

# Public Debt, Revenue And Fiscal Deficits In Telangana: 2014-15 To 2023-24

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## **Abstract**

Telangana is one of the major states in India endowed with rich natural resources having large potential for economic growth and development. Economic and political factors in Telangana are responsible for leading the state finances. The state finances of Telangana have been undergoing rapid changes due to formation of Telangana as a new state in 2014 and GST implementation in 2017. In fact, public debt, revenue and fiscal deficits have recorded a continuous increase in recent years. In this context, the present paper attempts to examine the public debt and fiscal performance in Telangana.

**Keywords:** Public Debt, Revenue Deficit, Fiscal Deficit, Telangana, Gross State Domestic Product, Fiscal Responsibility and Budget Management Act.

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## **I. Introduction**

As per the Andhra Pradesh Reorganization Act 2014, the state had been bifurcated into two states called as Residuary State of Andhra Pradesh and Telangana State. The state bifurcation has influenced the revenue mobilization, expenditure and debt policies in Telangana state. Public expenditure and public debt play an important role in public welfare and human development. Telangana Fiscal Policy strategy is to increase revenue expenditure on the one hand and mobilize enough resources on the other hand, so as to enhance investment in productive capital assets and social sectors in order to attain sustainable and equitable economic growth. Therefore, this paper examines the fiscal performance of Telangana with the following objectives.

## **II. Objectives:**

1. To study the size, growth and composition of public debt across sources in Telangana.
2. To examine the debt –GDP ratio and debt sustainability in Telangana.
3. To analyse the revenue and fiscal deficits in Telangana since 2014.
4. To suggest suitable policy measures for strengthening state fiscal performance.

## **III. Methodology**

This paper is based on secondary data only. The main data sources are Economic Survey (various years) and Budget Documents (various years) published by Government of Andhra Pradesh.

## **IV. Review Of Literature**

Public debt is the accumulated stock of government financial liabilities. It is measured by summing the face value of that stock (Rajaraman et al. 2005). In Indian context, public debt refers to all financial liabilities of the government, irrespective of whom they are owed (Lahiri and Kannon, 2004). The low debt-GSDP ratio is desirable as it indicates an economy that produces a large number of goods and services and probably profits that are high enough to pay back debts. There is no universally prudent target value of debt-GSDP ratio (Chelliah, 2002). Sustainability implies maintaining a stable debt-GSDP ratio over a period of time. Theoretical literature states that existence of primary deficit or surplus has a close relation in maintaining a stable debt-GSDP ratio (Rath, 2005; Rajaraman, 2005). There is a growing awareness among the states in India in recent decades to contain fiscal imbalances which has led to accumulation of debt and deterioration in the fiscal indicators (Rao, 2002; Srivastava, 2009). Earlier, most Indian economists were of the view that the growth of public debt in planned magnitude was normal and desirable in a developing country like India where borrowing represents the absorption by the government of a part of domestic savings and the inflow of capital from abroad to finance and promote capital formation in the public sector and priority areas in the private sector (Chelliah, 1996). But this view was based on the assumption that borrowed funds would be used only for capital purposes and the resultant investment would yield adequate direct and or indirect returns. But these assumptions were not

often fulfilled in case of both central and state governments in India. The fiscal crisis and the resultant exponential growth of public debt in India in later part of 1990s was not merely because of rising revenue expenditure ahead of current revenues, but also because capital expenditure financed by borrowings did not yield adequate returns (Chelliah, 1996). The deterioration in the fiscal indicators and rising public debt of the state governments in India during that period disrupted the normal functioning of the economy (Rao, 2005). Deterioration in the fiscal indicators of the state governments contributed towards macroeconomic instability of the whole nation. Considering that fact, the recent Finance Commissions of Government of India in their terms of reference have given importance on fiscal and debt sustainability (TFC, 2009).

### V. Growth Of Public Debt In Telangana

Public debt is the accumulated stock of government financial liabilities. It is measured by summing the face value of that stock. In Indian context, public debt refers to all financial liabilities of the government, irrespective of whom they are owed. A large accumulation of public debt may create problem for the state government in terms of repayment of the principal and interest payments. It also raises the issue of sustainability of the current stock of debt of the state. Generally, low debt-GSDP ratio is desirable.

The state has been using borrowings to fill the budgetary gaps. The state government’s debt consists of open market loans, loans from central government, loans from other institutions like financial institutions, small saving funds, etc. It is evident from table 1 that the outstanding liabilities of the Telangana state government have increased from 69604 crore in 2014-15 to 333200 crore by 2023-24. The growth of public debt in Telangana can be observed in the ratio to GSDP. The total outstanding debt as a percentage of GSDP increased from 16.16 percent to 23.8 percent in 2023-24. The state government faced the problem of fiscal instability during this period. This is due to the fact that along with the high debt-GSDP ratio, the fiscal indicators of the state were found to deteriorate during that period. But, in spite of high debt-GSDP ratio, the state government was unable to maintain a stable fiscal position during the time period mainly due to the revenue and primary deficit attained by the state during that period. Huge amount of loans for developmental purposes, non-plan loans from the Centre, debt financing of large number of welfare schemes, pay revisions and huge pension commitments, increasing interest payments are the reasons for this. The growing debt burden was evident from the increase in per capita outstanding debt. Consequently, the government experienced severe resource crunch in recent years. The state needs to make course correction to reduce the burden of increasing debt on the state finances to keep it sustainable.

**Table:1 Total Public Debt Outstanding in Telangana (Crores)**

Year	Public Debt	Public Debt as %in GSDP
2014-15	69604	16.16
2015-16	93115	16.18
2016-17	127830	19.54
2017-18	152190	20.21
2018-19	175281	20.25
2019-20	205858	21.32
2020-21	244019	25.00
2021-22	283452	24.70
2022-23	322993	24.30
2023-24RE	333200	23.80

Source: Government of Telangana, Budget Documents (Various years)

### VI. Public Debt – GSDP Ratio In Telangana

A large accumulation of public debt may create problem for the state government in terms of repayment of the principal and interest payments. It also raises the issue of sustainability of the current stock of debt of the state. Sustainability is the capacity to endure without breaking down. In the context of public debt, sustainability embodies concern about the ability of the government to service its debt. A government which does not generate enough current revenues for debt service must either default on its obligations or borrow more to service its past debt as well as to cover ongoing imbalances. Continual borrowings of this kind are known as ponzi game which is reflected in the time path of debt-GSDP ratio. Usually, sustainability is measured in terms of debt-GSDP ratio. It is very difficult to set a debt-GSDP ratio which is likely to be sustainable. The Twelfth Finance Commission of Government of India recommended 28 percent and 15 percent as acceptable level of the debt-GSDP ratio and the ratio of interest payments to total revenue receipts respectively. The NK Singh Committee on FRBM had envisaged a debt-to-GDP ratio of 40 per cent for the central government and 20 per cent for states aiming for a total of 60 percent general government debt-to GSDP ratio.

The debt-GSDP ratio of the state was found to increase from 16.16 percent in 2014-15 to 23.80 percent in 2023-24(Table 1). It can be said that the state government faced the problem of fiscal instability. The Debt-GSDP ratio of Andhra Pradesh is an indication of mounting debt on the state finances of A.P. This is due to the

fact that along with the high debt-GSDP ratio, the fiscal indicators of the state were found to deteriorate during this period. If a particular government fails to meet the repayment obligations of the public debt, it will lose its credibility in the debt market.

### VII. Public Debt By Sources In Telangana

The state government public debt consists of open market loans, loans from central government, loans from other institutions like financial institutions, small saving funds, provident funds, deposits and reserves, etc. The government also borrowed more funds from the Central Government to meet the fiscal needs and the state is treading a rough path until and unless the Central Government will provide a helping hand to the disadvantaged state. On the other side the total debt of Telangana is also increasing owing to debt servicing, interest payments, committed expenditure on development and welfare programmes as promised to the people. It is clearly drawn from the table that the state is under huge pressure to borrow funds from various sources to fulfill their needs and meet their commitments. Significant amount of funds is also borrowed from small savings and Provident fund. Both the states need to make course correction to reduce the burden of increasing debt on the state finances to keep it sustainable.

The source-wise outstanding public debt of Telangana from 2014-15 to 2023-24 is presented in detail in Table 2. Open market borrowings have increasingly become the major source of funds for public debt. It alone provides two thirds of the borrowings. The proportion of open market loans grew from 67.21 percent in 2014-15 to 87.12 percent by 2023-24. It can be said that the open market loans have increased drastically over the period. The loans from autonomous bodies also rose from 2.75 percent to 4.75 percent during the same period. Contrastingly, the share of loans from central government in the total debt fell from 9.77 percent to 2.01 percent between 2014-15 and 2023-24. Similarly, securities and provident fund have also decreased to 6.12 percent by 2023-24 from 20.26 percent in 2014-15.

As per the 2023-24 revised budget estimates, the total estimated outstanding public debt is Rs. 333200 crores, of which open market loans account for 87.12 percent, loans from central government account for 2.01percent, securities and provident fund have a share of 4.75 percent while the rest is loans from autonomous bodies.

**Table: 2 Source-wise public debt in Telangana since 2014-15 (%)**

Year	Open Market Loans	Loans From Central Govt.	Loans from Autonomous bodies, etc	Securities (Small Savings) & Provident Fund, etc	Total
2014-15	67.21	9.77	2.75	20.26	100 (83846)
2015-16	74.24	8.82	3.62	13.32	100 (93115)
2016-17	70.18	6.58	9.90	13.35	100 (127830)
2017-18	73.29	5.67	8.59	12.45	100 (152190)
2018-19	76.29	4.70	8.19	10.83	100 (175281)
2019-20	79.87	3.89	7.05	9.20	100 (205858)
2020-21	83.27	3.19	5.73	7.81	100 (244019)
2021-22	85.66	2.60	5.01	6.73	100 (283452)
2022-23	87.84	2.18	4.12	5.86	100 (322993)
2023-24RE	87.12	2.01	4.75	6.12	100 (333200)

Source: Telangana Budget Documents, (Various Years)

### VIII. Revenue And Fiscal Deficits In Telangana

Fiscal sustainability is a concept that refers to the ability of a government to sustain its current spending, tax and other policies in the long run without threatening government solvency or defaulting some of its liabilities or promised expenditures. There is no precise or exact definition of fiscal sustainability (Chalk and Hemming, 2000). The trend and composition of the deficit indicators provide vital inputs towards sustainability status of a government. The deterioration of the fiscal indicators may push the state into deep fiscal crisis which ultimately may lead to the overall deterioration of the state's economy. Considering the above fact, sustainability of fiscal position of the state government has been carried out with the help of those deficit indicators. Deficits are customarily categorized as revenue deficit, fiscal deficit and primary deficit.

#### Revenue Deficit in Telangana

Revenue deficit is the excess of revenue expenditure over revenue receipts. A revenue deficit implies that the government needs to borrow to finance its expenses which do not create capital assets. Conversely, a revenue surplus indicates that the revenue sources of states are sufficient to meet their revenue expenditure

requirements in a given year. Both 13<sup>th</sup> and 14<sup>th</sup> Finance Commissions (FC) recommended that a long term and permanent target for states should be to maintain a zero-revenue deficit. The revenue deficit has an adverse impact on the capital formation of the government and as such considered as the most undesirable of all such deficits. Revenue deficit also does not have any asset back up as it is incurred to meet the current expenditure.

It is evident from table 4 that the state has been experiencing fluctuations in revenue deficit during the period between 2014-15 and 2023-24. The Telangana state experienced revenue surplus between 2014-15 and 2018-19. The absolute revenue surplus of Telangana was 369 crores in 2014-15 and it is 0.07 percent in state GSDP. There after revenue surplus in absolute figures increased to 4337 crores by 2018-19 and it is 0.5 percent in state GSDP. Therefore, it can be inferred that the Telangana state incurred a revenue surplus in early years Of post bifurcation of the state. There after state went to revenue deficit during the period from 2019-20 to 2021-22 pushed the state into a fiscal crisis. Major factors responsible for the burgeoning revenue deficit in the state were the relentless increase in expenditure on salaries, subsidies, wages and pension, growing debt servicing obligations and too many new welfare schemes implemented by new government. But after the period , the state was able earn revenue surplus for consecutive years. It was found that fall in the relative growth of revenue expenditure compared to revenue receipts contributed towards improvement in the revenue position of the state. During the period of 2022-23 and 2023-24, telangana state maintained again revenue surplus of 5943 crores and 9031 crores respectively.

### Fiscal Deficit in Telangana

Fiscal deficit 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. It, therefore, represents net incremental liabilities of the government. Fiscal deficit results in creation of fiscal liabilities which makes the issue of debt sustainability critically dependent on fiscal deficit and application of resources so arranged. The rising fiscal deficit may lead to an increase in debt-GSDP ratio. Increasing debt and resultant interest payments reduces the flexibility of the governments in the matter of expenditure and also increases its committed obligations. This is due to the fact that the debt stock is added to by the fiscal deficit incurred in every year.

In 2015, the 14<sup>th</sup> Finance Commission recommended that states maintain their fiscal deficit within 3% of their GSDP. It suggested that the fiscal deficit limit should be relaxed to a maximum of 3.5% if states were able to contain their debt and interest payments to specified levels. The relaxation would be allowed in the following cases: (i) 0.25%, if the debt-GSDP ratio of the state was under 25% in the preceding year, and (ii) 0.25%, if interest payments of the state were less than or equal to 10% of its revenue receipts in the preceding year.

It is evident from table 3 that Telangana state has been experiencing the problem of continuous increase of fiscal deficit. The state fiscal deficit was 9410 crores in 2014-15 and it increased to 46639 crores in 2021-22. It is observed from the table 3 that the state has been incurring fiscal deficits for all the years during the period of study. The fiscal deficit in Telangana increased steeply from 1.78 per cent of state GSDP in 2014-15 to 4.11 per cent in 2021-22. It can be said that the state is found to cross the target of Fiscal Responsibility and Budget Management Act on Fiscal Deficit i.e, FRBM norm of 3 percent of state GSDP. The state incurred huge fiscal deficit mainly due to the increase of subsidies, salaries, pensions and interest payments. Fiscal deficit results in creation of fiscal liabilities which makes the issue of debt sustainability critically dependent on fiscal deficit and application of resources so arranged. The rising fiscal deficit may lead to an increase in debt-GSDP ratio. Increasing debt and resultant interest payments reduces the flexibility of the governments in the matter of expenditure and also increases its committed obligations.

**Table. 3 Revenue and Fiscal Deficits in Telangana**

Year	Revenue Surplus/ Deficit (Crores)	Revenue Deficit as % in GSDP	Fiscal Deficit (Crores)	Fiscal Deficit as % in GSDP
2014-15	369.00	0.07	9,410	1.78
2015-16	238.00	0.04	18,856	3.28
2016-17	1,385.76	0.20	35,281	-5.50
2017-18	3,459.37	0.46	26,700.05	3.55
2018-19	4,337.08	0.50	26,943.87	3.11
2019-20	- 6,254.06	-0.65	31,750.69	3.29
2020-21	- 22,298.03	-2.30	49,037.83	5.06
2021-22	-9,334.84	-0.81	46,639.09	4.11
2022-23	5,943.65	0.32	32,556.50	3.21
2023-24RE	9,031.48	0.20	33,785.83	2.70

Source: Government of AP, Budget Documents (Various years)

## **IX. Conclusions**

It can be inferred from the above discussion that the outstanding liabilities of the state government have increased considerably over the years in Telangana. The state has been experiencing fluctuation of revenue surplus/ deficit during the period of study. It has been observed that the occurrence of revenue deficit has contributed towards increase in fiscal deficit of the state during the period of study. As sustainability of the fiscal position of the state is mainly dependent on nature of fiscal deficit, the higher proportion of revenue deficit to fiscal deficit led the state in to huge fiscal imbalances. Significant decline in the share of central government's loans to the state government has been observed during the period of study. The state has been able to maintain a stable debt GSDP ratio in recent years.

## **X. Policy Suggestions:**

The main policy suggestions emerging from the findings of the study are:

- State Government should be taken measures to control over the revenue expenditure and the targets of FRBM act towards revenue deficits have to be realized.
- The FRBM act should be strictly implemented in order to minimize the fiscal deficit.
- Telangana needs to constrict the public debt and deficit situation well within the reasonable level to keep the state finances in good condition.

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