Fiscal Discipline and Public Investment Efficiency in Telangana: Pathways to the Viksit 2047 Economy

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Abstract

Telangana's pursuit of the ambitious $3 trillion GSDP 'Vikasit 2047' vision requires a fundamental pivot in its fiscal strategy. The state must transition it's approximately ₹4.5 lakh crore public debt from consumption funding to productive capital expenditure. While key fiscal indicators like the Fiscal Deficit (FD/GSDP) (~3.0%) and Debt-to-GSDP ratio (~29.3%) remain within statutory limits, the long-term sustainability is threatened by contingent liabilities (off-budget borrowings by PSUs). If absorbed, these liabilities could significantly strain the budget.

The strategy demands a sustained ~13.5% GSDP growth, achievable only by channeling borrowing into high-leverage assets such as the Regional Ring Road, Metro expansion, and Knowledge Infrastructure. Simultaneously, the state must maximize Own Revenue Generation (ORG) by leveraging high growth in sectors like SGST and strategically monetizing assets. Key risks include the potential failure of large infrastructure projects to generate returns, forcing the state to shoulder PSU debt, and the pressure to fund new welfare schemes (Revenue vs. Populism), which risks crowding out essential capital investments. Success ultimately hinges on rigorous fiscal discipline and transparent asset creation.

Keywords: *Fiscal sustainability; Contingent liabilities; Revenue mobilization; Vision 2047*

1. Introduction

The Vikasit 2047 vision sets an ambitious goal of a $3 trillion Telangana economy by 2047, requiring a compound annual growth rate (CAGR) of ~13.5%. Achieving this vision demands not only sustained economic growth but also a strategic fiscal framework that converts public debt into productive investments rather than consumption. Telangana's debt-to-GSDP ratio remains within the limits prescribed by the Fiscal Responsibility and Budget Management (FRBM) Act; however, long-term sustainability will depend on the quality of expenditure, fiscal discipline, and transparency in off-budget liabilities.

2. Objectives

The primary objectives of this paper are to

- Evaluate Telangana's current fiscal health in relation to FRBM statutory limits.

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- Analyze the composition of public debt, focusing particularly on the risks posed by contingent liabilities and off-budget borrowings.
- Formulate a fiscal strategy that redirects borrowing from consumption expenditure to high-leverage, growth-enhancing capital investment in support of the $3 trillion target.
- Identify long-term fiscal risks that could impede the realization of the Vikasit 2047 vision.

3. Methodology

This paper utilizes a descriptive analytical approach based on fiscal estimates and budgetary data for the 2024-2025 period. It assesses key performance indicators such as the Fiscal Deficit-to-GSDP ratio, Debt-to-GSDP ratio, and Revenue Surplus/Deficit against the benchmarks set by the FRBM Act. Furthermore, the analysis incorporates a qualitative review of off-budget borrowings (contingent liabilities) by State Public Sector Undertakings (PSUs) to determine the "effective" debt burden

4. Current Fiscal Health and Debt Profile

Key Fiscal Indicators (2024-25 Estimates)

Indicator	Target/Estimate (2024-25)	FRBM Limit/Context	Implication for Vision 2047
GSDP (Nominal)	~₹16.5 lakh crore	Baseline for all ratios	Requires ~13.5% CAGR to hit the $3T target
Fiscal Deficit (FD/GSDP)	~3.0%	Typically capped at 3.0%-4.0%	Indicates fiscal discipline on borrowing
Debt-to-GSDP Ratio	~29.3%	Recommended 32%-35% for states	Sustainable on paper; debt composition and quality are crucial
Revenue Surplus/Deficit	Marginal Surplus	FRBM goal: Revenue Surplus	Provides fiscal space for capital expenditure
Total Public Debt	~₹4.5 lakh crore	-	High debt requires high GSDP growth to remain manageable

4.1 Assessment of Fiscal Position

Telangana’s fiscal profile reveals a blend of statutory compliance and structural vulnerability

- Statutory Compliance: For 2024-25, the Fiscal Deficit is estimated at approximately 3.0% of GSDP, and the Debt-to-GSDP ratio is 29.3%, both within accepted norms. The debt ratio remains below the recommended 32–35% range for Indian states.

- High Debt Volume: With total public debt around ₹4.5 lakh crore, sustaining debt service obligations requires consistently high economic growth.

- Contingent Liability Risk: A major structural concern is contingent liabilities—debts raised by PSUs and SPVs for mega-projects such as the Kaleshwaram Lift Irrigation Scheme. Historically, these have been estimated at roughly 12% of GSDP (2021-22). Should these projects underperform and the state be required to absorb the liabilities, the effective debt ratio could rise sharply, placing significant strain on state finances.

4.2 Fiscal Strategy

To achieve the $\$3$ trillion economy, the fiscal approach must pivot toward high-leverage capital investment and robust revenue generation.

4.3 Amplifying Productive Capital Expenditure

Borrowings must be directed toward projects that expand productive capacity

- **Core Infrastructure**: Regional Ring Road (RRR) and Hyderabad Metro to connect economic zones and enhance urban-rural integration.
- **Knowledge Infrastructure**: Edu Cities and Frontier Technology Missions to develop high-skill human capital.
- **Energy Transition**: Renewable energy investments to meet Net-Zero 2047 objectives.

4.4 Focus on Own Revenue Generation (ORG)

- Tax Revenue: Maximizing collections from SGST, Excise, and Stamps & Registration through better compliance and growth.
- Non-Tax Revenue: Monetizing state assets and implementing user charges for public utilities.
- Fintech Integration: Leveraging Hyderabad as a financial hub to formalize credit flows and widen the tax base.

4.5 Enhancing Investment Ecosystem

- De-risking Capital: Providing interest subvention and partial equity-guarantee facilities for VC/PE investments to lower the cost of capital.
- Data-Driven Credit: utilizing the TG-iPASS system to shift credit assessment from collateral-based to cash-flow based models

4.6 Risks

Two primary fiscal risks threaten the 2047 vision

- Debt Sustainability of PSUs: The potential failure of infrastructure projects to generate returns could force the government to absorb contingent liabilities, pushing the debt profile into a high-risk zone.
- Revenue vs. Populism: The pressure to fund new, large-scale welfare schemes competes with capital asset creation. Excessive Revenue Expenditure (consumption) risks "crowding out" the productive investments necessary for long-term growth

4.7 Policy Recommendations

Based on the analysis, the following policies are recommended

- Strict Adherence to Capital Ratios: Mandate a high ratio of Capital Outlay to Total Expenditure to ensure borrowings fund assets, not consumption.
- Transparent Reporting: Maintain full transparency regarding off-budget borrowings to accurately assess fiscal health.
- Asset Monetization: Aggressively pursue the monetization of underutilized state assets to fund new infrastructure without increasing debt.
- Review of Welfare Efficiency: Balance welfare spending with capital investment to preventing fiscal crowding out.

5. Conclusion

The realization of Telangana's **Vikasit 2047** vision is fundamentally linked to sound fiscal governance, transparent budgeting, and efficient capital allocation. While the state's current indicators reflect broad fiscal stability, the management of contingent liabilities and the redirection of debt toward productive investments are crucial. Sustaining a **~13.5% growth rate** will require consistent revenue mobilization, robust infrastructure development, and disciplined fiscal management. Only through these strategies can Telangana transition successfully to a **$3 trillion economy** by 2047.

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