

Telangana Budget Analysis 2019-20

The Chief Minister, Mr. Kalvakuntla Chandrasekhar Rao, presented the Budget for Telangana for financial year 2019-20 on September 9, 2019.

Budget Highlights

- § The **Gross State Domestic Product (GSDP)** of Telangana for 2019-20 at current prices is approximately Rs 9,52,455 crore.* This is 10% higher than the revised estimate for 2018-19.
- § **Total expenditure** for 2019-20 is estimated to be Rs 1,46,492 crore, which is 9.1% lower than the revised estimate of 2018-19. In 2018-19, as per the revised figures, the expenditure is estimated to decrease by Rs 13,231 crore (7.6%) over the budgeted estimate.
- § **Total receipts (excluding borrowings)** for 2019-20 are estimated to be Rs 1,13,145 crore, a decrease of 10.1% as compared to the revised estimate of 2018-19. In 2018-19, total receipts (excluding borrowings) are estimated to fall short of the budgeted estimate by Rs 12,876 crore (9.3%).
- § **Revenue surplus** for the next financial year is targeted at Rs 2,044 crore, or 0.21% of the GSDP. **Fiscal deficit** is targeted at Rs 24,082 crore (2.53% of GSDP).
- § Sectors such as energy (61%), social welfare and nutrition (32%), and agriculture and allied activities (30%) saw the highest increase in allocations. Further, allocations to water supply, sanitation, housing and urban development (69%) and irrigation and flood control (64%) saw the highest decline.

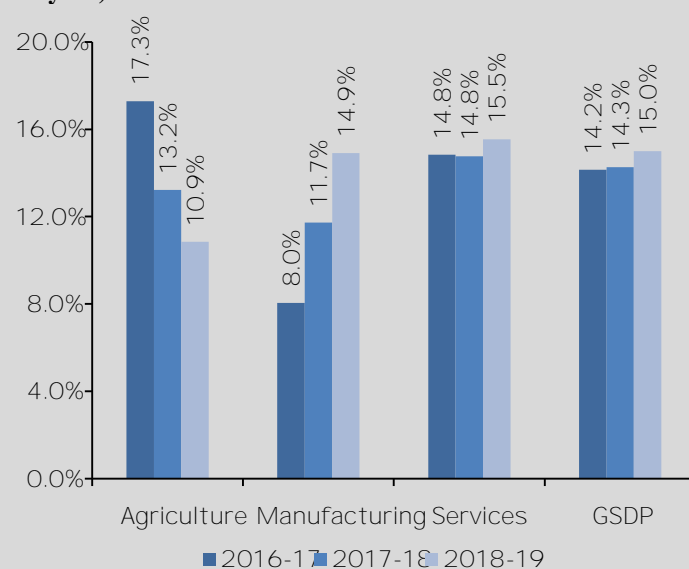
Policy Highlights

- § **Crop loan waiver:** In his budget speech, the Chief Minister announced a crop loan waiver for the farmers of Telangana. For this, an amount of Rs 6,000 crore has been allocated.
- § **Increased financial assistance under Rythu Bandhu scheme:** Financial assistance provided to farmers under the Rythu Bandhu scheme has been increased from Rs 8,000 to Rs 10,000 (per acre per annum). An amount of Rs 12,000 crore has been allocated to this scheme.
- § **Increase in ASARA pension:** Pension provided under the social security pension scheme called ASARA will be doubled. Old age pension eligibility under this scheme has been reduced from 65 years to 57 years.

Telangana Economy

- § **GSDP:** The GSDP of Telangana (at current prices) has grown at a rate of 11% during the period 2014-15 to 2018-19.
- § **Sectors:** In 2018-19, the sectors of Agriculture, Manufacturing, and Services contributed to 17%, 19%, and 64% of the State Gross Value Added (GVA). GVA by a sector denotes the contribution of that sector to the state's economy. In the same year, these sectors grew by 11%, 15%, and 16%, respectively.
- § **Per capita GSDP:** The per capita GSDP of Telangana in 2018-19 (at current prices) was Rs 2,26,575. This is 14% higher than the figure for 2017-18 (Rs 1,98,993).

Figure 1: Growth in GSDP and sectors in Telangana (year-on-year)



Sources: Central Statistics Office, MOSPI; PRS.

* Note: GSDP has been calculated based on public debt as % of GSDP as given in the budget in brief document.

Budget Estimates for 2019-20

- § The total expenditure in 2019-20 is targeted at Rs 1,46,492 crore. This is 9.1% lower than the revised estimate of 2018-19. This expenditure is proposed to be met through receipts (other than borrowings) of Rs 1,13,145 crore and borrowings of Rs 32,900 crore. Receipts in 2019-20 (other than borrowings) is expected to be 10.1% lower than the revised estimate of 2018-19.
- § In 2018-19, as per the revised figures, expenditure of the state is estimated to decrease by Rs 13,231 crore (7.6%) over the budgeted estimate. Receipts (excluding borrowings) is estimated to be lower than the budgeted estimate by Rs 12,876 crore (9.3%).

Table 1: Budget 2019-20: Key figures (in Rs crore)

| Items | 20178 Actuals | 20189 Budgeted | 20189 Revised | % change from BE 20189to RE 20189 | 20190 Budgeted | % change from RE 20189to BE 20190 |
|---------------------------------|------------------|-------------------|------------------|---|-------------------|---|
| Total Expenditure | 1,43,13: | 1,74,45: | 1,61,22: | -7.6% | 1,46,49 | -9.1% |
| A. Receipts (except borrowings) | 88,96: | 1,38,78: | 1,25,90: | -9.3% | 1,13,14 | -10.1% |
| B. Borrowings | 49,15: | 33,20: | 33,20: | 0.0% | 32,90 | -0.9% |
| Total Receipts (A+B) | 1,38,11: | 1,71,98: | 1,59,10: | -7.5% | 1,46,04 | -8.2% |
| Revenue Surplus | 3,45: | 5,52: | 72: | -98.7% | 2,04 | 2731.59 |
| As % of GSDP | 0.46% | 0.66% | 0.01% | | 0.21% | |
| Fiscal Deficit | 26,70: | 29,07: | 28,72: | -1.2% | 24,08: | -16.2% |
| As % of GSDP | 3.55% | 3.45% | 3.3% | | 2.53% | |
| Primary Deficit | 15,67: | 17,38: | 17,02: | -2.1% | 9,50: | -44.2% |
| As % of GSDP | 2.08% | 2.06% | 1.97% | | 1.00% | |

Note: BE indicates Budget Estimate, RE indicates Revised Estimate. GSDP has been calculated based on public debt as % of GSDP as given in the budget in brief document.

Sources: Telangana Annual Financial Statement 2019-20; PRS.

Expenditure in 2019-20

- § **Capital expenditure** for 2019-20 is proposed to be Rs 35,436 crore, which is a decrease of 16% over the revised estimate of 2018-19. Capital expenditure includes expenditure affecting the assets and liabilities of the state, such as: (i) capital outlay, i.e. expenditure which leads to creation of assets (such as bridges and hospitals), and (ii) repayment and grant of loans by the state government.
- § In 2019-20, **capital outlay** is estimated to be Rs 17,275 crore, which is a decrease of 35.8% over the revised estimates of 2018-19. The capital outlay towards transport is estimated to decrease by Rs 1,933 crore from the revised estimates of 2018-19.
- § **Revenue expenditure** for 2019-20 is proposed to be Rs 1,11,056 crore, which is 6.7% lower than the revised estimates of 2018-19. This expenditure includes payment of salaries, pensions, and interests, among others. Revenue expenditure forms 76% of the total expenditure proposed in 2019-20.

Table 2: Expenditure budget 2019-20 (in Rs crore)

| Item | 20178 Actuals | 20189 Budgeted | 20189 Revised | % change from BE 20189 to RE 20189 | 20190 Budgeted | % change from RE 20189 to BE 20190 |
|----------------------|------------------|-------------------|------------------|---------------------------------------|-------------------|---------------------------------------|
| Capital Expenditure | 57,76: | 48,99: | 42,19: | -13.9% | 35,43 | -16.0% |
| Revenue Expenditure | 85,36: | 1,25,45: | 1,19,02: | -5.1% | 1,11,05 | -6.7% |
| Total Expenditure | 1,43,13: | 1,74,45: | 1,61,22: | -7.6% | 1,46,49 | -9.1% |
| A. Debt Repayment | 27,471 | 6,594 | 6,594 | 0.0% | 9,266 | 40.5% |
| B. Interest Payments | 10,83: | 11,691 | 11,69: | 0.0% | 14,57 | 24.6% |
| Debt Servicing (A+B) | 38,30: | 18,28: | 18,291 | 0.0% | 23,84 | 30.3% |

Sources: Telangana Annual Financial Statement 2019-20; PRS.

Sector-wise expenditure in 2019-20

The sectors listed below account for **60%** of the total budgeted expenditure of Telangana in 2019-20. A comparison of Telangana's expenditure on key sectors with that by other states can be found in the Annexure.

Table 3: Sector-wise expenditure for Telangana Budget 2019-20 (Rs crore)

| Sector | 2017-18 Actuals | 2018-19 Budgeted | 2018-19 Revised | 2019-20 Budgeted | % change from RE 2018-19 to BE 2019-20 | Budget provisions 2019-20 |
|---|--------------------|---------------------|--------------------|---------------------|---|--|
| Agriculture and allied activities | 7,074 | 17,252 | 16,650 | 21,680 | 30% | <p>₹ Rs 9,056 crore has been allocated towards an investment support scheme for farmers.</p> <p>₹ An amount of Rs 4,528 crore has been sanctioned towards debt relief to farmers.</p> |
| Social welfare and Nutrition | 8,904 | 11,886 | 11,130 | 14,651 | 32% | ₹ Rs 678 crore has been allocated towards nutrition programmes. |
| Education | 12,494 | 13,074 | 12,669 | 9,618 | -24% | ₹ Rs 3,092 crore and Rs 2,840 crore have been allocated as assistance to local bodies for primary and secondary schools respectively. |
| Welfare of SC/ST/OBC and Minorities | 8,270 | 16,608 | 15,282 | 9,277 | -39% | ₹ Rs 927 crore has been allocated towards debt relief to farmers. |
| Energy | 7,112 | 5,052 | 5,042 | 8,110 | 61% | ₹ Rs 5,984 crore has been allocated as assistance to the Trans Corporation of Telangana Limited for agricultural subsidies. |
| Irrigation and Flood Control | 12,994 | 22,666 | 17,666 | 6,286 | -64% | ₹ Rs 1,290 crore has been sanctioned as loans for major irrigation projects. |
| Health and Family Welfare | 5,031 | 7,514 | 6,836 | 5,148 | -25% | ₹ Rs 720 crore has been allocated towards loans to Aarogyasri Health Care Trust. |
| Police | 5,333 | 5,471 | 5,128 | 4,621 | -10% | ₹ Rs 1,801 crore and Rs 323 crore have been allocated towards district police and special police units respectively. |
| Rural Development | 4,649 | 7,357 | 6,520 | 4,465 | -32% | <p>₹ Rs 1,229 crore has been sanctioned as part of the Finance Commission grants.</p> <p>₹ Rs 819 crore has been sanctioned as part of State Finance Commission grants to panchayats.</p> |
| Water Supply, Sanitation, Housing and Urban Development | 4,850 | 11,942 | 11,512 | 3,528 | -69% | <p>₹ Rs 522 crore has been allocated as assistance to municipalities under the State Finance Commission.</p> <p>₹ Rs 622 crore has been allocated towards repayment of loan to financial institutions for rural housing.</p> |
| % of total expenditure | 5% | 6% | 6% | 60% | | |

Sources: Telangana Budget Speech, Annual Financial Statement and Demand for Grants, 2019-20; PRS.

Receipts in 2019-20

- § The **total revenue receipts** for 2019-20 are estimated to be Rs 1,13,100 crore, a decrease of 5% over the revised estimate of 2018-19. Of this, Rs 85,204 crore (75% of the revenue receipts) will be raised by the state through its **own resources**. Rs 27,896 crore (25% of the revenue receipts) will be **devolved from the centre** in the form of grants and the state's share in central taxes.
- § **Non-tax revenue:** Telangana is estimated to generate Rs 15,875 crore (14% of the revenue receipts) through non-tax sources in 2019-20. Non-tax sources include interest receipts, dividends, and royalties, among others. This is an increase of 150% over the revised estimate of 2018-19.

Table 4: Break up of state government receipts in 2019-20 (in Rs crore)

| Item | 2017-18 Actuals | 2018-19 Budgeted | 2018-19 Revised | % change from BE 2018-19 to RE 2018-19 | 2019-20 Budgeted | % change from RE 2018-19 to BE 2019-20 |
|---------------------------|-----------------|------------------|-----------------|--|------------------|--|
| State's Own Tax | 56,520 | 73,752 | 66,750 | -9.5% | 69,329 | 3.9% |
| State's Own Non-Tax | 7,825 | 8,974 | 6,347 | -29.3% | 15,875 | 150.1% |
| Share in Central Taxes | 16,420 | 19,207 | 17,960 | -6.5% | 19,719 | 9.8% |
| Grants-in-aid from Centre | 8,059 | 29,041 | 28,041 | -3.4% | 8,178 | -70.8% |
| Total Revenue Receipts | 88,824 | 1,30,974 | 1,19,097 | -9.1% | 1,13,100 | -5.0% |
| Borrowings | 49,150 | 33,200 | 33,200 | 0.0% | 32,900 | -0.9% |
| Other receipts | 138 | 7,807 | 6,807 | -12.8% | 45 | -99.3% |
| Total Capital Receipts | 49,297 | 41,007 | 40,007 | -2.4% | 32,945 | -17.7% |
| Total Receipts | 1,38,111 | 1,71,982 | 1,59,104 | -7.5% | 1,46,045 | -8.2% |

Sources: Telangana Annual Financial Statement 2019-20; Telangana Detailed Revenue Estimates 2019-20; PRS.

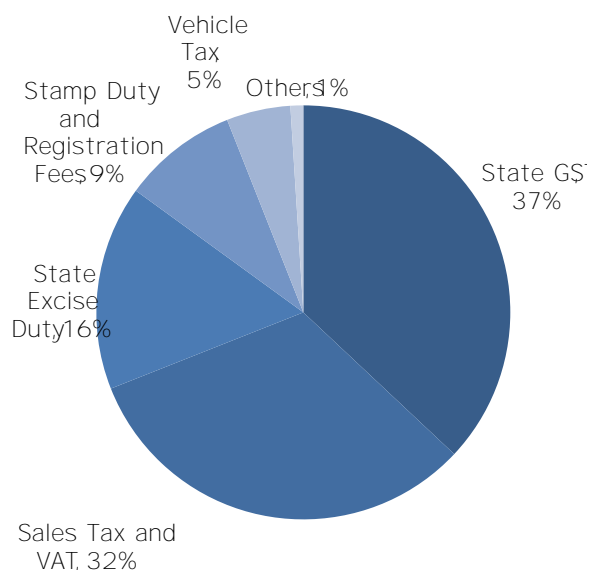
- § **Tax revenue:** The state's own tax revenue is estimated to be Rs 69,329 crore in 2019-20 (61% of the revenue receipts). This is an increase of 3.9% over the revised estimates of 2018-19.
- § The own tax to GSDP ratio is targeted at 7.3% in 2019-20, which is lower than the revised estimate of 7.7% in 2018-19. This implies that the growth in collection of taxes has been lower than the growth of the economy.

GST Revenue

HY \ Ub [U b U D g ' h c h U ' ' ; G H ' f Y estimated to be Rs 31,187 crore in 2019-20 (28% of the revenue receipts). In 2018-19, GST revenue is estimated to contribute 23% of the revenue receipts.

As per the revised estimates of 2018-19, the state is expected to receive Rs 500 crore as compensation grants for loss of revenue due to GST. This is one-third of budgeted estimate for the year (Rs 1,500 crore). No GST compensation grant is estimated for 2019-20.

Figure 2: " E q o r q u k v k q p " q h " v j g 2019-20 (budgeted estimates)



Sources: Telangana Detailed Revenue Estimates 2019-20; PRS.

- § State Goods and Services Tax (SGST) is the largest component of the state's own tax revenue. It is expected to generate Rs 25,817 crore in 2019-20, an increase of 16% over the revised estimate of previous financial year.
- § In 2019-20, the state is expected to generate Rs 21,972 crore through sales tax (on items such as petroleum products) and VAT. This is a decrease of 0.7% over the revised estimate of 2018-19.
- § Further, in 2019-20 the state is expected to generate Rs 10,901 crore through the levy of state excise duty. This is an increase of 5.7% over the revised estimates of 2018-19.
- § In addition, in 2019-20, the state is expected to generate Rs 6,146 crore from stamp duty and registration fees, and Rs 3,714 crore from taxes on vehicles.

Deficits, Debts and FRBM Targets for 2019-20

The Fiscal Responsibility and Budget Management Act, 2006 provides annual targets to progressively reduce the outstanding liabilities, revenue deficit, and fiscal deficit of the state government.

Revenue deficit: It is the excess of revenue expenditure over revenue receipts. A revenue deficit implies that the government needs to borrow in order to finance its expenses which do not create capital assets. The budget estimates a revenue surplus of Rs 2,044 crore (or 0.2% of GSDP) in 2019-20. This implies that revenue receipts are expected to be higher than the revenue expenditure, resulting in a surplus. The estimate indicates that the state is within the target of eliminating revenue deficit, prescribed by the 14th Finance Commission

Fiscal deficit: It is the excess of total expenditure over total receipts. This gap is filled by borrowings by the state government, and leads to an increase in total liabilities. In 2019-20, fiscal deficit is estimated to be Rs 24,082 crore, which is 2.53% of the GSDP. The estimate is under the 3% limit prescribed by the 14th Finance Commission. Fiscal deficit in 2018-19 at 3.3% of GSDP was higher than this 3% limit.

Outstanding liabilities: It is the accumulation of borrowings undertaken by the state government over the years. In 2019-20, the outstanding liabilities of Telangana are expected to be at 21.39% of the GSDP. This is above the 20% limit suggested by the FRBM Review Committee in 2017 for the cumulative debt of states.

Debt Servicing

In 2019-20, Telangana is expected to spend Rs 23,841 crore servicing its debt, with 18% of its estimated expenditure. This expenditure includes Rs 2,600 crore towards repayment of loans, and Rs 15,750 crore towards interest payments. In 2019-20, the expenditure on repayment of loans is expected to increase by 4% over the revised estimate of 2018

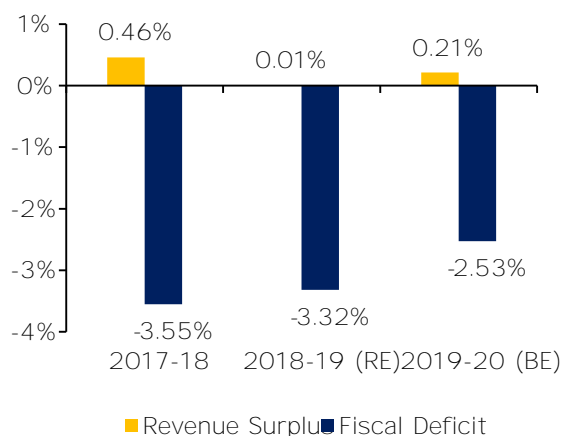
Table 5: Budgeted targets for deficits for Telangana in 2019-20 (as % of GSDP)

| Year | Revenue | | Fiscal | | Outstanding Liabilities |
|--------------|------------|------------|------------|------------|-------------------------|
| | Deficit(-) | Surplus(+) | Deficit(-) | Surplus(+) | |
| 2017-18 | | 0.46% | -3.55% | | 20.23% |
| 2018-19 (RE) | | 0.01% | -3.32% | | 20.77% |
| 2019-20 (BE) | | 0.21% | -2.53% | | 21.39% |

Sources: Telangana Budget Documents 2019-20; PRS.

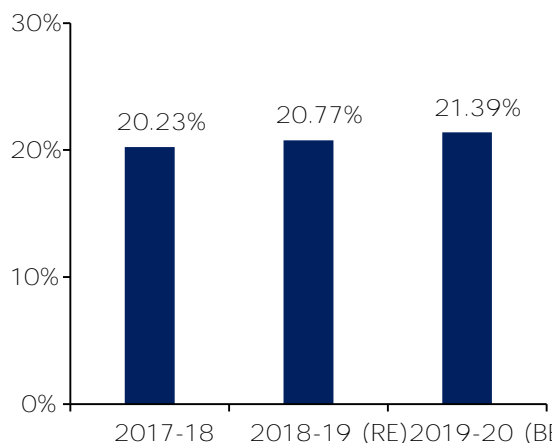
Figures 3 and 4 show the trend in deficits and outstanding liabilities targets from 2017-18 to 2019-20.

Figure 3: Revenue and Fiscal Deficit (as % of GSDP)



Sources: Telangana Budget Documents 2019-20; PRS.

Figure 4: Outstanding liabilities targets (as % of GSDP)



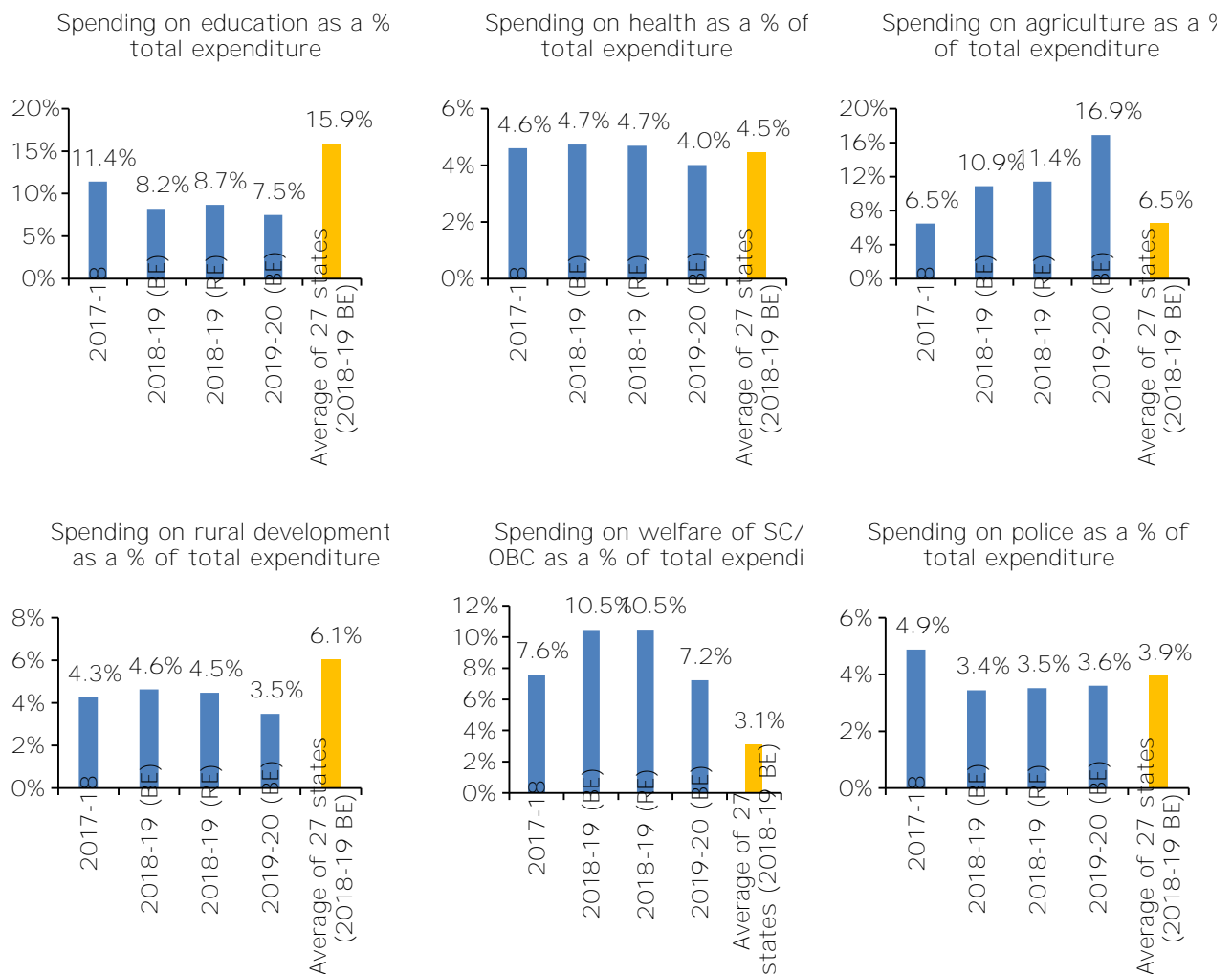
Sources: Telangana Budget Documents 2019-20; PRS.

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Annexure

The graphs below compare Telangana's expenditure on some key sectors, as a proportion of its total expenditure, with the average expenditure by other states (using budgeted estimates (BE) of 2018-19).[†]

- § **Education:** Telangana has allocated 7.5% of its expenditure on education in 2019-20. This is significantly lower than the average expenditure allocated to education (15.9%) by other states in 2018-19.
- § **Health:** Telangana has allocated 4% of its expenditure towards health in 2019-20, which is lower than the average allocation (4.5%) by other states in 2018-19.
- § **Agriculture and allied activities:** The state has allocated 16.9% of its expenditure towards agriculture and allied activities in 2019-20. This is higher than the allocations by other states (6.5%) in 2018-19.
- § **Rural development:** Telangana has allocated 3.5% of its expenditure on rural development in 2019-20. This is lower than the average (6.1%) for other states in 2018-19.
- § **Welfare of SC/ST and OBC:** The state has allocated 7.2% of its budget for expenditure towards the welfare of SC/ST and OBC in 2019-20. This is higher than the allocations by other states (3.1%) in 2018-19.
- § **Police:** In 2019-20, Telangana has allocated 3.6% of its budget for expenditure on police. This is lower than the allocations by other states (3.9%) in 2018-19.



Sources: Telangana Annual Financial Statement 2019-20; Annual Financial Statement 2018-19 of respective states; PRS.

[†] The 26 other states include all states except Arunachal Pradesh, Manipur, and Meghalaya. It also includes the Union Territory of Delhi.