

Telangana Budget Analysis 2016-17

The Finance Minister of Telangana, Mr. Eatala Rajender, presented the Budget for Telangana for financial year 2016-17 on March 14, 2016.

Budget Highlights

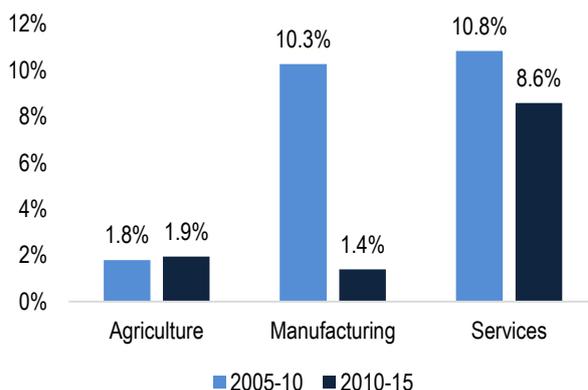
- The **Gross State Domestic Product** of Telangana for 2016-17 is estimated to be Rs 6,70,756 crore. This is 15% higher than the revised estimate for 2015-16.
- **Total expenditure** for 2016-17 is estimated to be Rs 1,30,416 crore, a 30.3% increase over the revised estimate of 2015-16. In 2015-16, there was a decrease of Rs 15,627 crore (13.5%) in the revised estimate over the budget estimate.
- **Total receipts (excluding borrowings)** for 2016-17 are estimated to be Rs 1,04,849 crore, an increase of 31.3% over the revised estimates of 2015-16. In 2015-16, total receipts fell short of the budgeted target by Rs 16,221 crore.
- **Revenue surplus** for the next financial year is targeted at Rs 3,718 crore, or 0.55% of the Gross State Domestic Product (GSDP). **Fiscal deficit** is targeted at Rs 23,467 crore (3.5% of GSDP). **Primary deficit** is targeted at Rs 15,761 crore (2.35% of GSDP)
- Departments of Irrigation, School Education, Social Welfare, Roads and Bridges, Medicine and Public Health saw increases in allocations for the year 2016-17. On the other hand, the Department of Rural Development witnessed a 5.8% decrease in allocation in 2016-17.

Policy Highlights

- **Irrigation:** Rs 24,132 crore to be spent on irrigation in the state, an increase of 169% over 2015-16.
- **Housing:** Two lakh two bed room houses to be built for eligible poor people.
- **Water Supply:** Mission Bhagirath scheme to provide drinking water supply to all houses in the state.
- **Investment:** Proposal to set up three aerospace parks in the state. Mega food park to be setup for which approvals have been received from the Centre. Second phase of Technology-hub to be launched to support technology start-ups.

Background: Telangana Economy

Figure 1: Growth rate of sectors in Telangana



Sources: Central Statistics Office; PRS.

Note: Numbers correspond to the state of Telangana only (excluding Andhra Pradesh).

Services is the largest component of the state's economy, constituting 63% of the economy, followed by manufacturing and agriculture constituting 24% and 13% of the economy respectively. The agriculture sector employed 57% of the state's population, followed by the services (32%) and manufacturing (11%) sectors.¹

Average growth of Telangana's economy at constant prices (adjusting for inflation) witnessed a decline from 9.1% in 2005-10 to 5.7% in 2010-15.

Figure 1 shows the growth rate of individual sectors in the period between 2005-10 and 2010-15.

Over 2005-15, agriculture witnessed a marginal increase in growth rate, whereas growth in the manufacturing and services sectors saw a decline.

- Agriculture growth increased from 1.8% in 2005-10 to 1.9% in 2010-15.
- Growth rate in the manufacturing sector decreased from 10.3% to 1.4%.
- Services sector growth decreased from 10.8% to 8.6%.

Budget Estimates for 2016-17

- The total expenditure in 2016-17 is targeted at Rs 1,30,416 crore. The revised estimate for the total expenditure in 2015-16 was Rs 1,00,062 crore, which is 13.5% (Rs 15,627 crore) less than the budgeted target of 2015-16. This reflects a decrease in revenue received by the government in 2015-16.
- The expenditure in 2016-17 is proposed to be met through receipts (other than borrowings) of Rs 1,04,849 crore and borrowings of Rs 25,580 crore. Total receipts for 2016-17 (other than borrowings) are expected to be 31.3% higher than the revised estimate of 2015-16.

Table 1: Budget 2016-17 - Key figures (in Rs crore)

Items	2014-15 Actuals	2015-16 Budgeted	2015-16 Revised	% change from BE 2015-16 to RE of 2015-16	2016-17 Budgeted	% change from RE 2015-16 to BE 2016-17
Total Expenditure	62,306	1,15,689	1,00,062	-13.5%	1,30,416	30.3%
A. Borrowings	9,580	19,630	20,327	3.6%	25,580	25.8%
B. Receipts (except borrowings)	52,893	96,056	79,835	-16.9%	1,04,849	31.3%
Total Receipts (A+B)	62,473	1,15,686	1,00,162	-13.4%	1,30,429	30.2%
Revenue Deficit (-)/Surplus(+)	369	531	61		3,718	
As % of state GDP	0.07	-	0.01		0.55	
Fiscal Deficit (-)/Surplus(+)	-9,410	-16,969	-16,912		-23,467	
As % of state GDP	1.78	-	2.90		3.50	
Primary Deficit (-)/Surplus(+)	-4,184	-9,414	-9,749		-15,761	
As % of state GDP	0.79	-	1.67		2.35	

Notes: BE is Budget Estimate; RE is Revised Estimate. Total receipts include borrowings and hence, total expenditure includes loan repayments. Borrowings do not include Deposits Transactions. '-' indicates data not available. GSDP numbers of 2015-16 budget estimates unavailable. Sources: Telangana State Budget Documents 2016-17; PRS.

Expenditure in 2016-17

- Government expenditures can be divided into (a) capital expenditure, which affects the assets and liabilities of the state, and (b) revenue expenditure, which includes the rest of the expenses.
- Total capital expenditure is proposed to be Rs 33,209 crore, which is an increase of 59.6% over the revised estimates of 2015-16. This includes expenditure which leads to creation of assets, and repayment of loans, among others.
- Total revenue expenditure for 2016-17 is proposed to be Rs 97,206 crore, which is an increase of 22.7% over revised estimates of 2015-16. This expenditure includes payment of salaries, administration of government programs, etc.

The increase in capital expenditure in 2016-17 is driven by an increased spending on building capital assets related to irrigation, such as dams. The government has proposed to increase the capital expenditure on irrigation by 155%, from Rs 6,201 crore in 2015-16 to Rs 15,970 crore in 2016-17.

Table 2: Expenditure budget 2016-17 (in Rs crore)

Item	2014-15 Actuals	2015-16 Budgeted	2015-16 Revised	% change from BE 2015-16 to RE 2015-16	2016-17 Budgeted	% change from RE 2015-16 to BE 2016-17
Capital Expenditure	11,633	22,089	20,810	-5.8%	33,209	59.6%
Revenue Expenditure	50,673	93,600	79,252	-15.3%	97,206	22.7%
Total Expenditure	62,306	1,15,689	1,00,062	-13.5%	1,30,416	30.3%
A. Debt Repayment	1,777	3,714	3,765	1.4%	3,149	-16.4%
B. Interest Payments	5,227	7,555	7,163	-5.2%	7,706	7.6%
Debt Servicing (A+B)	7,004	11,269	10,928	-3.0%	10,856	-0.7%

Sources: Telangana State Budget Documents 2016-17; PRS. Note: Capital expenditure includes: i) spending that creates assets, ii) repayments on the loans taken by the government, and iii) loans provided by the government.

Department expenditure in 2016-17

The departments listed below account for **51%** of the total budgeted expenditure of Telangana in 2016-17.

Table 3: Department-wise expenditure for Telangana Budget 2016-17 (in Rs crore)

Department	2015-16 Revised	2016-17 Budgeted	% change from RE 2015-16 to BE 2016-17	Budget provisions for 2016-17
Irrigation (Major and Medium)	8,966	24,132	169.1%	<ul style="list-style-type: none"> 66.2% of the allocation to be spent on creating capital assets related to irrigation, such as dams. Rs 7,861 crore is budgeted to be spent on Palamuru Lift Irrigation Project, and Rs 6,286 crore to be spent on Kaleswaram Project.
Social Welfare (Departments of SC, ST, BC, Minorities)	10,007	14,617	46.1%	<ul style="list-style-type: none"> Scheduled Caste (SC): Allocation of Rs 7,122 crore, which is an increase of 59.6% over 2015-16. Scheduled Tribe (ST): Allocation of Rs 3,752 crore, which is an increase of 48.7% over 2015-16. Backward Class (BC): Rs 2,538 crore, which is an increase of 32% over 2015-16. Land has been allocated for construction of educational study circles in five backward districts. Minorities: Allocation of Rs 1,204 crore, which is an increase of 9% over 2015-16. Scholarships worth Rs 25 crore will be provided for students studying overseas.
School Education	8,266	8,575	3.7%	<ul style="list-style-type: none"> SC, ST and BC hostels to be converted into residential schools in a phased manner. Maintenance of sanitation in schools to be entrusted to respective gram panchayats.
Agriculture	6,312	6,611	4.7%	<ul style="list-style-type: none"> Soil Health Cards will be provided to all the farmers in the state to facilitate judicious use of fertilisers and improve soil productivity. Rs 4,250 crore to be spent on relieving debt of farmers.
Rural Development	6,736	6,345	-5.8%	<ul style="list-style-type: none"> Rs 2,352 to be spent on MNREGA. Rs 2,878 crore to be sent on Aasara pensions for old, disabled, HIV patients, widows and beedi workers.
Medical and Health	4,148	5,967	43.8%	<ul style="list-style-type: none"> Rs 600 crore to be spent on replacement and purchase of medical equipment in hospital. In addition, Rs 316 crore to be spent on diagnostic equipment, beds, etc. Four new multi-speciality hospitals to be constructed in Hyderabad.
% of total expenditure	44.4%	50.8%		
Other Departments	55,627	64,169		

Note: All amounts are net numbers. Source: Telangana Budget Speech 2016-17; Head-Wise Breakup of Grants, Telangana State Budget 2016-17; PRS.

Other announcements:

- Two Bed Room Housing Scheme:** The government has proposed to build two lakh two bed room houses for the eligible poor, in the state. One lakh of them will be built within Greater Hyderabad Municipal Corporation and the rest will be built in rural areas. The entire cost of the project will be met through the borrowings of Telangana Housing Corporation Limited from financial institutions, for which government provides guarantee.
- Mission Bhagirath:** The scheme aims to provide piped drinking water supply to all houses in the state. 100 litres per capita per day (LPCD) of water will be supplied in rural areas, 135 LPCD in municipalities and 150 LPCD in municipal corporations. Financing of the project will be met through borrowings of the Telangana Drinking Water Supply Corporation Limited from financial institutions, for which the government will provide a guarantee.
- Police and public safety:** Rs 225 crore to be spent on closed circuit TV (CCTV) surveillance in Hyderabad. Incentives (30% on basic salary) are being provided for the traffic police who are involved in traffic regulation. A proposal to build a modern integrated command centre in Hyderabad has been made.

Receipts in 2016-17

- The total revenue receipts for 2016-17 are estimated to be Rs 1,00,925 crore, an increase of 27.2% over the revised estimates of 2015-16. The tax to GSDP ratio is targeted at 8.2% in 2016-17, which is an increase from the revised estimates of 7.5% in 2015-16. This implies that growth in collection of taxes has been higher than the growth in the economy.
- State's own tax revenue is expected to increase by 26% (Rs 11,335 crore) in 2016-17 over the revised estimates of 2015-16. Tax revenue in 2015-16 (revised estimates) is estimated to be Rs 43,535 crore, which is lower than the budgeted estimates by Rs 2,960 crore (6.4%).
- Non-tax revenue is estimated to increase by 63.6% (Rs 6,820 crore). This is driven by receipts from the sale of land and property, which is estimated to be Rs 10,900 crore in 2016-17, an increase from Rs 2,700 crore in 2015-16.
- Grants from the centre are set to increase by 16.8%, from Rs 12,460 crore in 2015-16 (RE), to Rs 14,557 crore in 2016-17. The other component of transfers from the centre is the state's share in central taxes, which is estimated to increase by 10.8%, to Rs 13,955 crore in 2016-17.

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

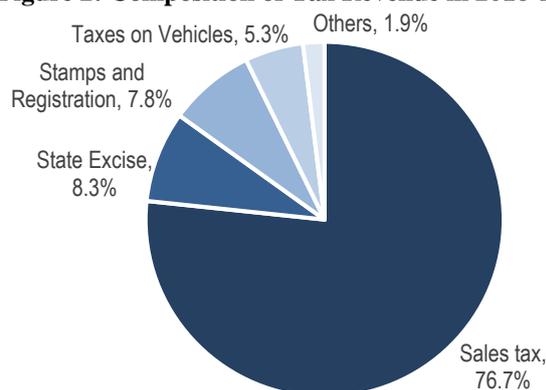
Item	2014-2015 Actuals	2015-2016 Budgeted	2015-2016 Revised	% change from BE 2015-16 to RE 2015-16	2016-2017 Budgeted	% change from RE 2015-16 to BE 2016-17
State's Own Tax	29,288	46,495	43,535	-6.4%	54,870	26.0%
State's Own Non Tax	6,447	22,413	10,722	-52.2%	17,542	63.6%
State's share in Central Taxes	8,189	12,823	12,596	-1.8%	13,955	10.8%
Grants-in-aid from Centre	7,118	12,400	12,460	0.5%	14,557	16.8%
Total Revenue Receipts	51,042	94,132	79,313	-15.7%	1,00,925	27.2%
Recovery of Loans and Advances and others	1,851	1,925	522	-72.9%	3,925	651.5%
Borrowings	9,580	19,630	20,327	3.6%	25,580	25.8%
Total Capital Receipts	11,431	21,555	20,850	-3.3%	29,505	41.5%
Total Receipts	62,473	1,15,686	1,00,162	-13.4%	1,30,429	30.2%

Note: Others includes Deposits Transactions

Sources: Telangana State Budget Documents 2016-17; PRS.

- Total tax revenue of Telangana is estimated to be Rs 54,870 crore in 2016-17. The composition of the state's tax revenue is shown in Figure 2.

Figure 2: Composition of Tax Revenue in 2016-17 (BE)



- **Tax Revenue:** Sales tax is the largest component of the tax revenue of the state. Sales tax, levied on the sale of goods in the state is expected to generate Rs 42,073 crore in 2016-17. This is an increase of 29% from 2015-16.
- Further, the government is expected to generate Rs 4,543 crore through state excise duty on the production of various forms of alcohol. This is an increase of 7% over the estimates of 2015-16.
- In addition, revenue will be generated through levy of stamp duties and registration charges on real estate transactions, taxes on vehicles, etc.
- **Non Tax Revenue:** Telangana has estimated to generate Rs 17,542 crore through non-tax sources in 2016-17. The government is estimated to generate Rs 10,900 crore through the sale of land and properties.
- Further, the government has estimated to generate Rs 2,688 crore through mining in 2016-17. This is a decrease of 9.5% over 2015-16.
- In addition, the government is estimated to receive Rs 1,701 crore through interest receipts on the loans provided.
- Others sources of non-tax revenue include health, education, etc.

In 2015-16, the government proposed to generate Rs 13,500 crore through sale of land and properties. This was later revised to Rs 2,700 crore.

Deficits, Debts and FRBM Targets for 2016-17

The Fiscal Responsibility and Budget Management (FRBM) Act, 2005 of the state 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. However, the budget estimates a revenue surplus of Rs 3,718 crore (or 0.55% of state GDP) in 2016-17. 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 state's FRBM Act and 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 government, and leads to an increase in total liabilities of the government. In 2016-17, fiscal deficit is estimated to be Rs 23,467 crore, which is 3.50% of the state GDP. The estimate exceeds the 3% limit prescribed by the state's FRBM Act and by the 14th Finance Commission.

Outstanding Liabilities: It is the accumulation of borrowings over the years. In 2016-17, the outstanding liabilities are expected at 18.46% of state GDP.

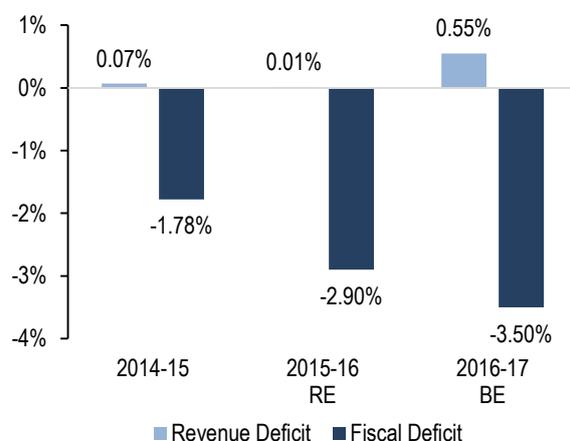
Table 5: Budget targets for deficits for the state of Telangana in 2016-17 (% of GSDP)

Year	Revenue Deficit (-)/Surplus (+)	Fiscal Deficit (-)/Surplus (+)	Outstanding Liabilities
2014-15	0.07	-1.78	16.06
RE 2015-16	0.01	-2.90	17.27
BE 2016-17	0.55	-3.50	18.46

Source: Budget at a Glance, Telangana State Budget Documents 2016-17 Budget Documents; PRS.

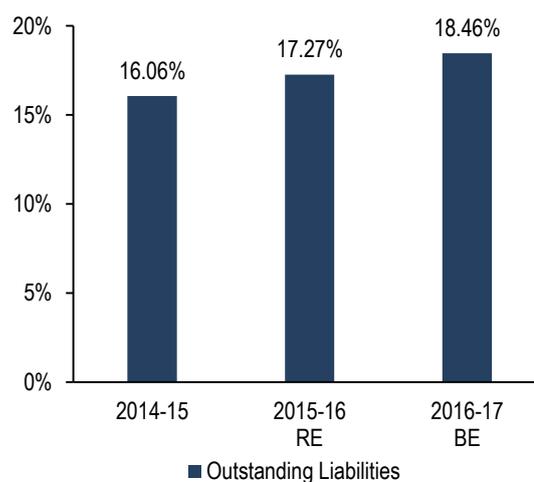
Figures 3 and 4 show the trend in deficits and outstanding liabilities from 2013-14 to 2016-17:

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



Sources: Telangana State Budget Documents; PRS.

Figure 4: Outstanding liabilities (as % of state GDP)



Sources: Telangana State Budget Documents; PRS.

¹ Fourth Annual Employment-Unemployment Survey, Labour Bureau, Government of India.

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