

Telangana Budget Analysis 2018-19

The Finance Minister of Telangana, Mr. Eatala Rajender, presented the Budget for financial year 2018-19 on March 15, 2018.

Budget Highlights

- The **Gross State Domestic Product (GSDP)** of Telangana for 2018-19 (at current prices) is approximately Rs 8,42,631 crore.* This is 15% higher than the revised estimate for 2017-18.
- **Total expenditure** for 2018-19 is estimated to be Rs 1,74,454 crore, a 22.4% increase over the revised estimates of 2017-18. In 2017-18, there was a decrease of Rs 7,140 crore (4.8%) in expenditure over the budget estimates.
- **Total receipts (excluding borrowings)** for 2018-19 are estimated to be Rs 1,41,282 crore, an increase of 22.8% as compared to the revised estimates of 2017-18. In 2017-18, total receipts (excluding borrowings) fell short of the budgeted estimate by Rs 4,935 crore.
- **Revenue surplus** for the next financial year is targeted at Rs 5,520 crore, or 0.7% of the Gross State Domestic Product (GSDP). **Fiscal deficit** is targeted at Rs 29,077 crore (3.5% of GSDP).
- The departments of agriculture and cooperation, tribal welfare, and municipal administration are estimated to witness the highest growth in allocations over the previous year.

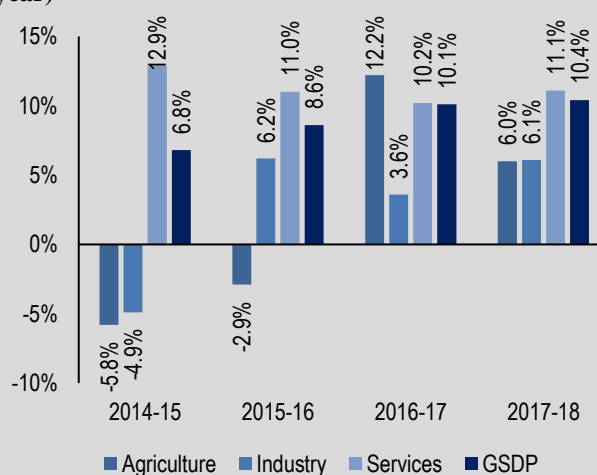
Policy Highlights

- **The Panchayat Raj Bill** will be introduced for comprehensive development of villages and to strengthen the Panchayat system.
- **Investment support** of Rs 4,000 per acre per crop for two crops will be provided to every farmer. Rs 12,000 crore is allocated for this purpose.
- **Rhythu Bhima Pathakam**, a farmer group insurance will be launched to provide life insurance cover of Rs five lakh. Rs 500 crore is allocated for this purpose.
- **New medical colleges will be established** at Mahaboobnagar, Siddipet, Nizamabad, Suryapet, and Nalgonda.
- **An eco-pharma city** to be established in Muchharla in Ranga Reddy District in an area of 19,331 acres.

Telangana Economy

- **Economy:** The growth in GSDP of Telangana has been increasing from 6.8% in 2013-14 to 10.4% in 2017-18.
- The services sector, with a share of 65%, in the GSDP grew by 11.1% in 2017-18 over the previous year.
- Agriculture, which contributes to 18% of the GSDP, grew by 6% in 2017-18. Industries, with a share of 16%, grew by 6.1% in 2017-18.
- **Per capita income:** The per capita income of Telangana in 2017-18 (at current prices) is Rs 1,75,534. This is more than the average national per capita income of Rs 1,12,764 in 2017-18.

Figure 1: Sector-wise growth in Telangana (year-on-year)



Source: Telangana Socio Economic Survey 2017-18; PRS.

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

Budget Estimates for 2018-19

- The total expenditure in 2018-19 is targeted at Rs 1,74,454 crore. This is 22.4% higher than the revised estimates of 2017-18. This expenditure is proposed to be met through receipts (other than borrowings) of Rs 1,41,282 crore, and borrowings of Rs 33,200 crore. Total receipts for 2018-19 (other than borrowings) are expected to be 22.8% higher than the revised estimates of 2017-18.

Table 1: Budget 2018-19 - Key figures (Rs crore)

Items	2016-17 Actuals	2017-18 Budgeted	2017-18 Revised	% change from BE 2017-18 to RE of 2017-18	2018-19 Budgeted	% change from RE 2017-18 to BE 2018-19
Total Expenditure	1,33,823	1,49,646	1,42,506	-4.8%	1,74,454	22.4%
A. Borrowings	44,819	29,380	27,980	-4.8%	33,200	18.7%
B. Receipts (except borrowings)	88,831	1,19,940	1,15,005	-4.1%	1,41,282	22.8%
Total Receipts (A+B)	1,33,651	1,49,320	1,42,985	7.0%	1,74,482	22.0%
Revenue Surplus	1,386	4,571	1,545		5,520	
As % of GSDP	0.2%	0.6%	0.2%		0.7%	
Fiscal Deficit	-35,281	-26,096	-23,491		-29,077	
As % of GSDP	-5.5%	-3.6%	-3.2%		-3.5%	
Primary Deficit	-26672	-14958	-12353		-17386	
As % of GSDP	-4.2%	-2.0%	-1.7%		-2.1%	

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

Sources: Telangana Budget Documents 2018-19; PRS.

Expenditure in 2018-19

- Capital expenditure** for 2018-19 is proposed to be Rs 48,99 crore, which is an increase of 36.5% over the revised estimates of 2017-18. This includes expenditure which affects the assets and liabilities of the state, and leads to creation of assets (such as bridges and hospitals), and repayment of loans, among others.
- Revenue expenditure** for 2018-19 is proposed to be Rs 1,25,455 crore, which is an increase of 17.7% over revised estimates of 2017-18. This expenditure includes payment of salaries, maintenance, etc.
- In 2018-19, Telangana is expected to spend Rs 18,286 crore on servicing its debt (i.e., Rs 6,594 crore on repaying loans, and Rs 11,691 crore on interest payments). This is 12.9% higher than the revised estimates of 2017-18.

In 2016-17, the actual capital expenditure was 58% more than the budgeted expenditure. In 2016-17, Rs 3,245 crore was budgeted to be spent on debt repayment. However, the state spent Rs 15,569 crore at the actual stage.

Table 2: Expenditure budget 2018-19 (Rs crore)

Item	2016-17 Actuals	2017-18 Budgeted	2017-18 Revised	% change from BE 2017-18 to RE 2017-18	2018-19 Budgeted	% change from RE 2017-18 to BE 2018-19
Capital Expenditure	52,391	41,134	35,903	-12.7%	48,999	36.5%
Revenue Expenditure	81,432	1,08,512	1,06,603	-1.8%	1,25,455	17.7%
Total Expenditure	1,33,823	1,49,646	1,42,506	-4.8%	1,74,454	22.4%
A. Debt Repayment	15,569	4,659	5,059	8.6%	6,594	30.3%
B. Interest Payments	8,609	11,139	11,139	0.0%	11,691	5.0%
Debt Servicing (A+B)	24,178	15,798	16,198	2.5%	18,286	12.9%

Notes: BE is Budget Estimate; RE is Revised Estimate.

Sources: Telangana Budget Documents 2018-19; PRS.

Department expenditure in 2018-19

The departments listed below account for **62%** of the total budget of Telangana in 2018-19. A comparison of Telangana's expenditure on key sectors with 18 other states can be found in the [Annexure](#).

Table 3: Department-wise expenditure for Telangana Budget 2018-19 (Rs crore)

Department	2016-17 Actuals	2017-18 Revised	2018-19 Budgeted	% change from RE 2017-18 to BE 2018-19	Budget Provisions for 2018-19
Irrigation and Command Area Development	15,428	20,007	24,969	25%	<ul style="list-style-type: none"> Rs 1,800 crore allocated for Mission Bhagiratha scheme. Rs 6,104 crore allocated for Kaleswaram project.
Rural Development and Panchayati Raj	13,492	14,338	15,563	9%	<ul style="list-style-type: none"> Rs 667 crore allocated for Pradhan Mantri Gram Sadak Yojana, this is 30% less than the revised estimate in 2017-18. Rs 1,500 crore allocated for National Rural Employment Guarantee Scheme. This is 46% less than the revised estimate in 2017-18.
Education	12,333	12,635	13,278	5%	<ul style="list-style-type: none"> Rs 1,058 crore is allocated for Sarva Shiksha Abhiyan. 8,792 new teachers are recruited under the Public Service Commission, and will join the service in 2018-19.
Agriculture and Cooperation	5,764	5,919	12,845	117%	<ul style="list-style-type: none"> Rs 552 crore allocated for promotion of farm equipment. Rs 127 crore allocated for micro-irrigation. Rs 193 crore allocated for Pradhan Mantri Krishi Sinchayi Yojana. Rs 120 crore allocated for polyhouse and greenhouse cultivation.
Social Welfare	3,172	10,064	12,709	26%	<ul style="list-style-type: none"> Rs 1,468 crore allocated for Economic Support Scheme. This is 13% more than the revised estimate in 2017-18. Rs 400 crore allocated under the Kalyana Lakshmi scheme.
Tribal Welfare	2,009	5,903	8,063	37%	<ul style="list-style-type: none"> Rs 1,089 crore allocated under the Investment Support scheme. Adivsai hamlets and thandas to be recognized as Gram Panchayats.
Health, Medical and Family Welfare	4,869	5,835	7,375	26%	<ul style="list-style-type: none"> Rs 887 crore allocated for National Health Mission. This is 20% less than the revised estimate in 2017-18.
Municipal Administration and Urban Development	3,103	5,367	7,251	35%	<ul style="list-style-type: none"> Rs 125 crore allocated under Swachh Bharat. This is 9% more than the revised estimate in 2017-18.
Backward Classes Welfare	2,832	4,970	5,920	19%	<ul style="list-style-type: none"> Rs 200 crore for investments in Washermen Cooperative Societies Federation. Rs 250 crore for investments in Nayee Brahmin Cooperative Societies Federation.
% of total expenditure	47%	60%	62%		
Total expenditure	133,823	142,506	174,454		

Notes: BE is Budget Estimate; RE is Revised Estimate.

Source: Telangana Budget Speech 2018-19 and Demands for Grants; PRS.

Receipts in 2018-19

- The **total revenue receipts** for 2018-19 are estimated to be Rs 1,30,975 crore, an increase of 21% over the revised estimates of 2017-18. Of this, Rs 82,726 crore will be raised by the state through its **own resources** (63% of the revenue receipts), and Rs 48,249 crore will be **devolved by the centre** in the form of grants and the state's share in taxes (37% of the revenue receipts).
- **Non Tax Revenue:** Telangana has estimated to generate Rs 8,974 crore through non-tax sources in 2018-19. This is an increase of 36% over the revised estimates of 2017-18. This is due to Rs 3,000 crore estimated to be raised through sale of land and property.

In 2015-16 and 2016-17, the state received significantly less non-tax revenue as compared to the budgeted estimate.

For example, in 2016-17, the state estimated to raise Rs 17,542 crore as non-tax revenue. However, it fell short by 44.2% to Rs 9,782 crore. Similarly, in 2015-16, there was a short fall of 35.7% at the actual stage as compared to the budget estimate.

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

Item	2016-2017 Actuals	2017-2018 Budgeted	2017-18 Revised	% change from BE 2017-18 to RE 2017-18	2018-2019 Budgeted	% change from RE 2017-18 to BE 2018-19
State's Own Tax	48,408	62,619	61,369	-2%	73,752	20%
State's Own Non-Tax	9,782	6,601	6,600	0%	8,974	36%
Share in Central Taxes	14,877	17,005	16,420	-3%	19,207	17%
Grants-in-aid from Centre	9,752	26,858	23,760	-12%	29,042	22%
Total Revenue Receipts	82,818	1,13,083	1,08,148	-4%	1,30,975	21%
Borrowings	44,819	29,380	27,980	-5%	33,200	19%
Other receipts	6,013	6,857	6,857	0%	10,307	50%
Total Capital Receipts	50,833	36,237	34,837	-4%	43,507	25%
Total Receipts	1,33,651	1,49,320	1,42,985	-4%	1,74,482	22%

Notes: BE is Budget Estimate; RE is Revised Estimate.

Sources: Telangana Budget Documents 2018-19; PRS.

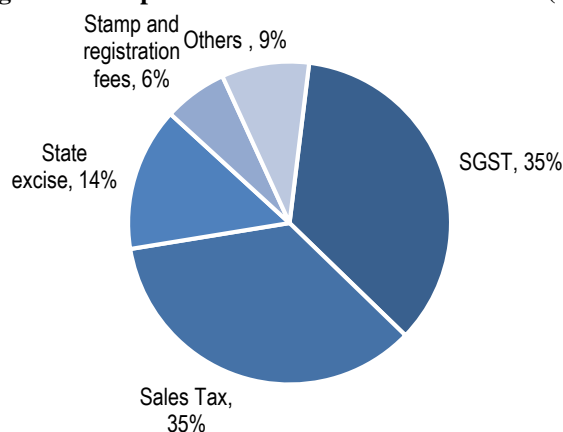
- **Tax Revenue:** The total own tax revenue of Telangana is estimated to be Rs 73,752 crore in 2018-19. The composition of the state's tax revenue is shown in Figure 2.
- The tax to GSDP ratio is targeted at 8.8% in 2018-19, which is higher than the revised estimate of 8.4% in 2017-18. This implies that growth in collection of taxes is expected to be higher than the growth in the state economy.

The central government will compensate state governments for any revenue loss due to the implementation of GST for a period of five years.

In 2018-19, Telangana has estimated to receive Rs 1,500 crore from the central government as compensation.

The state is estimated to receive Rs 1,200 crore in 2017-18 (revised estimates).

Figure 2: Composition of Tax Revenue in 2018-19 (BE)



- The State Goods and Services Tax (SGST) and Sales tax are the largest components contributing to 35% each to Telangana's own tax revenue in 2018-19. The SGST is expected to generate Rs 26,040 crore.
- The state is expected to generate Rs 25,942 crore through sales tax. Further, it is expected to raise Rs 10,600 crore from the state excise duty, which is levied on the manufacture of alcohol.
- Tax revenue will also be generated by levying stamp duty on real estate transactions (Rs 4,700 crore), and taxes on vehicles (Rs 3,950 crore).

Deficits, Debts and FRBM Targets for 2018-19

The Fiscal Responsibility and Budget Management (FRBM) Act, 2006 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.

The budget estimates a revenue surplus of Rs 5,520 crore (or 0.7% of GSDP) in 2018-19. 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 expected to meet the target of eliminating revenue deficit, as 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 government and leads to an increase in total liabilities. In 2018-19, fiscal deficit is estimated to be Rs 29,077 crore, which is 3.45% of the GSDP. The estimate exceeds the 3% limit prescribed by the 14th Finance Commission. The Finance Commission had recommended that this limit may be relaxed to a maximum of 3.5% if states are able to contain their debt and interest payments to certain specified levels.

Outstanding Liabilities: It is the accumulation of borrowings over the years. In 2018-19, the outstanding liabilities are expected at 21.4% of the GSDP.

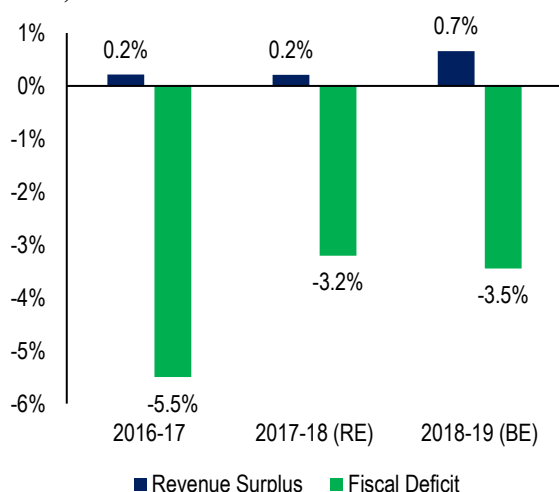
Table 5: Budget targets for deficits for Telangana (% of GSDP)

Year	Revenue Deficit (-)/Surplus (+)	Fiscal Deficit (-)/Surplus (+)	Outstanding Liabilities
2016-17	0.2%	-5.5%	19.5%
2017-18 (RE)	0.2%	-3.2%	20.6%
2018-19 (BE)	0.7%	-3.5%	21.4%
2019-18			25%
2020-21			25%

Note: The Statement of Fiscal Policy did not provide targets for revenue surplus and fiscal deficit.
Sources: Telangana Budget Documents 2018-19; PRS.

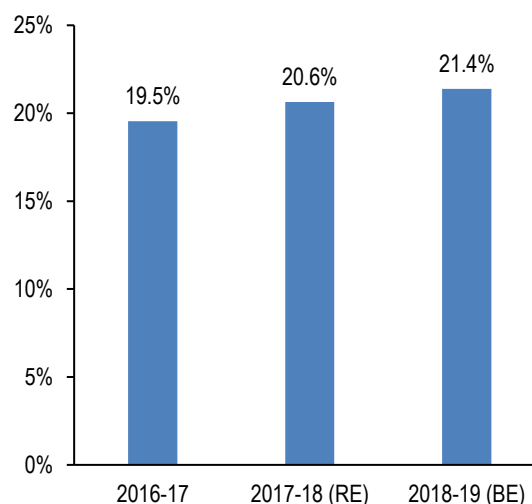
Figures 3 and 4 show the trend in deficits and outstanding liabilities targets from 2016-17 to 2018-19:

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



Sources: Telangana Budget Documents 2018-19; PRS.

Figure 4: Outstanding liabilities (% of GSDP)



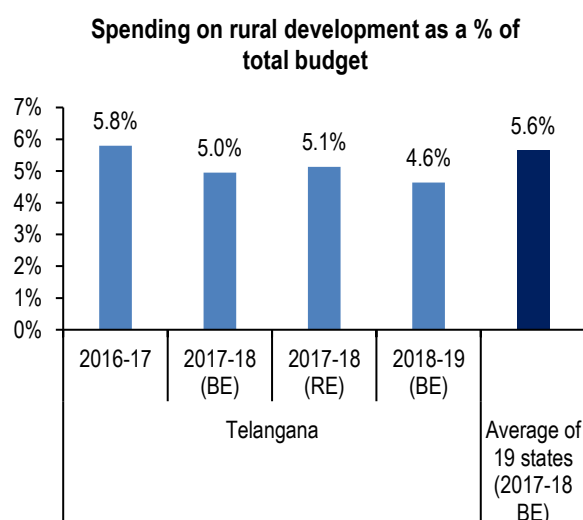
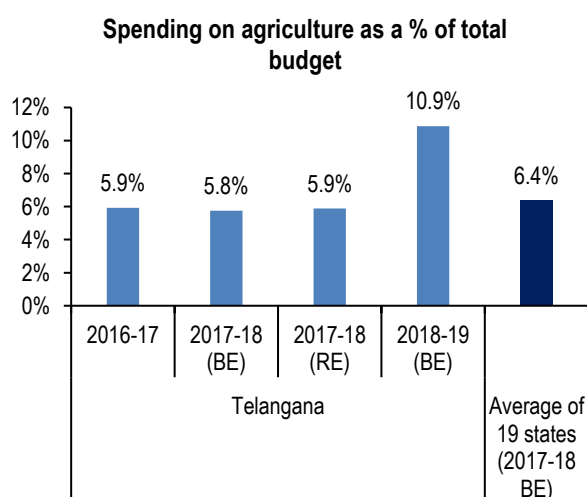
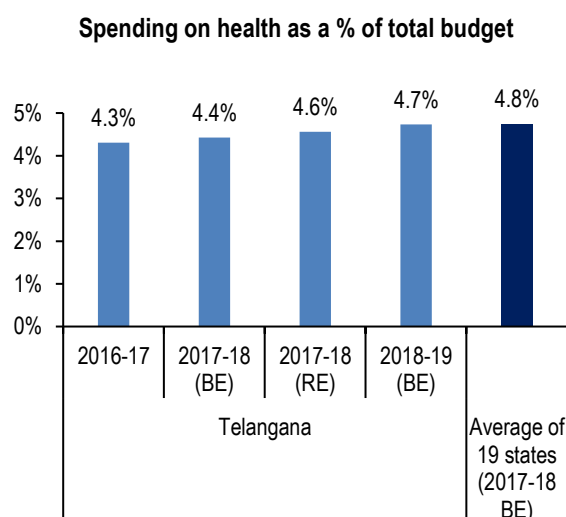
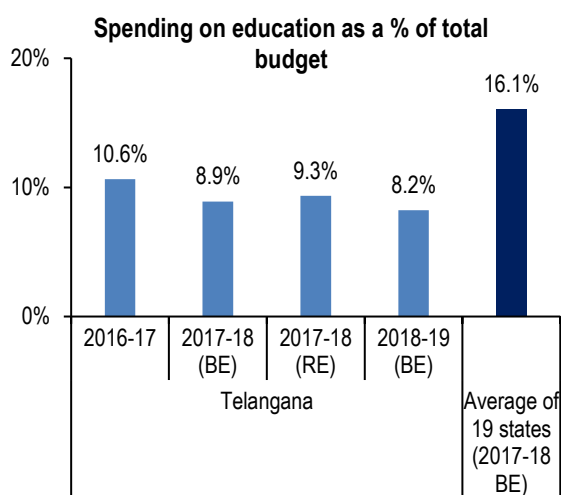
Sources: Telangana Budget Documents 2018-19; PRS.

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Annexure

The graphs below compare Telangana's expenditure on four key sectors as a proportion of its total budget, with 18 other states.²

- **Education:** Telangana has allocated 8.2% of its total budget on education in 2018-19. This is almost half of the average expenditure share allocated to education by 18 other states (using 2017-18 BE). Between 2016-17 and 2018-19, there is a gradual decrease in the spending on education from 10.6% to 8.2%.
- **Health:** Telangana has allocated 4.7% of its total expenditure on health, which is marginally lower than the average expenditure of 18 other states. However, the overall spending on health has been increased from 4.3% in 2016-17 to 4.7% in 2018-19.
- **Agriculture:** The state has allocated 10.9% of its total budget towards agriculture and allied activities. This is higher than the allocations of 18 other states (6.4%). In 2016-17 and 2017-18, spending on agriculture was 5.9% of the total budget.
- **Rural Development:** Telangana has allocated 4.6% of its expenditure on rural development. This is lower than the average (5.6%) of the 18 other states. Further, the share of expenditure on rural development has decreased from 5.8% in 2016-17 to 4.6% in 2018-19.



Note: 2016-17, 2017-18 (BE), 2017-18 (RE), and 2018-19 (BE) figures are for Telangana.
Source: Annual Financial Statement (2017-18 and 2018-19), various state budgets; PRS.

² The 18 states apart from Telangana are: Andhra Pradesh, Assam, Bihar, Chhattisgarh, Delhi, Gujarat, Haryana, Jammu and Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, and West Bengal.