

Uttar Pradesh Budget Analysis 2017-18

The Finance Minister of Uttar Pradesh, Mr. Rajesh Agarwal presented the Budget for Uttar Pradesh for the financial year 2017-18 on July 11, 2017. This note provides key highlights of the budget.

Budget Highlights

- The **Gross State Domestic Product** (GSDP) of Uttar Pradesh for 2017-18 at current prices is estimated to be Rs 14,45,770 crore. This is 16% higher than the revised estimates for 2016-17.
- **Total expenditure** for 2017-18 is estimated to be Rs 3,84,660 crore, a 13 % increase over the revised estimate of 2016-17. In 2016-17, the revised estimates were lower than the budget estimates by Rs 6,680 crore (2 %) implying a shortfall in estimated expenditure.
- **Total receipts (excluding borrowings)** for 2017-18 are estimated to be Rs 3,19,682 crore, an increase of 19% over the revised estimates of 2016-17. In 2016-17, total receipts fell short of the budgeted target by Rs 12,138 crore (4%).
- **Revenue surplus** for 2017-18 is targeted at Rs 12,279 crore, or 0.8% of the GSDP. **Fiscal deficit** is targeted at Rs 42,968 crore (2.97% of GSDP).
- 18% of the total expenditure is proposed to be spent on interest and debt repayments. 26% is spent on paying salaries, and 9% on paying pensions.
- Departments of Agriculture, Urban Development, Public Works, Rural Development, and Education saw the highest increase in expenditure. Energy and Irrigation are expected to see a decrease in their expenditure.

Policy Highlights

- Rs 36,000 crore has been allocated for farm loan redemption.
- Aadhaar cards will be seeded with existing ration card to reduce misuse and provide benefits to targeted individuals. Rs 76 crores has been allocated for this purpose.
- State has set a goal to make Uttar Pradesh Open Defecation Free by October 2018.

Industry

- ‘Udyogik Nivesh Avam Rozgar Protsahan Niti 2017’ will be introduced to encourage industry and employment. Rs 20 crore has been allocated for this purpose. In addition, Special Investment Board will be established. Single window clearance mechanism will be established to approve setting up of new businesses. Rs 10 crore has been allocated for this purpose.
- Start-up incubators in Lucknow to be established at an expense of Rs 5 crore. ‘Vishwakarma Shram Sammaan Yojana’ will be established for supporting traditionally self-employed people.

Schemes

- All girls will get free education till graduation under ‘Ahilyabai Nishulk Shiksha Yojana’. Rs 21 crores has been allocated for this purpose.
- Rs 2,800 crores allocated for drinking water schemes for Purvanchal, Vindhya and Bundelkhand regions.
- Rs 394 crore has been allocated for development of madrasas.

Infrastructure

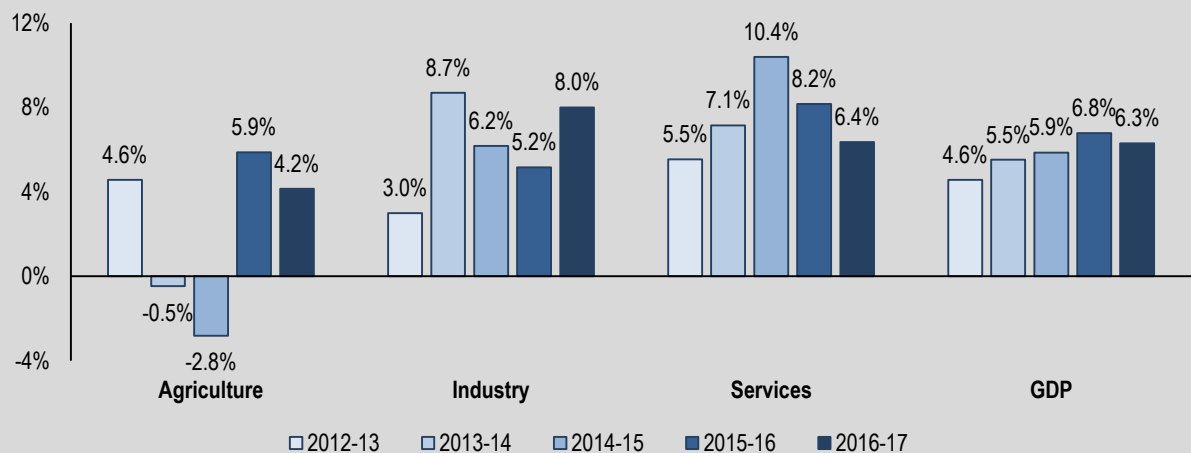
- Rs 288 crore allocated for construction of four metro rail projects in the state.
- To connect district headquarters with four lane roads, Rs 71 crore will be spent.
- 24 hour power supply will be provided from October 2018. 100% electrification for all households in the state will be achieved by 2019.

Others

- 712 new ‘108’ emergency ambulances will be introduced.
- Total of 33,200 police personnel will be recruited. Out of which 30,000 will be at the constable level and 3,200 at sub-inspector level.

Background: Uttar Pradesh's Economy

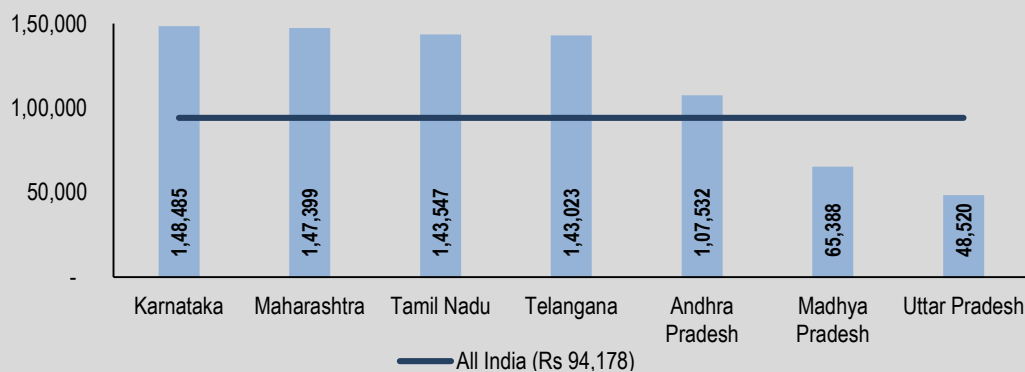
Volatile agriculture sector and strong service sector



Sources: Central Statistics Office; PRS.

- Service sector is the largest contributor to the state's economy (49%). This is followed by manufacturing sector (28%), and agriculture (23%).
- Over the past five years, agriculture sector saw volatile growth, with growth rates varying between -2.8% (in 2014-15) to 5.9% (in 2015-16).
- On the other hand service sector saw the most growth, with a minimum of 5.5% in 2012-13, and a maximum of 10.4% in 2014-15. The overall economy saw the highest growth of 6.8% in 2015-16.

State's per-capita is about half of that of national average



Sources: Central Statistics Office; PRS.

- Among the largest state economies in the country, Uttar Pradesh has the lowest per-capita income.
- Per-capita income of the state is Rs 48,520, which is about half (51%) of the national average (Rs 94,178).

Budget Estimates for 2017-18

- The total expenditure in 2017-18 is targeted at Rs 3,84,660 crore. The revised estimate for the total expenditure in 2016-17 was Rs 3,40,255 crore, which is 2% (Rs 6,680 crore) lower than the budgeted target of 2016-17.
- The expenditure in 2017-18 is proposed to be met through receipts (other than borrowings) of Rs 3,19,682 crore and borrowings of Rs 57,509 crore. Total receipts for 2017-18 (other than borrowings) are expected to be 13% higher than the revised estimate of 2016-17.

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

Items	2015-16 Actuals	2016-17 Budgeted	2016-17 Revised	% change from BE 2016-17 to RE of 2016-17	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18
Total Expenditure	3,03,949	3,46,935	3,40,255	-2%	3,84,660	13%
A. Borrowings*	74,514	58,261	64,024	10%	57,509	-10%
B. Receipts (except borrowings)	2,27,802	2,81,860	2,69,722	-4%	3,19,682	19%
Total Receipts (A+B)	3,02,315	3,40,121	3,33,746	-2%	3,77,191	13%
Revenue Deficit (-)/Surplus(+)	14,340	28,201	24,506		12,279	
As % of state GDP	1.3%	2.3%	2.0%		0.8%	
Fiscal Deficit (-)/Surplus(+)	-58,475	-49,961	-55,021		-42,968	
As % of state GDP	-5.3%	-4.0%	-4.4%		-3.0%	
Primary Deficit (-)/Surplus(+)	-30,060	-11,855	-16,869		2,477	
As % of state GDP	-2.7%	-1.0%	-1.4%		0.2%	

Notes: BE is Budget Estimate; RE is Revised Estimate. * Borrowings are gross borrowings which have not been netted for repayments.
Sources: Uttar Pradesh State Budget Documents 2017-18; PRS.

Expenditure in 2017-18

- Government expenditures can be divided into (a) capital expenditure, which affects the assets and liabilities of the state, and (b) revenue expenditure, which includes the rest of the expenses such as maintenance of assets.
- Total capital expenditure is proposed to be Rs 77,541 crore (20% of the total expenditure), which is a decrease of 19% over the revised estimates of 2016-17. This includes expenditure, which leads to creation of assets, and repayment of loans, among others.
- Total revenue expenditure for 2017-18 is proposed to be Rs 3,07,119 crore, which is an increase of 25% over revised estimates of 2016-17. This expenditure includes payment of salaries, administration of government programs, etc.

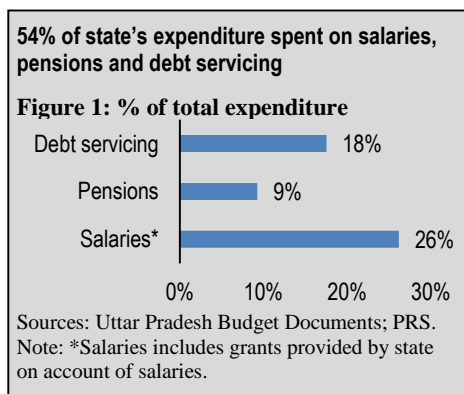


Table 2: Expenditure budget 2017-18 (in Rs crore)

Item	2015-16 Actuals	2016-17 Budgeted	2016-17 Revised	% change from BE 2016-17 to RE 2016-17	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18
Capital Expenditure	91,213	93,580	95,354	2%	77,541	-19%
Revenue Expenditure	2,12,736	2,53,355	2,44,901	-3%	3,07,119	25%
Total Expenditure	3,03,949	3,46,935	3,40,255	-2%	3,84,660	13%
A. Debt Repayment	17,673	15,114	15,512	3%	22,010	42%
B. Interest Payments	28,415	38,106	38,151	0%	45,444	19%
Debt Servicing (A+B)	46,087	53,221	53,664	1%	67,455	26%

Sources: Uttar Pradesh State Budget Documents 2017-18; PRS.

Department expenditure in 2017-18

The departments listed below account for 64% of the total budgeted expenditure of Uttar Pradesh in 2017-18.

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

Department	2015-16 Actuals	2016-17 Budgeted	2016-17 Revised	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18	Budget provisions for 2017-18
Education	40,112	49,808	46,442	62,351	34%	<ul style="list-style-type: none"> Scholarship worth Rs 1,200 crore for backward classes and Rs 942 crore for minorities. Free shoes, socks and sweater for Uttar Pradesh Basic Shiksha Run primary and higher primary schools.
Agriculture	2,980	4,261	4,014	36,653	813%	<ul style="list-style-type: none"> Rs36,000 crore has been allocated for farm loan redemption. Rs 969 crore allocated for Rashtriya Krishi Vikas Yojana and Rs 450 crores allocated under Fasal Bima Yojana.
Public Works	4,504	19,320	21,595	33,247	54%	<ul style="list-style-type: none"> Rs 3,972 crore for the maintenance and repair of state roads.
Social Welfare	17,487	21,572	20,238	22,665	12%	
Energy	48,219	32,835	34,602	17,728	-49%	<ul style="list-style-type: none"> 24 hour power supply will be provided from October 2018. 100% electrification for all households in the state to be achieved by 2019.
Medical and Public Health	12,104	17,828	15,834	17,181	9%	<ul style="list-style-type: none"> 712 more 108 emergency ambulances to be introduced.
Police	12,136	15,027	13,865	16,117	16%	<ul style="list-style-type: none"> 33,200 police personnel will be recruited.
Rural Development	10,177	13,213	11,536	15,821	37%	<ul style="list-style-type: none"> Rs 3,255 crores allocated for construction of toilets under Swachh Bharat Abhiyan (Rural). Rs 4,500 crores allocated for Pradhan Mantri Awas Yojana (Rural).
Urban Development	5,250	8,268	8,006	13,189	65%	<ul style="list-style-type: none"> Rs1,000 crores allocated for Swachh Bharat Abhiyan (Urban)
Irrigation	10,308	12,832	12,117	10,958	-10%	<ul style="list-style-type: none"> Rs 113 crore allocated under the Pradhan Mantri Krishi Sinchai Yojana to improve cultivable area under irrigation.
Others	1,40,673	1,51,971	1,52,006	1,38,750	-9%	
Total	3,03,949	3,46,935	3,40,255	3,84,660	13%	

Source: Uttar Pradesh Budget Speech 2017-18; PRS.

Other announcements:

- To improve production of oilseed crops, 'National Mission on Seed and Oil Palm' will be implemented. Estimated 88.82 lakh metric tonnes of fertilizers will be procured by the state to ensure adequate availability of fertilizers.
- Under the 'Swadesh Darshan Yojana', Rs 1,240 crore has been allocated to develop Ramayan circuit, Baudh circuit and Krishna circuit in Ayodhya, Varanasi and Mathura, respectively.
- Rs 692 crore has been allocated for 'Mukhyamantri Kisan Avam Sarvahit Yojana', under which crop insurance will be provided for farmers.
- Rs 50 crore is allocated to provide WiFi facilities in all state and private universities.

Receipts in 2017-18

- The total revenue receipts for 2017-18 are estimated to be Rs 3,19,397 crore, an increase of 19% over the revised estimates of 2016-17.

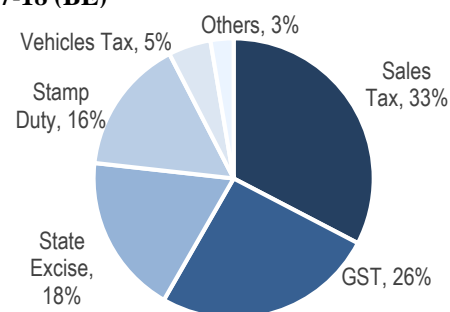
Table 4: Break up of state government receipts (in Rs crore)

Item	2015-2016 Actuals	2016-2017 Budgeted	2016-2017 Revised	% change from BE 2016-17 to RE 2016-17	2017-2018 Budgeted	% change from RE 2016-17 to BE 2017-18
State's Own Tax	81,106	1,01,257	90,219	-11%	1,11,502	24%
State's Own Non Tax	23,135	24,241	27,575	14%	18,437	-33%
State's share in Central Taxes	90,974	1,05,637	1,02,650	-3%	1,21,407	18%
Grants-in-aid from Centre	31,861	50,421	48,964	-3%	68,052	39%
Total Revenue Receipts	2,27,076	2,81,555	2,69,407	-4%	3,19,397	19%
Borrowings	74,514	58,261	64,024	10%	57,509	-10%
Other receipts	726	304	315	4%	284	-10%
Total Capital Receipts	75,239	58,565	64,340	10%	57,793	-10%
Total Receipts	3,02,315	3,40,121	3,33,746	-2%	3,77,191	13%

Sources: Uttar Pradesh State Budget Documents 2017-18; PRS.

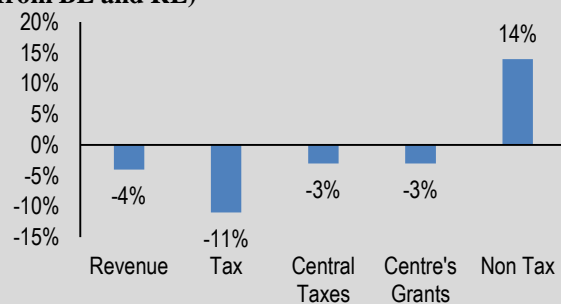
- Tax revenue:** State's own tax revenue is expected to increase by 24% in 2017-18 to Rs 1,11,502 crore over the revised estimates of 2016-17. The tax to GSDP ratio is targeted at 7.7% in 2017-18, which is higher than the revised estimate of 7.2% in 2016-17. This implies that growth in collection of taxes has been higher than the growth of the economy.
- In 2016-17, tax revenue is estimated to be Rs 90,219 crore, which is 11% lower than the budgeted estimates.
- Sales tax is the largest component of the tax revenue of the state. It was levied on sale of all goods till June 2017, and will continue to be levied on the sale of alcohol and petroleum products later on. It is expected to generate Rs 36,397 crore in 2017-18.
- Goods and Services Tax (GST) is being levied on the sale of goods and services from July 2017. Uttar Pradesh is expected to generate Rs 28,603 crore from GST. State Excise Duty is levied on the manufacture of alcohol. The government is expected to generate Rs 20,593 crore the levy of this Duty. This is an increase of 18% over revised estimates of 2016-17.

Figure 2: Composition of Tax Revenue in 2017-18 (BE)



Sources: Uttar Pradesh Budget Document, PRS.

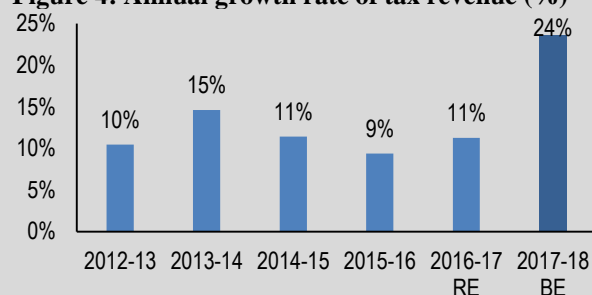
Figure 3: Budget vs revised in 2016-17 (% change from BE and RE)



Sources: Uttar Pradesh Budget Documents, PRS.

- In 2016-17, the budgeted revenue collection was revised down by 4%. This was due to projected under-collection of (i) tax revenue by 11%, (ii) share in centre's taxes to the state by 3%, and (iii) grants in aid from the centre by 3%.
- On the other hand, non-tax revenue was revised up by 14%.

Figure 4: Annual growth rate of tax revenue (%)



Sources: Uttar Pradesh Budget Documents, PRS.

- In 2017-18, the government estimates a tax revenue growth of 24%. This is higher than the tax growth in the last five years.
- Highest growth is budgeted for Sales Tax + GST, which is estimated to be 26% higher than the revised estimates of 2016-17. The rest of the taxes are estimated to grow at 20%.

- In addition, revenue will be generated through levy of duty on electricity, stamp duties on real estate transactions, taxes on vehicles, etc.
- **Non Tax Revenue:** Uttar Pradesh has estimated to generate Rs 18,437 crore through non-tax sources in 2017-18. This includes receipts from education, mining, police, water supply, etc. The estimates for 2017-18 are 33% lower than the revised estimates of 2016-17. This is driven by a decrease in revenue collection on account of general education. The government has estimated to collect Rs 14,170 crore on account of non-tax revenue from education in 2016-17. However, this amount was budgeted to be only Rs 520 crore in 2017-18.
- On the other hand, the government budget to receive Rs 3,200 crore through mining in 2017-18, which is 108% higher than the revised estimates of 2016-17.
- **Grants** from the centre are set to increase by 39%, from Rs 48,964 crore in 2016-17 (RE), to Rs 68,052 crore in 2017-18. Note that the centre estimates to increase the grants provided to all the states by 5% in 2017-18, over the revised estimates of 2016-17.

Figure 5: Grants from centre on Centrally Sponsored Schemes (in Rs crore)

Scheme	2016-17 Budgeted	2016-17 Revised	% change from BE 2016-17 to RE 2016-17	2017-18 Budgeted	% change from 2016-17 RE to 2017-18 BE
Pradhan Mantri Awas Yojana – Rural	1,897	1,998	5%	3,096	55%
National Rural Employment Guarantee Scheme	3,200	2,304	-28%	1,260	-45%
Pradhan Mantri Gram Sasak Yojana	891	762	-14%	1,769	132%
Rashtriya Krishi Vikas Yojana	510	476	-7%	474	0%
Swachh Bharat Mission – Rural	920	723	-21%	1,938	168%
National Rural Health Mission	2,680	1,868	-30%	2,389	28%
Smart City Mission	300	300	0%	750	150%
AMRUT	291	291	0%	1,101	279%
Pradhan Mantri Awas Yojana - Urban	166	166	0%	2,942	1670%
Sarva Siksha Abhiyan	8,641	10,895	26%	9,461	-13%

Sources: Uttar Pradesh Budget Documents; PRS.

Deficits, Debts and FRBM Targets for 2017-18

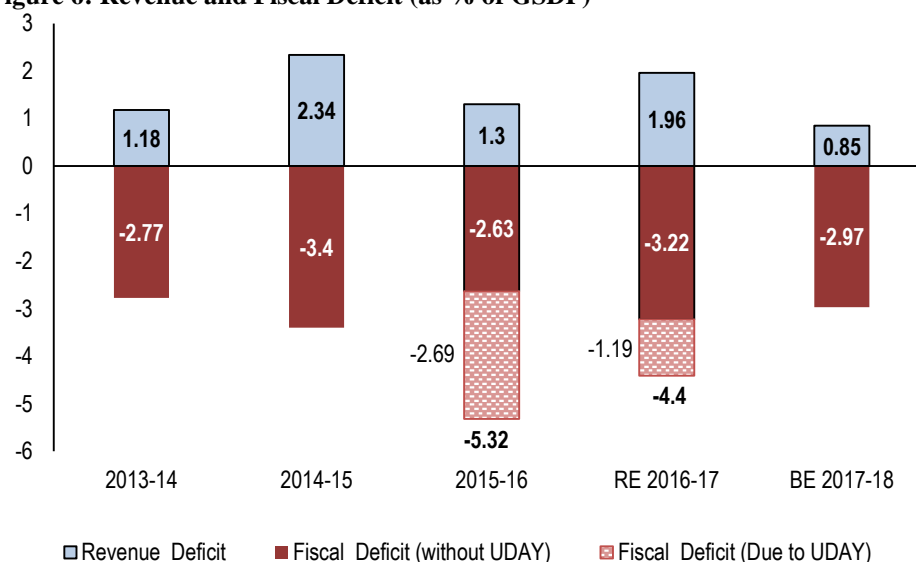
The Fiscal Responsibility and Budget Management (FRBM) Act, 2004 of the state provides annual targets to progressively reduce the outstanding liabilities, revenue deficit and fiscal deficit of the state government.

- **Revenue deficit:** It is the excess of revenue expenditure over revenue receipts. A revenue deficit implies that the government needs to borrow in order to finance its expenses, which do not create assets.

The budget estimates a revenue surplus of Rs 12,279 crore (or 0.8% of state GDP) in 2017-18. This implies that revenue receipts are expected to be higher than the revenue expenditure, resulting in a surplus. The estimate indicates that the state is within the target of eliminating revenue deficit, prescribed by the 14th Finance Commission.

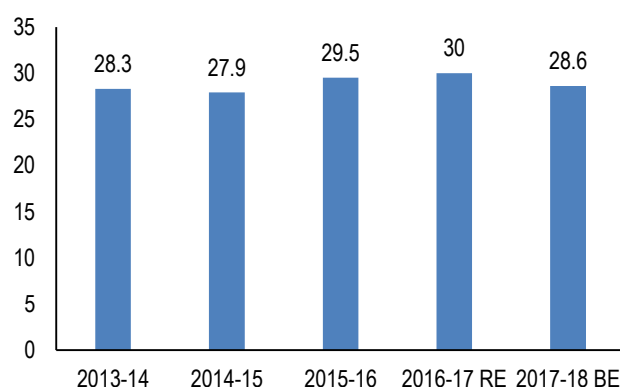
- **Fiscal deficit:** It is the excess of total expenditure over total receipts. This gap is filled by borrowings by the government, and leads to an increase in total liabilities of the government. In 2017-18, fiscal deficit is estimated to be Rs 42,968 crore, which is 2.97% of the state GDP. The estimate is within the 3% limit prescribed by the 14th Finance Commission.

In 2016-17, the government increased its budgeted fiscal deficit from 4.04% of the GDP to 4.4% in the revised estimates. This increase in deficit is driven by the government collecting 4% lower revenue than the targeted for 2016-17.

Figure 6: Revenue and Fiscal Deficit (as % of GSDP)

Sources: Uttar Pradesh State Budget Documents; PRS.

- **Impact of UDAY:** In 2015-16 and 2016-17, the fiscal deficit exceeded the 3% limit prescribed by the Finance Commission to be 5.32% and 4.41% respectively. This was driven by the participation of the state in UDAY scheme. Under UDAY, the state government was required to take over a part of the electricity distribution companies' debt. In 2015-16, Rs 12,166 crore and in 2016-17, Rs 6,651 crore was spent on the program. However, no funds were allocated under the program in 2017-18.
- The state's fiscal deficit not accounting for UDAY would be 2.63% in 2015-16, and 3.22% in 2016-17.

Figure 7: Outstanding liabilities (as % of GSDP)

Outstanding Liabilities: It is the accumulation of borrowings over the years. In 2017-18, the outstanding liabilities are expected at 28.6% of state GDP.

Sources: Uttar Pradesh State Budget Documents; PRS.

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