

Madhya Pradesh Budget Analysis 2020-21

The Minister of Parliamentary Affairs in Government of Madhya Pradesh, Dr. Narottam Mishra, presented the Budget for the state for the financial year 2020-21 on September 21, 2020.

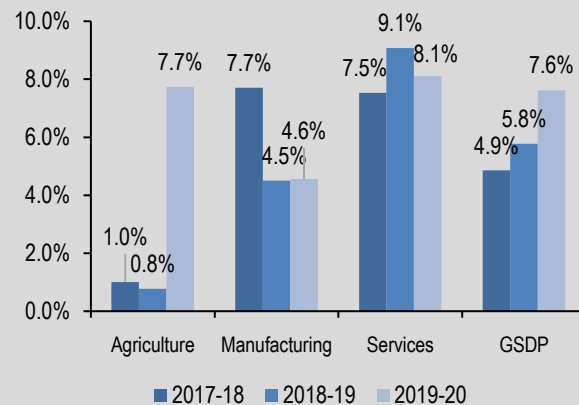
Budget Highlights

- The **Gross State Domestic Product** (GSDP) of Madhya Pradesh for 2020-21 (at current prices) is projected to be Rs 9,49,103 crore. This is 4.7% higher than the revised estimate of GSDP for 2019-20 (Rs 9,06,672 crore).
- **Total expenditure** for 2020-21 is estimated to be Rs 2,00,343 crore, a 4.2% increase over the revised estimates of 2019-20. As per the revised estimate, the total expenditure in 2019-20 is estimated to be Rs 1,92,301 crore, 16% lower than the budget estimate of Rs 2,28,888 crore.
- In 2020-21, the highest allocation has been made towards the **Education, Sports, Arts and Culture** sector (Rs 33,408 crore). The expenditure of this sector is estimated to be 10% higher in 2020-21 as compared to the revised estimate of 2019-20. Among the key sectors, the **Energy** sector is estimated to have highest decrease in allocation in 2020-21 (27% decrease as compared to the revised estimate of 2019-20).
- **Total receipts (excluding borrowings)** for 2020-21 are estimated to be Rs 1,20,595 crore, a decrease of 17.6% as compared to the revised estimate of 2019-20. In 2019-20, total receipts (excluding borrowings) are estimated to fall short of the budget estimate by Rs 25,008 crore (decrease of 14.6%).
- **Revenue deficit** for 2020-21 is targeted at Rs 17,514 crore, 1.8% of the GSDP. In 2019-20, revenue deficit is estimated to be 0.3% of GSDP against a budget target of 0.08% of GSDP.
- **Fiscal deficit** for 2020-21 is targeted at Rs 47,360 crore (4.9% of GSDP). As per the revised estimates, in 2019-20, fiscal deficit is expected to be 3.6% of GSDP, higher than the budget estimate of 3.3% of GSDP.
- **State GST** is estimated to be the largest source of own tax revenue in 2020-21. However, State GST collection is estimated to decrease by 16.6% over the revised estimates of the previous year.

Madhya Pradesh's Economy

- **GSDP:** The growth rate of Madhya Pradesh's GSDP (at constant prices) was 7.6% in 2019-20.
- **Sectors:** In 2019-20, agriculture, manufacturing, and services sectors contributed to 35%, 24% and 41% of the economy. These sectors grew by 7.7%, 4.6%, and 8.1%, respectively.
- **Per capita GSDP:** The per capita GSDP of Madhya Pradesh in 2019-20 (at current prices) was Rs 1,09,372, 10% higher than the corresponding figure in 2018-19.
- **Unemployment:** According to the Periodic Labour Force Survey (2018-19), the unemployment rate in Madhya Pradesh in 2018-19 was 3.5%, as compared to 5.8% in the country.

Figure 1: Growth in GSDP and sectors in Madhya Pradesh at constant (2011-12) prices



Note: These numbers are as per constant prices (2011-12) which implies that the growth rate is adjusted for inflation.
Sources: MOSPI; PRS.

Budget Estimates for 2020-21

- Total expenditure in 2020-21 is targeted at Rs 2,00,343 crore. This is 4.2% higher than the revised estimates of 2019-20. This expenditure is proposed to be met through receipts (other than borrowings) of Rs 1,20,595 crore and borrowings of Rs 63,448 crore. Total receipts for 2020-21 (other than borrowings) are expected to be 17.6% lower than the revised estimate of 2019-20.

- As per the revised estimates for 2019-20, receipts (other than borrowings) are estimated to reduce by 14.6% over the budget estimates. Total expenditure is estimated to decrease by 16% from budget to revised stage in 2019-20. Borrowings in 2019-20 are estimated to decrease by 19.3% from budget to revised stage.
- In 2019-20, revenue deficit is estimated to be Rs 2,698 crore at the revised stage as compared to a revenue surplus of Rs 733 crore at the budget stage. Revenue deficit in 2020-21 is estimated to be Rs 17,514 crore. In 2019-20, fiscal deficit is estimated to be 3.6% of GSDP at revised stage against the 3.3% of GSDP at budgeted stage. Fiscal deficit for 2020-21 is estimated to be Rs 47,360 crore (5% of GSDP).

Table 1: Budget 2020-21 - Key figures (in Rs crore)

Items	2018-19 Actuals	2019-20 BE	2019-20 RE	% change from BE 2019- 20 to RE 2019-20	2020-21 BE	% change from RE 2019-20 to BE 2020-21
Total Expenditure	1,85,616	2,28,888	1,92,301	-16%	2,00,343	4.2%
A. Receipts (except borrowings)	1,36,625	1,71,379	1,46,372	-14.6%	1,20,595	-17.6%
B. Borrowings	32,497	42,984	34,687	-19.3%	63,448	82.9%
Total Receipts (A+B)	1,69,122	2,14,363	1,81,059	-15.5%	1,84,043	1.6%
Revenue Surplus (+)/Deficit (-)	8,815	733	-2,698	-468.2%	-17,514	549.2%
<i>As % of GSDP</i>	1.1%	0.1%	-0.3%		1.8%	
Fiscal Deficit	21,617	32,106	32,694	1.8%	47,360	44.9%
<i>As % of GSDP</i>	2.7%	3.3%	3.6%		5%	
Primary Deficit	8,921	17,674	18,942	7.2%	30,899	63.1%
<i>As % of GSDP</i>	1.1%	1.8%	2.1%		3.3%	

Note: BE is Budget Estimates; RE is Revised Estimates.

Sources: Madhya Pradesh Budget Documents 2020-21; PRS.

Expenditure in 2020-21

- Capital expenditure** for 2020-21 is proposed to be Rs 29,887 crore, which is 0.5% less than the revised estimates of 2019-20. Capital expenditure includes expenditure affecting the assets and liabilities of the state, such as: (i) capital outlay, i.e. expenditure which leads to the creation of assets (such as bridges and hospitals), and (ii) repayment and grant of loans by the state government.
- Madhya Pradesh's capital outlay for 2020-21 is estimated to be Rs 28,350 crore, which is 2.8% less than the revised estimates of 2019-20. The revised estimate for capital outlay in 2019-20 is 12.9% lower as compared to the budget estimate.
- Revenue expenditure** for 2020-21 is proposed to be Rs 1,54,110 crore, which is an increase of 1.9% over revised estimates of 2019-20. This expenditure includes the payment of salaries, pensions, and interest. In 2019-20, the revised estimate for revenue expenditure is 15.3% lower as compared to the budget estimate.

Table 2: Expenditure budget 2020-21 (in Rs crore)

Items	2018-19 Actuals	2019-20 BE	2019-20 RE	% change from BE 2019-20 to RE 2019-20	2020-21 BE	% change from RE 2019-20 to BE 2020-21
Capital Expenditure	30,515	35,464	30,036	-15.3%	29,887	-0.5%
of which Capital Outlay	29,424	33,490	29,159	-12.9%	28,350	-2.8%
Revenue Expenditure	1,41,577	1,78,621	1,51,259	-15.3%	1,54,110	1.9%
Total Expenditure	1,85,616	2,28,888	1,92,301	-16.0%	2,00,343	4.2%
A. Debt Repayment	13,524	14,803	11,005	-25.7%	16,346	48.5%
B. Interest Payments	12,696	14,432	13,751	-4.7%	16,460	19.7%
Debt Servicing (A+B)	26,219	29,235	24,757	-15.3%	32,806	32.5%

Note: BE is Budget Estimates; RE is Revised Estimates. Capital outlay denotes expenditure which leads to the creation of assets.

Sources: Madhya Pradesh Budget Documents 2020-21; PRS.

Sector-wise expenditure in 2020-21

The sectors listed below account for **68%** of the total expenditure by the state in 2020-21. Expenditure on these sectors is estimated to decrease by 4.8% in 2020-21 over the revised estimate of 2019-20. The expenditure on these sectors in 2019-20 is estimated to be 15.2% lower than the budget estimate. A comparison of Madhya Pradesh's expenditure on the key sectors with that by other states can be found in Annexure 1. Education, Sports, Arts and Culture is estimated to have the highest expenditure in 2020-21 (Rs 33,408 crore). The

expenditure on this sector is estimated to increase by 10% in 2020-21 as compared to the revised estimate of 2019-20.

Table 3: Sector-wise expenditure under Madhya Pradesh Budget 2020-21 (in Rs crore)

Sector	2018-19 Actuals	2019-20 BE	2019-20 RE	2020-21 BE	% change from 2019-20 RE to 2020-21 BE
Education, Sports, Arts, and Culture	27,116	32,046	30,289	33,408	10%
Rural Development	10,593	14,972	12,780	13,904	9%
Water Supply, Sanitation, Housing and Urban Development	16,209	20,821	14,650	12,894	-12%
Social Welfare and Nutrition	7,490	9,690	10,399	10,612	2%
Agriculture and allied activities	17,482	24,174	13,780	10,326	-25%
Health and Family Welfare	7,738	10,499	9,618	10,164	6%
Energy	12,343	15,302	13,855	10,095	-27%
Irrigation and Flood Control	9,440	9,712	10,123	8,144	-20%
Police	6,384	7,177	6,807	7,512	10%
Transport	7,919	8,465	7,344	6385	-13%
% of total expenditure	72%	72%	72%	68%	

Sources: Madhya Pradesh Budget Documents 2020-21; PRS.

Committed expenditure: Committed expenditure of a state typically includes expenditure on payment of salaries, pensions, and interest. A larger proportion of budget allocated for committed expenditure items limits the state's flexibility to decide on other expenditure priorities such as capital outlay. In 2020-21, Madhya Pradesh is estimated to spend Rs 71,565 crore on committed expenditure. This is 16.7% higher than the budget estimates of 2019-20. In 2020-21, Madhya Pradesh is estimated to spend 52.4% of its revenue receipts on committed expenditure items. This comprises spending on salaries (14% of revenue receipts), pension (11%), and interest payments (7%). In 2020-21, interest payments are estimated to increase by 19.7% over the revised estimates of 2019-20.

Table 4: Expenditure budget 2020-21 (in Rs crore)

Items	2018-19 Actuals	2019-20 BE	2019-20 RE	% change from BE 2019-20 to RE 2019-20	2020-21 BE	% change from RE 2019-20 to BE 2020-21
Salaries	29,012	32,886	-	-	38,112	15.9%
Pensions	11,984	14,017	13,499	-3.7%	16,993	25.9%
Interest	12,696	14,432	13,751	-4.7%	16,460	19.7%
Total Committed Expenditure	53,692	61,335	-		71,565	16.7%

Note: BE is Budget Estimates; RE is Revised Estimates. In last column, for Salaries and Total Expenditure, % change is from BE 2019-20 to BE 2020-21. The Total Expenditure for RE 2019-20 is not calculated as RE 2019-20 for Salaries is not available in the budget documents.

Sources: Madhya Pradesh Budget Documents 2020-21; PRS.

Receipts in 2020-21

- **Total revenue receipts** for 2020-21 are estimated to be Rs 1,36,596 crore, a decrease of 8.1% over the revised estimates of 2019-20. Of this, Rs 57,661 crore (42.2%) will be raised by the state through its **own resources**, and Rs 78,935 crore (57.8%) will come **from the centre**. Resources from the centre will be in the form of state's share in central taxes (33.7% of revenue receipts) and grants (24.1% of revenue receipts).
- **Tax Revenue:** Total own tax revenue of Madhya Pradesh is estimated to be Rs 48,801 crore in 2020-21, an increase of 10.7% over the revised estimates of the previous year. In 2019-20, as per the revised estimates, state's own tax revenue is estimated to be 16.3% less than the budget estimates.
- **Devolution:** In 2020-21, receipts from the state's share in central taxes are estimated to decrease by 7.1% over the revised estimates of 2019-20. Moreover, as per the revised estimates of 2019-20, receipts from the state's share in central taxes is estimated to decrease by 22.3% as compared to the budget stage. This may

be due to a 19% cut in the union budget for devolution to states, from Rs 8,09,133 crore at the budget stage to Rs 6,56,046 crore at the revised stage. The state's share in the centre's tax revenue will increase from 3.17% in 2015-20 to 3.23% in 2020-21 (increase by 2%) as per the recommendations of the 15th Finance Commission (Annexure 2).

Table 5: Break up of state government receipts (in Rs crore)

Items	2018-19 Actuals	2019-20 BE	2019-20 RE	% change from BE 2019-20 to RE 2019-20	2020-21 BE	% change from RE 2019-20 to BE 2020-21
State's Own Tax	51,126	65,274	54,638	-16.3%	48,801	-10.7%
State's Own Non-Tax	13,288	13,968	10,592	-24.2%	8,860	-16.3%
Share in Central Taxes	57,353	63,751	49,518	-22.3%	46,025	-7.1%
Grants-in-aid from Centre	28,625	36,361	33,814	-7.0%	32,910	-2.7%
Total Revenue Receipts	1,50,392	1,79,354	1,48,561	-17.2%	1,36,596	-8.1%
Borrowings	32,497	42,984	34,687	-19.3%	63,448	82.9%
Other receipts	-13,767	-7,974	-2,190	-72.5%	-16,001	630.8%
Total Capital Receipts	18,730	35,010	32,497	-7.2%	47,446	46.0%
Total Receipts	1,69,122	2,14,363	1,81,059	-15.5%	1,84,043	1.6%

Note: BE is Budget Estimates; RE is Revised Estimates.

Sources: Madhya Pradesh Budget Documents 2020-21; PRS.

- In 2020-21, State GST is estimated to be the largest source of own tax revenue (33% of total own tax revenue). State GST collection is estimated to lower than the revised estimates for 2019-20 by 16.6%.
- In 2020-21, Madhya Pradesh is expected to generate Rs 11,208 crore through the collection of Sales Tax and VAT, an increase of 3.3% over the revised estimates of 2019-20. In 2019-20, the Sales Tax and VAT collection is estimated to decline by 9.6% over the budget estimates.
- Rs 9,000 crore is estimated to come from state excise duty in 2020-21, which is 16.6% lower than the revised estimates of the previous year.

GST Compensation

The GST (Compensation to States) Act, 2017 guarantees states compensation for five years (till 2022) for any revenue loss arising due to GST implementation. The Act guarantees states a 14% annual growth on their revenue which was subsumed under GST. If the GST revenue of a state does not match the guaranteed growth, compensation grants are provided to meet the shortfall.

The state is estimated to receive GST compensation grants in all three years between 2018-19 and 2020-21 (Rs 4,728 crore in 2020-21). Reliance on GST compensation grants indicates a slower growth in SGST collection as compared to the 14% annual growth envisaged under the Act.

Table 6: Some of the major state's own tax revenue sources (in Rs crore)

Head	2018-19 Actuals	2019-20 BE	2019-20 RE	% change from BE 2019-20 to RE 2019-20	2020-21 BE	% change from RE 2019-20 to BE 2020-21	% of Revenue Receipts in 2020-21
State GST	18,619	24,100	19,323	-19.8%	16,111	-16.6%	11.8%
Sales Tax and VAT	9,903	12,000	10,851	-9.6%	11,208	3.3%	8.2%
State Excise Duty	9,542	13,000	10,786	-17%	9,000	-16.6%	6.6%
Stamp Duty and Registration Fees	5,278	6,500	5,571	-14.3%	5,000	-10.2%	3.7%
Taxes on Vehicle	3,008	4,000	3,037	-24.1%	2,500	-17.7%	1.8%
Taxes and Duties on Electricity	2,616	3,135	2,957	-5.7%	3,000	1.5%	2.2%
Land Revenue	384	1,000	533	-46.7%	500	-6.2%	0.4%
GST Compensation Grants	2,866	3,300	4,902	48.5%	4,728	-3.5%	3.5%

Note: BE is Budget Estimates; RE is Revised Estimates.

Sources: Madhya Pradesh Budget Documents 2020-21; PRS.

Deficits, Debts and FRBM Targets for 2020-21

The Madhya Pradesh Fiscal Responsibility and Budget Management (FRBM) Act, 2005 provides annual targets to progressively reduce the outstanding liabilities, revenue deficit and fiscal deficit of the state government.

Revenue Balance: It is the difference of revenue expenditure and revenue receipts. A revenue deficit implies that the government needs to borrow to finance its expenses which do not create capital assets. A revenue surplus implies that the revenue receipts of state are sufficient to meet the revenue expenditure requirements. The 14th Finance Commission had recommended that states should eliminate revenue deficit. The budget estimates a revenue deficit of Rs 17,514 crore (or 1.8% of GSDP) in 2020-21.

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. In 2020-21, the fiscal deficit is estimated to be Rs

47,360 crore (5% of GSDP). This is higher than the 3% limit as per the FRBM Act. As per the revised estimates, in 2019-20, the fiscal deficit of the state is expected to be 3.6% of GSDP, higher than the budget estimate at 3.3%.

Given the situation due to COVID-19 pandemic, the central government has permitted increasing the fiscal deficit limit for a state from 3% to 5% in 2020-21. This 5% includes an unconditional increase of the limit to 3.5% of GSDP. One percentage point increase in limit, divided into four parts of 0.25 percentage point is conditional on achievement of the following reforms: (i) universalisation of 'one nation one ration card', (ii) ease of doing business, (iii) power distribution and (iv) urban local body revenues. An additional increase of 0.5 percentage point will be permitted if three out of four reforms are achieved.

Outstanding liabilities: Outstanding liabilities is the accumulation of borrowings over the years. In 2020-21, the outstanding liabilities are expected to be 28.8% of the GSDP, higher than the revised estimate for 2019-20 (25% of GSDP). This is higher than the average level of outstanding liabilities of 29 states in 2019-20 (24.6% of their GSDP).

Debt Servicing

In 2020-21, Madhya Pradesh is expected to spend Rs 32,806 crore on servicing its debt. This is 32.5% higher than the revised estimates of 2019-20. This includes Rs 16,346 crore towards repaying loans (49.8% of total), and Rs 16,460 crore towards interest payments (50.2% of total).

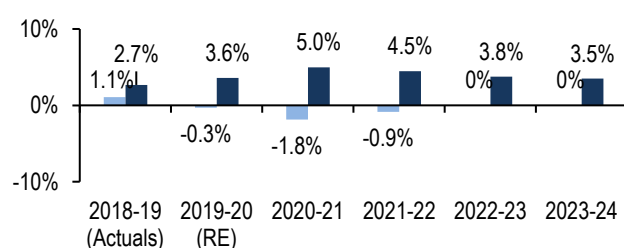
Table 7: Budget targets for deficits for Madhya Pradesh in 2020-21 (% of GSDP)

Year	Revenue Deficit	Fiscal Deficit	Outstanding Liabilities
2018-19 (Actuals)	1.1%	2.7%	23.9%
2019-20 (RE)	-0.3%	3.6%	25.0%
2020-21	-1.8%	5.0%	28.8%
2021-22	-0.9%	4.5%	31.2%
2022-23	>0%	3.8%	32.1%
2023-24	>0%	3.5%	32.1%

Note: Outstanding liabilities include liabilities on public accounts.

Sources: Madhya Pradesh Budget Documents 2020-21; PRS.

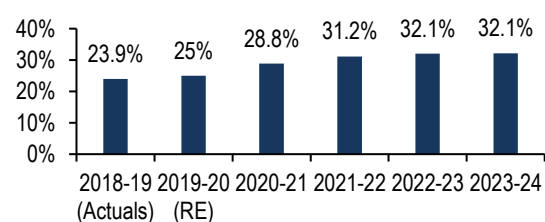
Figure 2: Revenue and Fiscal Deficit (as % of GSDP)



Note: RE is Revised Estimates.

Sources: Madhya Pradesh Budget Documents; PRS.

Figure 3: Outstanding liabilities targets (as % of GSDP)



Note: RE is Revised Estimates

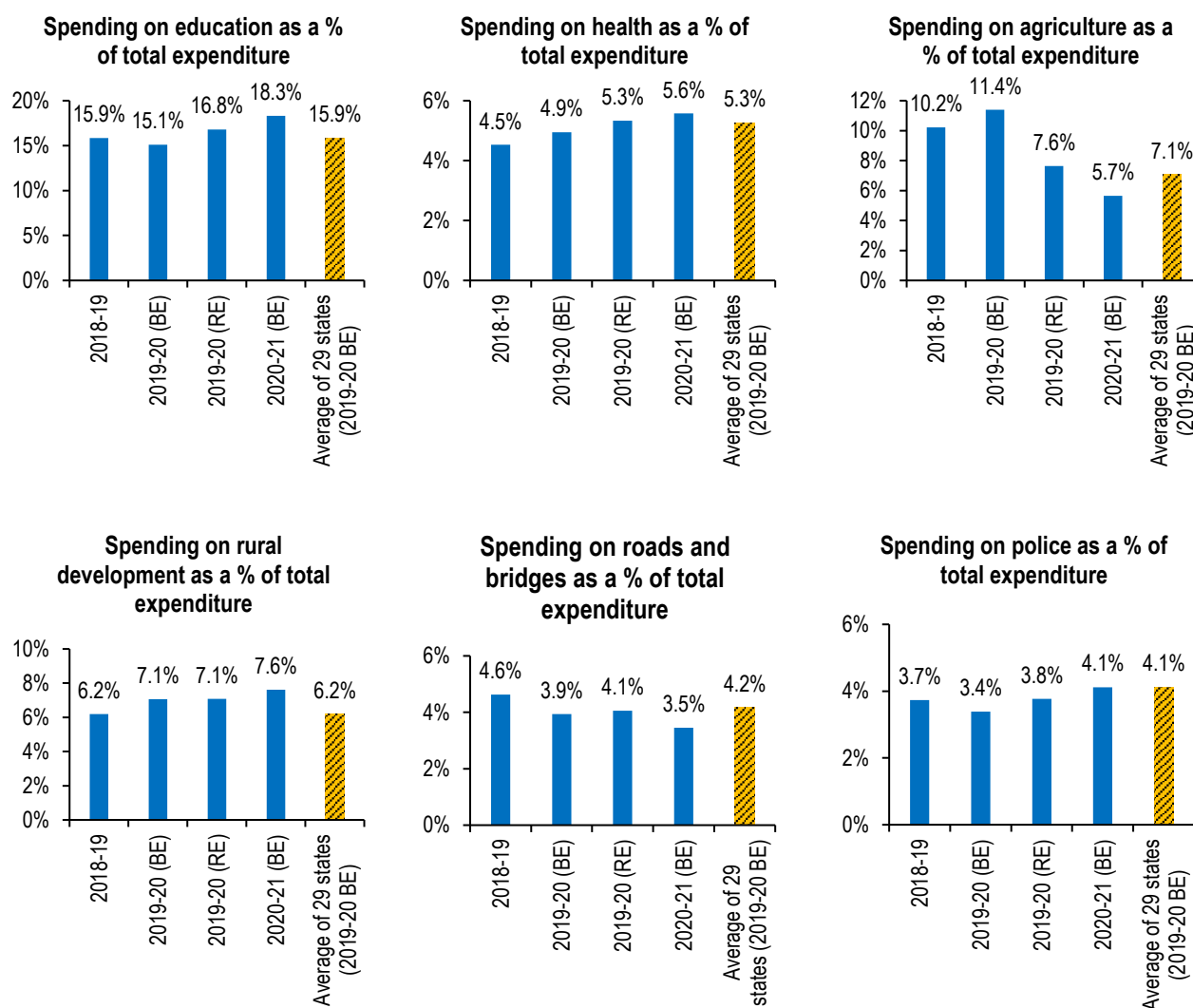
Sources: Madhya Pradesh Budget Documents; PRS.

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Annexure 1: Comparison of states' expenditure on key sectors

The graphs below compare Madhya Pradesh's expenditure on six key sectors as a proportion of its total expenditure on all sectors. The average for a sector indicates the average expenditure in that sector by 29 states as per their budget estimates of 2019-20.¹

- **Education:** Madhya Pradesh has allocated 18.3% of its total expenditure for education in 2020-21. This is higher than the average expenditure (15.9%) allocated for education by states (using 2019-20 BE).
- **Health:** Madhya Pradesh has allocated 5.6% of its total expenditure on health, which is marginally higher than the average allocation for health by states (5.3%).
- **Agriculture:** The state has allocated 5.7% of its total expenditure towards agriculture and allied activities. This is lower than the average allocated by states (7.1%).
- **Rural development:** Madhya Pradesh has allocated 7.6% of its expenditure on rural development. This is higher than the average allocation for rural development by states (6.2%).
- **Roads and bridges:** Madhya Pradesh has allocated 3.5% of its total expenditure on roads and bridges, which is lower than the average expenditure of 29 states (4.2%).
- **Police:** Madhya Pradesh has allocated 4.1% of its total expenditure on police, which is equal to the average allocation for police by states (4.1%).



Note: 2018-19, 2019-20 (BE), 2019-20 (RE), and 2020-21 (BE) figures are for Madhya Pradesh.
Sources: Annual Financial Statement (2019-20 and 2020-21), various state budgets; PRS.

¹ The 28 other states include all states except Manipur. It includes the Union Territory of Delhi and erstwhile state of Jammu and Kashmir.

Annexure 2: Recommendations of the 15th Finance Commission for 2020-21

The 15th Finance Commission's (15th FC) report for the financial year 2020-21 was tabled in Parliament on February 1, 2020. The 15th FC recommended a 41% share for states in the central government's tax revenue in 2020-21, a 1% decrease from the 42% share recommended by the 14th FC (2015-20). The 1% decrease is to provide funds to the newly formed union territories of Jammu and Kashmir, and Ladakh from the share of the central government. The 15th FC also proposed revised criteria for determining the share of individual states.

Table 8 shows the share of states in the central government's tax revenue², as per the recommendations of the 14th FC for 2015-20 and the 15th FC for 2020-21. The 15th FC has recommended a 3.23% share for Madhya Pradesh in the centre's tax revenue for 2020-21 (an increase of 2% over the 14th FC period). This implies that out of every Rs 100 of centre's tax revenue in 2020-21, Madhya Pradesh will receive Rs 3.23. Table 8 also shows the estimated devolution to states by the centre for 2019-20 and 2020-21 (in Rs crore).

Table 8: Share of states in centre's tax revenue under the 14th and 15th Finance Commissions (2020-21)

State	Share of states in centre's tax revenue			Devolution to states by the centre		
	14 th FC (2015-20)	15 th FC (2020-21)	% change	2019-20 RE	2020-21 BE	% change
Andhra Pradesh	1.81	1.69	-7%	28,242	32,238	14%
Arunachal Pradesh	0.58	0.72	24%	8,988	13,802	54%
Assam	1.39	1.28	-8%	21,721	24,553	13%
Bihar	4.06	4.13	2%	63,406	78,896	24%
Chhattisgarh	1.29	1.4	9%	20,206	26,803	33%
Goa	0.16	0.16	0%	2,480	3,027	22%
Gujarat	1.3	1.39	7%	20,232	26,646	32%
Haryana	0.46	0.44	-4%	7,112	8,485	19%
Himachal Pradesh	0.3	0.33	10%	4,678	6,266	34%
Jammu and Kashmir	0.78	-	-	12,171	-	-
Jharkhand	1.32	1.36	3%	20,593	25,980	26%
Karnataka	1.98	1.49	-25%	30,919	28,591	-8%
Kerala	1.05	0.8	-24%	16,401	15,237	-7%
Madhya Pradesh	3.17	3.23	2%	49,518	61,841	25%
Maharashtra	2.32	2.52	9%	36,220	48,109	33%
Manipur	0.26	0.29	12%	4,048	5,630	39%
Meghalaya	0.27	0.31	15%	4,212	5,999	42%
Mizoram	0.19	0.21	11%	3,018	3,968	31%
Nagaland	0.21	0.23	10%	3,267	4,493	38%
Odisha	1.95	1.9	-3%	30,453	36,300	19%
Punjab	0.66	0.73	11%	10,346	14,021	36%
Rajasthan	2.31	2.45	6%	36,049	46,886	30%
Sikkim	0.15	0.16	7%	2,408	3,043	26%
Tamil Nadu	1.69	1.72	2%	26,392	32,849	24%
Telangana	1.02	0.87	-15%	15,988	16,727	5%
Tripura	0.27	0.29	7%	4,212	5,560	32%
Uttar Pradesh	7.54	7.35	-3%	1,17,818	1,40,611	19%
Uttarakhand	0.44	0.45	2%	6,902	8,657	25%
West Bengal	3.08	3.08	0%	48,048	58,963	23%
Total	42	41	-2%	6,56,046	7,84,181	20%

Sources: Reports of 14th and 15th Finance Commissions (2020-21); Union Budget Documents 2020-21; PRS.

In addition, the 15th FC has also recommended certain grants-in-aid for various purposes for the year 2020-21. These include: (i) Rs 90,000 crore as grants to local bodies, of which Madhya Pradesh will receive Rs 5,902 crore, and (ii) Rs 22,184 crore as the centre's grants to disaster management, out of which Madhya Pradesh will receive Rs 1,820 crore.

² This excludes the cess and surcharge revenue of the central government as it is outside the divisible pool and not shared with states. As per the 2019-20 union budget, cess and surcharge revenue accounted for 15% of the estimated gross tax revenue of the central government.