.6	9.2	6.5	
Nominal Growth											
AP	15.1	13.3	14.9	11.1	6.0	5.7	15.6	15.7	8.6	12.9	
TG	14.2	13.9	13.9	14.3	10.8	(-)0.7	19.2	16.4	11.9	10.6	
IND	10.5	11.8	11.0	10.6	6.4	(-)1.2	18.9	13.9	12.0	9.8	

Note: Figures are rounded off to the nearest decimal point. Red coloured dot on the sparkline is the lowest point.
Source: Socio Economic Survey of Andhra Pradesh (2026), Telangana Socio Economic Outlook (2025; 2026), Economic Survey of India (2024).

The COVID-19 pandemic caused a sharp contraction in real PCI growth during 2020-21. While India and Telangana recorded negative PCI growth rates of -8.9% and -8.2% respectively, Andhra Pradesh maintained a marginal growth of 0.36% (Figure 2.1). Andhra Pradesh, due to its dependency on agriculture and allied sectors, was relatively insulated from the impact of COVID-19 pandemic. While both the States outpaced national growth in the pre-pandemic era, this trend has recently reversed. In the post-pandemic period, the All-India PCI growth rate has surpassed Telangana's growth. Specifically, Telangana has experienced a deceleration in real PCI growth during these years.

Figure 2.1: Growth of Real Per Capita Income (per capita NSDP/NNI) (in %)



Note: Author's own computation. Figures are rounded off to the nearest whole number.
Source: MoSPI, Socio Economic Survey of Andhra Pradesh (2026), Telangana Socio Economic Outlook (2025; 2026), Economic Survey of India (2026).

2.3 Inter-State Comparison

During 2023-24, as contribution towards India's real GDP, six States accounted for 54% of the combined GDP of general category states. The six States were Maharashtra, Gujarat, Tamil Nadu, Karnataka, Uttar Pradesh, and West Bengal. Further, during 2023-24, southern States' contribution accounted for 30% (Table 2.2). Of which, Telangana's contribution to India's real GDP was 4.5%, whereas its population share is 2.7% of India's population. Similarly, Andhra Pradesh's contribution to GDP was 4.7%, whereas its population share is 3.8% of India's population. Among general category states, the seven States with the lowest per capita income are Bihar, Uttar Pradesh, Jharkhand, Madhya Pradesh, West Bengal, Chhattisgarh, and Rajasthan. Further, regional disparities are much worse at the district level (Kelkar, 2023, p. 4). To this extent, as reiterated by various studies on backwardness and regional disparities, economic development is influenced by a complex set of historical, cultural, sociological factors, and the state's absorptive capacity to utilise funds (Rajan, et al., 2013).

In nominal terms, annual GSDP growth rates of the general category states ranged between 7.1% and 11.4%. Whereas, in real terms, annual GSDP growth rates of the general category states ranged between 3.5% and 7.1%. Telangana's annual nominal growth rate was 11.3%, whereas real growth rate was 6.3%[1] (Table 2.2).

Table 2.2: State-wise Growth Rates and Contribution to India's GDP

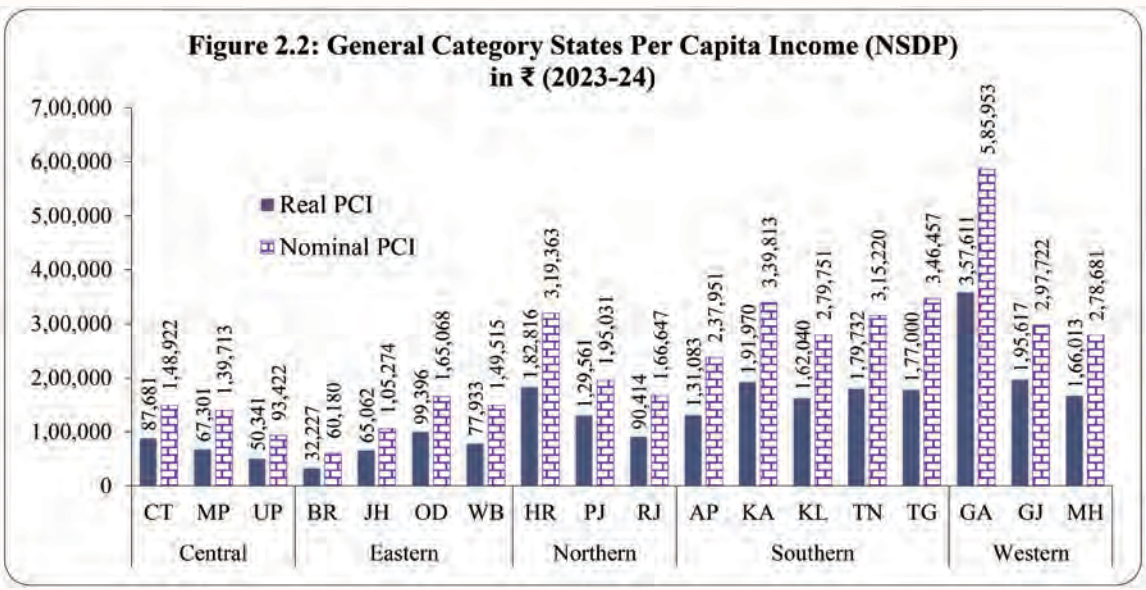
Administrative Zone	State	Constant Prices		Current Prices		Population share [2023-24]	Real PCI [NSDP] Rank [2014-15]	Real PCI [NSDP] Rank [2023-24]
		Annual Growth [2014-24]	Contribution to GDP [2023-24]	Annual Growth [2014-24]	Contribution to GDP [2023-24]			
Central	***CT***	5.3	1.8	9.2	1.7	2.2	12	13
	MP	5.7	3.9	11.4	4.5	6.2	16	15
	UP	4.8	8	9.2	8.4	17	17	17
Eastern	***BR***	4.9	2.6	9.3	2.8	9.2	18	18
	JH	4.6	1.6	8.3	1.5	2.8	15	16
	OD	6.6	3	11	2.8	3.3	14	11
	WB	4.1	5.1	8.8	5.6	7.1	13	14
Northern	***HR***	5.1	3.6	9.3	3.6	2.2	2	4
	PJ	4.7	2.9	7.8	2.5	2.3	9	10
	RJ	4.4	4.8	9.4	5	5.8	11	12
Southern	***AP***	6.1	4.7	10.7	4.9	3.8	10	9
	KA	6.9	8.5	10.8	8.6	4.9	7	3
	KL	3.8	3.7	8	3.8	2.6	4	8
	TN	5.6	9	9.5	8.9	5.5	6	5
	TG	6.3	4.5	11.3	4.9	2.7	8	6

[1] Throughout this paper, unless mentioned otherwise, we have used the log-linear regression method to estimate annual growth rate of a period.

Administrative Zone	State	Constant Prices		Current Prices		Population share [2023-24]	Real PCI [NSDP] Rank [2014-15]	Real PCI [NSDP] Rank [2023-24]
		Annual Growth [2014-24]	Contribution to GDP [2023-24]	Annual Growth [2014-24]	Contribution to GDP [2023-24]			
Western	GA	3.5	0.4	7.1	0.3	0.1	1	1
	GJ	7.1	9.1	10.3	8.2	5.2	5	2
	MH	3.8	14	7.9	13.5	9.1	3	7

Note: Author's own computation. Figures are rounded off to the nearest decimal point.
Source: MoSPI.

PCI of an economy is an indicator of standard of living. For general category states, in 2023-24, real PCI ranged between ₹32,227 (Bihar) and ₹1,95,617 (Gujarat, excluding Goa here). Similarly, Nominal PCI ranged between ₹60,180 (Bihar) and ₹3,46,457 (Telangana, excluding Goa here). Telangana ranked 6th in real PCI and 2nd (after Goa) in nominal PCI. Andhra Pradesh ranked 9th in nominal PCI, which was at ₹2,37,951 (Figure 2.2).



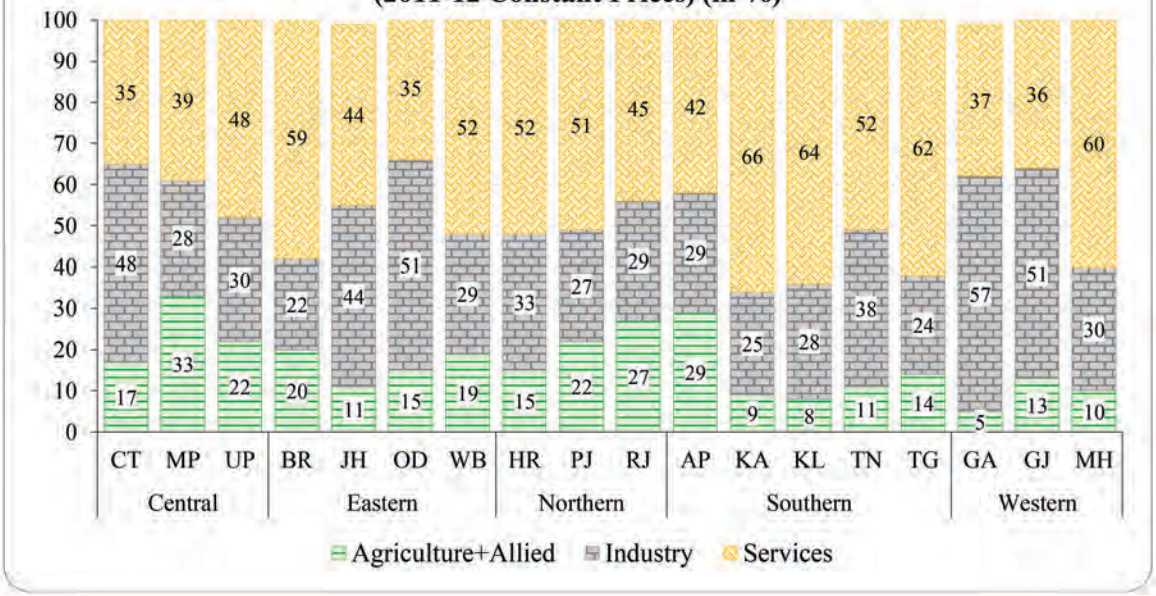
Note: Figures are rounded off to the nearest whole number.
Source: MoSPI.

Structurally, there are economic differences across the States in sectoral contributions. Economic development theory suggests that the share of agriculture is relatively higher for regions with low per capita GSDP, and the share of non-agriculture sector is relatively higher for regions with high per capita GSDP. Further, the sectoral differences across the States are despite relative equality in the size of the economies. Despite the nearness in the size of their GDP, Telangana and Andhra Pradesh, diverge in sectoral contribution (Table 2.2, Figure 2.3). Similar insights can be observed with a comparison between Kerala and Madhya Pradesh, and equally populous States of Maharashtra and Bihar too show differences in sectoral contribution and per capita GSDP ranking.

During 2023-24, in real terms, southern States (except for Andhra Pradesh) have the lowest sectoral contribution from agriculture and allied activities.

In Telangana, the contribution from agriculture sector is 14%, followed by industrial sector at 24% with the major contribution coming from the services sector at 62%. Further, in 2023-24, there were only 4 States where contribution from services sector has crossed 60% of GSVA. They are Karnataka, Kerala, Telangana and Maharashtra (Figure 2.3).

Figure 2.3: General Category States Sectoral Shares in 2023-24 (2011-12 Constant Prices) (in %)



Note: Agriculture sector includes crop production, livestock, forestry and logging, and fishing; Industry sector includes mining and quarrying, manufacturing, electricity, gas, water supply, and other utility services, and construction. Figures are rounded off to the nearest whole number. Author's own computation.
Source: MoSPI.

2.4 Economic Structure and Employment Trends

In terms of value addition, Andhra Pradesh generates more value from Agriculture and Industry in comparison to Telangana. The value generated by the agriculture and allied sub-sectors in Andhra Pradesh is 1.5 times higher than in Telangana. Telangana's economy is dominated by the services sector in terms of value generation but it is the agriculture sector which is the largest employer.

The differences in sectoral value addition and sectoral employment generation indicate variance in labour productivity and capital-intensity in the sectors, and underemployment of labour force. For instance, in Telangana, agriculture sector generated 14% value in 2024-25, but employed 42% of workers, whereas in Andhra Pradesh's agriculture sector generated 35% value, but employed 44% of workers (Table 2.3). Further, such differences exist in Industry and Services sectors also.

2.4.1. Sectoral Growth of Andhra Pradesh and Telangana

Agriculture and Allied Activities include crop production (agriculture sub-sector), and allied activities such as livestock production, forestry & logging, and fishing & aquaculture. Crop production in both the States has witnessed higher volatility in nominal growth rates. Nominal growth rates of allied activities, on the other hand, are stable, but are declining in both the States (Table 2.4).

Table 2.3: Sectoral Values (*current prices*), Share and Employment Trends

Sector/Item		2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Andhra Pradesh									
GSVA Value (₹crore)	Crop Production	1,15,132	1,08,886	1,28,912	1,38,834	1,56,412	1,68,345	1,72,643	2,10,137
	Allied Activities	1,43,807	1,67,449	1,81,589	2,03,743	2,33,854	2,64,903	2,75,739	3,09,348
	Industry	1,70,743	1,88,601	1,90,190	2,22,900	2,60,650	2,97,763	3,19,869	3,41,331
	Services	2,95,590	3,33,240	3,62,157	3,43,390	4,11,484	4,96,168	5,47,338	6,11,390
Value Share (%)	Agriculture	35.7	34.6	36.0	37.7	36.7	35.3	34.1	35.3
	Industry	23.5	23.6	22.0	24.5	24.5	24.3	24.3	23.2
	Services	40.8	41.8	42.0	37.8	38.7	40.4	41.6	41.5
Employment share (%)	Agriculture	49.8	44.4	49.0	48.1	44.2	44.5	46.3	44.4
	Industry	20.7	22.5	20.0	18.9	23.8	22.2	22.0	23.3
	Services	29.5	33.2	31.0	33.0	32.0	33.3	31.8	32.4
Telangana									
GSVA Value (₹crore)	Crop Production	47,457	48,366	78,854	83,536	86,670	99,968	1,00,036	96,205
	Allied Activities	53,933	65,926	77,751	91,193	98,528	1,03,216	1,09,511	1,13,974
	Industry	1,50,790	1,82,373	1,81,276	1,77,929	2,05,800	2,25,581	2,59,418	2,81,411
	Services	4,27,998	4,80,280	5,31,892	5,16,295	6,39,194	7,75,507	8,79,134	9,96,293
Value Share (%)	Agriculture	14.9	14.7	18.0	20.1	18.0	16.8	15.5	14.1
	Industry	22.2	23.5	20.8	20.5	20.0	19.0	19.2	18.9
	Services	62.9	61.8	61.2	59.4	62.0	64.2	65.2	67.0
Employment share (%)	Agriculture	43.4	43.6	48.4	45.8	50.7	47.3	42.5	41.7
	Industry	22.6	22.5	18.2	21.0	20.7	19.7	22.8	22.4
	Services	34.0	33.9	33.3	33.2	28.7	33.0	34.8	35.9

Note: Industry includes mining and quarrying of primary sector. Figures rounded off to nearest whole number or decimal point.

Source: Socio Economic Survey of Andhra Pradesh (2026); Telangana Socio Economic Outlook (2025; 2026); MoSPI, PLFS surveys (epwrfits) for employment statistics of worker population ratio (all ages) based on usual status (ps+ss).

Industrial sector includes mining and quarrying, manufacturing, electricity, gas, water supply & other utility services and construction. Broadly, industrial sector's average nominal growth rate was above 10%. The States witnessed a decline in industrial sector growth rates during 2019-20 and 2020-21. Telangana, additionally, witnessed a decline during 2016-17. The slowdown in 2016-17 is attributed to demonetisation, among other reasons (Socio-Economic Outlook 2017). Further, during COVID-19 period, the decline is severe in Telangana as it witnessed negative growth in industrial sector. Since the COVID-19 period, nominal growth has declined in Andhra Pradesh and Telangana.

Further, in 2020-21, services sectors in both the States have declined and witnessed a negative growth. In the following year, the recovery of services sectors in the two States was faster in comparison to the other sectors. However, in Telangana, the growth rate in the services sector has been on the decline since 2021-22.

2.4.2 Agriculture and Allied Activities

From 2014-15 to 2024-25, the Telangana state has introduced numerous policies to enhance agriculture and allied sector. Such as irrigation projects, investment support schemes, 24X7 free power to agriculture, procurement policies, lake rejuvenation, promotion of livestock and fisheries, sheep distribution programme, interest free credit, establishment of poly houses, seeds distribution, farm mechanisation, and so on.

Table 2.4 Sectoral Nominal Growth Rates (%)

Year	Crop	Allied	Industry	Services
Andhra Pradesh				
2015-16	6.6	28.6	8.1	15.7
2016-17	14.8	28.4	12	5.7
2017-18	19.3	25.7	13.5	12.3
2018-19	-5.4	16.4	10.5	12.7
2019-20	18.4	8.4	0.8	8.7
2020-21	7.7	12.2	17.2	-5.3
2021-22	12.7	14.8	16.9	20
2022-23	7.6	13.3	14.2	20.6
2023-24	2.6	4.1	7.4	10.3
2024-25	21.7	12.9	6.7	11.7
Telangana				
2015-16	-11.8	13	19.8	15.3
2016-17	18.3	16.8	3.4	15.9
2017-18	9	18.7	16.6	12.1
2018-19	1.9	22.2	20.9	12.2
2019-20	63	17.9	-0.6	10.7
2020-21	5.9	17.3	-1.8	-2.9
2021-22	3.8	8	15.7	23.8
2022-23	15.3	4.8	11.6	21.6
2023-24	0	6.1	13	13.1
2024-25	5.0	4.1	8.5	13.0

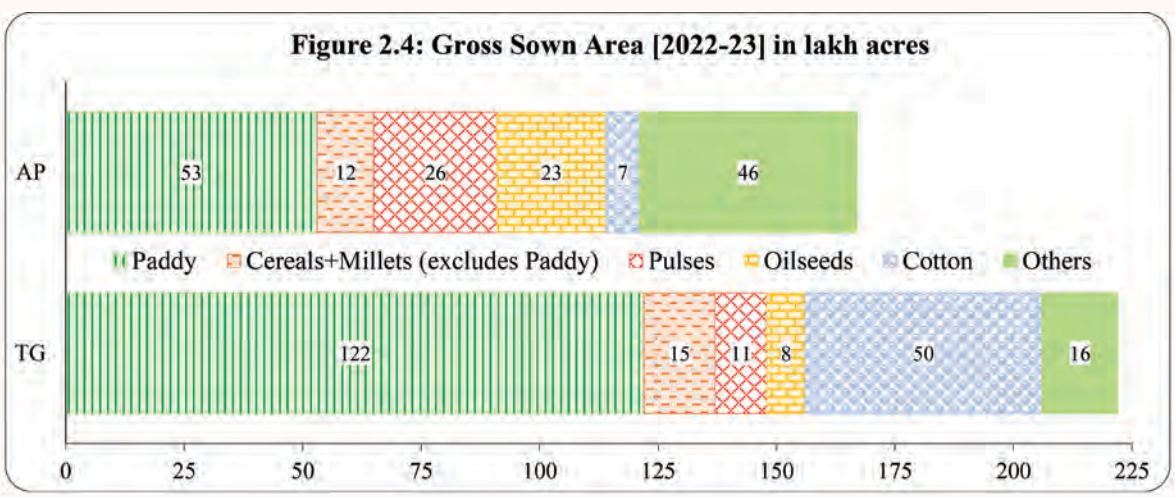
Source: MoSPI, Socio Economic Survey of Andhra Pradesh (2026), Telangana Socio Economic Outlook (2025; 2026).

In Telangana, the net sown area (NSA) has increased from 107 lakh acres in 2014-15 to 145 lakh acres in 2022-23 (Socio Economic Outlook 2024, p. 278). During the same period, gross sown area (GSA) has increased from 131 lakh acres to 222 lakh acres. Of the 222 lakh acres, 147 lakh acres were sown in Kharif (Vanakalam) and 75 lakh acres in Rabi (Yasangi) (Telangana State at a Glance, 2024, p. 31). Gross irrigated area (GIA) in the State has increased from 62 lakh acres in 2014-15 to 135 lakh acres in 2021-22 (Socio Economic Outlook 2023, p. 3). The government is further committed to provide assured irrigation to about 128 lakh acres in the State with an objective to increase irrigation potential in drought-prone and upland areas (Socio Economic Outlook 2024, p. 78). That is, the State is expected to witness an increase in GIA in the coming years.

The foodgrains production in the State has increased from 72 lakh tonnes in 2014-15 to 207 lakh tonnes in 2022-23. As on 2021-22, across all the States and UTs, Telangana ranked 5th in terms of yield in foodgrains production. The milk production in the State has increased from 4,442 thousand tonnes in 2015-16 to 6,161 thousand tonnes in 2023-24, meat production has increased from 542 thousand tonnes in 2015-16 to 1,172 thousand tonnes in 2023-24, and egg production from 1,120 crore in 2015-16 to 1,864 crore in 2023-24. The inland fish and fresh water prawn production in the State has increased from 2,36,752 tonnes in 2015-16 to 4,56,045 tonnes in 2023-24.

However, during 2022-23, of the gross sown area (GSA), 122 lakh acres were under paddy alone (figure 2.4). Seasonally, 44.30% of total GSA during Kharif and 78% of total GSA during Rabi was under paddy. Factors responsible for this pattern are increased irrigation, state policies, and reverse migration during COVID-19 pandemic. In Andhra Pradesh, on the other hand, GSA was 67 lakh hectares (166 lakh acres) in 2022-23 (DES, 2024, p. 8). Despite the differences in operation of area, output was higher in Andhra Pradesh in terms of value of crop production. In comparison, Andhra Pradesh has greater diversity of crops. In Telangana, on the other hand, the crop diversity has declined. In 2022-23, paddy cultivation in Telangana accounted for 55% of GSA and cotton accounted for 22.5% of the GSA, a pattern which demands large scale procurement, and a variety of input and income subsidies.

Figure 2.4: Gross Sown Area [2022-23] in lakh acres



Note: Figures are rounded off to the nearest whole number.
Source: Directorate of Economics and Statistics of Andhra Pradesh (Season and Crop Report 2023-24, p. 21), Directorate of Economics and Statistics of Telangana (Telangana State at a Glance, 2023, pp. 27-29).

Further, the number of workers participating in this sector as a ratio of value addition is high, which implies low productivity and hence low incomes to workers in agriculture. In Telangana, the greater presence of workers in agriculture indicates the inability of the industrial and services sectors to absorb excess labour from agriculture. Therefore, agriculture and allied sector in Telangana suffers from low productivity and underemployment.

2.4.3 Industrial Sector

In Telangana, industrial sector has witnessed a 13% nominal growth in 2023-24, and 11.6% in 2022-23, a recovery from -1.8% in 2020-21. This sector comprises mining & quarrying, manufacturing, electricity, gas, water supply and other utility services and construction. During 2022-23, in terms of value addition towards industrial sector, manufacturing generated 52%, construction sector 27%, electricity, gas, water supply and other utility services accounted for 10% and mining and quarrying 12%.

The State has introduced industrial policies such as TS-iPASS (now TG-iPASS- Telangana Industrial Project Approval & Self Certification System), T-Hub (Technology Hub), T-IDEA (Telangana State Industrial Development and Entrepreneur Advancement), T-PRIDE (Telangana State Program for the Rapid Incubation of the Dalit Entrepreneurs), etc., which have contributed to the growth of industrial sector. Further, the State's nodal agency TSIIC (now TGIIC -Telangana Industrial Infrastructure Corporation), is tasked with developing infrastructure and identifying potential growth centres. The State has also launched various flagship programmes to develop MSMEs (Micro, Small & Medium Enterprises) with credit, input, insurance support, etc., to handloom and power looms, textiles, food processing, etc.

In the post-COVID-19 period, the sub-sectors (except construction) have shown higher value addition than pre-COVID years. Manufacturing sector comprises formal and informal sectors. The formal manufacturing sector is an important source for employment generation, stable incomes, public revenue and exports (pharmaceutical and other merchandise exports). In 2022-23, as per ASI report, there were 2,53,334 registered factories in India (including UTs), of which factories in Telangana and Andhra Pradesh accounted for 5.2% and 6.5% respectively. As per NSS-ASUSE survey for 2022-23, unincorporated manufacturing sector is estimated to be 11.5% of manufacturing sector's GVA (NSSO-ASUSE, 2024, pp. A17-A52; A1009-A1015).

Telangana's formal manufacturing sector includes pharmaceuticals and life sciences industry, a major sub-sector after IT & ITES (of services sector) in the State. Pharmaceuticals and life sciences industries' output contribute to exports. In Telangana, life sciences and pharmaceuticals industries produce one-third of India's pharmaceutical products, and contribute to over 30% of merchandise exports in the State. Top five export commodities from the State are pharmaceuticals, organic chemicals, electric machinery, mechanical appliances, and salts and minerals. In recent years, bulk of new employment is from pharmaceutical sector (Socio Economic Outlook 2023, p. 69).

The State's mining sector is diverse. It includes coal, sand, limestone, etc. Coal mining is mainly done through Singareni Collieries Company Limited, and sand mining is regulated by TSMDC (now TGMDC -Telangana State Mineral Development Corporation). TGMDC is also entrusted with supplying sand to state government projects such as double bedroom houses, irrigation projects, etc.

Further, with Telangana Rising-2047 Vision, the State is set to actively enter into Industry 4.0 with policy stability, wherein there is a renewed thrust to empower industrial ecosystem through Research & Development, Life Science 2.0, promoting innovation through Bharat Future City, improving urban infrastructure, logistics, Defence and Aerospace, Electronics, Semiconductors and Advanced Manufacturing, strengthening manufacturing & industrial growth engines, eco-industrial parks and achieve net-zero goal. Additionally, under RARE (Rural Agriculture Region Economy) the State intends to transform agrarian economy, and decentralise industries to support rural economic growth.

2.4.4 Services Sector

Telangana's economy is service sector dominant. In 2024-25, services sector's value addition was 67% of GSDP. Services sector comprises Trade, Repair, Hotels, and Restaurants, Transport, Storage, Communication & Services related to Broadcasting, Financial Services, Real Estate, Ownership of Dwelling and Professional Services, Public Administration, and Other Services. Telangana's services sector is driven by two important sub-sectors namely, Trade, Repair, Hotels, and Restaurants; and Real Estate, Ownership of Dwelling and Professional Services (includes IT & ITES).

During 2022-23, these two sub-sectors comprised 28% and 37% respectively of services sector. IT & ITES is an export-oriented sub-sector; its exports constituted ₹2,41,275 crore during 2022-23 (DES, 2024, p. 19), that is 18% of State's nominal GSDP. In 2022-23, exports from Telangana accounted for ₹3,33,042 crore, of which 72.45% was from services, the remaining was merchandise exports (Socio Economic Outlook 2024, p. 205). IT sector was a dominant sector in employment from 2016-17 to 2020-21 (Socio Economic Outlook 2023, p. 69). This position has now been overtaken by the pharma sector.

The State has introduced various policies and reforms to boost services sector. Such as, in addition to the policies indicated above, TS-bPASS (now TG-bPASS- Telangana Building Permission Approval and Self-Certification System), various ICT specific policies, T-Fiber (Telangana Fiber Grid), Electronic Manufacturing Clusters, etc. The State has further introduced various initiatives to promote tourism. In this regard, the State has won National tourism awards under the category "Comprehensive Development of Tourism" in 2022. Further, TASK (Telangana Academy for Skill and Knowledge) was set up in 2014 to foster collaboration between public institutions, industry, academia to enhance skills. These policies have aided in attracting investments into the State. The state has played an active role in promoting and providing support to the services sector.

Further, as an important aspect of Telangana Rising-2047 Vision, the State intends to strengthen its position as national services powerhouse, which includes investments in human capital, digital public infrastructure, non-tradable services industry, and other globally competitive service industries. The State is set to advance skilling initiatives to prepare youth for AI and DeepTech services. Additionally, under CURE (Core Urban Region Economy-an area within the 160-km Outer Ring Road), the State intends to build a services sector-only metropolis, transforming CURE into a knowledge hub.

2.5 Impact of COVID-19 Pandemic

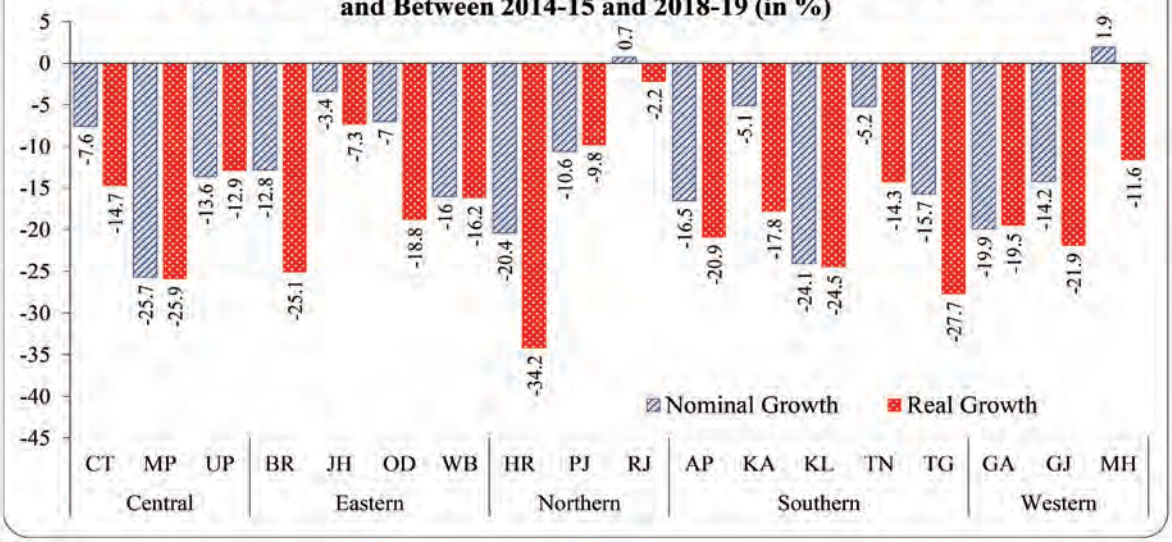
The economic impact of the COVID-19 pandemic became evident in 2019-20, as growth rates began a downward trend that intensified the following

year. Across most States, average growth rates for the 2016-19 period outperformed those recorded in 2019-20, followed by a sharp decline in 2020-21. By 2020-21, many States reported negative growth. In real terms, the contraction was most severe in Maharashtra, Kerala, Haryana, West Bengal, and Bihar, all of which saw their real growth rates plummet by more than 7% between 2019-20 and 2020-21. In 2020-21, Andhra Pradesh and Tamil Nadu were the only States to record positive growth, at 1.51% and 0.065%, respectively. Nonetheless, by 2021-22, all the States recovered to positive growth.

While the post-pandemic recovery is often described as V-shaped due to the sharp rebound in 2021-22, the medium-term growth momentum across most States remained lower than pre-pandemic levels. In Telangana, for example, nominal GSDP grew by 69.5% between 2014-15 and 2018-19, but this growth slowed to 53.8% in the four-year period (2018-19 to 2022-23), marking a 15.7% decline in expansion pace. The deceleration is even more pronounced in real terms, where growth dropped by 27.7% (figure 2.5). This trend is mirrored across other general category states, with many experiencing a significant hit to their economic trajectory. States like Haryana, Telangana, Madhya Pradesh, Bihar, Kerala, Gujarat, and Andhra Pradesh saw their nominal GSDP growth rates decline by over 20% compared to their earlier performance.

The recovery remains uneven, as the immediate post-pandemic period has failed to regain the growth momentum witnessed during 2016-19. Only six States, Uttar Pradesh, Bihar, Rajasthan, Tamil Nadu, Goa, and Maharashtra, recorded higher real growth rates in 2023-24 compared to their pre-pandemic averages, and seven States recorded higher nominal growth rates in 2023-24, including Punjab in addition to the above mentioned States (Table 2.5). Consequently, for the majority of Indian States, the economic recovery is characterised by a slower growth momentum, suggesting that the lingering impact of the pandemic continues to weigh on the States.

Figure 2.5: Difference in Growth Rates Between 2018-19 and 2022-23 and Between 2014-15 and 2018-19 (in %)



Note: The difference is calculated as later period (change in GSDP from 2018-19 to 2022-23) minus former period (change in GSDP from 2014-15 to 2018-19), therefore negative rates in the figure mean a fall in growth momentum in the later period. Figures are rounded off to the nearest decimal point. Author's own computation.

Source: MoSPI.

Table 2.5: Effect of COVID-19 Pandemic on Growth Rates

Administrative Zone	State	Real GSDP growth rate (%)							Nominal GSDP growth rate (%)						
		Average (2016-19)	2019-20	2020-21	2021-22	2022-23	2023-24	I - B	Average (2016-19)	2019-20	2020-21	2021-22	2022-23	2023-24	N-I
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
Central	***CT***	8.7	2.8	-0.1	6.3	7	7.3	-1.4	13.3	5.4	2.2	16.8	11.5	11.6	-1.7
	MP	9.1	4.5	-4.7	9.8	5.8	6.9	-2.2	15.4	11.8	2	16.4	11	10.8	-4.6
	UP	6.6	4	-4.5	11.4	7.4	8.9	2.3	11.6	7.5	-3.5	20.8	13.2	15.1	3.5
Eastern	***BR***	8.8	4.4	-7.4	5	12.8	12	3.2	12.4	10.2	-2.4	14	17.9	14.9	2.5
	JH	9.4	1.1	-5.3	12	7.2	7.5	-1.9	13.9	1.5	-4.4	26.8	10.2	12.4	-1.5
	OD	9.9	2.8	-2.1	16.4	-0.2	7	-2.9	15	7.8	0.5	28.8	2.8	11.7	-3.3
	WB	6.6	3.1	-7.6	11.6	5.8	6.1	-0.5	11.4	7	-3.2	17.4	13.1	9	-2.4
Northern	***HR***	8.9	2.3	-8.3	12.1	4.3	7.8	-1.1	12.2	5.6	-1	20.1	11.1	11.4	-0.8
	PJ	6.4	4.1	-1.5	7.4	7.1	6.3	-0.1	9.5	4.8	0.7	16.1	10.3	11.4	1.9
	RJ	4.5	5.4	-1.8	8.9	7.4	7.9	3.4	10.2	9.7	1.8	17.5	13.5	12.2	2
Southern	***AP***	7.9	3.7	1.5	7.1	6.5	6.2	-1.7	13.1	6	5.7	15.6	15.7	8.6	-4.5
	KA	9.3	6.1	-2.4	11.1	10.5	6	-3.3	12.3	9.2	1.5	21.4	16.4	10.2	-2.1
	KL	7.1	0.9	-8.5	11.8	5.7	6.7	-0.4	11.9	3.1	-5.1	19.8	12.4	9.3	-2.6
	TN	7.6	3.3	0.1	7.9	6.2	9.3	1.7	11.5	6.9	2.6	15.9	14.5	13.3	1.8
	TG	9.4	5.4	-6	11.2	6.9	7.4	-2	14.1	10.8	-0.7	19.2	16.4	11.9	-2.2
Western	***GA***	4.9	3.3	-4	1.1	12.6	7.1	2.2	9.4	4.4	-1.2	9.5	15.3	13.7	4.3
	GJ	9.8	7	-1.9	10	7.4	8.9	-0.9	13.2	8.4	-0.1	18.9	14.7	10.1	-3.1
	MH	5.8	4.6	-9.5	11.2	9.6	8	2.2	8.8	5.1	-1.7	20.4	15.8	11.4	2.6

Note: Author's own computation. Figures are rounded off to the nearest decimal point.

Source: MoSPI.

2.6 Concluding Remarks

From 2014-15 to 2024-25, Telangana recorded a nominal growth rate of 11.4% and real growth rate of 6.2%. To this extent, 2015-16 to 2018-19 was a period of high growth phase in Telangana. In nominal terms, Telangana's growth rate is higher among general category states. The State has also improved its ranking in PCI. However, in comparison to pre-COVID period, Telangana's growth rate is slower in the post-COVID period. The growth momentum of all the States has declined. In this regard, Telangana is one of the States which was severely affected.

The State's economic structure is dominated by services sector. However, in terms of employment, agriculture sector employs in higher numbers, followed by services and industrial sectors. With respect to growth trends, agriculture and industrial sectors do not show a steady trend, fluctuations are high. The allied sector, on the other hand, has declined since 2019-20. The State has recorded significant changes in sectors, through substantial support from the state government. The State has made remarkable improvements in food grains production, milk and meat production. Similarly, it has increased its per capita availability of electricity.

Telangana State's value addition from agriculture sector is lower than Andhra Pradesh, whereas the share of employment is higher than Andhra Pradesh. In Telangana, as agriculture sector employs in greater numbers, the consequence is low productivity and underemployment. However, in the post-COVID period in Telangana, agriculture sector's share in total value addition has declined, and its share of employment has declined rapidly. An important sub-sector in manufacturing is pharmaceuticals and life sciences sector. Similarly, important sub-sectors in services sector are IT & ITeS, and trade and hospitality services. To this extent, the State is reliant on only a few sectors for growth and employment.

Nonetheless, there is a significant shift in Telangana's sectoral drivers, with the pharmaceutical and life sciences industry becoming a major engine for exports and employment. In recent years, bulk of the new employment generation has shifted from the IT sector to the pharmaceutical sector. Further, the State is actively pursuing a transition toward Industry 4.0 and the Telangana Rising-2047 Vision, which aims to decentralise industries and establish the State as a global services powerhouse.

CHAPTER 3

Trends in Revenue Receipts in Telangana

3.0 Introduction

The revenue receipts are the non-debt component of the budget. The State apart from revenue resources also raises capital receipts for capital expenditure. During 2024-25, total receipts of Telangana was ₹2,29,024 crore (excluding WMA). Since 2015-16 to 2024-25, of total receipts, the state's revenue receipts accounted for 75% and capital receipts accounted for 25%. Revenue receipts are classified under three major heads: i. Tax Revenue, which comprises two components depending on the legislative distribution of tax powers, namely, State's Own Tax Revenue (SOTR), and Share in Union Taxes and Duties (or share in Union taxes, henceforth SUT); ii. State's Own Non-Tax Revenue (NTR); and iii. Grants from the Centre (or central grants). Collectively, SOTR and NTR are State's Own Revenue (henceforth SOR), and SUT and central grants are transfers from the Centre.

In this chapter we analyse revenue receipts of the state government. Our focus of analysis in this chapter is on State's Own Revenue. Further, we analyse trends in revenue receipts of the State and an interstate comparison, a detailed analysis of SOR, revenue buoyancy, and the final section concluding remarks are presented. We discuss fiscal transfers in detail in the following chapter.

3.1 Trends in Revenue Receipts

Between 2015-16 and 2024-25, the state's revenue receipts expanded from ₹76,134 crore to ₹1,67,804 crore (Table 3.1), reflecting an annual growth rate of 9.5%. SOTR emerged as the most significant and fastest-growing component, increasing by 173% from ₹39,975 crore to ₹1,09,233 crore at an annual rate of 11.6%. While SOTR showed overall resilience, it did witness negative growth during 2020-21 and 2024-25. Other revenue heads, NTR and central grants, lacked a consistent growth trend. In terms of overall contribution to revenue receipts, SOTR remains the primary source, followed by SUT, NTR, and central grants.

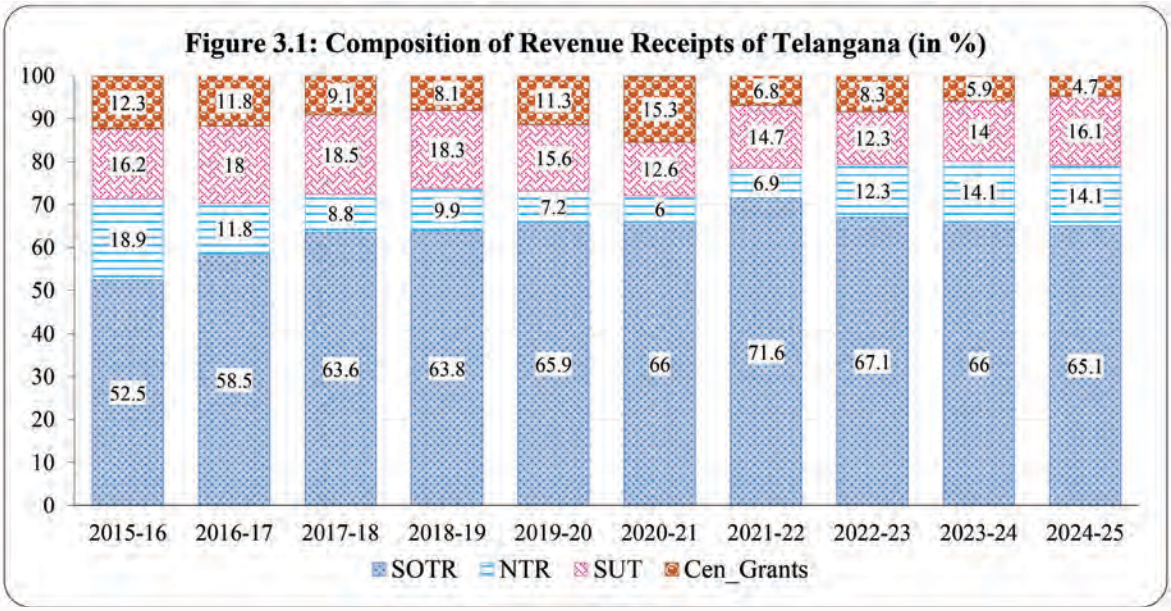
As a share of total revenue receipts, SOTR has increased from 52.5% in 2015-16 to 65% in 2024-25 (Figure 3.1). NTR, on the other hand, does not show a consistent trend but accounted for 14% of revenue receipts in 2024-25. Similarly, as a

Table 3.1 Revenue Receipts of Telangana (₹ *in crore*)

Item		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Sparkline
A	*SOR*	54,389	58,190	64,345	74,681	74,954	72,751	1,00,128	1,26,539	1,35,618	1,32,841	
A.1	*SOTR*	39,975	48,408	56,520	64,674	67,594	66,650	91,271	1,06,985	1,11,798	1,09,233	
A.2	*NTR*	14,414	9,782	7,825	10,007	7,360	6,101	8,857	19,554	23,820	23,608	
B	*CTs*	21,745	24,629	24,479	26,739	27,586	28,163	27,340	32,847	33,676	34,963	
B.1	*SUT*	12,351	14,877	16,420	18,561	15,988	12,692	18,721	19,668	23,742	27,050	
B.2	*Central Grants*	9,394	9,752	8,059	8,178	11,598	15,471	8,619	13,179	9,934	7,913	
A + B	*RR*	76,134	82,819	88,824	1,01,420	1,02,540	1,00,914	1,27,469	1,59,386	1,69,294	1,67,804	

Note: RR is Revenue Receipts. Figures are rounded off to the nearest whole number. Red coloured dot in the sparkline is the lowest point.
Source: CAG Finance Accounts (various years).

share of revenue receipts, SUT comprised 16%. However, its share is lower since 2020-21, following the reduction in the State's inter se share of the horizontal pool based on the recommendations of the 15th FC. Further, the State has also witnessed a decline in the grants-in-aid from the Centre. Overall, the State shows a strong reliance on its own revenue.



Note: Author's own computation. Figures are rounded off to the nearest decimal point.
Source: CAG Finance Accounts (various years).

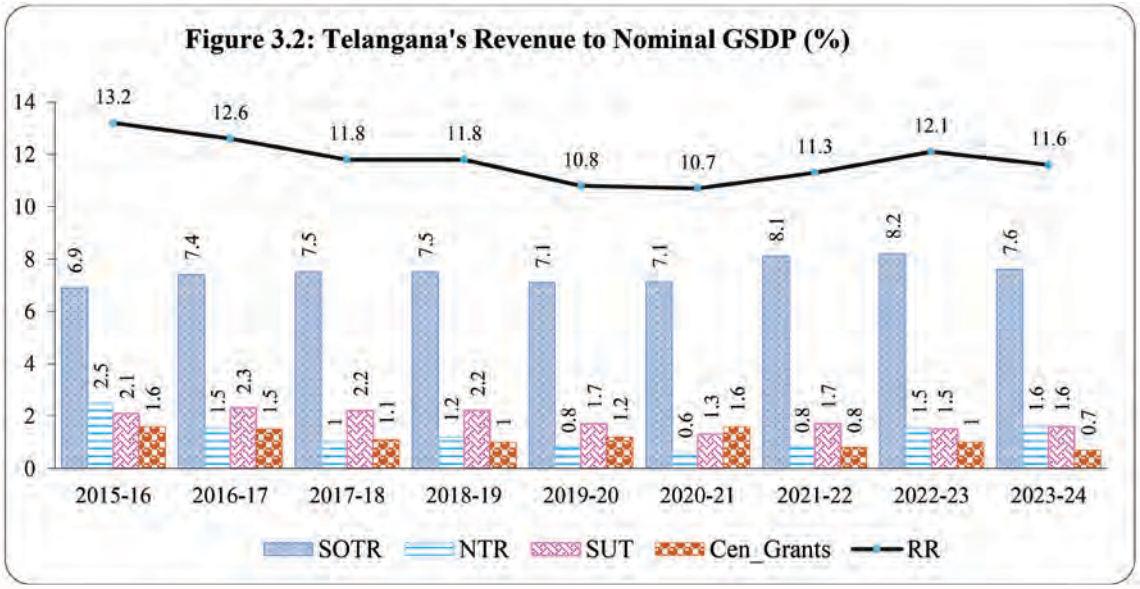
For a well-functioning economy, a buoyant flow of non-debt resources is a critical indicator of its fiscal health. An indicator to measure the growth of revenue and economic performance is revenue to GSDP ratio. That is, ideally, revenue growth should follow economic growth. That is, as economic output increases, then revenue should grow parallelly, or at a higher rate (in case of progressive resource mobilisation policy). A decline in revenue to GSDP ratio may indicate fiscal deterioration or the decline emerging from fiscal constraints. Fiscal constraints emerge due to poor administration, economic crisis, capacity constraints, and due to intergovernmental fiscal transfer policy in federations.[2]

Between 2015-16 to 2024-25, in Telangana, Revenue Receipts to GSDP ratio has declined from 13.2% to 11.6%. Of the four heads of revenue receipts, SOTR since 2016-17 was above 7% of GSDP (Figure 3.2). NTR and central grants to GSDP ratio showed an inconsistent trend. Whereas, SUT to GSDP ratio witnessed a decline in the 15th FC award period compared to 14th FC award period.

3.1.1 Inter-State Comparison

As a composition of revenue receipts, during 2017-18 to 2022-23, SOTR of general category states ranged between 24% (Bihar) and 67% (Telangana and Maharashtra) (Figure 3.3). The composition of NTR of general category states ranged between 2% (West Bengal) and 25% (Goa) of revenue receipts. States with a higher NTR share may have greater exposure to forestry and mining activities.

[2] A limitation here is that a tax policy generally consists of exemptions and zero-rated taxes which affect tax collection. In such cases, revenue-GSDP ratio underestimates tax potential.

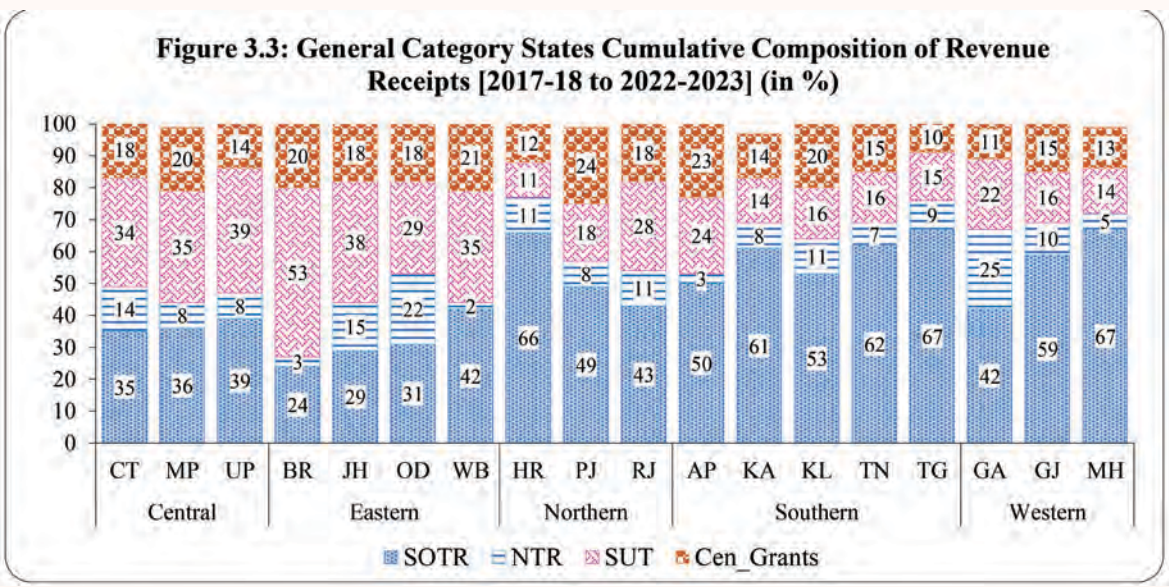


Note: Author's own computations. Figures are rounded off to the nearest decimal point.

Source: CAG (Finance Accounts, various years), Government of Telangana (Socio Economic Outlook 2024).

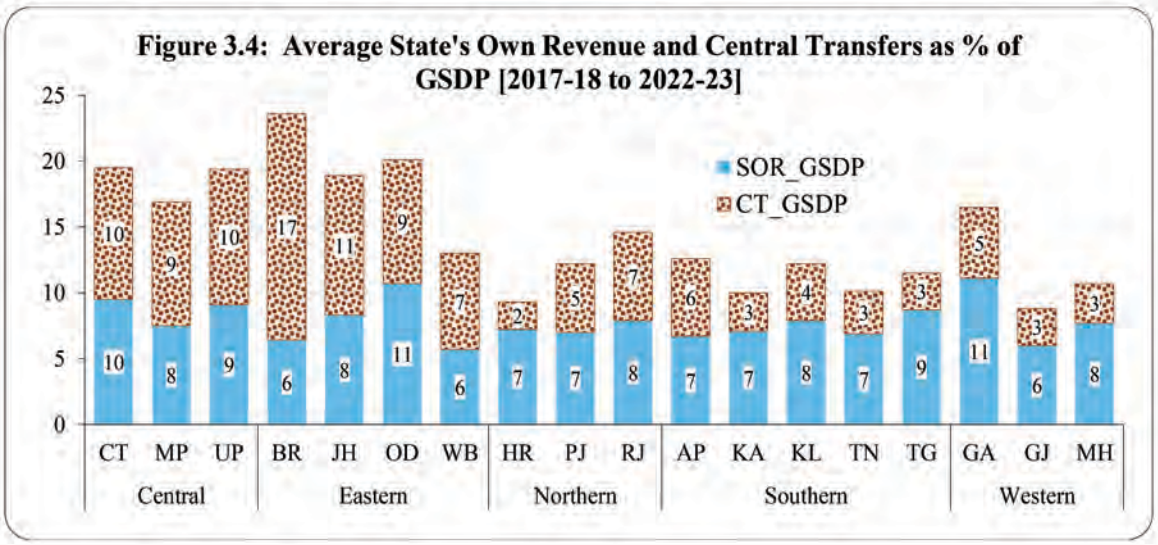
Within fiscal transfers, SUT transfers to the States are higher than central grants. The composition of SUT in revenue receipts of general category states ranged between 11% (Haryana) and 53% (Bihar). Similarly, the composition of central grants in revenue receipts is between 10% (Telangana) and 24% (Punjab).

Southern States, western States and Haryana from the northern zone have higher SOR share in their respective states' budgets. States in central and eastern zones are dependent on fiscal transfers in comparison to the States from the other zones. As a composition of revenue receipts, during 2017-18 to 2022-23, Telangana's share of SOR was higher than other general category states (see Figure 3.3).



Note: Author's own computations. Note: Figures are rounded off to the nearest whole number.

Source: RBI (Study Finances: A Study of Budgets, Appendix I).



Note: Author's own computations. Note: Figures are rounded off to the nearest whole number.
Source: RBI (Study Finances: A Study of Budgets, Appendix I), MoSPI.

The composition of receipts shows reliance on their own sources or dependence on fiscal transfers. It does not provide insights into the efficiency of tax mobilisation. An indicator of revenue efficiency is SOR to GSDP ratio. The SOR-GSDP ratio of general category states ranged between 6% and 11%. For the southern States, the ratio is between 7% to 9%. Telangana ranks 4th in the list following Odisha, Goa, Chhattisgarh (Figure 3.4).

3.2 State's Own Revenue

3.2.1 State's Own Tax Revenue

Sources under this category are within the state government's purview and the revenue mobilised constitutes the state's own resources. Major receipts under this category are consumption-driven, such as SGST, State VAT and VAT by Excise. Between 2015-16 and 2024-25, the three heads accounted for 65.4% of revenue collections under SOTR (Table 3.2). We have analysed GST in the next section separately, given its significance in the recent years.

Under SOTR, Total SGST receipts (including IGST) accounted for 30.1%, whereas Taxes on Sales, Trade, etc (i.e., State VAT and VAT by Excise) accounted for 35.3%. It is pertinent to mention that, various tax items under Taxes on Sales, Trade, etc. were merged into GST. Therefore, in 2015-16, Taxes on Sales, Trade, etc. accounted for 74.7% of SOTR. In 2024-25, Taxes on Sales, Trade, etc. combined with GST accounted for 68% of SOTR. After the VAT/GST based receipts, the state receives higher collections from state excise, which accounted for 17.1% of SOTR in the last decade. This is driven by consumption of intoxicants. To this extent, the state has revised liquor duty almost every year to increase revenue collections. After state excise, the higher receipts are from stamps and registrations, which accounted for 10.3% of SOTR in the last decade. The non-judicial stamps and registration fees have increased since 2021-22, that is in the post-COVID period. For instance, from 2020-21 to 2021-22, the growth of non-judicial stamps and registration fees was 136% and 156% respectively. This is due to the increase in stamp duty, registration charges and market value of lands by the state government. Nonetheless, majority of the receipts under this head are from non-judicial stamps which accounted for 9.1% of SOTR.

Another major source of revenue is from Taxes on Vehicles, which accounted for 6% of SOTR in the last decade. Other taxes such as taxes on professions, trades, calling and employment, duties on electricity, goods and passengers, taxes and duties on electricity, land revenue and other minor sources account for the remaining receipts. Of the heads under SOTR, 98.8% of the receipts are from six heads only. They are Taxes on Sales, Trade, etc. (i.e., State VAT and VAT by excise), SGST (including IGST), State Excise, Stamps and Registration Fees, and Taxes on Vehicles.

3.2.1.1 Goods and Services Tax (GST)

GST was introduced in 2017-18. GST is an indirect tax. For the state governments, GST includes receipts from the State's share in Central Goods and Services Tax (CGST), Integrated Goods and Services Tax (IGST), and State Goods and Services Tax (SGST). The revenue mobilisation is influenced by formal sector and consumption levels or living standards of people in the State. In Telangana, GST receipts have increased from ₹14,961 crore in 2017-18 to ₹50,343 crore in 2024-25 (Table 3.3). Of which, receipts from total SGST in the State has increased from ₹13,073 crore to ₹42,443 crore respectively (see Table 3.3).

Revenue collections from SGST are from intra-State trade, whereas collections from IGST are from inter-State trade. For Telangana, the difference between the receipts of SGST and combined IGST and cross utilisation (of SGST and IGST) is small. For instance, in 2024-25, the amount of SGST receipts was ₹21,269 crore, whereas the same for input tax credit cross utilisation of IGST and other apportionment receipts from IGST was ₹21,174 crore. This indicates the extent of intra- and inter-State trade in Telangana. Therefore, for Telangana, GST receipts are contingent upon not just production and trade within the State, but also inter-State trade. However, since the implementation of GST, the reported misuse of input-tax credit may lead to revenue loss to the State. To this extent, the state's effective role is important for broader sub-national macroeconomic growth, formalisation, and improvements in consumption or standards of living for increasing GST receipts.

Since the implementation of GST, the State received GST compensation for the loss arising due to the implementation of GST and phasing out Central Sales Tax. The State has received GST compensation cess, and with the end of compensation, the State would witness revenue loss. Further, with GST 2.0, the State's GST growth is uncertain.

Table 3.2: Select heads under SOTR

Sl. No	Item	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	*Decadal Average*
		₹ Crore										*%*
1	Taxes on Sales, Trade, etc.	29,847	34,235	25,106	20,290	20,674	20,904	26,974	29,604	29,990	31816	35.3
1.1	State VAT	19,724	23,169	16,242	10,890	10,670	9,008	13,438	15,343	15,461	15,803	*19.6*
1.2	VAT by Excise	8,169	8,220	8,013	9,475	9,862	11,706	13,505	14,175	14,570	16,000	*14.9*
2	Total SGST (including IGST)	0	0	13,073	23,840	23,517	22,190	28,917	36,248	39,295	42,443	30.1
3	State Excise	3,809	5,581	9,421	10,638	11,992	14,370	17,482	18,470	20,299	18,604	17.1
4	Stamps and Registration Fees	3,102	3,822	4,802	5,344	6,671	5,243	12,373	14,228	14,296	8473	10.3
4.1	Stamps-Judicial	39	50	45	57	67	51	65	99	94	89	*0.1*
4.2	Stamps - non-Judicial	2,681	3,365	3,677	4,859	6,120	4,843	11,413	12,837	12,855	7080	*9.1*
4.3	Registration Fees	382	407	51	46	484	349	895	1,291	1,347	1304	*0.9*
5	Taxes on Vehicles	2,309	3,394	3,589	3,762	3,935	3,338	4,381	6,737	7,095	6992	6
6	Taxes on Professions, Trades, Callings and Employment	359	386	411	452	526	511	587	722	811	887	0.7
7	Taxes on Duties on Electricity	37	514	397	16	17	20	548	886	17	15	0.3
8	Taxes on Goods and Passengers	33	11	88	189	62	19	8	27	-8	0	0.1
9	Land Revenue	104	7	4	0	1	1	0	0	0	1	0
TOTAL SOTR		**39,975**	**48,408**	**56,520**	**64,674**	**67,594**	**66,650**	**91,271**	**1,06,985**	**1,11,798**	**1,09,233**	**100.0**
(1+2)/TOTAL SOTR		74.7	70.7	67.5	68.2	65.4	64.7	61.2	42.9	62	68	

Note: Figures are rounded to the nearest whole number or decimal point.

Source: CAG (Finance Accounts, various years).

Table 3.3: GST Receipts in Telangana (*in ₹ Crore*)

Sl. No.	Item	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
As Tax Revenue									
1	CGST Share	231	4,581	4,537	3,715	5,573	5,640	7,205	7,900
2	IGST Share	1,657	366	-	-	-	-	-	-
3	Total SGST	13,073	23,840	23,516	22,190	28,917	36,248	39,295	42,443
3.1	Tax	6,518	9,045	8,459	1,967	14,521	16,865	20,013	21,269
3.2	Interest	3	23	54	6	-	-	-	-
3.3	Penalty	1	2	6	1	-	-	-	-
3.4	Fees	16	70	62	6	-	-	-	-
3.5	Input Tax Credit Cross Utilisation of SGST and IGST	5,287	9,859	10,076	7,527	10,532	13,359	14,001	14,447
3.6	Apportionment of IGST-Transfer-in of Tax Component to SGST	542	1,054	1,133	1,452	2,599	5,120	5,720	6,687
3.7	Apportionment of IGST-Transfer-in of Interest Component to SGST	-	-	-	-	2	16	17	35
3.8	Apportionment of IGST-Transfer-in of Penalty Component to SGST	-	-	-	-	-	-	-	5
3.9	Advance apportionment from IGST	705	1,873	(-)113	1,528	1,263	890	(-)456	-
3.10	Other Receipts	1	1,913	3,841	9,704	-	-	-	-
4	**Total [1+2+3]**	14,961	28,786	28,053	25,905	34,490	41,889	46,500	50,343
As Grants-in-Aid									
5	Transfer of States' portion of unapportioned IGST of previous year	-	-	-	2,638	-	-	-	-
6	GST Compensation	253	-	2,263	3,103	2,006	4,062	625	1

Note: Figures are rounded off to the nearest whole number.

Source: CAG (Finance Accounts, various years).

3.2.2 Non-Tax Revenue (NTR)

NTR is closely associated with benefit-received principle of taxation. In a developed economy, its potential lies in provision of quality public goods and services to the general public. Sustainability of service lies in the recovery of costs (firstly), and additionally, income. That is, NTR collections rely on public sector's performance. However, not all costs can be recovered, such as costs incurred towards merit goods under social services, which are important for developing economies. Nonetheless, collections of NTR are affected due to not updating of service rates and user charges, and passive enforcement in collections.

Between 2015-16 to 2024-25, NTR comprised 14% of revenue receipts (Table 3.4). Non-tax revenue is classified into two components: Interest Receipts, Dividends and Profits, and Other Non-Tax revenue. The receipts from the first component have been less than 5% of NTR annually in the last decade. Other non-tax revenue comprises receipts from General Services, Social Services and Economic Services. Of the three, the state government collects higher revenue mobilisation from general and economic services. The overall trend in NTR collections since 2015-16 is not steady.

General services include administrative, security and other public services given to the public. Receipts under this minor head are from administration, public works, sales, and a variety of other public services. General services' contribution to NTR was ₹17,117 crore during 2024-25. During the decade, general services comprised 49.7% of NTR (Table 3.4). Receipts from police services, and judicial fines and forfeitures constitute various minor sources of revenue under general services. The receipts from general services witnessed a surge since 2021-22, broadly due to higher collections from sale of land and property.

Social services include Education, Sports, Arts, Culture, Medical and Public Health, Family Welfare, Water Supply and Sanitation, Housing, Information and Technology, Urban Development, Labour and Employment, Social Security and Welfare, and various other Social Services. Social Services influence human development directly, the services pertaining to this head are either partially or fully subsidised. Therefore, recovery of cost is also low. Social Services' contribution to NTR was 9.9% in the decade. Two major receipts under social services are from general education and urban health services. These two services comprised 4.9% of receipts under NTR in the last decade.

Economic services is a broad category in terms of sources of revenue collections and associated economic activities. It includes receipts from user charges, sale, royalty, fees and other collections from all economic sectors such as agriculture, industry and services sector. The collections are also driven by infrastructure capacities and the user charges set by the authorities. In comparison to social services, economic services are highly monetised.

Economic services' contribution to NTR was 35.7% in the last decade. Under this head, majority of the collections are from mining activities, and the increase in the last three years from 2022-23 is due revision of seigniorage fee. Apart from mining, minor receipts under economic services are from crop husbandry, irrigation, rural development programmes, and forestry.

Table 3.4: Select heads under Non-Tax Revenue

Sl. No	Item	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Decadal Average
		In ₹ Crore										*In %*
1	Interest Receipts, Dividends and Profits	2,947	1,861	217	153	132	127	72	346	144	153	4.7
2	General Services	5,163	2,380	1,170	4,169	2,591	1,433	4,224	10,129	16,853	17,117	49.7
2.1	Miscellaneous General Services	4,677	2,094	894	3,885	2,159	1,254	3,925	9,800	16,478	16,772	*47.2*
	Of which Sale of Land and Property	583	1,810	686	848	416	10	2,708	4,069	7,322	8,494	*20.5*
3	Social Services	3,204	1,993	711	803	792	936	2,093	772	1,050	685	9.9
3.1	General Education	178	762	328	313	362	606	491	328	372	168	*3*
3.2	Urban Health	227	170	247	391	209	236	325	227	226	284	*1.9*
4	Economic Services	3,101	3,547	5,727	4,882	3,845	3,605	2,468	8,307	5,773	5,653	35.7
4.1	Non-Ferrous Mining & Metallurgical Industries	2,213	3,148	3,593	4,647	3,487	3,457	2,296	7,493	5,440	5,402*	*31.4*
Total Non-Tax Revenue		14,414	9,782	7,825	10,007	7,360	6,101	8,857	19,554	23,820	23,608	100.0

Note: Figures are rounded to the nearest whole number or decimal point.

** includes heads 0803 and 0853, in this year 0803- royalties from coal and lignite, was recorded separately.*

Source: CAG (Finance Accounts, various years).

3.3 Revenue Buoyancy

The analysis so far was on ex-post collection of revenue. However, it does not allow us to infer the position of the revenue receipts vis-à-vis economic performance, that is revenue efficiency. In this section, we analyse the efficiency through revenue buoyancy indicator. Revenue Buoyancy is a measure of responsiveness of revenue collection to economic growth. It provides insights into fiscal sustainability in the long run because revenues moving in tandem with changes in output ensure that tax system acts as a good output stabiliser, and it allows to ascertain weaknesses and strengths of revenue system (Dudine & Jalles, 2017).

However, there are few limitations in assessing revenue buoyancy. In a multi-level governmental set up, assessing buoyancy has inherent difficulties, where the mobilised resources are shared between governments. Further, the data we have is of 10 years only, and the period includes COVID years where GSDP witnessed negative growth. That is, a small positive change, or no change, in revenue collections and a weak growth in GSDP also indicates buoyant revenue. Nonetheless, buoyancy trend, under normal circumstances, provides insights into the stability of the tax system.

We apply the simplest measure[3] of revenue buoyancy: change in revenue/change in output (nominal GSDP). We estimate the major categories, such as RR, SOR and SOTR. Buoyancy over 1 means positive change in revenue collections to changes in output. We restrict our analysis of revenue buoyancy to three periods: pre-COVID-19 (2016-17 to 2018-19), COVID-19 (2019-20 to 2020-21), and post-COVID-19 (2021-22 to 2024-25). In the first period, the State witnessed a decline in SOTR buoyancy, and an increase in SOR and RR buoyancies. In the second period, COVID-19 period, there is an increase revenue buoyancy, due to greater decline in base values. In the third period, the recovery phase, we observe a consistent decline in buoyancies of RR, SOR and SOTR. The State's buoyancy has been declining in the current period. Further, during 2024-25, the buoyancy values are in the negative (Table 3.5).

Table 3.5: Revenue Buoyancy in Telangana

Year	RR Buoyancy	SOR Buoyancy	SOTR Buoyancy	Results [Trend]
2016-17	0.6	0.5	1.5	RR: Increase SOR: Increase SOTR: Decline
2017-18	0.5	0.8	1.2	
2018-19	1	1.1	1	
2019-20	0.1	0.03	0.4	Increase
2020-21	2.2	4	1.9	
2021-22	1.4	2	1.9	Decline
2022-23	1.4	1.5	1	
2023-24	0.6	0.7	0.4	
2024-25	-0.1	-0.2	-0.2	Negative

Note: Author's own computation. Figures are rounded off to the nearest decimal point.
Source: CAG (Finance Accounts – Vol II, various years), MoSPI.

[3] There are various methods suggested by World Bank (2025), and Dudine & Jalles (2017). However, due to limitations in data, we restrict ourselves to the simplest buoyancy measure.

That is, a positive growth in output is not leading to positive rise in revenue collections. Theory and practice suggest that this can be due to the following reasons (but not limited to):

i. Revenue base is not expanding with economic growth.
ii. Economy growth is occurring in sectors which have higher exemptions and concessions.
iii. Lowering tax rates.
iv. Weak formalisation and poor enforcement
v. Tax evasion and leakages.

3.4 Concluding Remarks

During 2024-25, revenue receipts comprised 75% of the total receipts. Of the revenue receipts, the state's SOR comprised 79%. Of the revenue receipts, during 2024-25, Telangana's SOTR and NTR accounted for 65% and 14% respectively, and SUT and grants-in-aid accounted for 16% and 5% respectively. That is, Telangana demonstrates a high degree of self-reliance on its own resources. Among general category states, Telangana has one of the highest SOTR, alongside Maharashtra. The ratio of SOR or SOTR are influenced by the share of SUT and central grants, meaning a decline in growth of SUT or central grants over time can mechanically inflate SOR share.

However, the state's revenue to GSDP ratio along with buoyancy measures indicates a trend of fiscal deterioration. This suggests, the state may have potential fiscal constraints such as poor administration, impact of COVID-19 shock and tax policy concessions and exemptions. Further, we have shown that the revenue buoyancy in the post-COVID period is deteriorating. This is after taking into consideration the broader revision of tax rates and duties to increase revenue receipts during the COVID years. Such as increasing stamp duty, registration fees, seigniorage fees, state excise, sale of land, and so on which have increased the revenue collections in the State.

Between 2015-16 to 2024-25, of the SOTR, the state collected 99% of the revenue under 6 minor heads - Taxes on Sales, Trade, etc. (i.e., State VAT and VAT by excise), SGST (including IGST), State Excise, Stamps and Registration Fees, and Taxes on Vehicles. Of Non-Tax Revenue, major revenue collections come from Non-Ferrous Mining & Metallurgical Industries and Sale of Land and Property which accounted for 51.9%. Similarly, the eight minor heads accounted for 92% of SOR. To this extent, the state's core revenue streams are Taxes on Sales, Trade, etc. (State Sales Tax Act), SGST (including IGST), State Excise, and Non-Judicial Stamps.

During 2024-25, revenue collections that the state government could directly influence with legislative freedom, that is excluding SGST (and IGST), SUT and central grants, accounted for 60% of SOR, or 48% of Revenue Receipts. Further, taking the three items SGST (and IGST), State VAT, VAT by Excise, and State Excise, which are affected by general consumption, accounted for 70% of SOR or 55% of Revenue Receipts. Revenue mobilisation of such taxes is contingent upon formalisation and active administration. For instance, in Telangana the rising cases of misuse of input tax credit leads to revenue loss to the State.

Further, there are a few limitations on the state's revenue collections vis-à-vis future receipts. These limitations pertain to exhaustible resources such as royalty and other receipts from mining sector, and VAT on excise on petrol and diesel (as mobility sector heading towards sustainable mode of transportation). During 2024-25, the state collected NTR of ₹5,402 crore from mining sector and ₹16,000 crore from VAT by excise. The two items accounted for ₹21,402 crore, that is, 16% of SOR, or 13% of Revenue Receipts.

CHAPTER 4

Fiscal Transfers from the Union to the State

4.0 Introduction

This chapter analyses the fiscal transfers from the Union government to Telangana and an interstate comparison. In our period of study, there are two phases for tax devolution and grants-in-aid. The period covers two finance commission award periods, 14th and 15th FCs. Further, there are two phases to the transfer of grants to the States. The first period is till 2016-17, and the second begins from 2017-18. For the three years from 2014-15 to 2016-17, grants flowed to the States through three channels: non-plan grants (including FC grants), grants for State/UT plan schemes, and grants for central plan schemes. From 2017-18 to 2023-24, the funds flowed through three channels: Centrally Sponsored Schemes, FC Grants and Other Transfers/Grants to States/UTs with legislatures. The first section of this chapter is on Finance Commission Transfers, with an analysis of horizontal devolution formula, and FC grants. The second section is on grants-in-aid from the Centre to the state government, and interstate comparison of grants-in-aid by the Union government to the 18 general category states. The final section is concluding remarks.

4.1 Finance Commission Transfers

4.1.1 Trends in Fiscal Transfers to Telangana

Between 2015-16 and 2024-25, the total fiscal transfers, comprising SUT, grants and loans, have increased form ₹22,666 crore to ₹37,690 crore. On average, they constituted 19% of total receipts per year, although their share is declining. The non-debt transfers from the Union to Telangana have increased from ₹21,745 crore to ₹34,963 crore, and constituted 25% of cumulative revenue receipts in the last decade. However, the share has declined in the 15th FC award period. Of the non-debt transfers, the largest source of receipts is SUT, followed by CSS grants, FC grants and other grants (see Table 4.1). SUT constituted 64% of total non-debt transfers to the State, and on average accounted for ₹18,007 crore per annum. In the last decade, the average FC grants accounted for ₹2,938 crore. Between 2017-18 and 2024-25, the average CSS grants are accounted for ₹5,533 crore per annum.

Other grants constituted a minor share of 5.4% of non-debt transfers in the last decade, of which GST compensation is a major chunk, and with the end of GST compensation, the decline would adversely affect the state finances. Further, in the 15th FC period, central loan receipts have increased. In the first half of the decade, the average central loan receipts constituted ₹631 crore, whereas in the second half of the decade, the average surged to ₹2,925 crore. Similarly, the average repayments and interest payments constituted ₹808 crore and ₹1,088 crore per annum in the first and second half of the decade respectively.

4.1.2 Share in Union Taxes and Duties (SUT)

SUT is contingent on the State's share in the divisible pool. State's share is based on a formula recommended by the Finance Commission (FC) for a period of five years. Telangana's share has declined from 14th FC to 15th FC (I&II) recommendations, and increased marginally in the 16th FC (Table 4.2).

Table 4.1 Flow of Funds from the Union to Telangana

Sl. No.	Item	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Decadal Average
	In ₹ Crore											
1	Share in Union Taxes & Duties	12,351	14,877	16,420	18,561	15,988	12,692	18,721	19,668	23,742	27,050	18,007
2	FC Grants	2,978	3,057	1,951	2,670	5,870	3,135	1,787	3,423	2,924	1,589	2,938
3	Total FC Transfers (1+2)	15,329	17,934	18,371	21,231	21,858	15,827	20,508	23,091	26,666	28,639	20,945
4	State Plan	5,826	6,695	0	0	0	0	0	0	0	0	1,252
5	CPS/CSS	590	0	6,108	5,507	5,729	5,805	4,461	5,387	5,966	5,303	4,486
6	Other Grants	0	0	0	0	0	6,531	2,371	4,369	1,043	1,021	1,534
6.1	GST Compensation	0	0	253	0	2263	3103	2006	4062	625	0	1,231
7	Total Grants (2+4+5+6)	9,394	9,752	8,059	8,178	11,598	15,471	8,619	13,179	9,934	7,913	10,210
8	**Non-Debt Transfers (1+7)**	21,745	24,629	24,479	26,739	27,586	28,163	27,340	32,847	33,676	34,963	28,217
9	Central Loans	921	956	637	433	207	2,665	4,784	2,501	1,948	2,727	1,778
10	Central Loans Principal Repayments	151	764	412	834	439	490	510	516	325	2479	692
11	Central Loans Interest Payments	525	259	220	248	187	155	110	94	107	655	256
12	Gross Transfers (8+9)	22,666	25,585	25,116	27,172	27,793	30,828	32,124	35,348	35,624	37,690	29,995
13	**Net Transfers (12-10-11)**	21,990	24,562	24,484	26,090	27,167	30,183	31,504	34,738	35,192	34,556	29,047
	%											
14	**Sl. No. 13 as a % of Total Receipts**	23.5	21.2	21.3	20	19.3	20.4	17.6	17	15.9	15.1	19
15	**Sl. No. 8 as % of Revenue Receipts**	28.6	29.7	27.6	26.4	26.9	27.9	21.4	20.6	19.9	20.8	25
16	**Sl. No. 9 as a % of Gross Transfers**	4.1	3.7	2.5	1.6	0.7	8.6	14.9	7.1	5.5	7.2	16

Note: Author's own computation. Figures are rounded off to the nearest whole number or decimal point.

Source: CAG (Finance Accounts, various years).

The decline in horizontal devolution share of Telangana from 14th to 15th (II) FC was from 2.437% to 2.102%, that is a 0.335% decline. Whereas the increase in horizontal share from 15th (II) to 16th FC was from 2.102% to 2.174%, that is a 0.072% increase in the total horizontal pool. For combined Andhra Pradesh and Telangana, the decline in the State's share in horizontal pool is consistent since 11th FC (2000-05), with a marginal increase during the 16th FC.

Table 4.2: Vertical and Horizontal Devolution Formula for the States

States	11th FC (2000-05)	12th FC (2005-10)	13th FC (2010-14)	13th FC (2014-15)	14th FC (2015-20)	15th FC (2020-21)	15th FC (2021-26)	16th FC (2026-31)
Vertical Devolution Share (in %)								
States' Share in Divisible Pool	29.54	30.5	32	32	42	41	41	41
Horizontal Devolution Share (in %)								
Andhra Pradesh	7.701	7.356	6.937	4.044	4.305	4.111	4.047	4.217
Telangana				2.893	2.437	2.133	2.102	2.174
AP + TG	7.701	7.356	6.937	6.937	6.742	6.244	6.149	6.391
General Category States	92.701	91.829	90.4	90.4	88.474	89.547	89.519	90.055
NEHS	7.299	8.171	9.6	9.6	11.526	10.453	10.481	9.945
All States	100	100	100	100	100	100	100	100

Source: FC Reports (various years).

4.1.3 Criteria of SUT

Inter se States' shares are arrived at after carefully considering equity and efficiency criteria. There were five criteria in the 14th FC recommendations, and six each in 15th and 16th FC recommendations. Of the criteria across the three FCs, three criteria were common in all the FCs, and four were common in 15th and 16th FC recommendations. On comparison, between 14th and 15th FC, the State's share has declined primarily due to income distance and forest cover. From 14th to 15th FC recommendations, for Telangana, the share in forest cover has declined by 21%, and share of income distance declined by 55%. Given the significance of income distance criterion's individual weight in arriving at final horizontal share, it impacted the State's share. That is, taking comparable GSDP figures as a measure of income distance, the largest decline in State's share comes due to economic growth. This is set to get worse with the 16th FC recommendations. While population and area criteria estimation remain as they are, with changes to their weights. But the demographic performance and per capita income distance and forest criteria estimations have changed. A new criterion of contribution to GDP has been introduced. To review the criteria (XIV-FC, 2014; XV-FC, 2020; XVI-FC, 2026) (see Table 4.3):

i. Criterion based on 2011 population and area remains the same.

ii. The largest decline in the State's share comes due to economic growth. The fall in rank is even more drastic in the 16th FC award period. Telangana's assessed rank changed from 7 in 15th FC to 3 in the 16th FC award period. Further, in estimating per capita GSDP, 16th FC period assesses a five-year average, compared to the previous practice of three-year average.

iii. A decline in share in forest area in Telangana in the 15th and 16th FC recommendations is due to decrease in moderately dense forest area. Further, the 16th FC expanded the assessment criterion to include open forest area along with moderate and very dense forests. The Commission's methodology assigns 80% weight to the weighted forest cover for 2023, and 20% weight to difference in 2023 and 2015 weighted forest cover. Therefore, firstly, due to loss of moderately dense forests, the State lost its ranking from 9 in 15th FC to 13 in 16th FC period. Further, within this framework, Telangana lost its share in the 20% weight due to loss of moderately dense forests in its geographical area or negative change in overall forest cover.

iv. The evolution of demographic performance criteria across the three FCs recommendations has significantly altered the State's shares. In particular, the shift from using 1971 census data to Total Fertility Rate (TFR), and subsequently to the 16th FC's use of the inverse of population growth. The 16th FC formula for demographic performance of inverse of population growth (multiplied by 2011 population), effectively mirrors the inter se share based on the 1971 census. Consequently, when compared to the 14th FC, the 16th FC's recommendations lead to a reduced share for Telangana due to lower assigned weightage. Additionally, the transition from the 15th FC's TFR-based criterion to the 16th FC's inverse population growth has caused a visible decline in the State's ranking and overall share.

v. Telangana ranks 9th in the new criterion of contribution to GDP. However, as the criterion assessment is based on square root of five-year average of comparable GSDP, i.e., it smoothens differences. Therefore, the inter se shares' range is narrowed.

As criteria have changed and new ones added, the State has lost its share on account of loss of forest area. On the demographic performance, the change in method of assessments has led to loss of share. On per capita GSDP distance, the State's economic growth has become a penalty for higher shares. Further, the square root of contribution to GDP criterion has smoothened the differences which has again penalised economic growth. Of the criteria, representing the State's efforts, under 16th FC, 27.5% of the weight is same as before (population and area), share pertaining to 10% of the weight (forest) has seen a reduction. Finally, 62.5% of weight (demographic performance, per capita GSDP distance and contribution to GDP), deters progress, turning the State's high growth and demographic efficiency into a fiscal penalty. For instance, in the three FCs, apart from the static criteria such as population and area, or tax effort, other criteria have not provided any incentive to the fiscal state of affairs.

Table 4.3: Inter se share (%) of States and Criterion in Horizontal Devolution

FC	Criteria	Weight	AP	TG	AP	TG	Base Variables
			Share		Rank of Base Variable		
14th	Population	17.5	5.908	2.913	8	13	1971 Census
	Population	10	4.149	2.956	10	12	2011 Census
	Area	15	4.155	2.943	8	12	Geographical Area
	Forest Cover	7.5	3.418	3.385	8	9	Moderate Dense and Very Dense Forest
	Income Distance	50	4.237	1.862	14*	11*	Average Per Capita Nominal GSDP, [Period: 2010-11 to 2012-13]
15th	Population	15	4.208	2.971	10	12	2011 Census
	Demographic Performance	12.5	6.635	3.632	25*	24*	Total Fertility Rate [2011 Census]
	Area	15	4.572	3.147	7	11	Geographical Area
	Forest and Ecology	10	4.103	2.667	8	9	Moderate Dense and Very Dense Forest
	Income Distance	45	NA	NA	14 *	7*	Average Per Capita Nominal GSDP [Period: 2016-17 to 2018-19]
	Tax Effort	2.5	4.336	3.558	9	2	Tax to GSDP Ratio [Period: 2016-17 to 2018-19]
16th	Population	17.5	NA	NA	10	12	2011 Census
	Demographic Performance	10	NA	NA	26*	17*	Population Growth
	Area	10	NA	NA	7	11	Geographical Area
	Forest	10	NA	NA	8	13	Weighted Open, Moderate Dense and Very Dense Forest Period [2015 & 2023]
					2	0	
	Per Capita GSDP Distance	42.5	NA	NA	13*	3*	Average Per Capita Nominal GSDP [Period: 2018-19 to 2023-24, excludes COVID year 2020-21]
	Contribution to GDP	10	NA	NA	8	9	Average Nominal GSDP [Period: 2018-19 to 2023-24, excludes COVID year 2020-21]

*Note: for 14th FC, ranking is for 29 States, whereas for 15th & 16th FCs ranking is for 28 States; * inter se share is measured in the inverse, that is lower ranking results in higher share and vice-versa.*

Source: 14th, 15th & 16th FC Reports.

4.1.4 FC Grants

The 14th and 15th FCs recommended grants-in-aid to the States towards local bodies, disaster management, and post-devolution revenue deficits. During 14th FC award period, of the three, Telangana received grants for local bodies and disaster management. During 15th FC award period, additionally, the State received grants for health sector also. During 2024-25, FC grants accounted for ₹1,589 crore, that is 20% of total grants from the Centre (Table 4:4).

Table 4.4: FC Grants to Telangana (₹ crore)

Item	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Grants for Rural Local Bodies	928	1,072	1,571	1,847	1,101	2,098	1,424	0
Grants for Urban Local Bodies	239	508	1,161	839	327	718	915	620
Grants in aid for SDRF	-	227	488	449	359	189	585	417
Grants for Health Sector	-	-	-	-	-	419	0	405
Total [FC Grants]	**1,168**	**1,806**	**3,219**	**3,135**	**1,787**	**3,423**	**2,924**	**1,589**

Note: Figures are rounded to the nearest whole number. Source: CAG (Finance Accounts, various years), RBI

4.2 Grants-in-Aid from the Centre

Apart from Finance Commission Transfers, the States receive funds towards CSS, central schemes and other grants. For the years 2014-15 to 2016-17, of non-plan grants, three major receipts were grants for local bodies, compensation for phasing out central sales tax, and grants for state disaster relief fund. The second component, grants for State plan schemes accounted for the largest source of transfers to the state government. From 2017-18 to 2024-25, the funds flowed through three channels: Centrally Sponsored Schemes, FC Grants and Other Transfers/Grants to States/UTs with legislatures. The first component, centrally sponsored schemes are implemented by the state governments but a part of the schemes is funded by the Union government, and a part of the funding is matched by the state governments. From 2017-18, the funding pattern for various schemes are in the ratio of 50:50 and 60:40 between Centre and the States respectively, a change from previous 75:25 ratio for some schemes. Additionally, as part of other transfers, the State received GST compensation.

Further, during 2022-25, transfers to centrally sponsored schemes accounted for 67% of the grants-in-aid. The second component with higher quantum of grants was FC grants. The third component is other transfers/grants wherein the largest transfer/grant was GST compensation. The State is compensated for loss of revenue due to implementation of GST. However, with the end of GST compensation, the State would witness a decline in grants-in-aid from the Centre. Indeed, from 2022-23 to 2023-24, the share of GST compensation in grants-in-aid fell from 30.8% to 6.3%. It was nil in 2024-25. The other grants also include grants under Article 275(I) of Indian Constitution and Central Road Fund. As a share of revenue receipts, central grants were 12% in 2015-16, and has declined to 5% by 2024-25 (Table 4.5).

Table 4.5: Grants-in-Aid from the Centre to Telangana

Sl. No.	Item	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	Grants in Aid (in ₹ crore)										
1	Non-Plan Grants (including FC Grants)	2,978	3,057	-	-	-	-	-	-	-	-
2	Grants for State/UT Plan Schemes	5,826	6,695	-	-	-	-	-	-	-	-
3	Grants for CPS	590	-	-	-	-	-	-	-	-	-
4	CSS	-	-	6,108	5,507	5,729	5,805	4,461	5,387	5,966	5303
5	FC Grants	-	-	1,168	1,806	3,219	3,135	1,787	3,423	2,924	1589
6	Other Transfers/Grants	-	-	784	864	2,650	6,531	2,371	4,369	1,043	1021
6.1	Transfer of States' portion of unapportioned IGST of previous year	-	-	-	-	-	2,638	-	-	-	-
6.2	GST Compensation	-	-	253	-	2,263	3,103	2,006	4,062	625	0
7	**Total Grants-in-Aid**	**9,394**	**9,752**	**8,059**	**8,178**	**11,598**	**15,471**	**8,619**	**13,179**	**9,934**	**7913**
	As % of Total Grants-in-Aid										
8	Non-Plan Grants (including FC Grants)	31.7	31.3	-	-	-	-	-	-	-	-
9	Grants for State/UT Plan Schemes	62	68.7	-	-	-	-	-	-	-	-
10	Grants for CPS	6.3	-	-	-	-	-	-	-	-	-
11	CSS	-	-	75.8	67.3	49.4	37.5	51.8	40.9	60.1	67.0
12	FC Grants	-	-	14.5	22.1	27.8	20.3	20.7	26.0	29.4	20.1
13	Other Transfers/Grants	-	-	9.7	10.6	22.8	42.2	27.5	33.2	10.5	12.9
	Of which: GST Compensation	-	-	3.1	-	19.5	37.1	23.3	30.8	6.3	-
14	Grants-in-Aid	100	100	100	100	100	100	100	100	100	100

Note: Author's own computation. Figures are rounded to the nearest whole number or decimal point.
Source: CAG (Finance Accounts, various years).

4.2.1 Interstate Comparison of Grants-in-aid

During 14th FC period, the average per capita grants-in-aid to 18 general category states was ₹2,998. Whereas, the average per capita grants-in-aid to 18 States during 15th FC (I & II) Award period from 2020-21 to 2023-24 was ₹4,302. An increasing trend in grants is witnessed since COVID-19 pandemic or the beginning of 15th (I&II) FC period. A change by 44%.

During 14th FC, the difference between the State with highest average per capita central grants (Andhra Pradesh, excluding Goa) and lowest per capita central grants (Uttar Pradesh) was 147%. During 2020-24, the difference between the State with highest average per capita central grants (Kerala, excluding Goa) and lowest per capita central grants (Bihar) was 206%.

Since 2020-21, Bihar witnessed the lowest per capita grant transfers, Goa witnessed higher transfers, followed by Kerala. Kerala's receipt of higher grants-in-aid is largely due to Finance Commission grants. Unlike SUT, the eastern States received lesser per capita grants-in-aid. In a comparison from 14th FC period to 2020-23, the only State to witness a decline in fiscal transfers through SUT and central grants was Karnataka. Annual per capita grants-in-aid for Telangana was ₹2,515 during 14th FC award period, and ₹3,116 during 2020-24 (Table 4.6) An increase by 24% less than the overall change for the 18 general category states.

Table 4.6: Interstate Comparison of Grants in Aid from the Centre

Zone	States	Annual Average Per Capita Grants (₹)			Annual Average Grants-GSDP Ratio (%)		
		14th FC [2015-20]	15th FC [2020-24]	% Change from 14th to 15th FC	14th FC [2015-20]	15th FC [2020-24]	% Change from 14th to 15th FC
Central	***CT***	4,024	3,955	-1.7	3.9	2.8	-28.9
	MP	3,290	4,135	25.7	3.6	3.1	-13.7
	UP	1,735	2,413	39.1	2.6	2.7	2.1
Eastern	***BR***	2,014	2,312	14.8	5.0	4.2	-16
	JH	2,699	2,740	1.5	3.7	2.9	-23.8
	OD	4,061	4,466	10	4.1	3.1	-25
	WB	2,811	3,510	24.9	2.8	2.5	-9.2
Northern	***HR***	2,497	2,973	19.1	1.1	1.0	-6.8
	PJ	2,778	6,354	128.7	1.7	3.2	85.3
	RJ	2,937	3,537	20.4	2.7	2.3	-14.5
Southern	***AP***	4,290	6,737	57	2.9	3.0	3.4
	KA	3,403	3,073	-9.7	1.6	1.0	-37.5
	KL	2,814	7,080	151.6	1.4	2.7	97.5
	TN	2,790	4,264	52.8	1.4	1.5	5.6
	TG	2,515	3,116	23.9	1.3	1.0	-19.9
Western	***GA***	4,537	9,676	113.3	1.0	1.8	86.2
	GJ	2,490	3,534	42	1.2	1.3	4.5
	MH	2,276	3,568	56.8	1.1	1.4	20.6

Note: Author's own computation. Figures are rounded off to the nearest whole number or decimal point.
Source: RBI-Study of State Budgets, MoSPI.

As a ratio of GSDP, the trend in central grants is unclear for the States. While grant transfers as a ratio of GSDP is low for southern and western States, but the per capita change from 14th FC to 15th FC is higher for southern and western States. This is due to the base effect. The component contributing to change is the non-scheme related transfers, such as FC grants and GST compensation. For instance, from 2015-20 to 2020-24, increase in average CSS grants for the 18 general category states was 62%. On the other hand, from 2017-20 to 2020-23, GST compensation cess increased by 623%.

4.3 Concluding Remarks

The gross transfers from the Union to Telangana was ₹22,666 crore in 2015-16 to ₹37,690 crore in 2024-25, with their relative importance to the state's budget is shrinking. Net fiscal transfers as a per cent of Telangana's total receipts dropped significantly from 23.5% in 2015-16 to 15.1% in 2024-25. Further, there is an increase in debt-based transfers since the COVID-19 years. GST compensation was the major component accounting for nearly 31% of total grants-in-aid in 2022-23. With the GST compensation ending, the State faced a sharp decline in grants.

The State's share in horizontal devolution has reduced consistently, with a marginal increase by the 16th FC. Essentially, 62.5% of the weightage in the 16th FC effectively turned the state's efficiency into a fiscal penalty. Even the new criterion for contribution to GDP has partially smoothened differences.

The State's receipts of fiscal transfers from the Union are low in comparison to other general category states. Further, the average per capita grants growth for Telangana is low in comparison to general category states.

CHAPTER 5

Expenditure Trends in Telangana

5.0 Introduction

The expenditure on Consolidated Fund is on two accounts: revenue and capital. Revenue expenditure includes salaries, pensions, interest payments, subsidies, assistance to various departments and other recurring and non-recurring expenditure. Capital expenditure includes capital investments, recovery of loans and advances by the state governments and debt repayments.

This chapter begins with trend analysis in expenditure in Telangana, followed by interstate comparison. The chapter's next section is a detailed analysis of state's expenditure including an interstate comparison on development and non-development expenditure. The following section is on analysis of committed and non-committed expenditure. We then analyse briefly, loans and advances by the state government. The next section is an analysis on quality of public expenditure in Telangana, followed by the position on pending payments in the State for the capital projects already undertaken. The final section is concluding remarks.

5.1 Trends in Expenditure

The state's expenditure has increased from ₹97,452 crore in 2015-16 to ₹2,36,318 crore in 2024-25 (Table 5.1), an increase by 142%.

The annual growth of total expenditure is 9.8%. The state's expenditure including revenue expenditure and capital outlay alone has increased from ₹89,486 crore in 2015-16 to ₹2,13,296 crore in 2024-25, growing at an average rate of 9.4% annually. Of the committed expenditure, the highest growth is on account of interest payments, followed by salaries and pension at 14.5%, 8.4%, and 7.9% respectively. As a per cent of State's GSDP, Telangana expenditure (RE+CO) was highest during 2016-17 at 17.4%. Thereafter, the expenditure to GSDP ratio ranged between 13% and 15% (Figure 5.1).

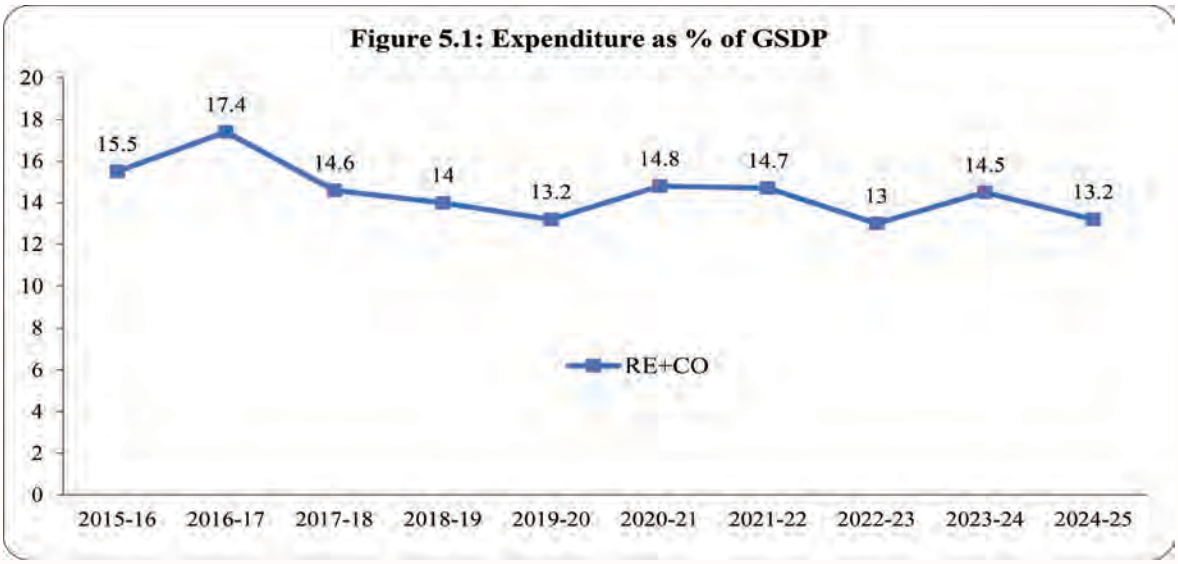
Expenditure on revenue account has been the dominant feature of the state's expenditure. From 2015-16 to 2024-25, revenue expenditure increased by 134%. On capital account, capital outlay was dominant. The capital outlay trend is not steady. However, from 2015-16 to 2024-25, cumulatively, capital outlay comprised 16% of total expenditure, whereas revenue expenditure comprised 74% of total expenditure. The remaining expenditure is on debt repayments (we will analyse this in a later chapter) and loans and advances by the state government (more on this in the following sections).

Table 5.1: Expenditure of Telangana

Expenditure	*2015-16*	*2016-17*	*2017-18*	*2018-19*	*2019-20*	*2020-21*	*2021-22*	*2022-23*	*2023-24*	*2024-25*	*Sparkline*
Revenue Account (in ₹ crore)											
A. Revenue Expenditure	75,896	81,432	85,365	97,083	1,08,798	1,23,212	1,36,803	1,53,407	1,68,514	1,77,224	
Of Which, i. Salaries	14,506	15,412	15,952	16,240	17,042	17,379	21,651	25,179	27,884	30,190	
ii. Interest	7,558	8,609	10,836	12,586	14,386	16,841	19,161	21,821	24,347	27,803	
iii. Pension@	8,217	9,011	11,932	11,477	11,834	13,595	13,999	15,804	16,835	16,945	
Capital Account (in ₹ crore)											
B. Capital Outlay	13,590	33,371	23,902	22,641	16,859	15,922	28,874	17,881	43,918	36,072	
C. Loans and Advances	5,233	3,402	6,209	8,706	8,700	10,868	8,469	21,248	6,861	4,855	
D. Debt Repayments	2733	3481	4549	6893	8,493	7,536	8,843	11,987	12,519	18,167	
Total (in ₹ crore)											
Total Expenditure (A+B+C+D)	97,452	1,21,686	1,20,025	1,35,323	1,42,850	1,57,538	1,82,989	2,04,523	2,31,812	2,36,318	

Note: Figures are rounded off to the nearest whole number. Red coloured dot on sparkline is the lowest point. @ of MH2701 only.

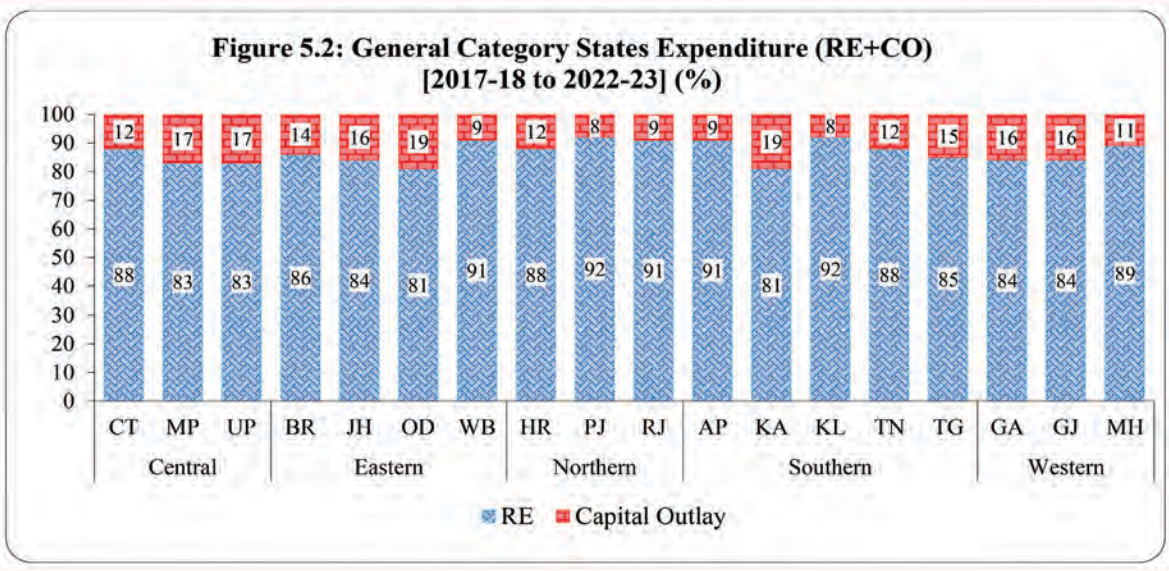
Source: CAG Finance Accounts Vol II – Statement 15 and 16 (various years).



Note: Author's own computation. Figures are rounded off to the nearest decimal point.
Source: CAG (Finance Accounts, various years) & MoSPI.

5.1.1 Inter-State Comparison

In this section, we analyse revenue expenditure (RE) and capital outlay (CO) only (referred to as total expenditure from here). During 2017-18 to 2022-23, the composition of RE in total expenditure of general category states was 87% and capital outlay was 13%. Among the southern States, as a composition of state's total expenditure, Kerala's cumulative RE as a ratio of total expenditure was higher, followed by Andhra Pradesh, Tamil Nadu, Telangana, and Karnataka (Figure 5.2). The composition of revenue expenditure of the States ranged between 81% (Karnataka and Odisha) and 92% (Punjab and Kerala). On the other hand, the composition of cumulative capital outlay of the States ranged between 8% and 19%. During 2017-18 to 2022-23, the composition of revenue expenditure and capital outlay in Telangana was 85% and 15% respectively.



Note: Author's own computation. Figures are rounded off to the nearest whole number.
Source: RBI (State Finances: A Study of Budgets; Appendix II, IV).

Telangana's capital outlay's share in total expenditure was higher than average of general category states, and among the southern States (except Karnataka).

5.2 Expenditure by Function

By function, expenditure is classified into 3 heads: General services, Social services, and Economic services. General services include organs of the state (such as state legislatures, governor, council of ministers, justice, and elections), fiscal services (such as expenditure towards collection of taxes), interest payments and avoidance of debt, administrative services, pensions and other general services. General services expenditure is also known as non-development expenditure. Development expenditure, on the other hand, comprises social and economic services. Social services expenditure comprises expenditure towards human development such as education, health, water supply, sanitation, welfare of SCs, STs, OBCs and minorities, and social welfare and nutrition. Economic services comprises expenditure towards the three sectors of the economy.

Between 2015-16 to 2024-25, general services expenditure has increased from ₹23,522 crore to ₹60,802 crore, social services expenditure has increased from ₹32,618 crore to ₹65,124 crore (it was highest in 2023-24 at ₹67,726 crore), and economic services expenditure has increased from ₹33,207 crore to ₹88,371 crore. Cumulatively, from 2015-16 to 2024-25, general services expenditure comprised 28%, social services comprised 35% and economic services comprised 37% (Table 5.2). Among services, the expenditure on revenue account has witnessed a consistent rise in comparison to capital account. Further, growth rate in general and social services is consistent in comparison to economic services, and this is due to the capital outlay share in economic services which is relatively higher on economic services than general and social services.

i. *General Services:* General services expenditure is on state services. Between 2015-16 to 2024-25, total general services expenditure grew at 10% per annum. Further, 98% of the general services expenditure was on revenue account. Expenditure on organs of the state and fiscal services account for less than 5% of general services expenditure. Three items which accounted for higher expenditure in general services were interest payments, police service and pensions (Table 5.3). From 2015-16 to 2024-25, these three accounted for 88% of general services expenditure.

ii *Social Services:* Social services are public goods provided by the state. Merit goods are part of social services. Generally, these services are partially or fully subsidised, and these services bring long run benefits to the society. Between 2015-16 to 2024-25, total social services expenditure grew by 7.9% per annum. However, it witnessed a negative growth of 4% in 2024-25. From 2015-16 to 2024-25, revenue expenditure on social services accounted for 92% of the expenditure on social services. On revenue account, higher social services' expenditure is on general education, followed by social security, medical and public health, welfare of OBCs, welfare of SCs and others social services (Table 5.4). The allocations towards education is one of the lowest among general category states (Telangana State Finances - White Paper, 2023), and lower than Andhra Pradesh (Kotu, 2022). The increase in social security expenditure is broadly driven by Aasara pensions. Aasara pensions were revised in 2019-20. Aasara is now renamed as Cheyutha. On capital account, higher expenditure is on water supply and sanitation.

Table 5.2: Expenditure by Function

Expenditure	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Decadal Average
Revene Expenditure (in ₹ crore)											
General	23,247	25,125	30,872	34,199	36,441	39,477	44,433	50,025	55,646	60,279	27.4
Social	30,466	35,286	37,259	39,721	45,833	48,400	53,181	57,564	58,610	58,392	31.8
Economic	22,043	20,950	17,200	23,157	26,524	35,335	39,189	45,818	54,258	58,554	23.5
Capital Outlay (in ₹ crore)											
General	275	567	96	703	646	779	962	1,208	865	523	0.5
Social	2,152	3,162	2,851	5,620	1,765	2,147	6,345	2,726	9,116	6,732	2.9
Economic	11,164	29,641	20,486	16,317	14,449	12,996	21,568	13,947	33,937	28817	13.9
Combined Expenditure (in ₹ crore)											
General	23,522	25,692	30,969	34,902	37,087	40,256	45,394	51,232	56,510	60,802	27.8
Social	32,618	38,447	40,110	45,341	47,597	50,548	59,526	60,290	67,726	65,124	34.7
Economic	33,207	50,591	37,686	39,475	40,973	48,331	60,757	59,765	88,195	87,371	37.4
Total	89,347	1,14,730	1,08,765	1,19,718	1,25,657	1,39,135	1,65,677	1,71,287	2,12,431	2,13,297	100
Combined Expenditure As a per cent of total (%)											
General	26.3	22.4	28.5	29.2	29.5	28.9	27.4	29.9	26.6	28.5	27.8
Social	36.5	33.5	36.9	37.9	37.9	36.3	35.9	35.2	31.9	30.5	34.7
Economic	37.2	44.1	34.6	33	32.6	34.7	36.7	34.9	41.5	41	37.4

Note: Figures are rounded off to the nearest whole number or decimal point.

Source: CAG Finance Accounts Vol II – Statement 15 and 16 (various years).

Table 5.3: Select items Expenditure on General Services

Sl. No	Expenditure Head	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Decadal Average
		₹ Crore										%
	Revenue Expenditure											
1	Organs of the State	595	655	651	1,109	1,014	768	714	1,092	2,035	2,058	2.6
2	Fiscal Services	743	778	762	873	786	818	956	1,049	1,130	1,184	2.2
3	Interest payments	7,558	8,609	10,836	12,586	14,386	16,841	19,161	21,821	24,347	27,803	40.3
	Of which: Interest on market loans	5,165	6,319	7,916	9,610	11,455	13,907	16,421	19,053	21,567	24,462	033.4
4	Administrative Services	5,750	6,072	6,692	7,653	8,137	7,450	9,548	10,261	11,291	12,283	21
	Of which: Police	4,148	4,506	4,944	5,562	5,595	5,612	7,240	7,994	8,940	9,607	15.8
5	Pensions and Misc. General Services	8,217	9,011	11,932	11,478	11,818	13,600	14,053	15,802	16,842	16,945	31.9
6	**Total General Services**	23,247	25,125	30,872	34,199	36,441	39,477	44,433	50,025	55,646	60,279	98.4
	Capital Outlay											
7	**Total General Services**	275	567	96	703	646	779	962	1,208	865	523	1.6

Note: Figures are rounded off to the nearest whole number or decimal point.
Source: CAG Finance Accounts Vol II – Statement 15 and 16 (various years).

Table 5.4: Select Heads Expenditure on Social Services

Sl. No.	Expenditure Head	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Decadal Average
		₹ Crore										%
	Revenue Expenditure											
1	Social Security and Welfare	5,578	5,608	5,888	7,499	9,847	10,292	10,328	12,181	13,251	12,989	18.4
2	Elementary Education	4,157	4,923	4,875	4,571	5,247	5,402	6,241	7,433	8,520	8,988	11.9
3	Secondary Education	4,405	5,063	5,320	4,998	5,061	4,906	5,984	7,161	7,787	8,827	11.7
4	Medical and Public Health	3,080	3,343	3,408	3,635	3,963	3,306	4,227	5,038	6,052	6,279	8.3
5	Welfare of OBCs	1,065	2,774	2,680	3,530	3,211	2,978	4,080	3,387	3,492	3,061	6
6	Welfare of SCs	1,610	1,920	2,337	2,418	3,333	3,048	7,269	4,593	2,175	1,362	5.9
7	Urban Development	1,693	1,313	1,515	2,030	2,166	3,816	2,665	4,285	3,366	4,402	5.4
8	Nutrition	1,682	2,847	2,916	2,912	2,738	2,007	2,173	2,348	1,677	1,186	4.4
9	Family Welfare	575	1,246	1,360	1,278	1,987	2,441	2,194	2,410	2,069	2,656	3.6
10	Welfare of STs	1,328	1,053	1,859	1,595	1,972	1,588	2,484	1,985	2,199	1,387	3.4
11	University and Higher Education	1,153	1,273	1,307	1,296	1,373	1,390	1,536	1,795	2,043	2,170	3
12	Welfare of Minorities	-	-	980	1,264	1,323	1,206	1,603	1,561	1,790	1,328	2.7
13	Water Supply &Sanitation	874	1,187	897	314	230	746	1,113	1,281	1,177	1,064	1.8
14	Housing	615	30	551	876	406	555	255	299	413	370	0.9
15	Technical Education	416	361	336	329	333	262	291	377	375	381	0.7
16	Information and Publicity	249	343	324	270	183	147	105	235	409	192	0.5
17	Labour Welfare	193	147	175	166	159	219	199	314	269	224	0.4
18	**Total Social Services**	30,466	35,286	37,259	39,721	45,833	48,400	53,181	57,564	58,610	58,392	91.6
	Capital Outlay											
19	**Total Social Services**	2,152	3,162	2,851	5,620	1,765	2,147	6,345	2,726	9,116	6,732	8.4
	Of which: water supply & sanitation	1,473	2,107	1,831	4,236	744	1,042	5,329	941	5,629	4,243	5.4

Note: Select Social services expenditures are presented here. Figures are rounded off to the nearest whole number or decimal point.
Source: CAG Finance Accounts Vol II – Statement 15 and 16 (various years).

iii. *Economic Services:* Between 2015-16 to 2024-25, total economic services expenditure grew by 9.9% per annum. Cumulatively, during this decade, 38% of economic services expenditure was on capital outlay and the remaining was revenue expenditure. Of the total, agriculture and allied activities, and irrigation constituted 57% of expenditure on economic services. While irrigation sector witnessed increases during select years of 2016-17, 2018-19, 2021-22, 2023-24 and 2024-25, the expenditure on agriculture surged since 2018-19 largely due to Rythu Bandhu scheme (now Rythu Bharosa), and debt relief (non-recurrent). Further, during 2020-21, number of Rythu Bandhu beneficiaries was increased. Energy sector constituted 17% of expenditure. Energy sector witnessed consistent increase in expenditure due to increasing assistance to TRANSCOs on account of free power to agriculture and allied sector. Broadly, the changes in these three services reflected the overall change in economic services expenditure. Further, the expenditure on economic services during 2023-24 and 2024-25 were ₹88,195 crore and ₹87,371 crore, respectively (Table 5.5). This is the highest expenditure on economic services in the last decade. The increase in the recent two years is on account of higher expenditure towards major irrigation and debt relief to farmers.

By function, from 2015-16 to 2024-25, aggregate development expenditure of the State was 72% of the expenditure, the remaining was on non-development expenditure. Of total development expenditure, major expenditure, in descending order, was on agriculture, irrigation, education, energy and social security. In the decade, these five items accounted for 42% of the total expenditure (revenue expenditure plus capital outlay). Of non-development expenditure, interest payments, pensions and police services accounted for 25% of total expenditure.

5.2.1 Inter-State Comparison

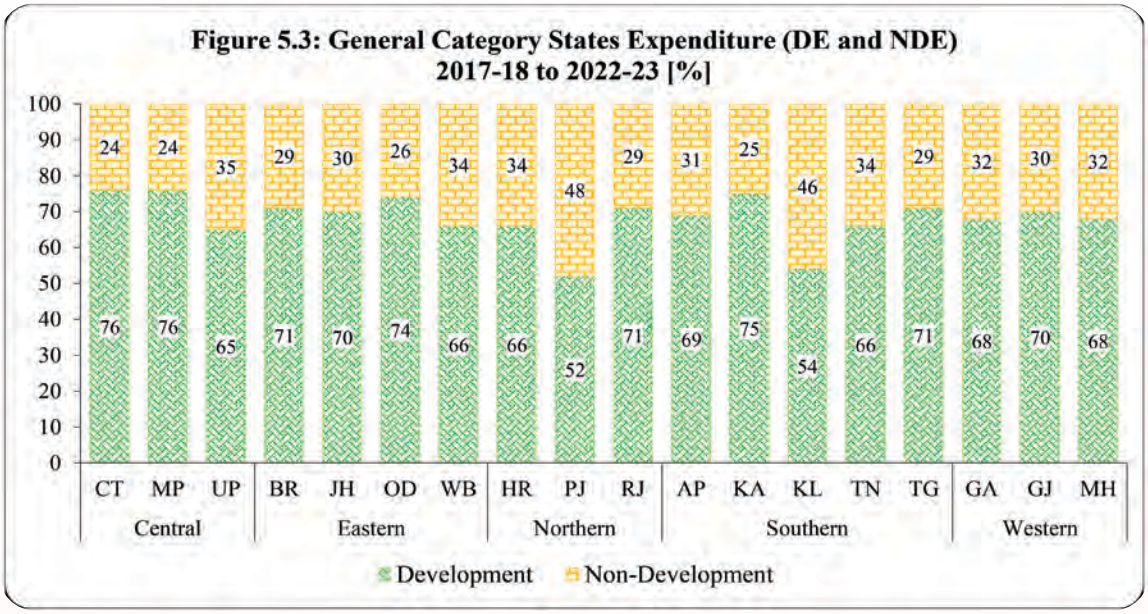
During 2017-18 to 2022-23, the composition of development (DE) and non-development expenditure (NDE) of general category states was 68% and 32% respectively. The composition of development expenditure of the general category states ranged between 52% (Punjab) and 76% (Chhattisgarh and Madhya Pradesh). On the other hand, the composition of NDE of the general category states ranged between 24% and 48%. Among the southern states, when measured as a proportion of state's expenditure, Karnataka recorded the highest cumulative development expenditure (DE) ratio, followed by Telangana, Andhra Pradesh, Tamil Nadu, and Kerala (see Figure 5.3). The composition of DE and NDE in Telangana was 71% and 29% respectively. From 2017-18 to 2022-23, the two States with highest change in NDE were Odisha by 138% and Karnataka by 107%. A factor impacting higher NDE growth was interest payments. Telangana's growth of NDE was 63%. For the same period, the State with highest growth in DE was Punjab at 116%. Telangana's growth of DE was 54%. Nonetheless, Telangana's DE was higher than average of general category states' DE, and in the southern States (except Karnataka).

Table 5.5: Select items Expenditure on Economic Services

Sl. No.	Expenditure Head	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Decadal Average
		₹ Crore										%
	Revenue Expenditure											
1	Agriculture and Allied	6,476	6,122	6,560	12,601	15,422	17,591	19,555	18,729	29,559	30,990	29.9
	Of which: crop husbandry	1,043	662	1,120	11,298	13,112	16,761	17,303	17,031	15,706	9,299	18.9
2	Energy	4,440	4,594	4,391	4,983	5,222	9,984	11,162	17,679	15,945	16,554	17.4
3	Rural Development	4,749	6,549	3,790	2,857	3,745	5,393	4,790	6,039	4,733	3,106	8.4
4	Transport	1,362	595	595	872	842	1,058	1,499	1,384	2,478	4,041	2.7
5	Irrigation and Flood Control	3,158	2,033	398	398	345	325	350	433	501	511	1.5
6	Industry and Minerals	865	382	826	751	612	623	1,271	1,073	415	1,045	1.4
7	General Economic Services	985	658	629	698	328	349	553	467	621	2,288	1.4
8	**Total Economic Services**	22,043	20,950	17,200	23,157	26,524	35,335	39,189	45,818	54,258	58,554	62.8
	Capital Outlay											
9	Major irrigation	6,348	11,275	10,988	7,822	8,375	6,976	12,025	7,427	26,698	22,643	22.1
10	Transport	1,738	3,180	2,169	1,024	958	1,151	2,700	1,677	1,491	1,898	3.3
11	Rural development	350	103	858	1,996	1,008	2,479	2,600	1,946	2,508	2,328	3
12	General Services	625	1,428	1,552	701	794	742	1,893	1,914	2,642	1,440	2.5
13	Minor irrigation	1,292	2,029	1,360	1,081	996	1,291	1,383	677	275	249	1.9
14	Medium irrigation	71	222	207	196	116	114	123	42	91	43	0.2
15	**Total Economic Services**	11,164	29,641	20,486	16,317	14,449	12,996	21,568	13,947	33,937	28,817	37.2

Note: Select Social services expenditures are presented here. Figures are rounded off to the nearest whole number or decimal point.

Source: CAG Finance Accounts Vol II – Statement 15 and 16 (various years).



Note: Author's own computation. Figures are rounded off to the nearest whole number.
Source: RBI (State Finances: A Study of Budgets; Appendix II, IV).

5.3 CSS Expenditure

Between 2015-16 and 2024-25, grants-in-aid from the Union government accounted for 5.2% of total expenditure in Telangana. During 2023-24 and 2024-25, total central assistance accounted for 2.7% and 2.0% respectively. A general trend is that the central assistance as a ratio of total expenditure is on the decline. The decline in central assistance is more visible in the post-COVID years or since the beginning of 15th FC award period. Further, the fall in central assistance is primarily on revenue account, in particular towards social services, with an increase in 2024-25. For economic services, there is an increase in central assistance on capital account during the 15th FC award period (Table 5.6). Central assistance towards social services was towards general education, health and family welfare, housing and urban development, and nutrition. On economic services, major expenditure from central assistance was on rural development and roads and bridges.

Table 5.6: Central Assistance (CSS/CS) towards services in Telangana

Year	General Services		Social Services		Economic Services		RE Sum	CE Sum	RE+CE as % of Total Expenditure
	RE	*CE*	*RE*	*CE*	*RE*	*CE*			
	₹ *crore*								%
2015-16	65	28	3,943	51	2,606	566	6,614	645	8.1
2016-17	85	100	8,033	144	3,201	113	11,319	357	10.2
2017-18	1	-	5,438	1,339	1,612	559	7,051	1,898	8.2
2018-19	71	79	4,050	1,938	473	1,946	4,593	3,964	7.1
2019-20	-	119	4,906	233	323	991	5,229	1,344	5.2
2020-21	7	242	5,807	761	937	2,540	6,751	3,543	7.4
2021-22	16	95	3,976	93	445	2,077	4,437	2,265	4.0
2022-23	11	119	3,885	336	304	1,476	4,200	1,931	3.6
2023-24	8	94	2,880	234	210	2,210	3,098	2,538	2.7
2024-25	10	67	4,347	498	472	1,856	4,828	2,421	2.0

Note: Author's own computation; Figures rounded off to the nearest whole number or decimal point.
Source: CAG Finance Accounts Vol II – Statement 15 and 16 (various years).

5.4 Expenditure by Nature

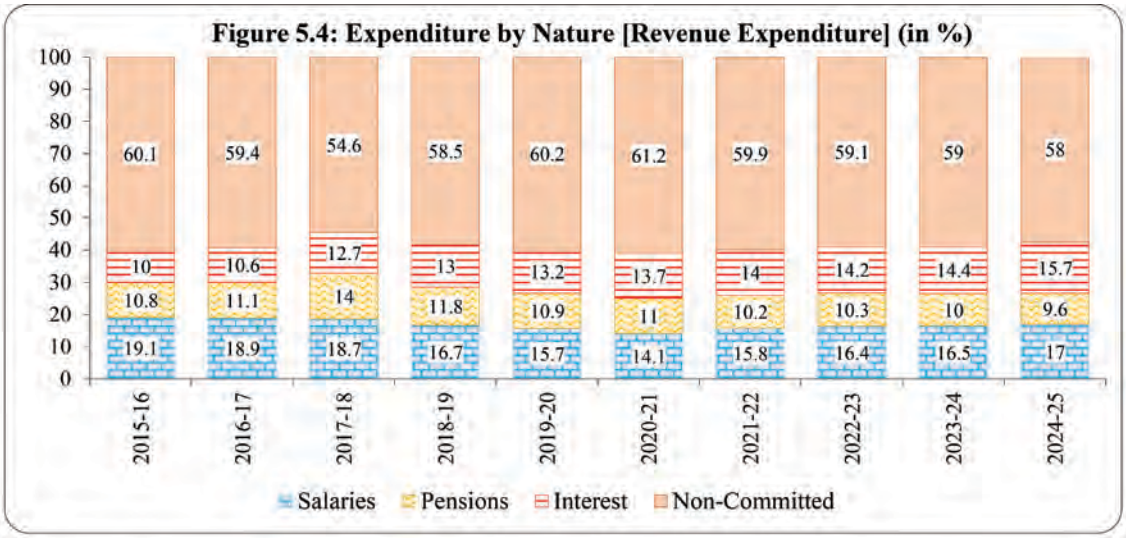
Committed expenditure is an obligation of the state government to pay on a recurrent basis. Committed expenditure comprises salaries, interest payments and pensions. Non-committed expenditure, on the other hand, arises out of state's policies (which are not obligatory and may also be of non-recurring nature). The number of objects under non-committed expenditure can be numerous depending on the developmental role of the state policy. For fiscal sustainability, non-committed expenditure is the component which can be reduced as it is not an obligation. However, not all can be reduced, such as expenditure on merit goods.

Non-committed expenditure comprises grants-in-aid by the state government, subsidies, major & minor works, investments of the government, scholarships and stipends, contractual services, supply and materials, professional services, cost of ration/diet charges, contributions, office expenses, etc. In Telangana, of non-committed expenditure, the largest component was grants-in-aid by the state government. Grants-in-aid by the state government includes financial transfers to local bodies, PSUs, autonomous bodies, government departments, etc., and also includes transfer payments and subsidies[4].

Expenditure towards major works is on capital account, whereas minor works comprises both revenue and capital expenditure. Subsidies are systematically aligned with state economic policy to support economic enterprises, while simultaneously advancing broader social policy. The remaining expenditure comprises investments of the government, scholarships and stipends, contractual services, supply and materials, professional services, cost of ration/diet charges, contributions, office expenses, etc. The number of object heads of expenditure under non-committed expenditure are higher in number, and there are only few expenditures which show consistent growth. The non-committed expenditure's rise is broadly due to increase in various subsidies and transfer payments as part of state's social policy (more on this in chapter 7).

From 2015-16 to 2024-25, the aggregate committed expenditure of the state as a ratio of total revenue expenditure was 46%. During this decade, of total revenue expenditure, salaries, interest payments and pensions constituted 17%, 14% and 11% respectively. A general trend is that committed expenditure's share in total revenue expenditure has declined (Figure 5.4). During the decade, as a ratio of SOR, committed expenditure was 56%, and its share is lower in the post-COVID period. Of the three components of committed expenditure, pensions, in particular, as a ratio of SOR have witnessed a decline (see Table 5.7). Nonetheless, as discussed in the section 5.1, in committed expenditure, the growth of interest payments is faster, followed by salaries and pensions respectively.

[4] To this extent, there are quantification issues. For instance, agriculture investment policies such as Rythu Bandhu (renamed as Rythu Bharosa since 26th January 2025) in Telangana and YSR Rythu Bharosa in Andhra Pradesh should be considered as subsidies. The former is recorded as grants-in-aid by the Telangana government in the state's budget accounts, whereas the latter is recorded as subsidy in the Andhra Pradesh's budget accounts (more on this in the chapter on subsidies).



Note: Author's own computation. Figures are rounded off to the nearest decimal point.
Source: CAG (Finance Accounts, various years).

Table 5.7: Committed Expenditure (Revenue Expenditure) to SOR (%)

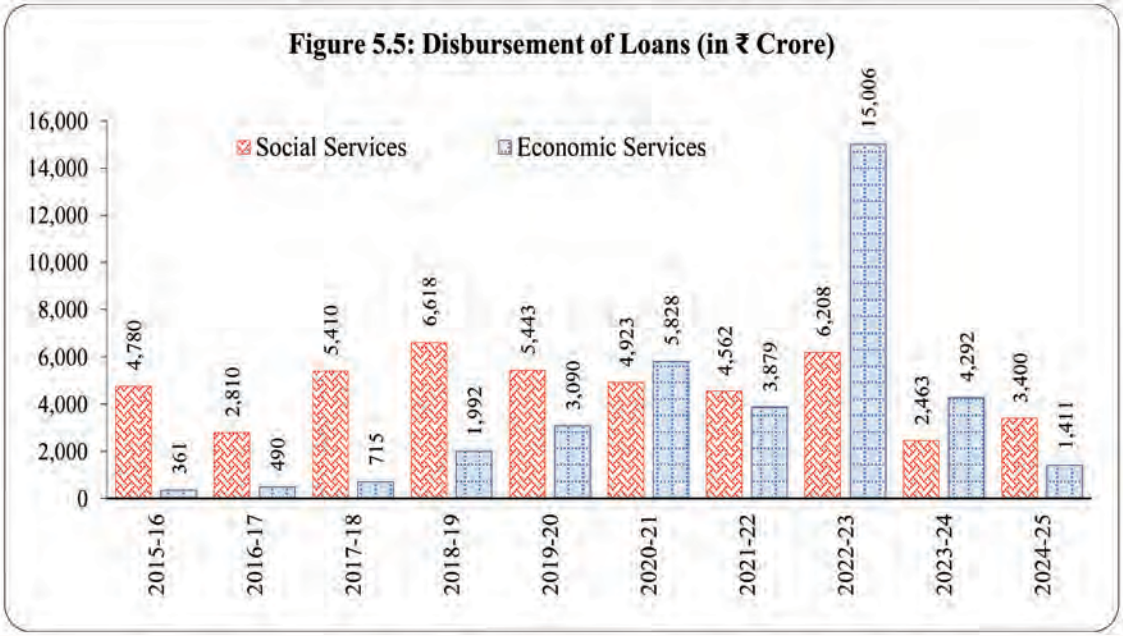
Item	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Decadal Average
Salaries	27	26	25	22	23	24	22	20	21	23	23
Pensions	15	15	19	15	16	19	14	12	12	13	15
Interest	19	18	17	17	19	23	19	17	18	21	18
Committed Exp.	56	57	60	54	58	66	55	50	51	56	56

Note: Author's own computation. Figures are rounded off to the nearest whole number.
Source: CAG (Finance Accounts, various years).

5.5 Loans and Advances by the State Government

Loans and Advances are capital account transactions. The government advances loans to various entities such as statutory corporations or government companies, municipalities, urban development authorities, housing boards, state housing corporation, loans to government servants, etc. Sector-wise, the loans are extended to four categories: towards general services, social services, economic services and government services. The first and the last categories are small amounts (outstanding balances are less than ₹1,000 crore) and the repayments of the last category are high. The total outstanding as of 2024-25 on social and economic services was on ₹46,304 crore and ₹36,508 crore respectively. The cumulative disbursements to social and economic services since 2015-16 to 2024-25 was ₹46,616 crore and ₹37,063 crore respectively. To this extent, the growth of loans and advances to economic services is much higher than loans towards social services (Figure 5.5).

Of all the entities, the higher loans and advances went to statutory corporation/ government companies, and since 2020-21, the loans and advances have increased towards civil supplies corporation. The balances (arrears on principal payments) on loans and advances given by the state government increased from ₹6,552 crore in 2015-16 to ₹83,153 crore in 2024-25 (Table 5.8). The annual growth of the outstanding balances on the loans and advances was 29%. Further, the arrears in interest payments have also increased from ₹129 crore to ₹5,230 crore, growing at 38% annually.



Note: Author's own computation. Figures are rounded off to the nearest whole number.
Source: CAG (Finance Accounts, various years).

Table 5.8: Loans and Advances Given by the Government – Loanee Group-wise (*in ₹ crore*)

Loanee-Group	*2015-16*	*2016-17*	*2017-18*	*2018-19*	*2019-20*	*2020-21*	*2021-22*	*2022-23*	*2023-24*	*2024-25*
Balance as on 31st March										
Total	6,552	9,798	15,869	24,509	33,147	43,957	52,379	72,998	79,823	83,153
Interest Payment Arrears as on 31st March										
Total	129	609	916	1,498	2,322	3,143	4,171	4,915	6,931	5,230

Note: As per CAG reports, interest rate ranges between 9.5% and 13.5 %, and they have calculated the interest rate payments in the Table at 9.5%. In the absence of data for 2024-25 in the report, we have applied the 9.5% interest rate for the outstanding balance (excluding ₹28099.67 crore of balance yet to be apportioned with the Andhra Pradesh). Figures are rounded off to the nearest whole number.

Source: CAG Finance Accounts Vol I Statement 7 Section 1 (various years).

Major entities which have arrears since 2015-16 are related to water supply and irrigation projects. Higher expenditure has been on water supply, sewerage, irrigation and housing. However, as per CAG audit reports, within social services, the state has extended loans to entities which do not have a definite stream of revenue source. Such as Aarogyasri Health Care Trust, Vaidhya Vidhan Parishad, Telangana Scheduled Castes Cooperative Development Corporation Ltd, and Telangana Scheduled Tribes Cooperative Finance Corporation Ltd (TRICOR). Further, the state has also extended loans to various corporations to implement state government schemes. Such as loans to Telangana Drinking Water Supply Corporation Limited, Hyderabad Metropolitan Water Supply and Sewerage Board, Telangana Sheep Development Cooperative Federation Limited, Power Finance Corporation Bonds, Telangana State Industrial Infrastructure Corporation. Furthermore, as per CAG audit reports of the state government, majority of the loans and advances were towards servicing Off-Budget Borrowings. This was the reason for poor recovery of loans extended by the state government.

5.6 Quality of Public Expenditure in Telangana

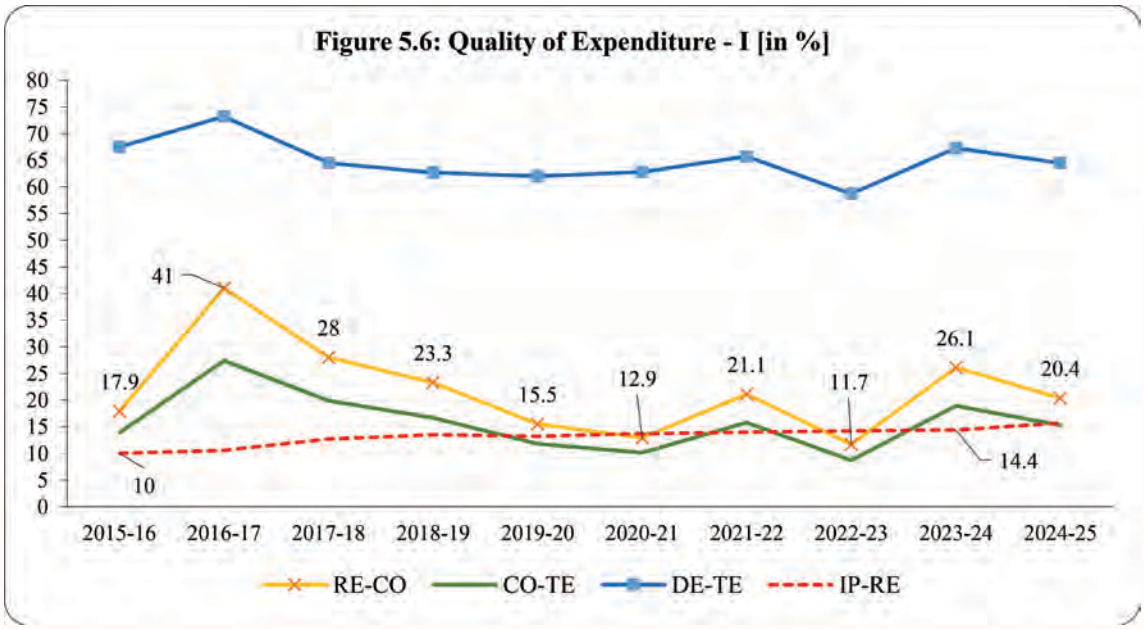
For a sustainable economic development, public expenditure towards development and in particular, capital infrastructure is essential. A study report titled "Cost Disabilities of Hill States in India" submitted to the 15th FC found that, in India, private capital tends to locate away from lagging States due to poor infrastructure and connectivity (Dasgupta, 2014). Further, the social investments on human development towards education in particular sustains economic growth (Mehrotra & Parida, 2021). That is, expenditure towards physical infrastructure and social investments are important to improve productivity. As per the state's role, maintaining a quality of spending is very crucial. To assess the quality of expenditure, we analyse six variables here:

i. Revenue expenditure to capital outlay ratio (RECO Ratio);
ii. Capital outlay as a per cent of total expenditure;
iii. Development expenditure as a per cent of total expenditure;
iv. Interest payments as a per cent of revenue expenditure;
v. Capital outlay as a per cent of GSDP;
vi. Development expenditure as a per cent of GSDP.

Economic literature suggests that capital investments improve short run and long run growth prospects. That is, the state's sustained improvements in building infrastructure enable economic development. RECO ratio, or revenue expenditure to capital outlay, is an important indicator which indicates a trade-off between short-term and long-term growth (Misra, Behera, Seth, & Sood, 2021). Telangana's RECO ratio has increased since 2016-17, and declined during 2021-22, 2023-24, and 2024-25. The trend is similar for CO to TE ratio (Figure 5.6).

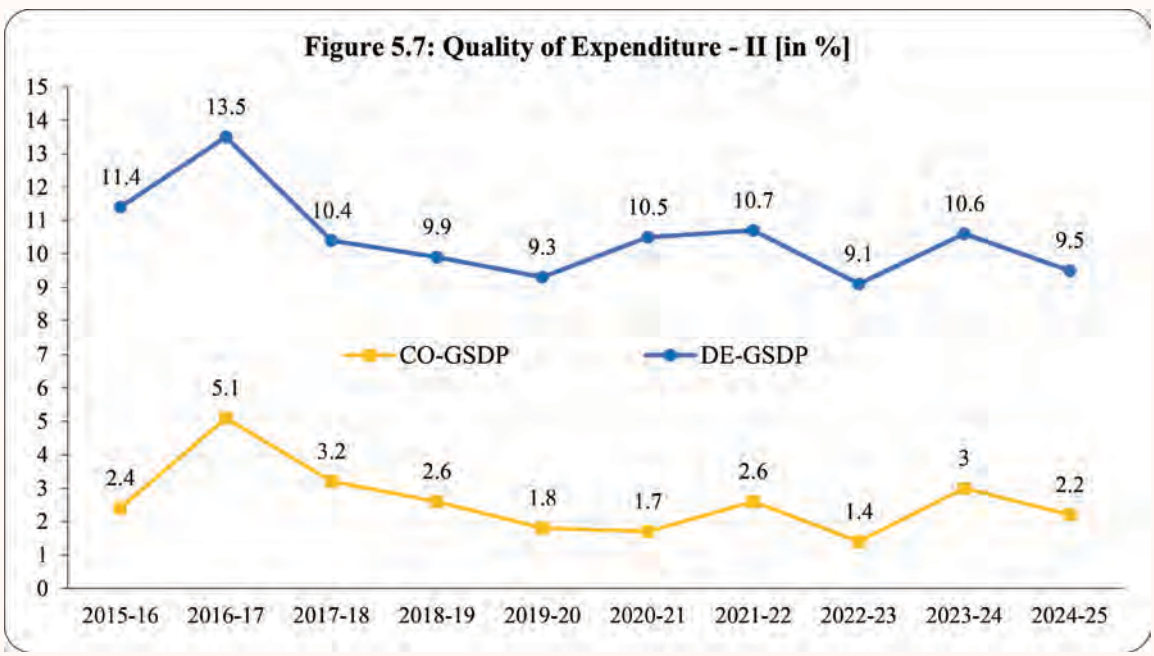
Development expenditure as a per cent of total expenditure has increased since 2016-17 till 2021-22 and has witnessed a fall during 2022-23 and 2024-25. Development expenditure to Total Expenditure ratio, since 2017-18 ranged between 60% and 70%, except for the year 2022-23, where it dipped to 59%. From 2016-17 to 2021-22, an increasing RECO ratio and a bounded DE-TE ratio indicate that development expenditure was in the form of transfer payments and subsidies. Further, under committed expenditure, a variable demanding increasing quantum of state's funds is interest payments, which has increased from 10.5% of RE in 2015-16 to 15.7% of RE in 2024-25 (Figure 5.6).

Further, capital outlay as a per cent of GSDP has decreased since 2016-17. Since 2018-19, the state's capital outlay was between 1% and 3% of GSDP (see Figure 5.7). Since 2016-17, development expenditure as a per cent of GSDP was between 7% and 9% of GSDP. Bounded spending can be a sign of consistent commitment, particularly towards capital outlay. Moreover, given the wide range, the capital investment policy is inconsistent. When read with our analysis of RECO ratio, this means that the State has not prioritised long run growth. However, these assessments and inferences are inadequate because the state's capital outlay was done through Off-budget accounts also. To derive a more robust understanding of capital investments, it is pertinent to bring in investment expenditure of the entities. That is, policy decisions should be informed by a comprehensive estimation of capital-output ratios to assess the quality and efficiency of capital investments.



Note: TE is total expenditure (RE+CO), RE is revenue expenditure, CO is capital outlay, DE is development expenditure, IP is interest payments. Author's own computation. Figures are rounded off to the nearest decimal point.

Source: CAG (Finance Accounts, various years).



Note: Author's own computation. Figures are rounded off to the nearest decimal point.

Source: CAG (Finance Accounts, various years), MoSPI.

5.7 Capital projects: Pending Bills

The state has initiated various capital projects since its formation, and continued various projects which have begun prior to 2014-15. The costs of numerous projects, which began prior to formation of the State were revised. Another round of major revisions occurred since 2019-20. Of the revisions, 54% were on projects which began prior to the State formation. Many of the revisions

have occurred after the target date of completion of projects. This includes projects undertaken by entities whose expenditure, additionally, is also accounted in Off-Budget accounts.

As per the TGFRBM Fiscal Policy Statement 2026-27, the outstanding amount (pending bills) at end of March 2025 are as follows:

i. Major works and Contracts: ₹1,92,701.23 crore;

ii. Committed liabilities in respect of land acquisition charges: ₹2,423.42 crore;

iii. Claims in respect of unpaid bills on works and supplies: ₹21,006.41 crore.

5.8 Summary

From 2015-16 to 2024-25, the state's expenditure grew by 9.8% annually. On average, the state's revenue expenditure and capital outlay accounted for 85% and 15% respectively. In comparison to general category states, the state's capital outlay is higher than average of general category states. During the decade, committed expenditure as a ratio of total revenue expenditure was 46%, broadly being driven by interest payments. Further, from 2015-16 to 2024-25, the state's development and non-development expenditure comprised 72% and 28%, respectively. By function, from 2015-16 to 2024-25, major expenditure in descending order is on interest payments, agriculture, education, irrigation, pensions, energy, and social security.

The development expenditure is broadly in the nature of subsidies or transfer payments, with very low expenditure on education. That is, we find evidence that RECO ratio has increased since 2016-17, and in the post-COVID period there were shifts in trade-off between revenue expenditure and capital outlay. Further, a substantial portion of capital outlay was on irrigation and water supply only, and the capital outlay was bounded within 1% and 3% of GSDP. It is pertinent to bring out better statistics to assess the quality of capital expenditure by aggregating the investment expenditure of the entities.

CHAPTER 6

Debt, Deficits and Debt Sustainability

6.0 Introduction

In this chapter, we analyse debt, deficits, and debt sustainability. This chapter focuses on public debt, public account, and contingent liabilities, and deficits. Further, public debt is classified into two categories of internal debt, and loans and advances from the Centre. Public account includes state provident funds, insurance and pensions funds, reserve funds bearing interest, reserve funds not bearing interest, deposits bearing interest, and deposits not bearing interest. The money in the public account does not belong to the government. However, any balance after disbursements in public account is available for the state's own use, such as financing deficits. They are part of liabilities and have to be serviced. Apart from borrowings from Consolidated Fund and public account, the state also extends guarantees to various entities which pose a significant burden on the state's budget.

We begin with the analysis of components of liabilities, followed by interstate comparison. The following sections analyse public debt, contingent liabilities, rate of interest, and debt servicing burden on Telangana. The next sections are on fiscal indicators and debt sustainability analysis. The final section is concluding remarks.

6.1 Components of Liabilities

The state's liabilities consist of public debt and other liabilities. Public debt comprises internal debt and central loans. The State has witnessed a consistent increase in outstanding liabilities. The state's total outstanding liabilities have increased from ₹79,880 crore in 2014-15 to ₹4,45,553 crore during 2024-25 (Table 6.1). A change by 458% with an annual growth of 19%. The state's public debt has increased from ₹77,333 crore in 2014-15 to ₹3,89,841 crore in 2024-25, a change by 404%. Year-on-year growth of public debt was below 20%, barring 2 years of 2016-17 and 2020-21. The increase during 2016-17 was on account of UDAY bonds, and during 2020-21 was on account of COVID-19 pandemic and increase in capital expenditure.

The outstanding liabilities are subjected to targets recommended by the Finance Commission and by the State FRBM Act. The targets are fixed as a ratio of State's GSDP. These targets are ceilings. From 2015-16 to 2019-20, total liabilities to GSDP ratio was fixed at 25%. 15th FC recommended total liabilities as a per cent of GSDP for the States was 33.1% for 2020-21, 32.6% for 2021-22, 33.3% for 2022-23, 33.1% for 2023-24, 32.8% for 2024-25 and 32.5% for the year 2025-26 (XV-FC, 2020, p. 373). To this extent, Telangana's public debt and public account liabilities, as a per cent of nominal GSDP, were below 25% till 2019-20, and were below 30% from 2020-21 to 2024-25 (Table 6.1).

However, **TGFRBM Act 2005** (2014, p. 3) defines "total liabilities" as:

"total liabilities" *means the liabilities under the Consolidated Fund of the State and the Public Account of the State and shall also include borrowings by the public sector undertakings and the special purpose vehicles and other equivalent instruments including guarantees where the principal and/or interest are to be serviced out of the State budgets.*

The structure of total liabilities of Telangana is as follows:

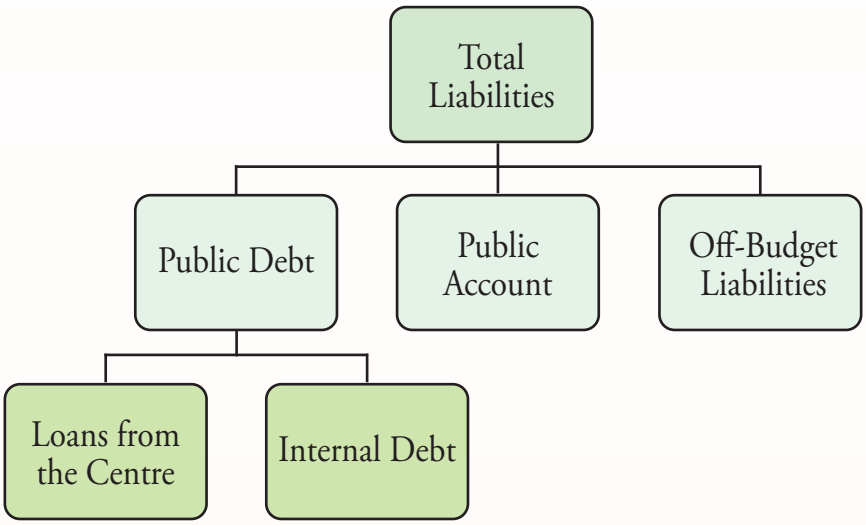


Table 6.1: Trends in Outstanding Liabilities in Telangana

Year	Public Debt		Public Account		Outstanding Liabilities	Outstanding Liabilities as % of GSDP	14th & 15th FC Target as % of GSDP
	₹ crore	Growth (%)	₹ crore	Growth (%)	₹ crore		
2014-15	77,333	-	2,547	-	79,880	15.8	25.0
2015-16	91,985	18.9	6,007	135.8	97,992	17.0	25.0
2016-17	1,21,236	31.8	13,502	124.8	1,34,738	20.5	25.0
2017-18	1,42,918	17.9	22,931	69.8	1,65,849	22.1	25.0
2018-19	1,65,164	15.6	31,799	38.7	1,96,963	23.0	25.0
2019-20	1,94,958	18.0	37,223	17.1	2,32,181	24.4	25.0
2020-21	2,32,173*	20.3	43,465	16.8	2,75,638	29.2	33.1
2021-22	2,70,540**	18.3	44,123	1.5	3,14,662	28.0	32.6
2022-23	3,02,614**	11.6	46,923	6.3	3,49,537	26.5	33.3
2023-24	3,42,572**	13.2	53,144	13.2	3,96,715	27.0	33.1
2024-25	3,89,941***	13.8	55,612	4.6	4,45,553	27.7	32.8

*Note: Public Debt excludes WMA/SDF; *does not include GST B2B loans of ₹2,380 crore from GoI in lieu of GST compensation; **does not include ₹6,949 crore received as back-to-back loans from GoI in lieu of GST compensation; ***does not include ₹1,940 crore received as back-to-back loans from GoI in lieu of GST Compensation. Author's own computation (growth rates); Figures rounded off to the nearest whole number or decimal point.*

Source: CAG-Accounts at a Glance (various years), FRBM Fiscal Policy Statement of Telangana (various years).

Therefore, total liabilities include public debt, outstanding liabilities on public account and off-budget liabilities (where principal and interest are serviced out of the state budgets). During 2024-25, outstanding total liabilities to GSDP ratio, including off-budget liabilities, is estimated at 34.9%. That is, the state's outstanding liabilities' limit has exceeded the limit by 2.1% of GSDP (we analyse off-budget liabilities and overall debt burden in a later section of this chapter).

6.1.1 Inter-State Comparison

During 2023-24, total liabilities (public debt and public account only) to GSDP ratio of general category states ranged between 16% and 48%. The State with lower outstanding liabilities to GSDP ratio and highest rank was Odisha, and the State with lowest rank and higher outstanding liabilities to GSDP ratio was Punjab. Among southern States, in descending order, Kerala's outstanding liabilities to GSDP ratio was higher, followed by Andhra Pradesh, Tamil Nadu, Telangana and Karnataka respectively. During 2023-24, Telangana's liabilities to GSDP ratio was 27%, and ranks 6th among 17 general category states (see Table 6.2).

Table 6.2: Total Outstanding Liabilities as on 31st March 2024

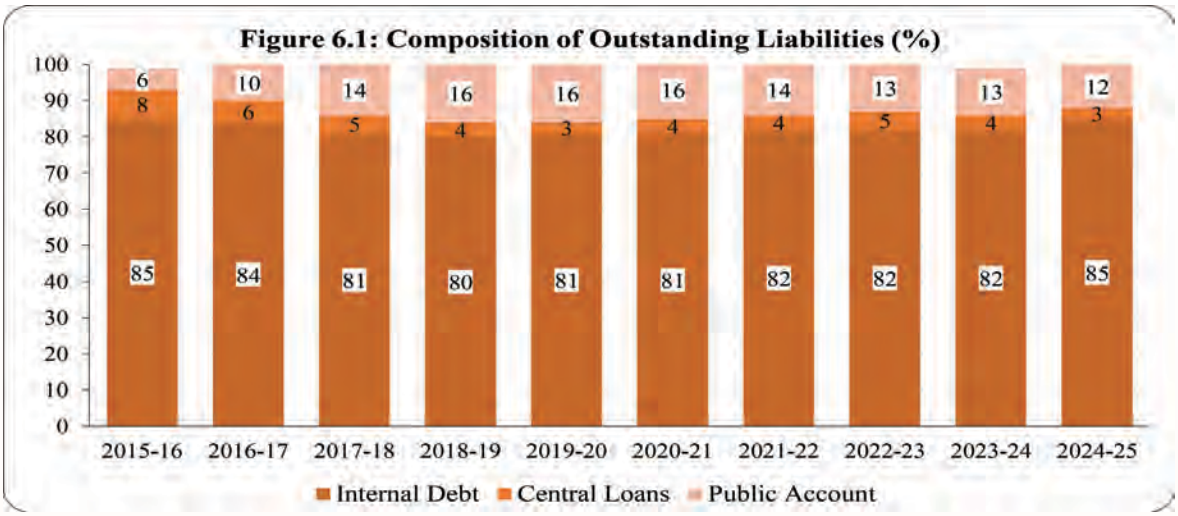
Zone	States	Outstanding Balances (in ₹ crore)			Total Liabilities as % of GSDP	Rank
		Public Debt	Public Account	Total Liabilities		
Central	***CT***	1,13,888	20,292	1,34,179	27	5
	MP	3,44,770	64,118	4,08,888	30	8
	UP	6,67,106	1,00,766	7,67,872	30	9
Eastern	***BR***	2,80,084	52,657	3,32,741	39	16
	JH	84,944*	33,504*	1,18,448*	31	11
	OD	72,793	60,296	1,33,089	16	1
	WB	5,03,369	1,30,592	6,33,961	37	15
Northern	***HR***	2,84,851	41,771	3,26,622	30	10
	PJ	3,06,041	49,102	3,55,168	48	17
	RJ	4,34,779	1,24,987	5,59,766	37	14
Southern	***AP***	4,15,618	70,533	4,86,151	34	12
	KA	4,70,860	1,49,192	6,20,052	25	4
	KL	2,82,495	1,32,726	4,15,221	36	13
	TN	7,03,926	68,497	7,72,423	29	7
	TG	3,50,520	53,144	4,03,664	27	6
Western	***GA***	NA	NA	NA	-	-
	GJ	3,74,981	61,926	4,36,907	18	2
	MH	6,18,113	1,40,148	7,58,261	19	3

*Note: * Figures for JH are outstanding as on 31st March 2023. Figures are rounded off the nearest whole number.*
Source: CAG Accounts at a glance (various States-2023-24, 2022-23 for JH), West Bengal Budget Documents.

6.2 Public Debt of Telangana

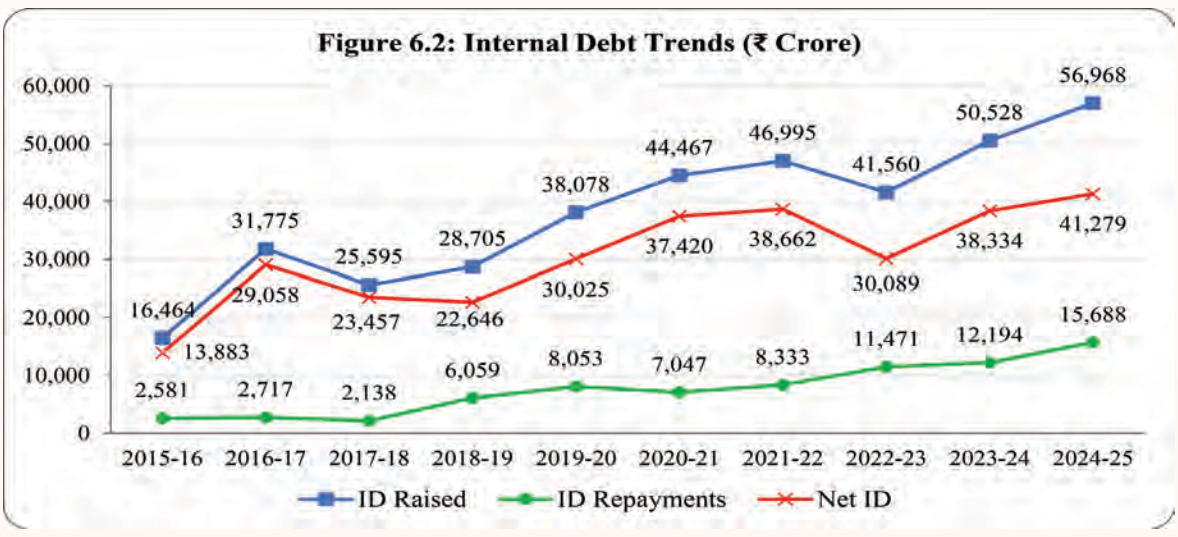
6.2.1 Internal Debt of Telangana

Since, 2014-15 to 2024-25, as a composition of outstanding liabilities, internal debt comprised 83%, followed by public account and central loans (Figure 6.1). Internal debt comprises market loans, institutional loans, compensatory bonds such as UDAY bonds, special securities, and other loans. Among these, market loans constitute the largest share. For instance, of the outstanding internal debt, outstanding market loans constituted 95%.



Note: Author's own computation. Figures are rounded off to the nearest whole number.
Source: CAG (Finance Accounts, various years).

Trends in internal debt show that the receipts during 2015-16 were ₹16,464 crore, and have increased to ₹56,968 crore by 2024-25. Whereas the internal debt repayments during 2015-16 were ₹2,581 crore and have increased to ₹15,688 crore by 2024-25. However, the trend is not linear. Net internal debt in 2015-16 was ₹13,883 crore and it was ₹41,279 crore in 2024-25. Since 2019-20, the state's annual net internal debt had been consistently above ₹30,000 crore. The widening gap between internal debt raised and net internal debt indicates the increasing burden of debt repayments (Figure 6.2).



Note: Figures are rounded off to the nearest whole number.
Source: CAG (Finance Accounts, various years).

6.2.2 Loans and Advances from the Centre

The outstanding loans and advances from the Centre have increased from ₹8,213 crore in 2015-16 to ₹13,296 crore in 2024-25 (Table 6.3). The receipts on loans in recent years have broadly been back-to-back loans (including B2B loans in lieu of GST compensation). There is no repayment obligation on the B2B loans in lieu of GST compensation.

Table 6.3 Outstanding Loans and Advances from the Centre (in ₹ Crore)

Sl No	Description	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
1	Loans for modernisation police	27	21	18	16	14	12	10	8	6	4
2	Block Loans	5,554	6,340	6,861	5,862	5,718	5,523	5,308	5,088	4,875	2,399
3	State plan loans (recommendations of 12th FC)	2,630	2,044	1,751	1,282	989	696	403	110	-	-
4	Other Loans	-	-	-	1,070	1,278	3,943	8,727	11,228	13,176	10,894
Total		8,213	8,406	8,631	8,231	7,999	10,175	14,448	16,434	18,057	13,296

Note: Figures rounded off to the nearest whole number.

Source: CAG Finance Accounts Vol II Statement 17 (a) (various years).

Further, since 2020-21, under "Special Assistance to States for Capital Investment" (SASCI) scheme, the state governments were provided 50-year interest free loans for capital investment projects. The amount of assistance to all the States during 2020-21 and 2021-22 was ₹12,000 crore and ₹15,000 crore respectively. Since 2022-23, the amount of assistance has increased significantly. The scheme has two parts:

1. During 2022-23, 2023-24, and 2024-25 untied loans amounted to ₹80,000 crore, ₹1,00,000 crore and ₹1,50,000 crore, respectively. Untied loans are allocated to the states in proportion of their inter-se share in horizontal devolution recommended by the 15th FC. The untied loans are subjected to meeting few mandatory conditions[5], and progress of the projects. Here, the States are required to submit capital works/projects proposed to be taken during the year.

2. The second part of the loans is tied transfers. Tied transfers aim to facilitate central sector schemes and reforms[6].

[5] During 2022-23, the mandatory conditions include full compliance of the official name of all CSS [correct translation to local language is permissible] and other guidelines on CSS, and full compliance with DoE's instruction regarding new procedure of release of funds under CSSs. Further, priority is given to the projects which are in the PM Gati Shakti Master Plan.

During 2023-24, the mandatory conditions include full compliance of CSS and guidelines issued regarding CSS, integration of State treasuries with PFMS and depositing of central share of interest earned in SNA account. Further, the funds will be released in three instalments: 1st instalment is on meeting the mandatory conditions, 2nd instalment upon utilisation of 75% of the first instalment, and the 3rd instalment upon utilisation of 75% of first two instalments and on meeting 45% of the total target fixed for Capital Expenditure by the State in 2023-24. Wherein, the target is achieved on the basis of Capital Expenditure of the state in 2021-22 and applying a normative growth rate of 10% per annum for 2022-23 and 2023-24. For determination of Capital Expenditure by States, CAG's "Monthly Key Indicators" would be used, wherein Capital Expenditure would exclude repayment of public debt/loans/financial liabilities by the State and amount released to State under SASCI during the year.

[6] During 2022-23, the central sector schemes included PM Gati Shakti related expenditure, PMGSY, and incentivising reforms related to Digitization, Optical Fibre Cable, Urban Reforms, Disinvestment and Monetization of SPSEs.

During 2023-24, the reforms included Incentives for Scrapping of Old Vehicles, Urban Planning Reforms, Financial Reforms in Urban Local Bodies to make them creditworthy for Municipal Bonds and for Issue of Municipal Bonds, Housing for Police personnel above or as part of Police Stations in Urban Areas, Construction of Unity Malls, Children and Adolescents" Libraries and Digital Infrastructure, Incentive for implementing "Just-in Time" release of CSS funds by State Government to vendors and beneficiaries using RBI's e-Kuber Model and for timely release of Central and State Share of Funds to SNA.

During 2024-25, the reforms included Scrapping of Old Vehicles, Reforms in building regulations for industrial and commercial buildings, land-related reforms by state governments in rural areas, land-related reforms in urban areas, onboarding of CSSs on SNA SPARSH, and Urban Planning Reforms.

The release of SASCI loans to the States are as follows:

Table 6.4: Loans released under SASCI (*in ₹ Crore*)

Sl. No.	State	2020-21	2021-22	2022-23	2023-24	2024-25
1	Andhra Pradesh	688	502	6,106	4,091	7,902
2	Karnataka	305	452	3,399	3,879	5,296
3	Kerala	82	239	1,903	0	2,716
4	Tamil Nadu	0	506	4,011	5,326	7,346
5	Telangana	358	214	2,501	1,948	2,727
General Category States Total		8,522	10,638	70,337	92,946	1,24,652
All States/UTs		11,830	14,186	81,195	1,09,554	1,49,484

Source: Department of Expenditure, Lok Sabha Unstarred Question no. 4087 [Answered on 18th August, 2025]

6.3 Contingent Liabilities (Government Guaranteed Borrowings)

Apart from public debt and borrowings on public account, the state is also burdened with contingent liabilities which are raised by various entities. PSUs, SPVs, Corporations, and autonomous institutions have special powers to raise resources (particularly debt). The debt resources raised by the entities are of three types:

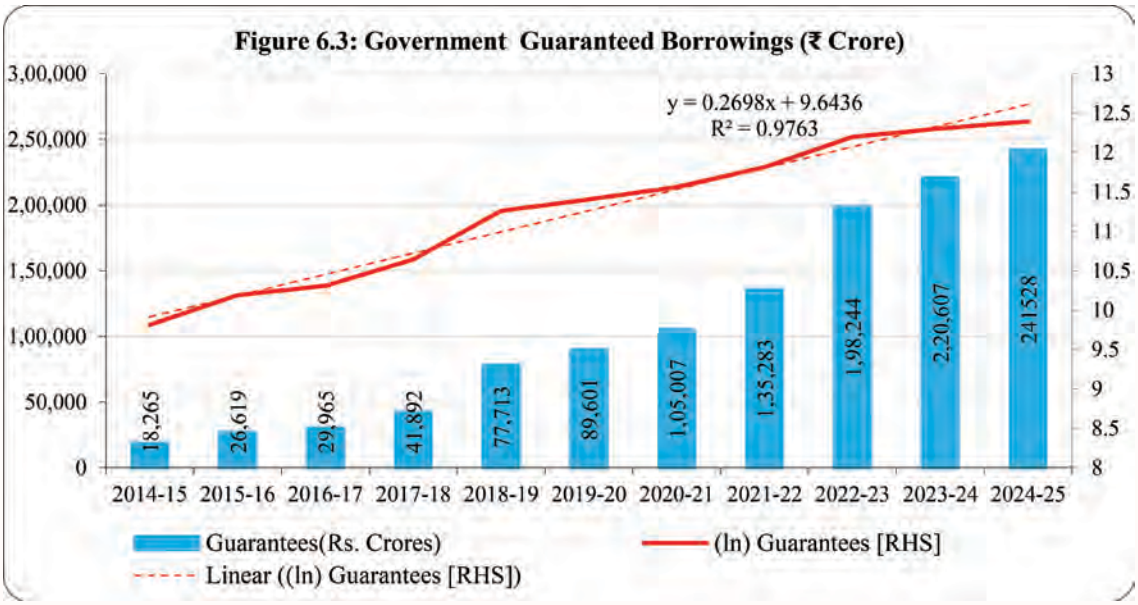
i. Government guaranteed loans raised by the entities but serviced by the government. This category of loans carries highest risk weight to the government because the government has to service it from the budget. These are referred to as Off-Budget Borrowings (OBB).

ii. Government guaranteed loans raised and serviced by the entities. This category of loans carries less direct risk weight to the government because these are serviced by the entities only. Nonetheless, the ultimate burden generally falls on the government.

iii. Non-guaranteed loans raised and serviced by the entities. This category of loans does not carry any direct risk to the government. Nonetheless, their functioning and financial health is influenced by the state policies. Therefore, if need be, the government is responsible to oversee and regulate the financial health of the entities borrowing without any guarantee.

The first two categories are referred to as contingent liabilities or government guarantees. The guarantees are given by the state government to various commercial banks, financial institutions, and development institutions. From 2014-15 to 2024-25, outstanding contingent liabilities of Telangana have increased from ₹18,265 crore to ₹2,41,528 crore (Figure 6.3), an increase of 1,222%.

The state limits its current year's contingent liabilities as a ratio of previous year's total revenue receipts. A major change in state guarantees occurred through an amendment to TGFRBM Act in September 2020, wherein the state government increased the limit on annual incremental risk weighted guarantees up to 200% of TRR (total revenue receipts) from 90% of TRR in the year preceding the current year. This has contributed to rising outstanding guarantees.



Note: Figures rounded off to the nearest whole number.

Source: CAG Finance Accounts Vol I [Statement 9] various years.

As on 31st March 2025, the state's outstanding OBBs were ₹1,16,234 crore (Table 6.5), that is 20.7% of total liabilities. Of OBBs, three entities related to water supply and irrigation sectors accounted for 84% of the outstanding OBBs as on 31st March, 2024. The three entities are Kaleshwaram Irrigation Project Corporation Limited, Telangana State Water Resources Infrastructure Development Corporation Limited, and Telangana Drinking Water Supply Corporation Limited.

Of the second category, guaranteed loans raised and serviced by the entities, the outstanding balance at the end of 2024-25 was ₹1,25,670 crore (Table 6.5). Of this category, civil supplies corporation, DISCOMs and Telangana Industrial Infrastructure Corporation accounted for 92% of the guarantees as on 31st March 2025. The third category, non-guaranteed loans raised and serviced by the beneficiary carries no financial risk to the state government.

As on 31st March 2025, the outstanding loans stood at ₹60,601 crore. Nearly 90% of non-guaranteed loans are towards PSUs related to power sector.

The financial autonomy of state-level public entities is constrained by government mandates, as their fiscal operations are linked to both the Union and the State policies. Critical sectors, including power distribution companies (DISCOMs), collieries, state transport corporations, and housing board are impacted by government schemes such as rice procurement and energy or fuel subsidies, which distort their independent financial functioning. Ideally, the debt servicing of these bodies should be self-sustained through dedicated revenue streams, such as public utility pricing. However, in the absence of pragmatic reforms to grant these entities greater financial independence, the reliance on state budgets for debt servicing is likely to persist as a recurring and fiscally unsustainable practice.

Table 6.5 Guaranteed and Non-Guaranteed Borrowings

Sl. No.	Name of Beneficiary	Outstanding 2022-23	Outstanding 2023-24	Outstanding 2024-25	Avg. Int. Rate
		₹ crore			%
1	Kaleshwaram Irrigation Project Corporation Ltd	74,105	69,079	68,671	9.69%
2	Telangana State Water Resources Infrastructure Development Corporation	14,527	13,461	12,548	10.49%
3	Telangana Drinking Water Supply Corporation Ltd	21,644	19,294	17,107	9.48%
4	Telangana Housing Corporation Ltd.	7,664	7,291	5,820	8.98%
5	Telangana Housing Board	0	850	1,802	NA
6	Telangana State Road Development Corporation Ltd	3,137	2,793	2,501	8.93%
7	Hyderabad Metropolitan Water Supply and Sewerage Board	2,560	2,143	1,830	NA
8	Telangana Urban Finance & Infrastructure Development Corporation Ltd	1,474	1,583	2,129	NA
9	Hyderabad Metro Rail Limited	294	282	214	NA
10	Telangana Sheep & Goat Development Cooperative Federation Ltd	1,263	665	56	NA
11	Telangana Fishermen Cooperative Societies Federation Ltd	205	125	7,956	NA
12	Telangana Dairy Development Cooperative Federation Ltd	185	132	79	NA
13	Telangana Power Finance Corporation Ltd	2,130	1,980	1,536	NA
14	Telangana State Horticulture Development Corporation Ltd	132	0	0	NA
15	Telangana State Super Speciality Hospital Corporation Ltd	391	1,146	1,674	NA
16	Telangana State Industrial Infrastructure Corporation	146	0	0	NA
15	Telangana State Police Housing Corporation	214	118	8	NA
Total Outstanding OBBs		1,30,070	1,20,944	1,16,234	-
16	Telangana State Civil Supplies Corporation	48,486	55,545	57,188	NA
17	TGSPDCL/TSSPDCL	29,699	38,660	48,015	NA
18	Telangana State Industrial Infrastructure Corporation	276	276	10,656	NA
Government Guaranteed Loans Raised and Serviced by SPV/Corporations/ Institutions		84,635	99,678	1,25,670	-
Non-Guaranteed Loans Raised and Serviced by SPV/Corporations/Institutions		64,681	63,140	60,601	-

Note: Officially, the word 'State' has been removed after Telangana for the corporations. However, the names produced here are as per Vol V/2 of the State's Budget Documents.

Figures rounded off to the nearest whole number or decimal point.

Source: State Budget Documents Vol: V/2 Annexure 1 2026-27, Telangana State Finances – White Paper (p.25), State Budget Documents Vol: V/2 Annexure II 2026-27.

6.3.1 Inter-State Comparison of Contingent Liabilities

12th FC recommended ceiling on guarantees. However, not all States have legislated limits and all States do not have a uniform limit (Gupta, Azharuddin, & Mahesh, 2015). For instance, as a percentage of previous year's revenue receipts, Andhra Pradesh limits outstanding contingent liabilities at 180%, Karnataka at 80%, Tamil Nadu at 100%, and Telangana at 200%.

Among general category states, southern States have higher outstanding contingent liabilities, with Telangana leading in outstanding contingent liabilities. In terms of outstanding balance to GSDP ratio, Telangana's outstanding balance is 14.7%, followed by Andhra Pradesh at 10.8%. Similarly, outstanding balance to previous year's revenue receipts is higher for Telangana at 138%, followed by Andhra Pradesh at 98% (Table 6.6).

The balances are within the ceiling fixed by the two States' legislatures. However, higher ceiling limit contributed to the accumulation of outstanding liabilities in the two States.

Table 6.6: Outstanding Contingent Liabilities 2023-24

Zone	State	Outstanding Balance [Principal only]	Outstanding Balance - GSDP Ratio	Outstanding Balance to Previous year's Revenue Receipts [2022-23]
Central	***CT***	20,392	4	21.7
	MP	45,551	3.3	22.3
	UP	1,63,400	6.4	39.2
Eastern	***BR***	26,715	3.1	15.5
	JH	4,498*	1.2*	6.5**
	OD	2,341	0.3	1.6
	WB	12,840	0.7	6.6
Northern	***HR***	24,215	2.2	27.1
	PJ	22,691	3	25.9
	RJ	1,10,918	7.3	56.9
Southern	***AP***	1,54,797	10.8	98.1
	KA	44,162	1.7	19.3
	KL	62,868	5.5	47.4
	TN	1,22,270	4.5	50.2
	TG	2,20,607	14.7	138.4
Western	***GA***	NA	NA	-
	GJ	1,463	0.1	0.7
	MH	79,244	2	19.5

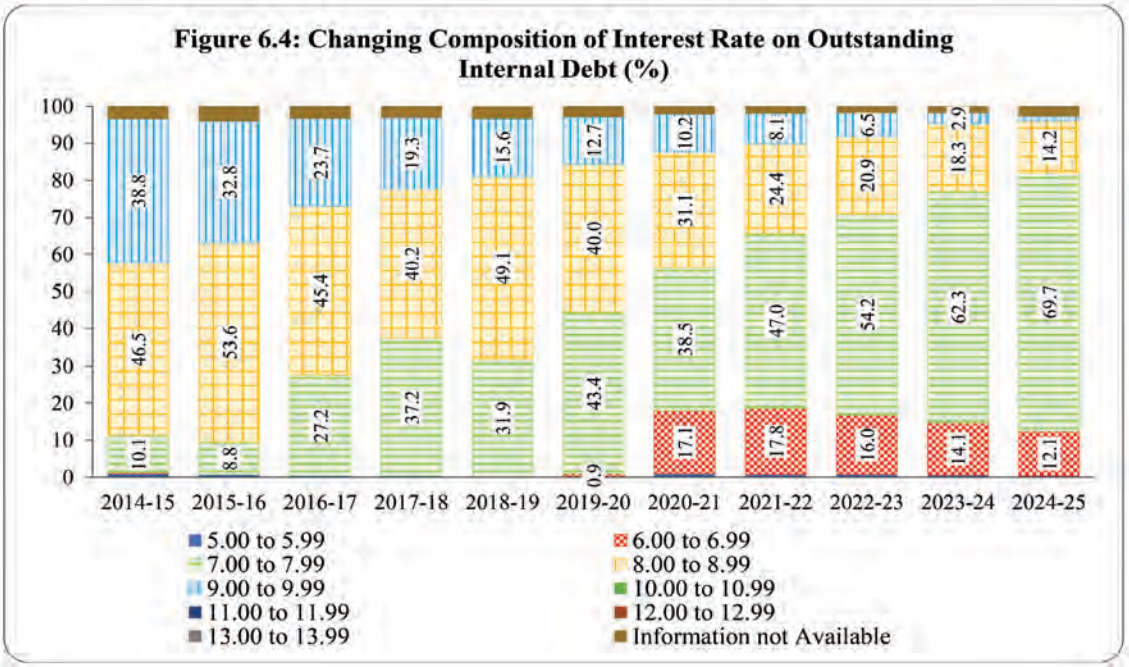
*Note: * Figures for JH are outstanding as on 31st March 2023 and includes outstanding interest payments, **previous year for JH is 2021-22. Figures are rounded off to the nearest whole number or decimal point.*

Source: CAG Accounts at a glance (various States-2023-24, 2022-23 for JH), West Bengal Budget Documents

6.4 Rate of Interest

The cost of borrowing has witnessed a reduction in the State. During 2015-16, 53.6% of the outstanding loans carried an interest rate of 8-8.99%, and 32.8% of the outstanding loans carried 9-9.99% interest rate. By 2024-25, 12.1% of the outstanding loans carried an interest rate of 6-6.99% and 69.7% of outstanding loans carried an interest rate of 7-7.99%, and only 14.2% of outstanding loans carried an interest rate of 8-8.99% (Figure 6.4). To this extent, over the period, cost of borrowing has gradually declined. Nonetheless, total interest payments on public debt during 2024-25 was ₹26,688 crore. Of which, interest payments on internal debt during 2024-25 was ₹26,033 crore, and interest payments on central loans was ₹655 crore.

Figure 6.4: Changing Composition of Interest Rate on Outstanding Internal Debt (%)



Source: CAG (Finance Accounts, various years).

Further, regarding OBBs, there is little information on maturity dates and rate of interest. Of the information available from the white paper on Telangana State Finances, the average interest rates of the top five entities which account for 95% of the outstanding government guarantees range between 8.93% to 10.49%, which is above open market borrowings average interest rate of 7.63%[7] (Telangana State Finances - White Paper, 2023, p. 25). Further, CAG's performance audit report on Kaleshwaram irrigation project (OBB) shows that the rate of interest is not fixed and there are no estimates outstanding borrowings mature by 2035-36 (CAG, 2024). As per the report, the interest rates pertaining to borrowings on Kaleshwaram irrigation project varied between 7.8% and 10.9% (p. 212), and the rate of interest would depend on the rates fixed by the respective banks/lending agencies from time to time (p. 85). Therefore, the information is not structured.

[7] Average rates on five entities are: i. Kaleshwaram Irrigation Project Corporation ltd is 9.69%; ii. Telangana Drinking Water Supply Corporation ltd is 9.48%; iii. Telangana State Water Resources Infrastructure Development Corporation ltd is 10.49%; iv. Telangana State Housing Corporation is 8.98%; v. Telangana State Road Development Corporation is 8.93%. (Telangana State Finances - White Paper, 2023, p. 25)

Nonetheless, upon estimating the interest payments on OBBs, by applying the average interest rates given in the white paper for top 5 entities and imputed average market lending rates for the other entities as given in the white paper, the total interest burden on the outstanding OBBs for the year 2024-25 is estimated to be ₹11,592 crore. Therefore, during 2024-25, combined interest payments on total liabilities are estimated to be ₹39,394 crore. That is, 23.5% of Revenue Receipts or 29.7% of SOR.

6.5 Debt Servicing Burden of Total Liabilities

For the year 2024-25, principal repayments on public debt accounted to ₹18,167 crore, and its interest payments were ₹26,688 crore. Similarly, the principal repayments on OBBs accounted to ₹6,506 crore and interest payments are estimated to be ₹11,592 crore (Table 6.7). Therefore, on the Consolidated Fund of the State, the debt servicing during 2024-25 is estimated to be ₹62,953 crore. During 2024-25, total receipts (excluding WMA) accounted for ₹2,36,318 crore. That is, total debt servicing accounted to 26.8% of total receipts. During 2024-25, public debt to GSDP ratio accounted to 24.2%, outstanding balance on public account was 3.5%, and the outstanding OBBs were 7.2%.

At the end of 2024-25, outstanding total liabilities of the state is estimated to be ₹5,61,787 crore, that is 34.9% of GSDP, as against the ceiling limit of 32.8% of GSDP. That is, the state has exceeded the limit by 2.1 of GSDP, or by ₹33,808 crore. Further, at the end of 2024-25, other guaranteed borrowings comprised 7.8% GSDP, and non-guaranteed borrowings comprised 3.8% of GSDP.

Table 6.7: Estimates of Debt Servicing Profile 2024-25

Sl. No.	Description	Outstanding as on 1st April	Additions	Deletions	Interest Payments	Outstanding as on 31st March	Net Change [7 - 3]	Col 7 / GSDP	Col. 6 / Revenue Receipts
		₹ *Crore*						*%*	
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
A	Public Debt	3,42,572	59,695	18,167	26,688	3,89,941	47,369	24.2	15.9
B	Off-Budget Borrowings	1,20,944	*2,671***	*6,506***	*11,592**	1,16,234	-4,710	7.2	6.9
Total [A+B]		4,63,516	62,366	24,673	38,280	5,06,175	42,659	31.4	22.8
C	Public Account	53,144	89,396	86,928	1,114	55,612	2,468	3.5	0.7
Total Liabilities [A+B+C]		5,16,660	1,51,762	1,11,601	39,394	5,61,787	45,127	34.9	23.5
D	Guaranteed Borrowings Serviced by Entities	99,678	*54,634***	*29,894***	-	1,25,670	25,992	7.8	-
E	Non-Guaranteed Borrowings	63,140	*7,672***	*10,856***	-	60,601	-2,539	3.8	-

*Note: Author's own computation. Figures are rounded off to the nearest whole number or decimal point; *Interest payments of Off-Budget Borrowings are own calculations based on interest rate data provided in the white papers. ** as on 28.02.2025.*

Source: CAG Finance Accounts (various years), Telangana State Budget document 2026-27 Vol V/2 (Annexure to Budget on Government Guarantees), Telangana State Finances- White Paper 2023.

6.6 Fiscal Indicators

Deficits occur when there is an excess of expenditure over receipts. Three major fiscal indicators measure fiscal performance: Revenue Deficit[8], Fiscal Deficit[9] and Primary Deficit[10]. From 2015-16 to 2024-25, Telangana has maintained revenue surplus from 2015-16 to 2018-19, and in 2022-23 and 2023-24, but witnessed deficits in other years. A revenue deficit indicates that the state has borrowed funds to meet revenue expenditure, which does not contribute to physical capital formation, while such borrowing can stimulate short-run demand and help maintain essential services when revenues fall. Persistent revenue deficits inevitably lead to asset-liability mismatch. On the other hand, a surplus provides the state finances to meet part of the capital outlay without adding to state liabilities. Primary deficit of the state indicates the borrowing requirements excluding interest payments on outstanding debt. The requirement is either for meeting capital outlay or servicing outstanding debt in the current year. In debt sustainability indicators, primary balance is taken as a necessary condition for stabilising or reducing debt to GSDP ratio. The gap between primary deficit and fiscal deficit represents the increasing burden of interest payments.

Fiscal deficit indicates the shortfall of overall receipts during a financial year, and it represents the incremental liabilities during a year. It is a key fiscal indicator determining the borrowing requirement of the state. The state's fiscal deficit as a per cent of GSDP fluctuated since 2015-16, and it has exceeded FRBM limit in six out of ten years, from 2015-16 to 2024-25. The state finances its fiscal deficit by raising public debt, borrowings from public account, and minor contribution from revenue account, in case of any surplus (Table 6.8). In Telangana, from expenditure side, fiscal deficit is driven by revenue balance, capital outlay and net loans and advances. Revenue deficits do not create assets but increase liabilities. Most loans and advances by the state government are towards debt servicing (contingent liabilities) of the entities. Therefore, for the purposes of Consolidated Fund of the State, unless the state provides estimates of stock-creation activities from such transfers, loans advanced by the state government can only be understood as sunk cost and accounted as liabilities.

Actual application of borrowings towards creation of assets is better represented by capital outlay to fiscal deficit ratio. The state's CO to FD has declined since 2016-17 to 2020-21, but has improved since then. The state's CO to FD ratio was lowest at 32% during 2020-21 (Table 6.8). The CO-FD was 88% in 2022-23 and 74% in 2024-25 indicating recent improvement. Aggregating 2015-16 to 2024-25, 71% of the additional borrowings financed capital outlay (Table 6.9).

[8] Revenue Surplus/Deficit is the difference between revenue receipts and revenue expenditure

[9] Fiscal Deficit is the excess of total expenditure over total receipts from the Consolidated Fund of the State. It excludes debt receipts and debt repayments.

[10] Primary Deficit is fiscal deficit excluding interest payments.

Table 6.8: Components of Fiscal Deficit (₹*crore*)

Sl. No.	Expenditure Head	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
1	Revenue Surplus (+)/ Revenue Deficit (-)	238	1,386	3,459	4,337	-6,254	-22,298	-9,335	5,943	779	-9420
2	Capital Outlay	13,590	33,371	23,902	22,641	16,859	15,922	28,874	17,881	43,918	36,072
3	Net Loans & Advances	5,146	3,246	6,071	8,640	8,638	10,810	8,422	20,620	6,825	3,320
4	Net Interstate settlement	359	50	186	5	8	8	8	0	14	100
5	Fiscal Deficit (1+2+3+4)	18,856	35,280	26,700	26,949	31,759	49,038	46,639	32,557	49,977	48,922
5.1	Fiscal Deficit to GSDP (%)	3.26	4.22	3.56	3.14	3.19	5.20	4.15	2.47	3.41	3.04
5.2	CO to FD (%)	72	95	90	84	53	32	62	55	88	74
6	Interest Payments	7,558	8,609	10,836	12,586	14,386	16,841	19,161	21,821	24,347	27,803
7	Primary Deficit	11,299	26,672	15,865	14,363	17,374	32,197	27,478	10,736	25,630	21,119
7.1	PD as % of GSDP	1.96	4.05	2.12	1.68	1.83	3.41	2.44	0.81	1.75	1.31

Note: Figures are rounded off to the nearest whole number or decimal point.

Source: CAG Finance Accounts Vol I (for years 2023-24 & 2025-26). Audit data till 2022-23.

Table 6.9 Financing of Fiscal Deficit (₹*crore*)

Sl. No.	Expenditure Head	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	Consolidated Fund										
1	Net Internal Debt	13,883	29,058	23,457	22,647	30,025	37,420	38,662	30,089	39,334	46121
	As % of FD	74%	82%	88%	84%	95%	76%	83%	92%	77%	94%
2	Net Central Loans	769	193	225	-400	-232	2,176	4,274	1,985	1,624	248
	Public Account										
3	Net Small Savings, PF, etc.	862	1,068	976	845	784	945	1,067	2,050	1,900	2,229
4	Net Deposits and Advances	2,222	1,018	5,860	3,100	1,407	5,080	1,223	949	3,713	-182
5	Net Suspense and Miscellaneous	1,405	454	-573	-660	297	-232	752	347	497	34
6	Net Remittances	-138	-155	1,306	115	7	-32	617	-466	-17	56
7	Net Reserve Fund	1,126	440	275	1,530	4,353	774	-1,054	427	1,291	1,107
	Contingency Fund										
8	Net Contingency Fund	50	-0	0	-2	-2	4	-0	0	-0.7	0.7
9	**Total**	20,179	32,076	31,527	27,174	36,639	46,135	45,541	35,381	48,341	49,615
10	Increase (-)/ Decrease (+) in Cash Balance	1,323	-3,204	4,827	225	4,880	-2,903	-1,098	2,824	-1,636	692
	Gross Fiscal Deficit Financed (9+10)	-18,856	-35,280	-26,700	-26,949	-31,759	-49,038	-46,639	-32,557	-49,977	48,922

Note: Figures are rounded off to the nearest whole number.

Source: CAG Finance Accounts Vol I (for years 2023-24 & 2025-26). Audit data till 2022-23.

6.7 Debt Sustainability Analysis

Debt sustainability analysis is an assessment of the ability of the government and quality of public finances to service debt obligations in the current and future periods. In this section, we analyse debt sustainability in two sections. First is Domar's sustainability analysis, and the second is on debt sustainability in terms of compliance with Medium Term Fiscal Policy Statement (MTFPS) targets.

6.7.1 Debt Sustainability Indicators

Keynesian prescription is that public debt cannot be regarded as a private debt. Primarily because public debt or deficit financing has a potential to enable long run growth. Moreover, the effect of public debt on growth depends on the nature of expenditure, productive or unproductive. If the expenditure is productive then public investments lead to growth, opposite is the case with unproductive expenditure. In the case of productive expenditure, public debt may become a strategic choice to sustain long run growth, and enable economic activities in the short run also.

Public debt is a fact of economic development, and the stability of long run economic development is contingent upon debt servicing. Debt burden and servicing matters simply because public funds are required for development programmes. Therefore, debt sustainability is an important factor which affects the overall health of state finances. A common measure of debt sustainability analysis is debt to GSDP ratio. The assessment is based on the premise that rise in debt should contribute to economic growth. That is, rise in debt should match the increasing capacity of the state to service the incremental debt. The increasing capacity is created from application of debt to expenditures which lead to expansion of economic activities and productivity, thereby generating additional revenues. A sustainable debt to GSDP ratio should be stable or decline in the long run.

Table 6.10: Debt Sustainability Indicators (Consolidated Fund)

S. No.	Indicators	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
1	Rate of Nominal GSDP growth	14.2	13.9	13.9	14.3	10.8	-0.7	19.2	16.4	11.9	10.2
2	Public debt to GSDP (%)	15.9	18.4	19.1	19.3	20.5	24.6	24.1	23.0	23.4	24.2
3	Revenue Receipts to Public Debt (%)	82.8	68.3	62.2	61.4	52.6	43.0	45.9	51.5	48.4	43.0
4	Average Interest Cost[11]	8.9	8.1	8.2	8.2	8.0	7.8	7.5	7.4	7.4	7.3
5	Interest Payment to Revenue Receipt	9.3	10.4	12.2	12.4	14.0	16.7	15.0	13.7	14.4	15.9
6	Interest Spread[12]	5.3	6.8	5.7	7.1	2.8	-8.5	11.7	9.0	4.5	2.9

Note: Outstanding public debt for year 2020-21 to 2023-24, does not include ₹2,380 crore received at the end of 2020-21, and ₹6,949 crore received at the end of 2021-22 and 2022-23 as back-to-back loans from GoI in lieu of GST compensation. Author's own computation. Figures are rounded off to the nearest decimal point.

Source: CAG (Finance Accounts, various years), MoSPI.

[11] Average Interest Cost = (Interest Payments / Average of Outstanding debt of previous financial year and current year) x 100

[12] Interest Spread = Rate of Growth of nominal GSDP – Average Interest Cost

The state's outstanding public debt to GSDP ratio has increased from 15.8% in 2015-16 to 24.2% in 2024-25. The state's revenue receipts to outstanding public debt have decreased from 82.8% in 2015-16 to 43% in 2024-25 (Table 6.10). Further, in comparison between pre- and post-COVID period, the state's interest payment burden has increased. The average interest payments to revenue receipts ratio from 2015-16 to 2019-20 was 11.7%, the same from 2020-21 to 2024-25 was 15.1%, in spite of the average interest cost declining from 2015-16 to 2024-25. This raises the question of debt stability. In case of instability, it is likely to be driven by primary deficit rather than cost of borrowing.

6.7.2 Debt sustainability as per Domar Model

Debt sustainability is measured in relation to GDP/GSDP because debt is committed upon the fact that expenditure leads to economic growth, and economic growth leads to higher revenue mobilisation. The traditional interpretations of dynamic budget constraint suggest that a rising debt to GDP ratio can only be mitigated through primary surpluses, achieved via increasing taxes or expenditure cuts. Domar (1944), offering a counter-perspective, cautioned that insisting on immediate primary surpluses could suppress growth so that "income will not grow as fast as the debt". Instead of prioritising the absolute reduction of debt, Domar emphasised the growth-interest rate differential, arguing that the debt-to-GSDP ratio can be stabilised or reduced even amidst persistent deficit spending, provided the rate of economic growth exceeds the rate of debt accumulation.

Domar's framework implies debt sustainability requires the real growth rate (g) to exceed the real interest rate (r), and primary balance should be stable and consistent with debt to GSDP ratio. The debt dynamics in Domar model is as follows (CAG, 2024, p. 75):

1. Under Strong economic growth conditions: where g-r>0; that is growth rate is higher than interest rate (g is real economic growth, and r is real interest rate)

a. If primary balance is surplus (s>0); then public debt to GSDP will decline, and move towards stable level.

b. If primary balance is in deficit (s<0); then public debt to GSDP is sustainable if primary deficit is stable and consistent with public debt to GSDP ratio.

2. Under slow economic growth conditions: where g-r<0; that is growth rate is lower than interest rate.

a. If primary balance is surplus (s>0); then public debt is unsustainable, and measures should be taken to reduce public debt.

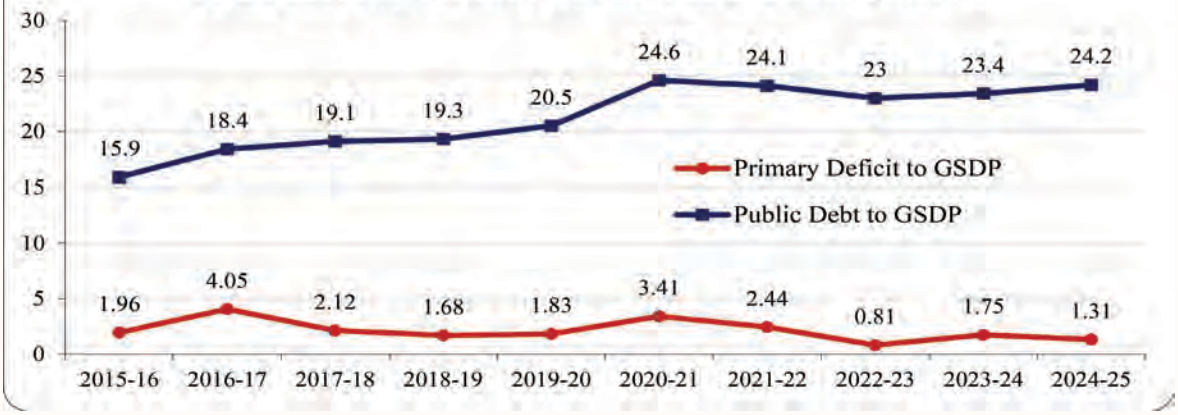
b. If primary balance is in deficit (s<0); then public debt increases without limitations and hence becomes unsustainable.

Therefore, the feasibility of running a primary deficit to finance expenditure depends on the relationship between economic growth rate and interest rate. The difference between the real economic growth rate and real interest rate is referred to as Domar gap, and a positive Domar gap is preferred for debt sustainability.

For our analysis, due to limitations in data availability, we take average cost of interest for a given year as rate of interest. We adjust rate of interest with CPI inflation to arrive at real interest rate. From 2015-16 to 2024-25, the Domar gap is positive, barring 2020-21, and the state had primary deficits (Table 6.10).

Therefore, the public debt to GSDP ratio would be sustainable, if primary deficit is stable and consistent with debt to GSDP ratio. The quantum of primary deficit is not consistent. Primary deficit to GSDP ratio is stable, whereas public debt to GSDP has risen till 2020-21 and has stabilised thereafter (Figure 6.5).

Figure 6.5: Primary Deficit and Public Debt to GSDP ratio (%)



Note: Figures are rounded off to the nearest decimal point.
Source: CAG (Finance Accounts, various years), MoSPI.

Further, when we take the outstanding debt as public debt and OBBs (serviced by the state government), the combined outstanding balance at the end of 2023-24 and 2024-25 was ₹4,63,516 crore and ₹5,06,175 crore respectively. The combined interest payments for 2024-25 are estimated to be ₹38,280 crore. Therefore, the average cost of interest works out to 7.9% in 2024-25. Consequently, Domar gap fell to 2.3%, and the Domar gap is positive. As per Domar model, public debt would converge to a stable level.

Nonetheless, we infer few facts from the trends:

1. From 2015-16 to 2020-21, the real growth rate has declined steadily. It was negative in 2020-21. It increased in 2021-22. However, since 2021-22, the real growth rate has been falling again (Table 6.10).
2. From 2015-16 to 2024-25, inflation was high during 2020-21 and 2022-23. In 2024-25, it was very low at 3.7%.
3. Average interest rates have declined steadily.
4. Domar gap has declined steadily, barring an interruption during COVID-19 years. Therefore, the implication that a positive Domar gap will lead public debt to converge toward a stable ratio is weakening over time. That is, the stability condition is becoming less robust year after year (Table 6.11, column 6).

However, the application of the Domar sustainability framework to a state government like Telangana involves few limitations:

1. Domar's model assumes a unitary national government with full control over fiscal policy. In a federal structure, a state's revenue is impacted due to intergovernmental fiscal mechanism and centralised control over the tax base. For instance, as shown in chapter 3, 52% of the Telangana's revenue is influenced by the Union government's decisions. That is, the State's claim on its income is limited by institutional design and rules.

Table 6.11 Debt Sustainability as per Domar model

Year	Real growth rate (g)	Inflation (CPI)	Interest Rate (Average Cost of Interest)	Real interest rate (r)	Domar gap (g-r)	Primary Deficit (-) or Surplus (+) (s) (in ₹ crore)
1	*2*	*3*	*4*	*5*	*6*	*7*
2015-16	11.6	5.5	8.9	3.4	8.2	-11,299
2016-17	9.3	6.1	8.1	2	7.3	-26,672
2017-18	9.7	3.9	8.2	4.3	5.4	-15,865
2018-19	9.1	2.6	8.2	5.6	3.5	-14,363
2019-20	5.4	4.5	8	3.5	1.9	-17,374
2020-21	-6	8.7	7.8	-0.9	-5.1	-32,197
2021-22	11.1	6.4	7.5	1.1	10.1	-27,478
2022-23	6.9	8.6	7.4	-1.2	8.7	-10,736
2023-24	7.4	6.4	7.4	1	5.2	-25,630
2023-24 [with OBBs]	7.4	6.4	7.9	1.5	4.7	-25,630
2024-25	6.5	3.7	7.3	3.6	2.9	-21,119
2024-25 [with OBBs]	6.5	3.7	7.9	4.2	2.3	-21,119

Note: Author's own computation (col. 2, 4, 5). Figures are rounded off to the nearest whole number or decimal point.
Source: Telangana Socio-Economic Outlook 2024, RBI (CPI data), CAG (Finance Accounts, various years).

2. Despite economic growth, the state's revenue buoyancy is on the decline, potentially due to implicit subsidies through concessions and exemptions, or high growth in tax-exempt sectors, or changes in tax rates.
3. Rate of interest in India is influenced by the repo rate. This affects Domar gap. For instance, countries such as Japan, USA and UK have higher debt to GDP ratio but lower interest rates.
4. Domar's sustainability indicator is sensitive to GDP methodology. Current revisions (2022-23 series) can alter fiscal indicators.
5. Domar's argument that growth rate of income affects aggregate demand is based on the assumption that expenditure is incurred towards productive investments, as opposed to unproductive expenditures. In his words, "If healthier people are more productive, expenditures on public health satisfy these requirements. The same holds true for expenditures on education, research, flood control, resource development and so on." However, defining what constitutes productive expenditure is theoretically contested and is not value neutral. For instance, the debate on trade-off between roads versus schools.

6.7.3 Debt sustainability compliance with MTFPS

Fiscal targets are set by the Telangana government in line with the Finance Commission's recommendations with an amendment to the TGFRBM Act. The targets pertain to revenue account, fiscal deficit and total liabilities. Additionally, the state government sets ceiling limits on outstanding guarantees with an amendment to TGFRBM Act. Accordingly, the state government

submits to the state legislature a Medium-Term Fiscal Policy Statement (MTFPS) every year along with the state budget. MTFPS contains the achievements against targets, in the previous year, estimated achievements in the current year and the rolling targets for the following three years.

Telangana's mandate as per TGFRBM Act is to eliminate revenue deficits and maintain revenue surplus to control fiscal deficit. The State has maintained revenue surplus in six years from 2015-16 to 2024-25. The state ran revenue deficits during 2019-20, 2020-21, 2021-22 and 2024-25. The initial deficits were pandemic-linked. However, the exogenous shock from COVID-19 period was compounded, due to counter-cyclical measures, with the expansion of welfare, and introduction of new state schemes, more particularly, Rythu Bandhu, Rythu Bima, and farm loan waiver. The period also witnessed increase in Aasara pensions, increased coverage of Rythu Bandhu. Further, the state increased financial support to power sector, and higher assistance to entities to repay OBBs. Consequently, the deficits reflect increasing safety nets and infrastructure debt-servicing during critical years.

Further, the state has achieved its targets on fiscal deficit only in four years from 2015-16 to 2024-25. From 2015-16 to 2018-19, the state incurred high capital outlay and consequently the state exceeded the fiscal deficit targets. From 2018-19 onwards, the state expenditure pattern changed which included various welfare schemes, UDAY principal repayments, greater advances (including loans) to entities to service OBBs. In 2023-24 and 2024-25, the larger fiscal deficit is primarily on account of higher capital outlay.

From 2015-16 to 2024-25, the state's total liabilities (excluding OBBs) to GSDP were below the ceiling recommended by the FC and the limits placed by TGFRBM Act. However, for the year 2024-25, total liabilities (including OBBs) have exceeded the limit by 2.1% of GSDP. Further, the accumulation of liabilities by the state followed the amendment of TGFRBM Act. The amendment increased the limit of annual incremental risk weight guarantees to 200% from previous limit of 90% of the Total Revenue Receipts in the year preceding the current year. This allowed the entities to raise additional government guaranteed loans, and along with it the risk of debt servicing burden on the state increased. The state's outstanding guarantees (or contingent liabilities) also begin to accumulate since 2020-21. The state's compliance with MTFPS is given in Table 6.12.

6.8 Summary

As on 31st March 2025, Telangana's outstanding total liabilities are ₹5,61,787 crore, that is 34.9% of GSDP, as against the limit of 32.8% of GSDP. Some alarming instances are where the state extended loans and advances to various entities to service OBBs, and entities which do not have definite stream of revenue. To this extent, interest portion of the such advances which are accounted for in capital account inflates the revenue surplus position of the state.

From 2015-16 to 2024-25, fiscal deficit of the state was within TGFRBM limits in only four years. From 2015-16 to 2018-19, the state incurred higher capital outlay leading to high fiscal deficits. Whereas, since 2019-20, the state's expenditure has increased due to various scheme expenditure, UDAY scheme, and increasing OBBs servicing have contributed to fiscal deficits. Further, and importantly, amendment of TGFRBM Act to increase the limit on annual risk weighted guarantees to 200% in 2020-21 has contributed to the accumulation of debt.

Table 6.12: Telangana State's MTFPS compliance

Year	RD/RS		FD to GSDP		Total Liabilities to GSDP		Outstanding Guarantees to RR (previous year)	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
	₹ crore		%					
2015-16	Surplus	238	3.5	3.26	25.0	17.0	90	52
2016-17	Surplus	1,386	3.5 (without UDAY ₹7,500 crore)	5.36 (4.22 without UDAY)	25.0 (without UDAY ₹7,500 crore)	20.5	90	39
2017-18	Surplus	3,459	3.5	3.56	25.0	22.1	90	51
2018-19	Surplus	4,337	3.5	3.14	25.0	23.0	90	87
2019-20	Surplus	-6,254	3.25 + ₹1,435 crore	3.19 + ₹1,435 crore	25.0	24.4	200	88
2020-21	Surplus	-22,298	4.75	5.2	33.1	29.2	200	102
2021-22	Surplus	-9,335	4	4.15	32.6	28.0	200	134
2022-23	Surplus	5,943	5	2.47	33.3	26.5	200	156
2023-24	Surplus	779	3	3.41	33.1	27.1	200	138
2023-24 [with OBBs]	Surplus	779	3	3.41	33.1	35.3	200	138
2024-25	Surplus	-9420	3.0	3.04	32.8	27.7	200	142
2024-25 [with OBBs]	Surplus	-9420	3.0	3.04	32.8	34.9	200	142

Note: Author's own computation. Figures are rounded off to the nearest whole number or decimal point.

Source: CAG Finance Accounts and Audit Reports (various years); Telangana State MTFPS document (2024-25, 2025-26)

The fiscal deficit was majorly financed through market borrowings. On average, 71% of the additional borrowings were used for capital outlay. Remaining additional borrowings were used for debt repayments, revenue deficit, and loans and advances by the state government. Nonetheless, an important trend over the decade is that the interest cost has come down significantly, compared to the higher cost of borrowing in the initial years.

Domar's debt sustainability analysis shows that the Domar gap is positive, that is debt would move towards stability. However, Domar's debt sustainability condition is weakening. A major measurement issue would arise in interpretation using 2022-23 GSDP series.

However, in the absence of data on capital investments of the entities, in terms of quality and efficiency, the conclusions can only be drawn against fiscal limits. That is, there is evidence of expenditure, but there is no information on output and outcomes.

CHAPTER 7

Subsidies and Transfer Payments

7.0 Introduction

Subsidies, like public goods, represent government intervention to promote social welfare and economic efficiency. Subsidies are government policies which are either direct government expenditure or unrecoverable costs by the government. Subsidies are of two types: explicit and implicit. Explicit subsidies are government expenditure, incentives, or direct financial support which promote positive externalities. Examples of explicit subsidies include transfer payments, price-support, and other such direct subsidies. Implicit subsidies are hidden support, which often implies revenue foregone by the government. Examples of implicit subsidies are concessional rate (below-market pricing), tax expenditures, government guarantees which reduce private costs of entities. Transfer payments, similar to subsidies in some ways, are those direct income transfers which are unrecoverable but their purpose is to promote redistribution of income and wealth. For instance, Rythu Bandhu/Bharosa is a subsidy, whereas Aasara pension is a transfer payment. Subsidies and transfer payments, like every public expenditure, must follow the canons of public expenditure: maximum social benefit, productivity, economy, sanction, and equitable distribution. Otherwise, subsidies end up becoming a burden on the state finances. In this chapter we analyse subsidies and transfer payments.

7.1 A Note on Data

State expenditure comprises various objects. Broadly, non-committed expenditure comprises numerous major and minor object heads of expenditure. For this chapter on subsidies and transfer payments, we analyse three object heads of non-committed expenditure which reflect the scheme expenditure of the state. They are grants-in-aid by the state government, subsidies, and scholarships and stipends. We analyse the two objects' grants-in-aid and subsidies together, and transfer payments separately, because of conceptual overlap and quantification issues regarding these two expenditures. For instance, Rythu Bandhu is recorded as a grant and not as subsidy. A part of assistance to transmission corporations for agriculture and allied is recorded under grants and a part under subsidies. There are other such expenditures, because of the nature of expenditure, which conceptually align with subsidies but were misclassified. Further, there are entities and departments which receive funds through various channels[13], complicating aggregation and comparability.

Grants-in-Aid by the state government have increased from ₹29,058 crore in 2015-16 to ₹74,271 crore in 2024-25. The state extends grants to PRIs, ULBs, PSUs, Autonomous Bodies, NGOs, and others to meet revenue expenditure,

[13] For instance, civil supplies, power sector corporation and water supply and irrigation projects receive fund through grants, subsidies, loans and advances, and guarantees.

scheme related expenditure and other assistance. A largest component of the state's grants is scheme expenditure. State grants grew by 12.5% per annum. Subsidies, on the other hand, increased from ₹5,164 crore to ₹15,553 crore (Table 7.1). Scholarships and stipends have a definite trend. However, the recent two years witnessed lowest allocations to scholarships and stipends.

7.2 Subsidies and Transfer Payments

From 2015-16 to 2024-25, the state government introduced various schemes and provided financial support. Such as investment support, pensions, support to TRANSCOs and DISCOMs, free power to agriculture, teaching grants, debt relief, Dalit Bandhu, Insurance to farmers, Kalyana Lakshmi, Shaadi Mubarak, the new schemes such as Mahalakshmi, Gruhajyoti and so on. Three schemes which required major allocations were Rythu Bandhu (now Rythu Bharosa), Assistance to TRANSCOs, and Aasara/Cheyutha pensions. We focus on these three schemes to identify issues pertaining to subsidies and transfer payments in general.

From 2015-16 to 2024-25, the state's cumulative expenditure on Rythu Bandhu (introduced in 2018-19) was ₹86,028 crore, followed by assistance to TRANSCOs for agriculture and allied sector subsidy i.e., 24X7 free power was ₹74,809 crore. Both these schemes pertain to agriculture and allied sector. The third scheme Aasara/ Cheyutha pensions' cumulative expenditure was ₹64,501 crore (Table 7.2). In the last decade, total expenditure on these three schemes amount to ₹2,25,338 crore.

The intended objectives of these schemes are to promote welfare and assistance to the poor. The broader objective is to provide welfare and ensure redistribution. However, such schemes routinely face issues of exclusion and inclusion errors, and the success of meeting such objectives is conditional on right targeting of beneficiaries. With regard to Rythu Bandhu (Rythu Bharosa), 24X7 free power, and Aasara Pensions, the issue has been of targeting.

Rythu Bandhu was introduced in 2018-19 as a measure to provide income support to improve production and productivity. Under Rythu Bandhu scheme, financial assistance is given to all land owners. However, the scheme has been misused, and has excluded actual producers. For instance, in a field study by Sreenivasulu (2023), it is found that major beneficiaries of the scheme were absentee landowners, whereas the tenants who were the actual cultivators did not benefit from the scheme. Further, when the scheme did not have a ceiling on area or number of acres, it was the absentee landowners who owned the largest area received greater aid. As per the study, the benefits received by the absentee landowners under the Rythu Bandhu was 20.5%. That is, the scheme benefitted the well-off and non-cultivators. Schemes such as Rythu Bandhu are prone to misuse without right targeting. The scheme offered financial support of ₹5,000 per acre per season[14]. Nonetheless, despite increasing the support, stricter enforcement of eligibility criteria led to decline in expenditure from ₹13,576 crore in 2023-24 to ₹7,481 crore in 2024-25, a drop by 45%.

[14] Since 2025, financial support under Rythu Bharosa has increased to ₹6,000 per acre per season.

Second scheme is assistance to Transmission Corporation Ltd for Agriculture and Allied Subsidy under state's grants are towards 24X7 free electricity for agriculture purposes scheme. Under this scheme, it is difficult to identify right beneficiary, and to monitor that free power under this scheme is used for farming purposes only. Free power policies policy puts enormous burden on power sector, ecological consequences are severe, and leads to expansion of water-guzzling crops such as paddy (Fosli, Reddy, & Rani, 2021). In the last two years, the state is also burdened with expenditure on DISCOM losses.

The objective of the Aasara/Cheyutha pensions is to provide a safety net to ensure the vulnerable and the poor households live with dignity. In its scope, the scheme covers old aged persons, widows, disabled persons, incapacitated weavers, toddy tappers, persons with HIV-AIDS, and filaria patients (CAG, 2023, p. 1). The amount of monthly pension under Aasara scheme till May 2019 was ₹1,000 per month for all categories except 'disabled' category, for whom the pensions were ₹1,500 per month. It was increased since June 2019 to ₹2,016 per month for all categories (except disabled) and ₹3,016 per month for disabled category. We observe an increase in Aasara pensions expenditure since 2019-20[15]. Further, Government of India's NSAP's three components of ₹200, ₹300, ₹500 per month for old age, widow and disabled categories forms part of state government's Aasara pensions scheme (CAG, 2023, p. 1). However, in the performance audit of Aasara Pensions by CAG for the period 2018-19 to 2020-21, it was found that 16% of the households were ineligible[16], in a few cases pensions were given to deceased beneficiaries, persons who owned more land than eligible limit, and the benefits were also passed on to those who owned four wheelers[17].

Apart from Aasara pensions, the state also extends financial support to beedi workers, and single women. Further, it provides grants to prevent child marriages through Kalyana Lakshmi, and Shaadi Mubarak. Recognition of socio-economic issues as a hurdle to development is a sign of progressive state. However, attempting to resolve the issues through financial means is contingent upon the fiscal strength of the state. Further, without active monitoring and impact studies, these schemes are prone to become regressive. Instead of welfare, it further entrenches inequalities, and misallocates resources[18].

[15] Since 2025, the pensions were increased to ₹4,000 and ₹6,000 for the two categories respectively.

[16] As per Aasara Pension guidelines, the identification of the poor and vulnerable were to be identified based on 'Samagra Kutumba Survey' (SKS) database. As per CAG audit report on Aasara pensions, it was found that 19% were not found in the database, and 16% were ineligible.

[17] The criteria for eligibility were having less than 3.0 acres of wet/irrigated dry or 7.5 acres dry land, having no children who are government / public sector /private sector employment / out-sourced /contract. Having no children who are doctors. Further, persons not belonging to household who owned light and heavy automobiles (four wheelers and big vehicles).

[18] Competitive populism can impose limits on the development of a fiscal state. However, populism recognises in the face of inequalities the necessity to plug the gap between the rich and the poor, men and women, and address the disparities across castes. While attempts at addressing the inequalities is an act of political will and practical reason, but the fiscal behaviour emerging out of political competition, in the absence of a democratic consensus, is prone to act without financial limits.

Table 7.1: Grants in Aid by the State Government, Subsidies and Scholarships Expenditure [Revenue Expenditure] (*in ₹crore*)

Sl. No.	Description	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
1	Grants-in-Aid	29,058	30,648	30,416	37,908	44,967	54,284	61,400	69,317	76,773	74,271
1.1	Of which, central assistance	15,000	16,593	5,346	3,093	3,847	5,434	2,769	2,964	2,258	3,512
1.2	Panchayat Raj Institutions	6,699	7,488	6,376	5,996	7,183	8,542	8,522	11,126	10,075	9,083
1.3	Urban Local Bodies	933	608	798	1,542	1,359	3,785	2,698	4,110	3,615	3,774
1.4	PSUs	593	930	1,071	1,409	1,421	2,632	3,369	3,205	3,632	1,959
1.5	Autonomous Bodies	2,574	2,342	2,439	2,722	2,207	1,984	2,884	2,869	3,124	3,429
1.6	Non-Government Organisations	542	614	1,004	775	962	507	555	600	623	616
1.7	Others	17,718	18,665	18,727	25,464	31,745	36,834	43,327	47,450	55,705	55,411
2	Subsidies	5,164	5,935	6,159	6,304	6,846	9,566	10,218	9,634	9,411	15,553
2.1	Of which, central assistance	7	10	0	0	0	0	0	0	0	0
3	Scholarships and Stipends	1,809	3,524	2,807	2,808	2,884	1,800	2,579	2,035	1,416	1,595
4	Total	36,031	40,107	39,382	47,020	54,697	65,650	74,197	80,986	87,600	91,419

Note: Figures are rounded off to the nearest whole number.

Source: CAG (Finance Accounts, various years).

Table 7.2: Select Subsidies and Transfer Payments *(in descending order of cumulative expenditure)*

Sl. No.	Expenditure Head	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	*2024-25*	*Sum*
		In ₹ Crore										
1	Rythu Bandhu (Rythu Bharosa)				9,969	11,206	14,637	14,779	14,380	13,576	7,481	86,028
2	Assistance to TGTRANSCO for Agri. & allied subsidy	4,153	4,129	3,956	4,961	5,109	9,872	11,026	10,500	9,992	11,111	74,809
3	Aasara/Cheyutha Pensions*	3,927	1,368	4,102	4,285	7,297	7,595	7,555	8,717	10,111	9,544	64,501
4	Scheme for Debt Relief to Farmers	4,038	4,018	4,017	20	997	213	763	63	12,131	19,878	46,138
5	Teaching Grants to ZPPs	2,917	3,071	3,335	3,313	3,347	3,389	4,160	5,003	5,426	6,229	40,190
6	Teaching Grants to MPPs	-	-	3,472	3,491	3,591	3,695	4,585	5,416	5,806	6,004	36,060
7	Scholarships and Stipends	1,809	3,524	2,807	2,808	2,884	1,800	2,579	2,035	1,416	1,595	23,257
8	Taking over of DISCOMs losses under UDAY Scheme								7,061	5,571	3,175	15,807
9	Kalyana Lakshmi	244	330	660	1,113	1,282	1,829	2,312	1,772	1,805	1,866	13,213
10	Special Development Fund for Welfare & Development Activities	568	977	1,259	431	665	672	1,322	479	1,980	1,288	9,911
11	Insurance to Farmers				659	993	1,174	1,465	1,448	1,484	830	8,053
12	Financial Assistance to Beedi Workers	464	431	399	548	796	947	978	1,053	1,117	1,055	7,788
13	Dalit Bandhu							4,442	2,000	-	-	6,442
14	Assistance to Telangana Vaidya Vidhana Parishad	384	399	369	442	402	467	478	811	794	794	5,340
15	Mahalaxmi Scheme										3,320	3,320
16	Shaadi Mubarak	142	122	162	292	360	297	298	419	443	404	2,939
17	Financial Assistance to Single Women			151	223	233	307	359	337	355	351	1,964
18	Gruha Jyoti Scheme									200	1,649	1,849
19	Incentive to Sannarakam Paddy Farmers										1,199	1,199
20	LPG Subsidy under Mahalaxmi Scheme									80	500	580

*Note: Figures are rounded off to the nearest whole number. *includes Pensions, Pensions to Old Age persons & widows and Disabled persons only. Therefore, due to insufficient information, the Aasara/ Cheyutha figures do not include assistance to weavers, toddy tappers, HIV patients, and Filaria Patients.*

Source: CAG (Finance Accounts, various years).

7.3 Concluding Remarks

Between 2015–16 and 2024–25 the state's expenditure on schemes increased, reflecting policy choices; however, implementation was often weak. Rythu Bandhu, introduced shortly before the COVID-19 shock, was expanded in 2020–21 to provide welfare relief, a counter-cyclical response to an unforeseen crisis, but the scheme is a direct income transfer aimed at supporting agricultural production and productivity rather than addressing structural sectoral weaknesses.

Aasara pensions and other benefit increases were adopted as social safety during the crisis. Similarly, crop output increased in 2020–21, and also power subsidy costs. Moreover, such schemes are vulnerable to targeting failures and misuse in the absence of[active oversight; for example, income-support intended to boost production and productivity can instead become passive income for absentee landowners if beneficiary selection and delivery mechanisms are weak. As such, it is only temporary solution to a systemic problem. Without broader transformation of economic sectors, the temporary solution risks becoming a permanent fiscal burden.

Further, long term assistance to public utility corporation is inefficient. Public service utilities, may be subsidised, but must be priced. A way forward is rationalisation of scheme expenditure to effectively align with the state's policy targets.

7.4 Way Forward: data without context is noise, not a signal

Quoting figures is important, but uncovering their purpose is an entirely different task. A rigorous assessment of social impact and the outlay-outcome monitoring is indispensable for ensuring that public expenditure translates to social and economic development. The addition of outcome-monitoring along with outlay is a necessity for Telangana, which runs persistent primary deficits and is witnessing rising debt to GSDP ratios. Such assessments are essential to ensure that expenditure serves as an investment in human and physical capitals rather than a drain on fiscal resources. For instance, OBBs and welfare expenditure. However, in such assessments, research cannot ignore Tinbergen rule (to achieve independent policy targets, at least the same number of independent policy instruments are required). Some policy prescriptions in this regard are (with examples):

1. Theory of Change Approach (Corlet-Walker, Mair, & Druckman, 2018):
    a. Inputs: For example, financial resources.
    b. Activities: Disbursement of Direct Benefit Transfer.
    c. Output: Number of beneficiaries or total acreage.
    d. Outcome: The medium-term qualitative change (for instance: a reduction in rural indebtedness or improvements in input use quality).
    e. Impact: long-term structural change in the socio-economic indices, and sustained increase and productivity improvements.
2. Outcome Assessment (Best Practices Compendium on Outcome Budgeting, 2023)
    a. Going beyond assessment of full utilisation of funds, and assessing leakages, monitoring target population. That is, monitoring implementation. A data-driven implementation allows mid-course corrections.
    b. Conduct social audits to strengthen participatory oversight of welfare

programs, shifting practice away from paternalistic delivery toward community-led accountability.

3. Broader Social Impact Studies (Nussbaum, 2011; Stiglitz, Fitoussi, & Durand, 2018):
   a. Not all schemes add value to GSDP with immediate effect. Schemes such as Aasara/Cheyutha pensions reduce vulnerability. This is where studies capturing non-market value become important, such as, Social Return on Investment.
   b. Such studies ensure transparency, and with evidence-based assessment ensures welfare is not stigmatised or is a short-term populist measure.
   c. Evidence (Gertler, et. al., 2016): proving that a specific outcome was directly caused by a specific intervention, and providing evidence as to what is happening with a scheme. It moves the debate from anecdotes to evidence, a political claim into a verified social impact. If evidence fails to prove intervention, funding for ineffective schemes can be discontinued.

CHAPTER 8

Findings, Policy Implications and Way Forward

Findings

1. Macroeconomic Performance

From 2014-15 to 2024-25, the State recorded a nominal GSDP growth rate of 11.4% and real GSDP growth rate of 6.2%. During 2014-15 to 2023-24, nominal growth of Telangana was higher among 18 general category states. Measured as a share of India's GDP relative to its population, Telangana's per capita contribution to the national GDP was the highest among the 17 general category states. The State's macroeconomic performance was better than Andhra Pradesh.

The State's agriculture and allied activities sector was important in terms of employment. However, the growth was not steady in the sector. In 2024-25, agriculture and allied services sector's value addition was 14.1% of GSVA. Further, allied activities add higher value to State's GSVA in comparison to crop production. In the agriculture sector, growth rate of crop production has witnessed high fluctuations, and the growth rate of allied activities has been declining since 2019-20. Further, the agriculture sector suffers from low productivity and underemployment.

During 2024-25, industrial sector's share in GSVA was 18.9%. Within the industrial sector, manufacturing sector's share was over 50%. A major formal sub-sector of manufacturing in the State is pharmaceuticals and life sciences. In terms of value addition, the State's economy was dominated by the services sector. In 2024-25, services accounted for 67% of State's GSVA.

In the post-COVID period, Telangana's economic expansion has decelerated, with contractions observed across all major sectors. Relative to other general category states, the medium-term growth momentum is lower in Telangana since the COVID-19 shock.

Telangana is undergoing a notable realignment of its economic base, the State is implementing its long-term development roadmap, Telangana Rising Vision-2047, to expand and steer the structural transition through an agglomeration approach

2. Revenue Receipts

The state's total receipts grew from ₹93,607 crore in 2015-16 to ₹2,29,024 crore in 2024-25. In 2024-25, the state's revenue receipts were ₹1,67,804 crore. Between 2015-16 and 2024-25, revenue receipts comprised 75% of total receipts. Revenue receipts grew at 9.5% per annum. The state's capital receipts comprised 25% of total receipts. Between 2015-16 to 2024-25, the state's own resources comprised 76% of revenue receipts. An important source of revenue for the State is SOTR. SOTR comprised 65% of revenue receipts, and it grew at 11.6% per annum. Other components of revenue receipts do not show a linear trend.

The state has only a few recurring revenue streams. 92% of SOR collections come from only 8 minor heads- Taxes on Sales, Trade, etc. (State Sales Tax Act), SGST (including IGST), State Excise, Non-Judicial Stamps, Registration Fees, Motor Vehicle Tax, Non-Ferrous Mining & Metallurgical Industries and Sale of Land and Property. Further, through legislative fiscal freedom, the state could

directly influence only 60% of SOR or 48% of revenue receipts. Telangana's core revenue streams are SGST (including IGST), Taxes on Sales, Trade, etc., State Excise, and Non-Judicial Stamps. These are primarily consumption-driven taxes.

A few key factors contributing to deteriorating revenue position are: i. the revenue buoyancy is on the decline and was negative during 2024-25; ii. the state's reliance on taxing exhaustible resources is limited by time and sustainability policies; iii. revenue collection is concentrated in high revenue yielding streams.

The state's revenue is mainly from own tax and non-tax revenues, Share in Union Taxes and Duties, followed by Centrally Sponsored Schemes and Finance Commission Grants. In comparison to other general category states, the state's receipts of fiscal transfers from the Union are low. Further, the State has witnessed a consistent decline in fiscal transfers from 23.5% of revenue receipts in 2015-16 to 15.1% of revenue receipts in 2024-25.

Telangana's share in horizontal devolution has steadily declined, with only a slight increase under the 16th Finance Commission. Under the 16th FC, 60% of the criterion weight assigned to per capita income distance and population effectively penalised the state for being efficient and the State has lost its share under demographic performance due to change in methodology.

3. Expenditure Trends

The state's total expenditure increased from ₹97,452 crore in 2015-16 to ₹2,36,318 crore in 2024-25. From 2015-16 to 2024-25, of the total expenditure, the state's revenue expenditure comprised 74%, capital outlay comprised 16%, the remaining was debt repayments and loans and advances. The state's committed expenditure comprised 46% of revenue expenditure. The state's development to non-development expenditure ratio is 72:28. In comparison to other general category states, capital outlay in the state is higher which is a positive trend.

The state's RECO ratio has increased since 2016-17, and substantial portion of capital outlay was on irrigation and water supply. Further, the state's development expenditure has increased largely due to subsidies and transfer payments, the increase in expenditure was also induced by COVID-19 pandemic.

The major scheme expenditures in the State are prone to misuse and exclusion errors, and are poor at targeting. The state schemes were financed not only through revenue resources but also through borrowings. The schemes, without fiscal limits, divert resources needed for social development.

On capital expenditure, the method the state has adopted was to fund various SPVs/PSUs through multiple channels which affects entities' autonomous functioning. These entities receive funds through multiple channels such as own income, grants, subsidies, loans, and guarantees. However, a majority of transfers are used to meet debt obligations. Though the state spent large sums on irrigation and power sectors to aid agriculture sector, improve farmers' income, supply clean drinking water to households, and aid urban growth. But, the adopted method of transfers through multiple channels implies a failure to build a sustainable financial model for these entities even to meet recurring/maintenance costs in providing the services.

4.Outstanding Debt

As on 31st March 2025, the state's outstanding total liabilities are estimated to be ₹5,61,787 crore, that

is 34.9% of GSDP, as against the limit of 32.8% of GSDP as per TGFRBM Act. During 2024-25, the principal and interest payments on public debt and OBBs are estimated to be ₹62,953 crore, i.e., 26.8% of total receipts.

5. Deficits

The state has maintained revenue surplus in six of the 11 years since 2014-15 to 2024-25. However, the expenditure pattern of the state indicates a different story, as the majority of loans and advances by the state went towards debt servicing of OBBs. Accounting for these expenditures in revenue account would reduce revenue surplus status. Furthermore, the fiscal deficit picture is limited because large quantum of capital outlay was done through OBBs. This also affects RECO ratio, and actual estimates of productive investments. Nonetheless, because expenditures through OBBs are for capital investments, the actual amount of productive public investments would be higher than what the budgetary estimates indicate.

The state's fiscal deficit was within TGFRBM limits in only four years. However, in the pre-COVID period, the fiscal deficit limit was breached due to high capital outlay, whereas in the post-COVID period, the fiscal deficit limit was breached due to higher capital outlay, expenditure on various state schemes, UDAY scheme, and servicing of OBBs. Further, only 71% of the state's borrowings were used for capital asset creation. That is, the state has used significant portion of borrowings to meet revenue expenditure or to service debt. Furthermore, in 2020-21, the state has increased the limit on annual risk weighted guarantees which has contributed to the sudden rise in accumulation of debt. This is poor fiscal governance.

6. Debt Sustainability

The state's Domar's sustainability analysis showed that Domar gap, that is debt moving towards stability is positive. However, the analysis also indicated that Domar gap is reducing, i.e., the state's sustainability condition is weakening.

Policy Implications

1. Improve Revenue Buoyancy

The state's revenue position is weakening. Its dependence on a select few revenue streams has sustainability limitations. Further, with GST 2.0 the state's revenue position even more uncertain. Expansion of tax base, improving enforcement and ensuring growth in formal sectors are key measures to improve revenue. Therefore, the State should expand its own recurring revenue streams to enhance revenue mobilisation by revising the rates on existing tax heads and improve overall revenue administration.

2. Fiscal Transfers: Reiterate the Case for Incentivising Growth

With 16th FC recommendations, the State's position is not likely to change much, but the union tax policies would continue to impact divisible pool. There is a stronger need to reiterate the case for incentivising efficiency.

3. Expenditure: Rebalance Capital Outlay and Social Spending

The state should strategise its capital outlay in line with its debt management. The state has allocated large sums to agriculture sector, which continuous to suffer from low productivity and underemployment, whereas the state's expenditure on education is low. The budgetary trends

entrench existing structural paradox, it does not aid transformation. The state should reassess its expenditure priorities on economic and social services. This is very important as the state is set for large-scale expansion through Telangana Rising, where quality of human capital would be of utmost importance.

Further, the introduction of new pay commission and additional government schemes will likely exacerbate the fiscal pressure. The state should rethink its current spending policy in line with future committed expenditure.

4. Subsidies: Rationalise and Improve Monitoring

The surge of state schemes since 2018-19 and the increase in capital outlay bypassing fiscal thresholds have impacted the state's finances. Many of the schemes are prone to misuse and inclusion errors. Rationalisation of expenditure and effective monitoring would make the state's social policies effective. To this extent, assessing the impact of its policies is inevitable.

5. Institutionalise Funding Mechanisms and Recover Costs

The state has used various channels to fund PSUs, institutions, SPVs and other entities. The method of funding is disaggregated and indistinct. In failing to develop an institutionalised method to support the entities, the state risks turning financially viable entities into sick ones, and worsening overall public finance management. The state should develop a mechanism to devolve funds and account for them. Further, rather than turning assets into liabilities, the state government should work towards recovering the cost on capital investments. Public utility pricing should be considered seriously as a policy alternative.

6. Reassessing TGFRBM Limits

The state's debt has increased. To begin with, the state should limit its deficit and liabilities to TGFRBM targets. The state should reduce the current limit on risk weighted guarantees. A one-size-fits-all approach to debt (borrowing or outstanding) does not make economic sense for Indian States, because their level of growth and development is different. Nonetheless, the state should assess its fiscal health using multiple indicators in assessing not only its absorptive capacity for borrowed funds but also, at least, the medium-term revenue buoyancy. This is where, the state needs to be cautious, and the state has two choices:

a. An urgent course correction in controlling debt is needed, as revenue growth does not align with the economic expansion.
b. Public sector's utility pricing to recover costs.

Nonetheless, the state must assess its own economic strength in relation to its absorptive capacity, as this determines its ability to mobilise revenue for future capital outlays.

7. Strengthen Accounting, Reporting, and Transparency to Enable Measurable Fiscal Governance

Analysing public finance data of Telangana is a painstaking process: i. the data is not organised properly and accounted incorrectly; and ii. crucial data is often not available. The state government should do a complete assessment of its accounting standards and reporting mechanism. What is not observable is not measurable, therefore can neither be confirmed nor governed. Therefore, fiscal governance should be practiced with fiscal transparency. So far, the state has maintained an inadequate record in the production, maintenance, and dissemination of statistical data.

Way Forward

Telangana's fiscal position is under significant strain. Addressing these emerging structural imbalances demands prompt policy realignments.

1. In the short run, to maximise impact, welfare expenditure must be rationalised via improved targeting and outcome tracking, ensuring spending directly drives skill development, capacity building and vulnerability reduction.

2. The State should develop a medium-term plan for its capital outlay in line with its transformative Telangana-Vision 2047 agenda through an operational framework for monitoring and evaluation of capital projects.

3. In the medium and long run, the State should identify and strengthen additional revenue streams, and further strengthen enforcement of revenue administration and improve formalisation of economic activities.

4. The State should realign its debt limits with its current revenue constraints and future revenue projections.

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