Telangana Monthly Spotlight

As a newly formed state, Telangana continues to rely heavily on public debt as a key component of its fiscal landscape. However, the headline public debt only includes borrowings directly within the State Government's accounts, omitting debt raised through public entities. This spotlight examines the state's debt position as of 31 March 2024 using the CAG's Finance Accounts, allowing for an analysis based on actual audited year-end stock.

As of March 2024, Telangana's public debt stood at ₹3,50,520 crore (23.9% of the state's GSDP). This represents an increase of approximately 80% compared to 2019–20 (₹1,94,958 crore), signalling a substantial rise over the period. While public debt captures direct government borrowing, total outstanding liabilities—which include public account liabilities—provide a broader measure of the state's financial obligations.

According to the State's FRBM reports, total outstanding liabilities (as of March 2023–24) were 27.57% of GSDP, well within the state target of 33.10%. Furthermore, the 15th Finance Commission set a target of 29.5% for Telangana in 2023-24, which was also achieved. However, these two figures should not be treated as identical measures: 33.10% is the benchmark defined in the State's current FRBM framework, whereas 29.5% represents the debt trajectory previously recommended by the 15th FC.

This distinction is where off-budget borrowings (OBBs) become critical. Following the CAG's definition, OBBs in this report refer to borrowings raised by public sector entities outside the official budgetary framework whose repayment obligations are effectively guaranteed or serviced by the State Government. As of March 2024, government-serviced OBBs reached ₹1,20,944 crore (8.3% of GSDP). Because these borrowings are excluded from public debt in formal accounting, they are not budgeted as additional debt, representing a significant unbudgeted exposure.

Disaggregating the OBB, it is found that five largest public entities (among 17 Special Purpose Vehicles (SPVs) having OBB) account for 92.5% of total government-serviced OBBs:

1. **Kaleshwaram Irrigation Project Corporation Limited (KIPCL):** ₹69,079 crore
2. **Telangana Drinking Water Supply Corporation:** ₹19,294 crore
3. **Telangana State Water Resources Infrastructure Development Corporation:** ₹13,461 crore
4. **Telangana Housing Corporation:** ₹7,291 crore
5. **Telangana State Road Development Corporation:** ₹2,793 crore

For analysis, the 17 identified SPVs were grouped into four functional categories (constructed specifically for this report rather than reflecting an official classification):

1. **Infrastructure and Revenue-Oriented Borrowings:** Accounted for 57.4% (₹69,361 crore) of total government-serviced OBBs (including KIPCL, Hyderabad Metro Rail, Telangana State Industrial Infrastructure Corporation). KIPCL alone accounted for 99.6% of this category, highlighting the overwhelming dominance of a single project.

2. **Public Needs and Essential Services:** Includes SPVs like HMWSSB, Water Resources Infrastructure, Drinking Water Supply, Housing Corporation, Road Development, Police Housing, Super Speciality Hospital which accounted for 38.9% of OBB (₹47,096 crore).
3. **Financial Intermediaries:** Includes SPVs like TUFIDC, Telangana Power Finance Corporation which accounted for 2.9% of OBB (₹3,564 crore).
4. **Cooperative or Subsidy-Dependent Activities:** Includes SPVs like Sheep & Goat Federation, Fishermen Federation, Dairy Federation, Horticulture Corporation and accounted for 0.8% (₹922 crore).

Being a flagship infrastructure project, one could review the cost and benefits of KIPCL. The CAG's Performance Audit of KIPCL revealed that the project lacks sufficient independent revenue to service its loans, significantly increasing the likelihood that the repayment burden will fall on the State Budget. The audit also highlighted that project costs inflated from ₹81,911 crore to ₹1,47,427 crore, causing the Benefit-Cost Ratio (BCR) to drop from 1.51 to 0.52. A BCR below 1.0 indicates that estimated annual costs outweigh estimated annual benefits.

Looking ahead, Telangana's fiscal exposure continues to grow. The state's 2026–27 budget projects public debt at ₹5,62,363 crore, up from ₹4,47,493 crore in the 2024–25. This trajectory underscores the urgent need to monitor both direct and off-budget borrowings while closely scrutinizing the composition and quality of underlying state debt.