

# Madhya Pradesh Budget Analysis 2017-18

The Madhya Pradesh Finance Minister, Mr. Jayant Mallayya, presented the Budget for Madhya Pradesh for the financial year 2017-18 on March 1, 2017.

## Budget Highlights

- The **Gross State Domestic Product** of Madhya Pradesh at current prices for 2017-18 is estimated to be Rs. 7,35,246 crore. This is 13.9% higher than the revised estimate for 2016-17.
- **Total expenditure** for 2017-18 is estimated to be Rs 1,69,954 crore, an 8.5% increase over the revised estimate of 2016-17. The revised estimate for 2016-17 is Rs 2,083 crore lower than the budgeted target.
- **Total receipts (excluding borrowings)** for 2017-18 are estimated to be 11.4% higher, at Rs 1,45,111 crore. In 2016-17, they fell short of the budgeted target by Rs 4,111 crore.
- **Revenue surplus** for the next financial year is targeted at Rs 4,596 crore, or 0.63% of the Gross State Domestic Product (GSDP). **Fiscal deficit** is targeted at Rs 25,689 crore (3.49% of GSDP). The Fiscal Responsibility and Budget Management Act, 2005 mandates a fiscal deficit ceiling of 3.5% of GSDP. **Primary deficit** is targeted at Rs 14,148 crore (1.9% of GSDP).
- Rs 33,564 crore has been allocated for the Agriculture Budget in 2017-18. Rs 400 crore has been allocated to the Rashtriya Krishi Vikas Yojana, and Rs 305 crore has been allocated to the National Food Security Mission.
- Allocations to the departments of Urban Administration and Development, School Education and Rural Development increased by 22%, 10% and 7% respectively, over the revised estimates of 2016-17. However, allocation to the Department of Energy has decreased by 21%.

## Policy Highlights

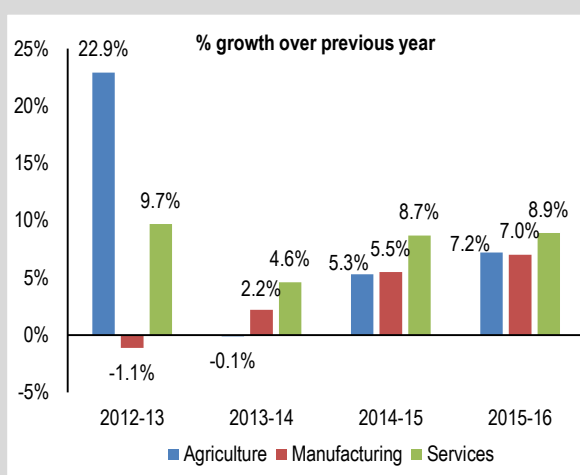
- **Irrigation:** Rs 9,850 crore is proposed to be spent as capital expenses for irrigation schemes. In addition, Rs 140 crore has been allocated for micro-irrigation.
- **Education:** 36,000 new teachers are proposed to be recruited; 520 high schools and 240 higher secondary schools are proposed to be upgraded.
- **Energy:** Rs 4,622 crore is proposed to be spent on the UDAY scheme in 2017-18. In 2016-17, Rs 7,568 crore was provided as assistance to power distribution companies under UDAY scheme.

## Madhya Pradesh: State of Economy

### Economy

Between 2011-12 and 2015-16, the state's GSDP grew at an average annual rate of 7.5% (at constant prices). Over this period, per capita income increased from Rs 43,082 to Rs 54,190, an average increase of 5.9%.

In 2015-16, the state's GDP grew at 8.7%, at constant prices. The agriculture sector grew at 7.2% (at constant prices) as compared to 2014-15, while the manufacturing sector grew at 7%. The services sector grew at 8.9%, compared to 8.7% in 2014-15. The agriculture sector contributed to 34% of GSDP in 2015-16, while the manufacturing and services sectors contributed to 22% and 38% of the GSDP respectively.



Source: Central Statistics Office.

### Workforce Participation

Workforce Participation Rate is the proportion of workers or job seekers to its population. The Rate for Madhya Pradesh (2015-16) was 44.8%, lower than 59.2% in 2013-14. Note that in 2015-16, the national average stood at 50.5%.

Source: Lok Sabha Unstarred Question No. 682, Answered on February 6, 2017.

## Budget Estimates for 2017-18

- The total expenditure in 2017-18 is targeted at Rs 1,69,954 crore. The expenditure in 2016-17 was Rs 1,56,630 crore, which is 1% (or Rs 2,083 crore) less than the budgeted target.
- The expenditure in 2017-18 is proposed to be met through receipts (other than borrowings) of Rs 1,45,111 crore and borrowings of Rs 24,392 crore. Total receipts for 2017-18 (other than borrowings) are expected to be 11% more than the revised estimate of 2016-17.

**Table 1: Budget 2017-18 - key figures (in Rs crore)**

Items	2015-16 Account	2016-17 Budgeted	2016-17 Revised	% change from RE to BE of 2016-17	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18
<b>Total Expenditure</b>	<b>1,19,766</b>	<b>1,58,713</b>	<b>1,56,630</b>	<b>-1.3%</b>	<b>1,69,954</b>	<b>8.5%</b>
A. Borrowings (net)	15,125	24,175	25,635	6.0%	24,392	-4.9%
B. Receipts (except borrowings)	1,05,451	1,34,419	1,30,308	-3.1%	1,45,111	11.4%
<b>Total Receipts (A+B)</b>	<b>1,20,576</b>	<b>1,58,594</b>	<b>1,55,944</b>	<b>-1.7%</b>	<b>1,69,503</b>	<b>8.7%</b>
<b>Revenue Deficit</b>						
(-)/Surplus(+)	5,740	3,510	1,535		4,596	
As % of state GDP	1.02%	0.49%	0.24%		0.63%	
<b>Fiscal Deficit</b>						
(-)/Surplus(+)	-14,065	-24,914	-29,899		-25,689	
As % of state GDP	-2.49%	-3.49%	-4.63%		-3.49%	
<b>Primary Deficit</b>						
(-)/Surplus(+)	-5,974	-14,680	-19,962		-14,148	
As % of state GDP	-1.06%	-2.06%	-3.09%		-1.92%	

Notes: BE is Budget Estimate; RE is Revised Estimate; Borrowings are net of receipts. GSDP for 2017-18 is taken from Budget at a glance, as Rs 7,35,246 crore, at current prices.

Sources: State Budget Documents; PRS.

## Expenditure in 2017-18

- Government expenditures can be divided into (a) revenue expenditure, such as payment of salaries, and (b) capital outlay, which affects the assets and liabilities of the state.
- Total revenue expenditure for 2017-18 is proposed to be Rs 1,34,519 crore, which is an increase of 8% over revised estimates of 2016-17. Total capital outlay is proposed to increase by 10.3% to Rs 35,435 crore from the revised estimates of 2016-17. This includes creation of assets, repayment of loans, etc.

**Table 2: Expenditure budget 2017-18 (in Rs crore)**

Item	2015-16 Account	2016-17 Budgeted	2016-17 Revised	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18
Revenue Expenditure	99,771	1,22,585	1,24,516	1,34,519	8.0%
Capital Outlay	19,995	36,128	32,114	35,435	10.3%
<b>Total Expenditure</b>	<b>1,19,766</b>	<b>1,58,713</b>	<b>1,56,630</b>	<b>1,69,954</b>	<b>8.5%</b>
A. Interest Payments	8,091	10,233	9,937	11,541	16.1%
B. Loan repayment	4,860	9,105	4,899	9,546	94.8%
Debt servicing (A+B)	12,951	19,338	14,836	21,087	42.1%

Notes: BE is Budget Estimate and RE is Revised Estimate.

Sources: State Budget Documents; PRS.

## Department expenditure in 2017-18

- The departments listed below account for **42%** of the budgeted expenditure of Madhya Pradesh in 2017-18.

**Table 3: Department-wise expenditure for Madhya Pradesh Budget 2017-18 (in Rs crore)**

Department	2016-17 Revised	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18	Budget proposals for 2017-18
School Education	18,094	19,873	9.8%	<ul style="list-style-type: none"> <li>A provision of Rs 214 crore has been allocated for the construction of school buildings. Rs 92 crore has been allocated for the purchase of NCERT books.</li> <li>A provision of Rs 48 crore has been made for the establishment, management and security of girls' hostels.</li> <li>Rs 703 crore for ST students, Rs 740 crore for SC students and Rs 850 crore for OBC students as scholarships/stipends.</li> </ul>
Energy	21,183	16,802	-20.7%	<ul style="list-style-type: none"> <li>This allocation includes Rs 4,622 crore under the UDAY scheme.</li> <li>A scheme of Rs 4,200 crore is proposed to convert temporary connections into permanent connections.</li> </ul>
Rural Development	13,480	14,388	6.7%	<ul style="list-style-type: none"> <li>Rs 2,000 crore has been made to the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS).</li> <li>Rs 2,850 crore has been allocated to the Pradhan Mantri Gram Sadak Yojana (PMGSY).</li> <li>Rs 1,127 crore has been allocated for the provision of basic amenities to Panchayats.</li> </ul>
Urban Development and Environment	9,394	11,489	22.3%	<ul style="list-style-type: none"> <li>A provision of Rs 600 crore has been made for the Swatchh Bharat Abhiyan.</li> <li>Rs 700 crore has been allocated for AMRUT Yojana, and Rs 700 crore has been allocated for the Smart Cities Mission; Sagar and Satna city are proposed to be included in phase two.</li> </ul>
Public Works	7,296	8,576	17.6%	<ul style="list-style-type: none"> <li>Rs 5,966 crore has been allocated for the construction of roads and bridges.</li> </ul>
Expenditure of departments	69,447	71,127	2.4%	
Total expenditure	1,56,630	1,69,954	7.1%	
% of total expenditure	44.3%	42%		
Other Departments	87,183	98,827	11.4%	

Sources: Press note on Madhya Pradesh State Budget 2017-18; PRS.

### Other announcements:

- Police force:** Rs 5,850 crore has been allocated to the police force. Rs 402 crore has been allocated for construction works for police personnel, and Rs 98 crore has been allocated to purchase new arms and vehicles for the police force.
- Skill Development:** Rs 100 crore has been allocated under skill development scheme, for the 'Mukhyamantri Kaushal Samwardhan and Kaushalya Scheme', to train 2.5 lakh youngsters and two lakh women.
- Scheduled Castes and Scheduled Tribes:** Rs 25,862 crore has been allocated to the Scheduled Tribe sub-scheme in 2017-18, and Rs 16,381 crore has been allocated to the Scheduled Castes sub-scheme.

## Receipts in 2017-18

- The total revenue receipts for 2017-18 are estimated to be Rs 1,39,116 crore. The tax to GSDP ratio is targeted at 6.8% in 2017-18, same as 6.8% in the revised estimates of 2016-17.
- Tax revenue is expected to increase by 14% (or Rs 6,160 crore) in 2017-18 over the revised estimates of 2016-17. Non-tax revenue is estimated to increase by 12.2% (or Rs 1,270 crore) in 2017-18.
- Grants from the centre are set to increase by Rs 593 crore, to Rs 26,034 crore in 2017-18. The other component of transfers from the centre, which is the state's share in central taxes, is estimated to increase by Rs 5,042 crore, to Rs 51,106 crore in 2017-18.

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

Item	2015-16 Account	2016-17 Budgeted	2016-17 Revised	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18
State's Own Tax	40,240	46,500	44,135	50,295	14.0%
State's Own Non Tax	8,569	11,482	10,410	11,680	12.2%
State's share in Central Taxes	38,371	43,676	46,064	51,106	11%
Grants-in-aid from Centre	18,330	24,437	25,441	26,034	2.3%
<b>Total Revenue Receipts</b>	<b>1,05,511</b>	<b>1,26,095</b>	<b>1,26,051</b>	<b>1,39,116</b>	<b>10.4%</b>
Recovery of Loans and Advances, and other capital receipts*	191	7,704	680	5,150	657.0%
Borrowings (net)	15,125	24,175	25,635	24,392	-4.9%
Public Account Receipts	-251	620	3,577	846	-76.4%
<b>Total Capital Receipts</b>	<b>15,066</b>	<b>32,499</b>	<b>29,893</b>	<b>30,387</b>	<b>1.7%</b>
<b>Total Receipts</b>	<b>1,20,576</b>	<b>1,58,594</b>	<b>1,55,944</b>	<b>1,69,503</b>	<b>8.7%</b>

Note: \* includes recovery of debt of electricity distribution companies; this is being converted to equity and an equivalent amount is shown as capital expenditure. BE is Budget Estimate and RE is Revised Estimate.

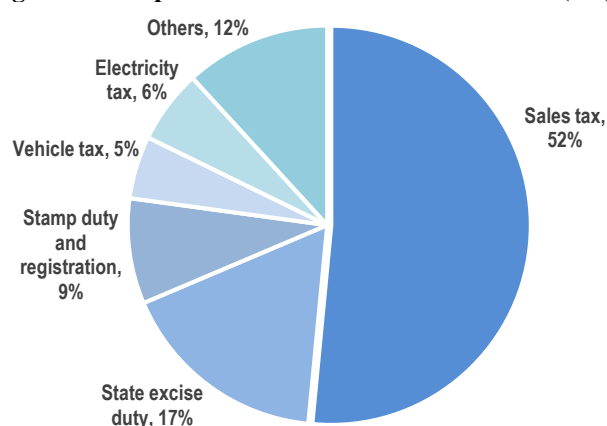
Sources: State Budget Documents; PRS.

- Total tax revenue of Madhya Pradesh is estimated to be Rs 50,295 crore in 2017-18. The composition of the state's tax revenue is shown in Figure 1.

### Decrease in tax revenue collected in 2016-17

In 2016-17, the revised estimate of Madhya Pradesh's tax revenue fell short of the budgeted estimate by Rs 2,365 crore (5.1%). This is mainly owing to a decrease in state excise duties collected from the licensing fees of domestic and imported liquor stores (Rs 1,300 crore decrease), and revenues from stamp duty and registration charges (Rs 600 crore decrease) and vehicle tax (Rs 300 crore decrease).

**Figure 1: Composition of Tax Revenue in 2017-18 (BE)**



- **Tax Revenue:** Among all sources of Tax revenue, sales tax is the largest component. Sales tax is levied on the sale of goods in the state is expected to generate Rs 25,910 crore (52% of tax revenue).
- The state is expected to generate Rs 8,600 crore (17%) through levy of state excise duty on the production of various forms of alcohol.
- In addition, revenue will be generated through stamp duties, registration charges on real estate transactions, electricity duties, among others.
- **Non Tax Revenue:** Madhya Pradesh has budgeted to generate Rs 11,680 crore through non-tax sources.
- In 2016-17, the state expected to generate a revenue of Rs 4,143 crore from education (such as licensing fees); however, the revised estimate is Rs 1,038 crore lower than the budgeted estimate. In 2017-18, Rs 3,310 crore is estimated to be generated from education.
- Rs 3,700 crore is estimated to be generated from mining in 2017-18, compared to Rs 3,100 crore as per the revised estimate of 2016-17 (19% increase).

## Deficits, Debts and FRBM Targets for 2017-18

The Madhya Pradesh Fiscal Responsibility and Budget Management (FRBM) Act, 2005 provides annual targets to progressively reduce the outstanding debt, 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 recurring receipts of the government are unable to cover its recurring expenditures. The revenue surplus is expected at Rs 4,596 crore (or 0.63% of state GDP) in 2017-18. This is better than the target of eliminating revenue deficit prescribed by the state's FRBM Act and by the 14<sup>th</sup> Finance Commission.

**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 of the government. In 2016-17, fiscal deficit increased from the budgeted target of Rs 24,914 crore to Rs 29,899 crore (4.63% of GSDP). This increase includes Rs 7,361 crore taken up as market borrowings on account of the UDAY scheme. The revised estimate in 2016-17 exceeded the 3.0% limit under the 14<sup>th</sup> Finance Commission, and the 3.5% limit under the FRBM Act. In 2017-18, fiscal deficit is estimated at Rs 25,689 crore (3.49% of GSDP).

**Outstanding Liabilities:** It is the accumulation of borrowings over the years. In 2017-18, the outstanding liabilities are expected at 24.9% of GSDP, an increase over the 24.6% as per revised estimates of 2016-17. They are estimated to further increase to 25.8% in 2018-19, 26.3% in 2019-20, and 26.5% in 2020-21. An increase in liabilities over time indicates that the state would be required to pay more in terms of interest payments as well as principle amount repayments over the coming years.

### UDAY Scheme

The tripartite agreement in August 2016 under UDAY scheme, between the central government, state government and the DISCOM provides takeover of 75% of the DISCOM's debt by the state government. The agreement provides for the conversion of loan to equity in 2016-17 amounting to Rs 7,568 crore, and Rs 4,622 crore per year as grants for the subsequent four years. The Madhya Pradesh government was also permitted to issue non-SLR bonds in 2016-17, which would not be counted for the purpose of fiscal deficit limits.

Accordingly, Rs 7,568 crore was provided in the budgeted estimate of 2016-17. However, only Rs 208 crore was raised through non-SLR bonds, and the remaining Rs 7,361 crore was funded through market borrowings. Further, instead of converting Rs 7,568 crore into equity in 2016-17, Rs 4,011 crore has been provided as grants to DISCOMs, and Rs 3,557 crore has been used to convert debt into equity. In 2017-18, Rs 611 crore has been provided as grants, and Rs 4,011 crore has been used to convert debt into equity.

Sources: Tripartite MoU; State Budget documents.

**Table 5: Budget targets for deficits for the state of Madhya Pradesh (% of GSDP)**

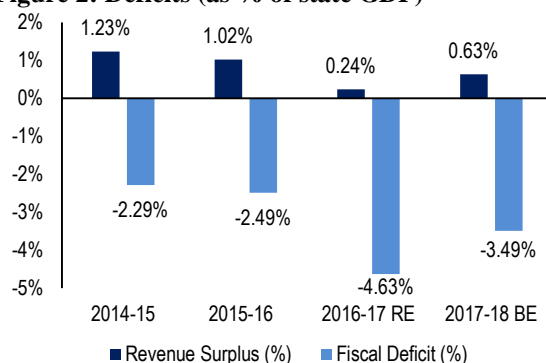
Year	Revenue Surplus	Fiscal Deficit	Outstanding Liabilities
2015-16	1.02	-2.49	23.32
RE 2016-17	0.24	-4.63	24.63
BE 2017-18	0.63	-3.49	24.94
Target 2018-19	Surplus	-3.49	25.79
Target 2019-20	Surplus	-3.25	26.30
Target 2020-21	Surplus	-3.00	26.51

Note: Figures as percentage of state GDP.

Sources: Press Note, Madhya Pradesh State Budget 2017-18; PRS.

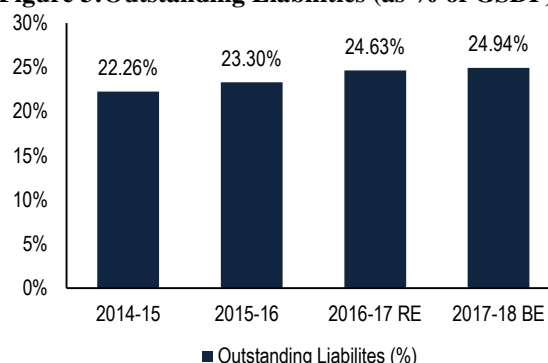
Figures 2 and 3 show the trend in deficits and outstanding liabilities from 2014-15 to 2017-18:

**Figure 2: Deficits (as % of state GDP)**



Sources: Madhya Pradesh State Budget Documents; PRS.

**Figure 3: Outstanding Liabilities (as % of GSDP)**



Sources: Madhya Pradesh State Budget Documents; PRS.

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