International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

Fiscal Sustainability of Telangana: Balancing Economic Growth, Public Debt and Welfare Expenditure

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Abstract:
Fiscal sustainability has become a major concern for state governments in India due to increasing public expenditure, rising debt obligations and expanding welfare commitments. Since its formation in 2014, Telangana has emerged as one of India's economically dynamic states, driven by the expansion of information technology, pharmaceuticals, manufacturing, real estate and service-sector activities. However, the sustainability of its public finances requires careful examination in the context of increasing borrowing, contingent liabilities and recurring welfare expenditure.
The present study examines the fiscal sustainability of Telangana with particular reference to public debt, revenue mobilisation, capital expenditure and welfare commitments. It also analyses the challenges associated with balancing economic growth and social welfare within a sustainable fiscal framework. The study is based on secondary data obtained from Telangana Budget Documents 2026–27, Reserve Bank of India publications, Comptroller and Auditor General reports and PRS Legislative Research. A descriptive and analytical approach is adopted.
The study highlights that although Telangana possesses considerable revenue-generating and economic growth potential, long-term fiscal stability requires stronger tax buoyancy, efficient utilisation of capital expenditure, transparent management of government guarantees and rationalisation of recurring expenditure. It concludes that sustainable welfare cannot depend exclusively on public borrowing; rather, it requires productive investment, stable revenue generation and responsible fiscal management.

Keywords: Fiscal Sustainability, Telangana Economy, Public Debt, Fiscal Deficit, Welfare Expenditure, Capital Investment, Revenue Mobilisation.

1. INTRODUCTION

Fiscal sustainability is an essential condition for achieving long-term economic development and maintaining financial stability. It refers to the ability of a government to meet its present and future financial obligations without accumulating excessive debt or compromising essential public services.
Since its formation on 2 June 2014, Telangana has emerged as an important contributor to India's economic growth. The state has developed a strong economic base through information technology, pharmaceuticals, biotechnology, manufacturing, financial services and real estate. Hyderabad has become a major centre for technology, healthcare and industrial investment.

Despite these achievements, the state faces important fiscal challenges. Increasing public debt, interest payments, welfare commitments, subsidies and infrastructure investment requirements have created pressure on public finances.

The fundamental issue is not simply whether Telangana can borrow or spend more, but whether public expenditure generates sufficient economic growth, productive assets and future revenue to meet its financial obligations.

Therefore, maintaining a balance between economic growth, public debt management and welfare expenditure has become an important requirement for the long-term fiscal sustainability of Telangana.

2. REVIEW OF LITERATURE

Musgrave (1959), in The Theory of Public Finance, identified allocation, distribution and stabilisation as the three major economic functions of government. His framework explains the importance of public expenditure in promoting economic efficiency and social welfare.

Barro (1979), in his study on the determination of public debt, examined the relationship between government expenditure, taxation and public borrowing. His contribution provides a theoretical foundation for analysing the long-term implications of fiscal deficits.

Oates (1999) explained the importance of fiscal federalism and the distribution of financial responsibilities between different levels of government. His analysis is relevant to Indian states, which have significant responsibilities for public service delivery and economic development.

The Reserve Bank of India (2026), in its State Finances: A Study of Budgets 2025–26, highlighted the importance of improving expenditure quality, strengthening fiscal management and monitoring contingent liabilities.

PRS Legislative Research (2026), in its Telangana Budget Analysis 2026–27, examined the state's revenue receipts, expenditure commitments, fiscal deficit and borrowing requirements.

Research Gap: Existing literature examines public debt, fiscal deficits and expenditure management separately. However, an integrated assessment of Telangana's public debt, welfare commitments, revenue mobilisation and productive capital investment is necessary. The present study attempts to address this gap.

3. OBJECTIVES OF THE STUDY

1. To examine the fiscal sustainability of Telangana with reference to public debt, revenue mobilisation and capital expenditure.
2. To analyse the implications of increasing welfare expenditure, government guarantees and investment commitments for the long-term economic and fiscal stability of Telangana.

4. RESEARCH HYPOTHESES

H1: Increasing public debt and contingent liabilities may adversely affect the long-term fiscal sustainability of Telangana.

H2: Improvement in own-tax revenue mobilisation and tax buoyancy contributes positively to fiscal sustainability.

H3: Productive capital expenditure strengthens long-term economic growth and the revenue-generating capacity of the state.

H4: Increasing recurring welfare commitments without corresponding revenue growth may reduce the fiscal space available for developmental investment.

5. RESEARCH METHODOLOGY

The study is descriptive and analytical in nature and is entirely based on secondary data. Information has been collected from Telangana Budget Documents 2026–27, RBI publications, CAG reports, PRS Legislative Research and relevant books and research studies.

The study examines the fiscal developments of Telangana since its formation in 2014, with particular reference to recent budgetary indicators.

The major variables considered include public debt, fiscal deficit, revenue receipts, own-tax revenue, capital expenditure, interest payments, welfare commitments and contingent liabilities.

Descriptive and comparative analysis is employed to understand the state's fiscal position. The hypotheses are examined conceptually and through available secondary evidence; no econometric significance testing is claimed.

6. FISCAL POSITION OF TELANGANA: AN ANALYTICAL DISCUSSION

6.1 Public Debt and Fiscal Sustainability

Public borrowing is an important instrument for financing infrastructure and development. However, excessive borrowing can increase interest obligations and reduce the fiscal space available for future expenditure.

Telangana's outstanding liabilities increased from approximately 12.4 per cent of GSDP in 2016–17 to 28.8 per cent in 2020–21, according to the figures discussed in the source article. The debt burden subsequently remained relatively elevated.

The sustainability of public debt depends on the relationship between nominal economic growth, interest rates and the primary fiscal balance. Therefore, borrowing should be directed towards productive investments that generate long-term economic returns rather than financing recurring expenditure without corresponding revenue support.

6.2 Revenue Mobilisation and Tax Buoyancy

Revenue mobilisation is fundamental to fiscal sustainability. Telangana has considerable potential to increase its own-tax revenue through State GST, excise duties, stamps and registration, motor vehicle taxes and improved tax administration.

Tax buoyancy measures the responsiveness of tax revenue to changes in nominal GSDP.

Tax Buoyancy = Percentage Change in Tax Revenue / Percentage Change in Nominal GSDP

According to the Telangana Budget 2026–27, own-tax revenue is estimated at ₹1,48,185.75 crore, representing an increase of approximately 11 per cent over the revised estimate for 2025–26 (Government of Telangana, 2026).

However, the gap between budget estimates and actual revenue collections highlights the importance of realistic forecasting and improved tax compliance (PRS, 2026).

6.3 Capital Expenditure and Productive Investment

Capital expenditure creates long-term productive assets such as roads, irrigation facilities, industrial infrastructure, water supply and public utilities.

Telangana's capital expenditure for 2026–27 is estimated at ₹47,267.28 crore. Nevertheless, the effectiveness of public investment depends on actual utilisation, timely completion and economic returns rather than budgetary allocations alone.

Major infrastructure projects, including the Musi Riverfront Development Project and Bharat Future City, require transparent financial appraisal, cost-benefit analysis and independent evaluation.

6.4 Welfare Expenditure and Fiscal Commitments

Welfare programmes relating to farmer support, social security pensions, housing, healthcare and women's empowerment play an important role in inclusive development.

However, recurring welfare expenditure creates long-term financial obligations. Therefore, welfare programmes should be supported by sustainable revenue sources and periodic assessments of their effectiveness.

The objective should not be to reduce essential welfare expenditure indiscriminately, but to improve targeting, eliminate duplication and ensure measurable improvements in human development.

6.5 Economic Diversification and Emerging Fiscal Risks

Telangana's economy is increasingly driven by services, particularly information technology, pharmaceuticals, biotechnology and financial services. However, dependence on a limited number of economic centres may create regional imbalances.

Promoting industrial corridors, manufacturing clusters and service-sector development in districts such as Warangal, Karimnagar, Khammam and Nizamabad can strengthen regional economic diversification.

Climate-related uncertainties, particularly irregular monsoons and agricultural fluctuations, may also affect rural incomes, consumption and government revenue. Climate-responsive budgeting and sustainable water management are therefore important components of long-term fiscal planning.

7. KEY FISCAL INDICATORS OF TELANGANA: 2026–27

Fiscal Indicator|	Budget Estimate
Revenue Receipts	₹2,41,263.58 crore
Own-Tax Revenue	₹1,48,185.75 crore
Revenue Expenditure	₹2,34,405.82 crore
Capital Expenditure	₹47,267.28 crore
Interest Payments	₹21,304.39 crore
Fiscal Deficit	₹58,458.71 crore
Revenue Surplus	₹6,857.76 crore

Source: Government of Telangana, Budget in Brief and Annual Financial Statement, 2026–27; PRS Legislative Research (2026).

Note: Figures represent budget estimates and should not be interpreted as actual expenditure or realised revenue.

8. MAJOR FINDINGS

1. Telangana has developed a strong economic base through the expansion of services, information technology, pharmaceuticals and manufacturing.
2. The relatively elevated debt burden highlights the need for responsible borrowing and effective debt management.
3. Own-tax revenue has considerable potential to improve through better tax administration, compliance and economic diversification.
4. Capital expenditure is essential for long-term economic growth, but effective utilisation and timely project completion determine its actual contribution.
5. Increasing welfare commitments require a stable and sustainable revenue base.
6. Government guarantees and contingent liabilities need transparent monitoring to minimise future fiscal risks.
7. Regional economic diversification and climate-resilient investment can strengthen the state's long-term revenue-generating capacity.

9. POLICY RECOMMENDATIONS

1. Strengthening Revenue Mobilisation: Improve tax administration, digital compliance, property valuation and revenue forecasting.
2. Responsible Debt Management: Link public borrowing to productive investment and regularly assess contingent liabilities.
3. Improving Capital Expenditure: Introduce systematic project appraisal, cost-benefit analysis and post-completion evaluation.
4. Sustainable Welfare Financing: Improve beneficiary targeting, reduce duplication and periodically evaluate welfare outcomes.
5. Regional Economic Diversification: Promote industrial development, infrastructure and employment opportunities beyond Hyderabad.
6. Medium-Term Fiscal Framework: Adopt a rolling five-year fiscal strategy incorporating debt management, revenue projections and expenditure commitments.

10. CONCLUSION

Fiscal sustainability is essential for ensuring that economic growth translates into long-term development and improved living standards.

Telangana possesses significant economic advantages, including a strong services sector, a growing industrial base and considerable revenue-generating potential. However, increasing public debt, interest payments, welfare commitments and infrastructure investment requirements create important fiscal challenges.

The study emphasises that economic growth and social welfare should not be viewed as competing objectives. Instead, they must be integrated within a responsible fiscal framework.

Public borrowing should create productive assets, taxation should generate stable revenue, capital expenditure should improve economic productivity and welfare programmes should strengthen human capital.

Ultimately, sustainable welfare requires sustainable economic growth, while sustainable growth requires continuous investment in infrastructure, education, healthcare, technology and productive employment.

Telangana's long-term economic success will therefore depend on its ability to balance revenue mobilisation, responsible borrowing, productive investment and inclusive welfare.

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