

Telangana Budget Analysis 2020-21

The Finance Minister, Mr. T. Harish Rao, presented the Budget for Telangana for the financial year 2020-21 on March 8, 2020.

Budget Highlights

- The **Gross State Domestic Product** of Telangana for 2020-21 (at current prices) is estimated to be close to Rs 11,05,136 crore¹. This is 14% higher than the revised estimate for 2019-20.
- **Total expenditure** for 2020-21 is estimated to be Rs 1,82,914 crore, a 28.7% increase over the revised estimate of 2019-20. In 2019-20, as per the revised figures, total expenditure is estimated to decrease by 3% (Rs 4,340 crore) from the budget estimates.
- **Total receipts (excluding borrowings)** for 2020-21 are estimated to be Rs 1,43,202 crore, an increase of 29% as compared to the revised estimate of 2019-20. In 2019-20, as per the revised figures, total receipts (excluding borrowings) are estimated to fall short of the budgeted estimate by Rs 2,172 crore (1.9%).
- **Revenue surplus** for 2020-21 is targeted at Rs 4,482 crore, or 0.41% of the Gross State Domestic Product (GSDP). **Fiscal deficit** is targeted at Rs 33,191 crore (3.0% of GSDP).
- In 2020-21, the sectors of Water Supply, Sanitation, Housing and Urban Development (619%), Rural Development (35%), and Energy (25%) saw the highest increase in allocations over the revised estimate of previous year. On the other hand, Irrigation and Flood Control saw a 25% decrease in allocation over the revised estimate of 2019-20.

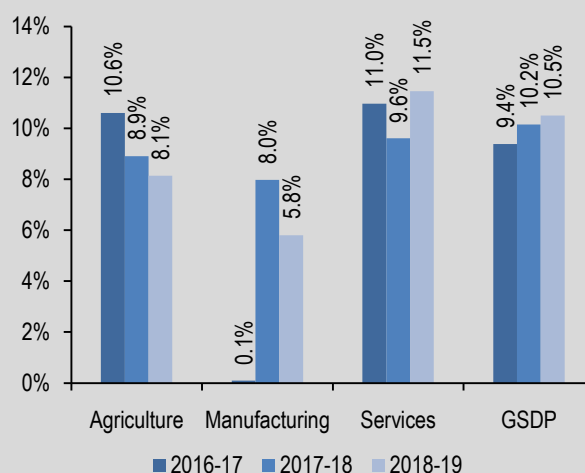
Policy Highlights

- **Agriculture and allied activities:** As per the budget speech, the government will provide a waiver of loans between Rs 25,000 and one lakh rupees for the farmers of Telangana. This will require an amount of Rs 24,738 crore to be spent in four instalments. In 2020-21, an amount of Rs 6,225 crore has been allocated.
- **Development of Hyderabad:** The government has estimated an expenditure of Rs 50,000 crore on the development of Hyderabad over the next five years. In 2020-21, an amount of Rs 10,000 crore has been allocated to carry out the Musi River purification and Musi River Front Project, along with all other special projects and works in the Hyderabad Urban Agglomeration area.

Telangana's Economy

- **GSDP:** The growth rate of Telangana's GSDP (at constant prices) has increased from 9.4% in 2016-17 to 10.5% in 2018-19.
- **Sectors:** In 2018-19, agriculture, manufacturing, and services contributed to 16%, 20%, and 65% of the GSVA, respectively. In the same year, these sectors grew by 8.1%, 5.8%, and 11.5%, respectively.
- **Per capita GSDP:** The per capita GSDP of Telangana in 2018-19 (at constant prices) was Rs 1,61,669, which is 9.4% higher than that in 2017-18.
- **Unemployment:** According to the Periodic Labour Force Survey (2017-18), Telangana has an unemployment rate of 7.6%, which is higher than the all-India unemployment rate of 6.1%.

Figure 1: Growth in GSDP and sectors in Telangana at constant (2011-12) prices



Note: GSVA (or gross state value added) by a sector denotes the contribution of that sector to state's economy. These numbers are as per constant prices, which implies that the growth rate is adjusted for inflation.
Sources: Central Statistics Office, MOSPI; PRS.

¹ Note: GSDP has been calculated based on public debt as % of GSDP given in the budget in brief document.

Budget Estimates for 2020-21

- The total expenditure in 2020-21 is targeted at Rs 1,82,914 crore. This is 28.7% higher than the revised estimates of 2019-20. This expenditure is proposed to be met through receipts (other than borrowings) of Rs 1,43,202 crore and borrowings of Rs 35,500 crore. Total receipts for 2020-21 (other than borrowings) are expected to be 29% higher than the revised estimate of 2019-20. In 2019-20, as per the revised figures, total expenditure is estimated to decrease by Rs 4,340 crore (3.0%) from the budget estimates, whereas, receipts (other than borrowings) are estimated to fall short by Rs 2,171 crore (1.9%) from the budget estimates.

Table 1: Budget 2020-21 - Key figures (in Rs crore)

Items	2018-19 Actuals	2019-20 Budgeted	2019-20 Revised	% change from BE 2019-20 to RE 2019-20	2020-21 Budgeted	% change from RE 2019-20 to BE 2020-21
Total Expenditure	1,57,151	1,46,492	1,42,152	-3.0%	1,82,914	28.7%
A. Receipts (except borrowings)	1,01,486	1,13,145	1,10,973	-1.9%	1,43,202	29.0%
B. Borrowings	50,962	32,900	31,800	-3.3%	35,500	11.6%
Total Receipts (A+B)	1,52,448	1,46,045	1,42,773	-2.2%	1,78,702	25.2%
Revenue Surplus	4,337	2,044	104	-94.9%	4,482	4228.5%
As % of GSDP	0.50%	0.21%	0.01%		0.41%	
Fiscal Deficit	26,944	24,082	21,913	-9.0%	33,191	51.5%
As % of GSDP	3.11%	2.53%	2.26%		3.00%	
Primary Deficit	13,858	9,507	7,528	-20.8%	18,576	146.7%
As % of GSDP	1.60%	1.00%	0.78%		1.68%	

Notes: 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. GSDP for 2020-21 is Rs 11,05,136 crore. GSDP for 2019-20 BE and 2019-20 RE taken to be Rs 9,52,455 crore, and Rs 9,69,418 crore, respectively.

Sources: Telangana Budget Documents 2020-21; PRS.

Expenditure in 2020-21

- Capital expenditure** for 2020-21 is proposed to be Rs 44,245 crore, which is an increase of 41.2% over the revised estimates of 2019-20. 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.
- Telangana's capital outlay for 2020-21 is estimated to be Rs 22,061 crore, which is 67.6% higher than the revised estimate of 2019-20. In 2019-20, as per the revised figures, capital outlay of the state is estimated to decrease by Rs 4,109 crore (23.8%) from the budget estimates.
- The increase in capital outlay in 2020-21 is primarily due to an increase of Rs 10,161 crore (2067%) in the capital outlay towards Water Supply, Sanitation, Housing, and Urban Development, as compared to that in the previous year.
- Revenue expenditure** for 2020-21 is proposed to be Rs 1,38,670 crore, which is an increase of 25.1% over revised estimates of 2019-20. This expenditure includes payment of salaries, interest payments etc.

Table 2: Expenditure budget 2020-21 (in Rs crore)

Items	2018-19 Actuals	2019-20 Budgeted	2019-20 Revised	% change from BE 2019-20 to RE 2019-20	2020-21 Budgeted	% change from RE 2019-20 to BE 2020-21
Capital Expenditure	60,068	35,436	31,328	-11.6%	44,245	41.2%
of which Capital Outlay	22,641	17,275	13,166	-23.8%	22,061	67.6%
Revenue Expenditure	97,083	1,11,056	1,10,825	-0.2%	1,38,670	25.1%
Total Expenditure	1,57,151	1,46,492	1,42,152	-3.0%	1,82,914	28.7%
A. Debt Repayment	28,716	9,266	9,266	0.0%	6,521	-29.6%
B. Interest Payments	12,586	14,575	14,385	-1.3%	14,615	1.6%
Debt Servicing (A+B)	41,302	23,841	23,651	-0.8%	21,137	-10.6%

Note: Capital outlay denotes expenditure which leads to creation of assets.

Sources: Telangana Budget Documents 2020-21; PRS.

Sectoral expenditure in 2020-21

The sectors listed below account for **76%** of the total expenditure by Telangana towards all sectors in 2020-21. A comparison of Telangana's expenditure on key sectors with that by other states can be found in Annexure 1.

Table 3: Sector-wise expenditure for Telangana Budget 2020-21 (in Rs crore)

Sector	2018-19 Actuals	2019-20 Budgeted	2019-20 Revised	2020-21 Budgeted	% change from RE 2019-20 to BE 2020-21	Budget provisions for 2020-21
Water Supply, Sanitation, Housing and Urban Development	7,473	3,528	3,528	25,362	619%	<ul style="list-style-type: none"> Rs 10,000 crore has been allocated as capital outlay towards Hyderabad Urban Agglomeration. Rs 10,000 crore has been allocated towards construction of two bedroom houses.
Agriculture and allied activities	13,612	21,680	21,504	25,305	18%	<ul style="list-style-type: none"> Rs 14,000 crore has been allocated towards the Rythu Bandhu scheme for providing investment support to farmers. An amount of Rs 6,225 crore has been sanctioned for providing loan waivers to farmers.
Social Welfare and Nutrition	10,715	14,613	14,613	17,387	19%	<ul style="list-style-type: none"> Rs 11,758 crore has been allocated towards Aasara Pensions.
Education, Sports, Arts, and Culture	11,782	9,618	9,569	11,897	24%	<ul style="list-style-type: none"> Rs 3,608 crore and 3,250 crore have been allocated as assistance to local bodies for primary schools and secondary schools, respectively.
Welfare of SC, ST, OBC and Minorities	9,439	9,277	9,494	10,756	13%	<ul style="list-style-type: none"> Rs 1,518 crore has been allocated for the welfare of minorities. Rs 1,350 crore has been allocated towards Kalyana Lakshmi.
Energy	7,383	8,110	8,110	10,111	25%	<ul style="list-style-type: none"> Rs 10,000 crore has been allocated as assistance to Transmission Corporation of Telangana Ltd. for agricultural subsidy.
Rural Development	4,853	4,465	4,465	6,038	35%	<ul style="list-style-type: none"> Rs 2,788 crore has been allocated as assistance towards Panchayati Raj institutions.
Health and Family Welfare	5,375	5,148	5,116	5,666	11%	<ul style="list-style-type: none"> Rs 749 crore has been allocated towards the National Health Mission.
Police	5,847	4,621	4,619	5,461	18%	<ul style="list-style-type: none"> Rs 1,732 crore and Rs 453 crore have been allocated towards the district police and special police units, respectively.
Irrigation and Flood Control	9,507	6,286	6,286	4,704	-25%	<ul style="list-style-type: none"> Rs 1,164 crore has been sanctioned as loans for major irrigation projects..
% of total expenditure	72%	68%	70%	76%		

Source: Telangana Budget Documents 2020-21; PRS.

Receipts in 2020-21

- The **total revenue receipts** for 2020-21 is estimated to be Rs 1,43,152 crore, an increase of 29% over the revised estimates of 2019-20. Of this, Rs 1,15,900 crore (81% of the revenue receipts) will be raised by the state through its **own resources**, and Rs 27,252 crore (19% of the revenue receipts) will be in the form of **central transfers**, i.e. state's share in central taxes and grants-in-aid from the central government.
- **Devolution:** In 2020-21, receipts from the state's share in central taxes is estimated to increase by 4.6% over the 2019-20 revised estimate. However, in 2019-20, devolution is estimated to decrease by 18.9% to Rs 15,988 crore as compared to the budgeted estimate. This may be due to a 19% cut in the Union Budget for devolution to states, from Rs 8,09,133 crore at the budgeted stage to Rs 6,56,046 crore at the revised stage. Annexure 2 outlines the major recommendations of the 15th Finance Commission for the year 2020-21, particularly the revised share of Telangana and the other states in central government's tax revenue.

State's non-tax revenue

Telangana is estimated to generate Rs 30,600 crore (21% of the revenue receipts) through non-tax sources in 2020-21. This is an increase of 149% over the revised estimate of 2019-20. The major sources of state's non-tax revenue are: (i) Rs 14,294 crore from sale of land and property, (ii) Rs 5,600 crore through royalties on mining and sale of sand, (iii) Rs 4,445 crore from housing (an increase of Rs 4,441 crore from the previous year), and (iv) Rs 4,000 crore from urban development an increase of Rs 3,904 crore from the previous year.

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

Items	2018-19 Actuals	2019-20 Budgeted	2019-20 Revised	% change from BE 2019-20 to RE 2019-20	2020-21 Budgeted	% change from RE 2019-20 to BE 2020-21
State's Own Tax	64,674	69,329	71,328	2.9%	85,300	19.6%
State's Own Non-Tax	10,007	15,875	12,275	-22.7%	30,600	149.3%
Share in Central Taxes	18,561	19,719	15,988	-18.9%	16,727	4.6%
Grants-in-aid from Centre	8,178	8,178	11,338	38.6%	10,525	-7.2%
Total Revenue Receipts	1,01,420	1,13,100	1,10,928	-1.9%	1,43,152	29.0%
Borrowings	50,962	32,900	31,800	-3.3%	35,500	11.6%
Other receipts	66	45	45	0.0%	50	11.5%
Total Capital Receipts	51,028	32,945	31,845	-3.3%	35,550	11.6%
Total Receipts	1,52,448	1,46,045	1,42,773	-2.2%	1,78,702	25.2%

Sources: Telangana Budget Documents 2020-21; PRS.

- **Own tax revenue:** Total own tax revenue of Telangana is estimated to be Rs 85,300 crore in 2020-21. The own tax to GSDP ratio is targeted at 7.7% in 2020-21, which is higher than the revised estimate of 7.4% in 2019-20. This implies that growth in tax collections is expected to be higher than the growth in the economy.

Table 5: Some of state's own-tax revenue (in Rs crore)

Items	2018-19 Actuals	2019-20 Budgeted	2019-20 Revised	% change from BE 19-20 to RE 19-20	2020-21 Budgeted	% change from RE 19-20 to BE 20-21	% of Revenue Receipts in 20-21
State GST	23,840	25,817	25,817	0.0%	27,600	6.9%	19%
Sales Tax and VAT	20,290	21,972	21,972	0.0%	26,400	20.2%	18%
State Excise Duty	10,638	10,901	12,600	15.6%	16,000	27.0%	11%
Stamps Duty and Registration Fees	5,344	6,146	6,446	4.9%	10,000	55.1%	7%
Taxes on Vehicles	3,762	3,714	3,714	0.0%	4,300	15.8%	3%

Sources: Telangana Budget Documents 2020-21; PRS.

- State Goods and Services Tax (SGST) is the largest component of tax revenue of the state. It comprises 19% of the state's revenue receipts budgeted for the year 2020-21. SGST is expected to generate Rs 27,600 crore in 2020-21, an increase of 6.9% over the revised estimates of 2019-20.
- In 2020-21, Telangana is expected to generate Rs 26,400 crore through the levy of sales tax (on items such as petroleum products) and VAT. This is an increase of 20.2% from the revised estimates of 2019-20.
- Further, in 2020-21 the state is expected to generate Rs 16,000 crore from state excise duty (an increase of 27% from the revised estimates of 2019-20), and Rs 10,000 crore from stamp duty and registration fees (an increase of 55% from the revised estimate of 2019-20).

Deficits, Debts and FRBM Targets for 2020-21

The Telangana Fiscal Responsibility and Budget Management Act, 2005 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 4,482 crore (or 0.41% of GSDP) in 2020-21, which is an increase of Rs 4,379 crore from the revised estimates of 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.

Debt Servicing: In 2020-21, Telangana is expected to spend Rs 21,137 crore on servicing its debt. This is 10.6% lower than the revised estimates of 2019-20. This includes Rs 6,521 crore towards repaying loans, and Rs 14,615 crore towards interest payments.

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 2020-21, fiscal deficit is estimated to be Rs 33,191 crore, which is 3.0% of the GSDP. The estimate is close to the 3% limit as per the FRBM Act. This limit may be relaxed to a maximum of 3.5% of GSDP, if states are able to contain their debt and interest payments to certain specified levels.

Outstanding Liabilities: Outstanding liabilities is the accumulation of borrowings over the years. In 2020-21, the state's outstanding liabilities are expected to be 20.7% of the GSDP.

Table 6: Budget targets for deficits for Telangana in 2020-21 (% of GSDP)

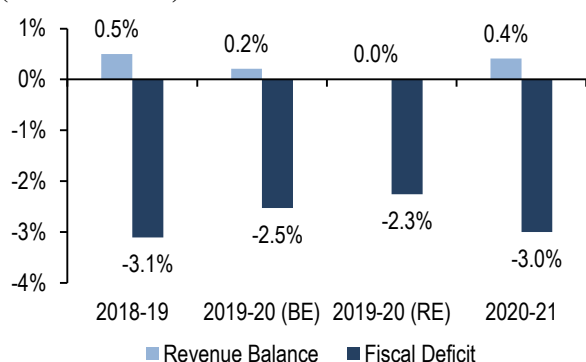
Year	Revenue Deficit (-)/Surplus (+)	Fiscal Deficit (-)/Surplus (+)	Outstanding Liabilities
2017-18	0.5%	-3.6%	20.2%
2018-19	0.5%	-3.1%	20.3%
2019-20 (BE)	0.2%	-2.5%	21.4%
2019-20 (RE)	0.0%	-2.3%	20.6%
2020-21	0.4%	-3.0%	20.7%

Note: BE indicates budget estimate and RE indicates revised estimate.

Sources: Telangana Budget Documents 2020-21; PRS.

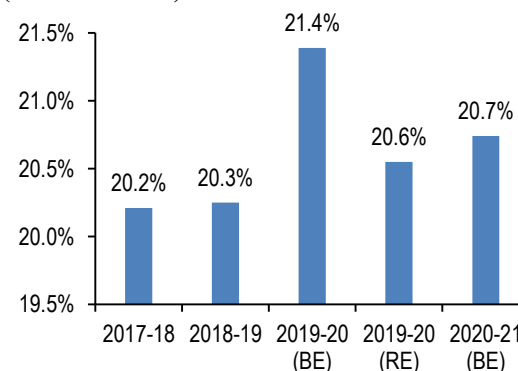
Figures 2 and 3 show the trend in deficits and outstanding liabilities targets from 2017-18 to 2020-21.

Figure 2: Revenue and Fiscal Deficit/Surplus (as % of GSDP)



Note: Numbers for 2018-19, 2019-20 and 2020-21 are actuals, revised estimates, and budget estimates respectively.
Sources: Telangana Budget Documents; PRS.

Figure 3: Outstanding liabilities targets (as % of GSDP)



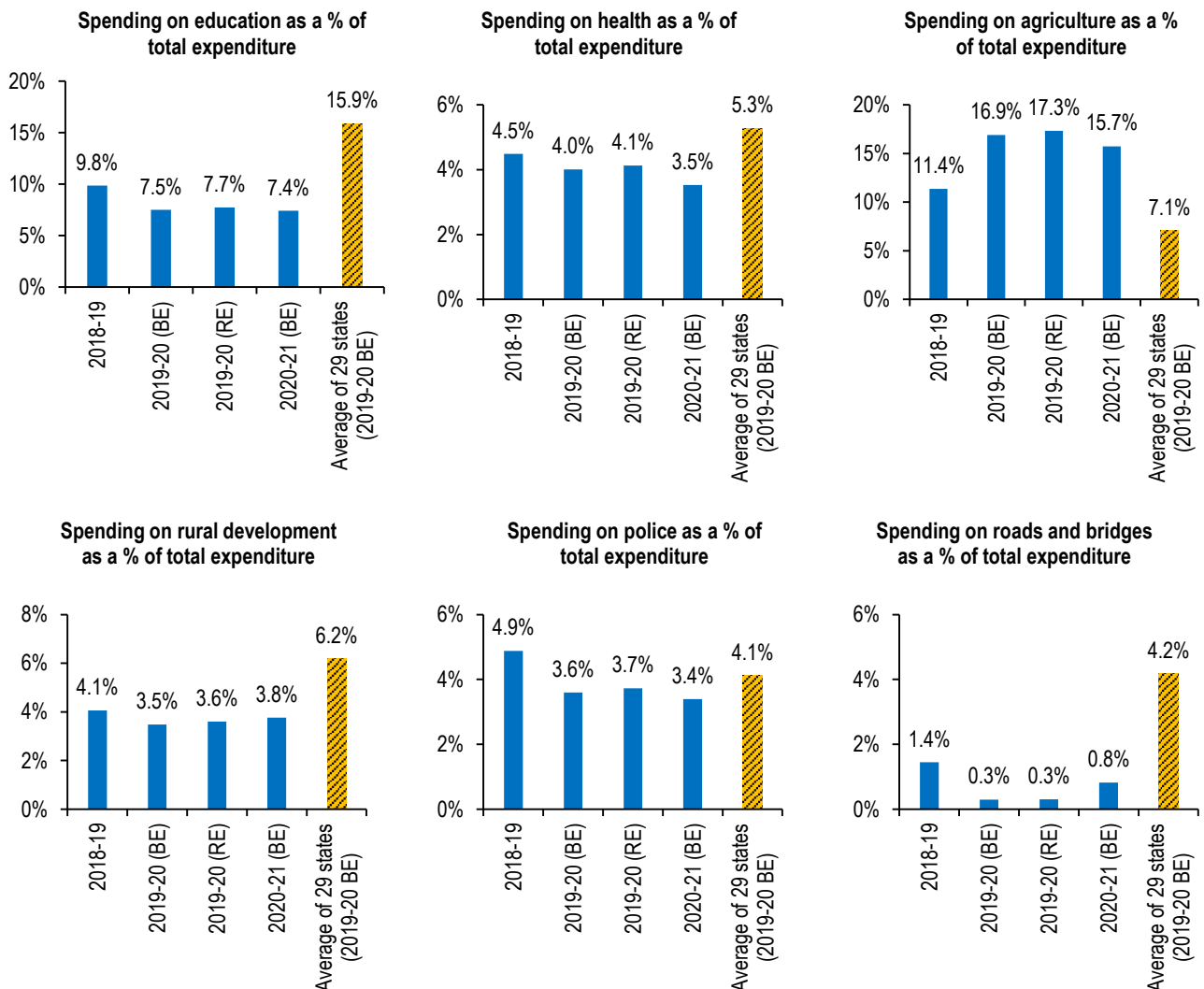
Note: Numbers for 2018-19, 2019-20 and 2020-21 are actuals, revised estimates, and budget estimates respectively.
Sources: Telangana Budget Documents; PRS.

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Annexure 1

The graphs below compare Telangana's expenditure on six key sectors as a proportion of its total budget (revenue expenditure and capital outlay), with the average of 29 states.²

- **Education:** Telangana has allocated 7.4% of its expenditure on education in 2020-21. This is significantly lower than the average budget allocation for education (15.9%) by 29 states (using 2019-20 BE).
- **Health:** Telangana has allocated 3.5% of its total expenditure on health, which is lower than the average expenditure of 29 states (5.3%).
- **Agriculture and allied activities:** The state has allocated 15.7% of its total budget towards agriculture and allied activities. This is significantly higher than the allocations of 29 states (7.1%).
- **Rural development:** Telangana has allocated 3.8% of its expenditure on rural development. This is significantly lower than the average (6.2%) of the 29 states.
- **Police:** Telangana has allocated 3.4% of its total expenditure on police, which is lower than the average expenditure of 29 states (4.1%).
- **Roads and bridges:** Telangana has allocated 0.8% of its total expenditure on roads and bridges, which is significantly lower than the average expenditure of 29 states (4.2%).



Note: 2018-19, 2019-20 (BE), 2019-20 (RE), and 2020-21 (BE) figures are for Telangana. The total expenditure calculation includes revenue expenditure and capital outlay.

Source: Annual Financial Statement (2019-20 and 2020-21), various state budgets; PRS.

² The 29 states include all states except Manipur. It includes the Union Territory of Delhi and erstwhile state of Jammu and Kashmir.

Annexure 2: 15th Finance Commission's recommendations for 2020-21

The 15th Finance Commission's (15th FC) report for the financial year 2020-21 was tabled in Parliament on February 1, 2020. The 15th FC recommended a 41% share for states in the central government's tax revenue in 2020-21, a 1% decrease from the 42% share recommended by the 14th FC (2015-20). The 1% decrease is to provide funds to the newly formed union territories of Jammu and Kashmir, and Ladakh from the share of the central government. The 15th FC also proposed revised criteria for determining the share of individual states.

Table 7 shows the share of states in the central government's tax revenue³, as per the recommendations of the 14th FC for 2015-20 and the 15th FC for 2020-21. The 15th FC has recommended a 0.87% share for Telangana in the centre's tax revenue for 2020-21 (a decrease of 15% from the share recommended by the 14th FC for 2015-20). This implies that out of every Rs 100 of centre's tax revenue in 2020-21, Telangana will receive Rs 0.87. Table 7 also shows the estimated devolution to states by the centre for 2019-20 and 2020-21 (in Rs crore).

Table 7: Share of states in centre's tax revenue under the 14th and 15th Finance Commissions (2020-21)

State	Share of states in centre's tax revenue			Devolution to states by the centre		
	14 th FC (2015-20)	15 th FC (2020-21)	% change	2019-20 RE	2020-21 BE	% change
Andhra Pradesh	1.81	1.69	-7%	28,242	32,238	14%
Arunachal Pradesh	0.58	0.72	24%	8,988	13,802	54%
Assam	1.39	1.28	-8%	21,721	24,553	13%
Bihar	4.06	4.13	2%	63,406	78,896	24%
Chhattisgarh	1.29	1.4	9%	20,206	26,803	33%
Goa	0.16	0.16	0%	2,480	3,027	22%
Gujarat	1.3	1.39	7%	20,232	26,646	32%
Haryana	0.46	0.44	-4%	7,112	8,485	19%
Himachal Pradesh	0.3	0.33	10%	4,678	6,266	34%
Jammu and Kashmir	0.78	-	-	12,171	-	-
Jharkhand	1.32	1.36	3%	20,593	25,980	26%
Karnataka	1.98	1.49	-25%	30,919	28,591	-8%
Kerala	1.05	0.8	-24%	16,401	15,237	-7%
Madhya Pradesh	3.17	3.23	2%	49,518	61,841	25%
Maharashtra	2.32	2.52	9%	36,220	48,109	33%
Manipur	0.26	0.29	12%	4,048	5,630	39%
Meghalaya	0.27	0.31	15%	4,212	5,999	42%
Mizoram	0.19	0.21	11%	3,018	3,968	31%
Nagaland	0.21	0.23	10%	3,267	4,493	38%
Odisha	1.95	1.9	-3%	30,453	36,300	19%
Punjab	0.66	0.73	11%	10,346	14,021	36%
Rajasthan	2.31	2.45	6%	36,049	46,886	30%
Sikkim	0.15	0.16	7%	2,408	3,043	26%
Tamil Nadu	1.69	1.72	2%	26,392	32,849	24%
Telangana	1.02	0.87	-15%	15,988	16,727	5%
Tripura	0.27	0.29	7%	4,212	5,560	32%
Uttar Pradesh	7.54	7.35	-3%	1,17,818	1,40,611	19%
Uttarakhand	0.44	0.45	2%	6,902	8,657	25%
West Bengal	3.08	3.08	0%	48,048	58,963	23%
Total	42	41	-2%	6,56,046	7,84,181	20%

Sources: Reports of 14th and 15th Finance Commissions (2020-21); Union Budget Documents 2020-21; PRS.

In addition, the 15th FC has also recommended certain grants-in-aid for various purposes for the year 2020-21. These include Rs 90,000 crore as grants to local bodies, of which Telangana will receive Rs 2,736 crore (Rs 1,847 crore to rural local bodies and Rs 889 crore to urban local bodies).

³ This excludes the cess and surcharge revenue of the central government as it is outside the divisible pool and not shared with states. As per the 2019-20 Union Budget, cess and surcharge revenue account for 15% of the estimated gross tax revenue of the central government.