

Madhya Pradesh Budget Analysis 2016-17

The Madhya Pradesh Finance Minister, Mr. Jayant Mallayya, presented the Budget for Madhya Pradesh for the financial year 2016-17 on February 26, 2016.

Budget Highlights

- The **Gross State Domestic Product** of Madhya Pradesh at current prices for 2016-17 is estimated to be Rs. 7,13,676 crore. This is 18% higher than the revised estimate for 2015-16.
- **Total expenditure** for 2016-17 is estimated to be Rs 1,58,713 crore, a 20% increase over the revised estimates of 2015-16. Revised estimates for 2015-16 indicate that the budget target was exceeded by Rs 1,448 crore.
- **Total receipts (excluding borrowings)** for 2016-17 are estimated to be 17% higher, at Rs 1,34,419 crore. Total receipts (excluding borrowings) in 2015-16 fell short of the budget target by Rs 2,397 crore.
- **Revenue surplus** for the next financial year is targeted at Rs 3,510 crore, or 0.49% of the Gross State Domestic Product (GSDP). **Fiscal deficit** is targeted at Rs 24,914 crore (3.49% of GSDP). The Fiscal Responsibility and Budget Management Act, 2005 was amended in December 2015 to increase the fiscal deficit ceiling to 3.5% of GSDP (earlier 3%). **Primary deficit** is targeted at Rs 14,680 crore (2.1% of GSDP)
- The departments of Energy, Urban Development and Environment, and School Education saw increases in allocations for the year 2016-17. The department of Rural Development has a 3% decrease in allocation.

Policy Highlights

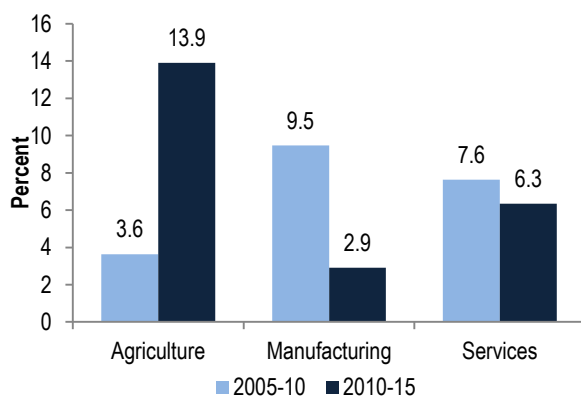
- Liabilities worth Rs 7,568 crore of the state’s electricity distribution companies is proposed to be converted into equity capital. The accounts of these companies will also be audited.
- 1,50,000 houses for the poor are planned to be built under Mukhyamantri Awas Yojana.
- Rs 453 crore to be spent for Metro Rail projects in the cities of Bhopal and Indore.

Tax Proposals

- **Value Added Tax (VAT):** The budget proposes to remove 5% VAT payable on battery operated cars, battery operated rickshaw and battery operated vehicles.
- **Entry Tax:** Imposition of 6% Entry tax on goods purchased using e-commerce is proposed.
- **Entertainment Tax:** Currently a 5 year tax holiday is available to land owners of cinemas and multiplexes. This is proposed to be extended to lease holders.

Background: Madhya Pradesh Economy

Figure 1: Growth rate of sectors in Madhya Pradesh



Sources: Central Statistics Office; PRS.

Over a 10 year period, Madhya Pradesh’s economy (at constant prices) grew at an average rate of 7.10% in 2005-10 and 7.31% in 2010-15. Figure 1 displays the growth rate of individual sectors in the period between 2005-10 and 2010-15.

Over 2005-15, agriculture witnessed an increase in growth rate, whereas the other two sectors saw a decline.

- Agriculture growth increased from 3.6% in 2005-10 to 13.9% in 2010-15.
- In the meanwhile, growth rate in manufacturing decreased from 9.5% to 2.9%.
- The services sector growth also declined from 7.6% to 6.3%, during the decade.

Out of the GSDP of Madhya Pradesh, 42% was contributed by the services sector, 37% by agriculture and 21% by manufacturing. The agriculture sector employed 62% of the state’s population, followed by the services (33%) and manufacturing (5%) sectors.

Budget Estimates for 2016-17

- The total expenditure in 2016-17 is targeted at Rs 1,58,713 crore. The total expenditure in 2015-16 was Rs 1,32,647 crore, which is 1.10% (or Rs 1,448 crore) more than the budgeted target.
- The expenditure in 2016-17 is proposed to be met through receipts (other than borrowings) of Rs 1,34,419 crore and net borrowings of Rs 24,175 crore. Total receipts for 2016-17 (other than borrowings) are expected to be 17% higher than the revised estimate of 2015-16.

Table 1: Budget 2016-17 - key figures (in Rs crore)

| Items | 2014-15 Account | 2015-16 Budget Estimate (BE) | 2015-16 Revised Estimate (RE) | % change from RE to BE of 2015-16 | 2016-17 Budget Estimate (BE) | % change from RE 2015-16 to BE 2016-17 |
|---------------------------------------|-----------------|------------------------------|-------------------------------|-----------------------------------|------------------------------|----------------------------------------|
| Total Expenditure | 1,07,086 | 1,31,199 | 1,32,647 | 1% | 1,58,713 | 20% |
| A. Borrowings (net) | 10,148 | 13,628 | 17,623 | 29% | 24,175 | 37% |
| B. Receipts (except borrowings) | 96,665 | 1,17,188 | 1,14,791 | -2% | 1,34,419 | 17% |
| Total Receipts (A+B) | 1,06,813 | 1,30,815 | 1,32,413 | 1% | 1,58,594 | 20% |
| Revenue Deficit (-)/Surplus(+) | 6,268 | 5,588 | 437 | | 3,510 | |
| <i>As % of state GDP</i> | 1.23% | 1.00% | 0.07% | | 0.49% | |
| Fiscal Deficit (-)/Surplus(+) | -11,652 | -16,745 | -21,167 | | -24,914 | |
| <i>As % of state GDP</i> | 2.29% | 2.99% | 3.49% | | 3.49% | |
| Primary Deficit (-)/Surplus(+) | -4,580 | -8,688 | -12,575 | | -14,680 | |
| <i>As % of state GDP</i> | 0.90% | 1.55% | 2.07% | | 2.06% | |

Sources: State Budget Documents; PRS. **Notes:** BE is Budget Estimate; RE is Revised Estimate; Borrowings include Public Account (net) receipts. Total receipts include gross borrowings and hence, total expenditure includes loan repayments. GSDP for 2016-17 taken from Budget at a glance, as Rs 7,13,676 crore, at constant prices.

Expenditure in 2016-17

- 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 2016-17 is proposed to be Rs 1,22,585 crore, which is an increase of 11% over revised estimates of 2015-16. Total capital outlay is proposed to increase by 65% to Rs 36,128 crore from the revised estimates of 2015-16. This includes creation of assets, providing loans, etc.

Table 2: Expenditure budget 2016-17 (in Rs crore)

| Item | 2014-15 Account | 2015-16 Budget Estimate (BE) | 2015-16 Revised Estimate (RE) | 2016-17 Budget Estimate (BE) | % change from RE 2015-16 to BE 2016-17 |
|--------------------------|-----------------|------------------------------|-------------------------------|------------------------------|----------------------------------------|
| Revenue Expenditure | 82,373 | 1,08,835 | 1,10,693 | 1,22,585 | 11% |
| Capital Outlay | 24,713 | 22,364 | 21,954 | 36,128 | 65% |
| Total Expenditure | 1,07,086 | 1,31,199 | 1,32,647 | 1,58,713 | 20% |
| A. Interest Payments | 7,071 | 8,058 | 8,592 | 10,233 | 19% |
| B. Loan repayment | 4,920 | 8,773 | 5,383 | 9,105 | 69% |
| Debt servicing (A+B) | 11,991 | 16,831 | 13,975 | 19,338 | 38% |

Sources: State Budget Documents; PRS. **Notes:** BE is Budget Estimate and RE is Revised Estimate. Expenditure includes loan repayments.

Department expenditure in 2016-17

- The departments listed below account for 41% of the total budgeted expenditure of Madhya Pradesh in 2016-17.

Table 3: Department-wise expenditure for Madhya Pradesh Budget 2016-17 (in Rs crore)

| Department | 2015-16 Budgeted | 2016-17 Budgeted | % change from BE 2015-16 to BE 2016-17 | Budget proposals for 2016-17 |
|-----------------------------------|---------------------|---------------------|----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| School Education | 15,749 | 20,940 | 32.96% | <ul style="list-style-type: none"> Rs 649 crore is proposed to be spent under 'Rashtriya Madhyamik Siksha Abhiyan' which aims to enhance quality and access to secondary education. 120 high school and higher secondary school buildings are proposed to be built. Construction of 138 incomplete girls hostels is proposed to be completed. |
| Energy | 9,704 | 19,977 | 105.86% | <ul style="list-style-type: none"> This includes Rs 7,568 crore of electricity distribution company debt being converted to equity. An equivalent amount is budgeted in capital receipts (debt recoveries). |
| Rural Development | 11,071 | 10,732 | -3.06% | <ul style="list-style-type: none"> 'Gram Panchayath Vikas Yojana' is being developed which aims at infrastructure development and ensure social security. 1,50,000 houses are proposed to be built under 'Mukhyamantri Awas Yojana'. |
| Urban Development and Environment | 6,551 | 10,669 | 62.86% | <ul style="list-style-type: none"> Rs 452 crore is proposed to be spent on metro rail projects for Indore and Bhopal. Rs 400 crore is proposed to be allotted for 'Pradhan Mantri Awas Yojana' which aims to provide housing for poor people. |
| Public Works | 5,912 | 7,125 | 20.52% | <ul style="list-style-type: none"> Rs 4,305 crore is proposed to be spent on construction and maintenance of roads and bridges Rs 854 crore is proposed to be spent on plans aimed at scheduled castes |
| % of total expenditure | 35% | 41% | | |
| Other Departments | 90,985 | 1,01,313 | 11.35% | |

Note: All amounts are net numbers. Source: Department-wise Net Provision, Madhya Pradesh State Budget 2016-17; PRS.

Other announcements:

- Agriculture:** Pradhan Mantri Fasal Bima Yojana will be implemented in the state which provides insurance coverage and financial support to farmers in the event of crop failure.
- Mrida Swasthya Card Yojana and Paramparagat Krishi Vikas Yojana will be implemented. This will allow farmers to avail soil health checks once every three years, and encourage organic farming in the state.
- Public Health and Medicine:** In 2016-17, the government will sanction 2,000 new health centres in the state. The government is proposing to spend Rs 2,038 crore under the Rashtriya Swasthya Mission. Rs 1,000 crore is proposed to be spent on the construction of Smart Medical City near Sanchi.
- Women and Child Development:** 'E-Ladli Lakshmi Yojana' announced, with an allocation of Rs 903 crore to encourage education of girls.

Receipts in 2016-17

- The total revenue receipts for 2016-17 are estimated to be Rs 1,26,095 crore. The tax to GSDP ratio is targeted at 6.52% in 2016-17, compared to 6.74% in the revised estimates of 2015-16.
- Tax revenue is expected to increase by 13.7% (or Rs 5,590 crore) in 2016-17 over the revised estimates of 2015-16. Non-tax revenue is estimated to increase by 18.3% (or Rs 1,774 crore) in 2016-17.
- Grants from the centre are set to increase by Rs 3,630 crore, to Rs 24,437 crore in 2016-17. The other component of transfers from the centre, which is the state's share in central taxes, is estimated to increase by Rs 3,971 crore, to Rs 43,676 crore in 2016-17.

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

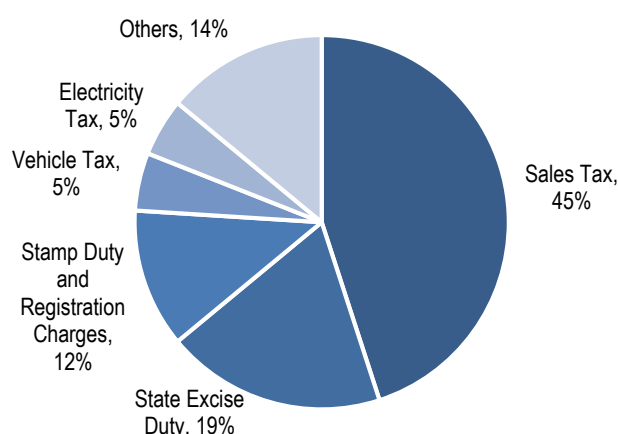
| Item | 2014-2015 Account | 2015-2016 Budgeted | 2015-2016 Revised | 2016-2017 Budgeted | % change from RE 2015-16 to BE 2016-17 |
|---------------------------------------------------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------------------------------|
| State's Own Tax | 36,567 | 43,448 | 40,910 | 46,500 | 13.66% |
| State's Own Non Tax | 10,375 | 10,124 | 9,707 | 11,482 | 18.28% |
| State's share in Central Taxes | 24,107 | 30,450 | 39,706 | 43,676 | 10.00% |
| Grants-in-aid from Centre | 17,591 | 30,401 | 20,808 | 24,437 | 17.44% |
| Total Revenue Receipts | 88,641 | 1,14,423 | 1,11,131 | 1,26,095 | 13.47% |
| Recovery of Loans and Advances, and other capital receipts | 6,794* | 31 | 350 | 7,704* | 2101.85% |
| Borrowings (net) | 10,148 | 13,628 | 17,623 | 24,175 | 37.18% |
| Public Account Receipts | 1,231 | 2,734 | 3,310 | 620 | -81.27% |
| Total Capital Receipts | 18,172 | 16,392 | 21,283 | 32,499 | 52.70% |
| Total Receipts | 1,06,813 | 1,30,815 | 1,32,413 | 1,58,594 | 19.77% |

Sources: State Budget Documents; PRS. Notes: BE is Budget Estimate and RE is Revised Estimate.

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

- Total tax revenue of Madhya Pradesh is estimated to be Rs 46,500 crore in 2016-17. The composition of the state's tax revenue is shown in Figure 2.

Figure 2: Composition of Tax Revenue in 2016-17 (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 20,724 crore (43% of tax revenue)
- The state is expected to generate Rs 9,000 crore (19%) 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 11,481 crore through non-tax sources. Revenue from education, such as license fees, is the largest non-tax revenue source, which is expected to generate Rs 4,143 crore, an increase of 25% over 2015-16 (RE).
- This is followed by mining, which is expected to generate Rs 3,450 crore, an increase of 17.5% over 2015-16 (RE).
- Others sources of non-tax revenue include forests, electricity, industries, etc.

Deficits, Debts and FRBM Targets for 2016-17

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 3,510 crore (or 0.49% of state GDP) in 2016-17. This is better than the target of eliminating revenue deficit prescribed by the state's FRBM Act and 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 2015-16, fiscal deficit is estimated to increase to 3.49% of state GSDP and is estimated to remain at 3.49% in 2016-17. The estimates for 2015-16 exceeded the 3.0% limit set under the FRBM Act and the 14th Finance Commission. On the other hand, the 2016-17 estimate is within the newly amended limit of 3.5% under the FRBM Act, but exceeds the 3.0% limit recommended by the 14th Finance Commission.

Outstanding Liabilities: It is the accumulation of borrowings over the years. In 2016-17, the outstanding liabilities are expected at 21.67% of state GDP.

Table 5: Budget targets for deficits for the state of Madhya Pradesh

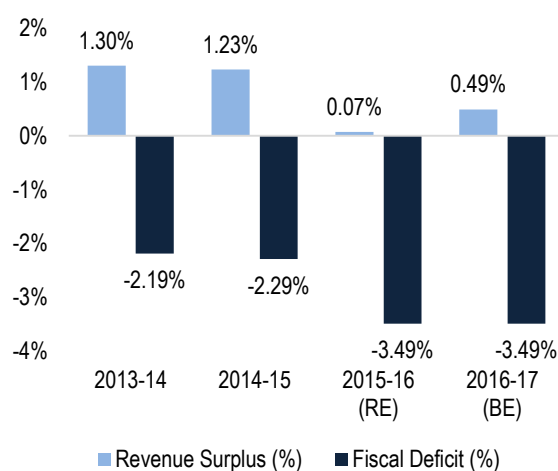
| Year | Revenue Surplus (%) | Fiscal Deficit (%) | Outstanding Liabilities (%) |
|--------------|---------------------|--------------------|-----------------------------|
| 2014-15 | 1.23 | -2.29 | 22.26 |
| RE 2015-16 | 0.07 | -3.49 | 21.56 |
| BE 2016-17 | 0.49 | -3.49 | 21.67 |
| MTFP 2017-18 | Surplus | -3.21 | 22.26 |
| MTFP 2018-19 | Surplus | -3.24 | 22.81 |

Source: Press Note, Madhya Pradesh State Budget 2016-17; PRS.

Note: Figures as percentage of state GDP.

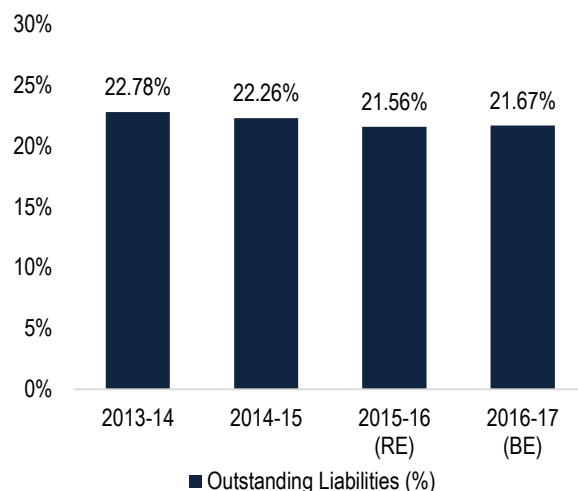
Figures 1 and 2 show the trend in deficits and outstanding liabilities from 2013-14 to 2016-17:

Figure 3: Revenue and Fiscal Deficit (as % of state GDP)



Sources: Madhya Pradesh State Budget Documents; PRS.

Figure 4: Outstanding debt (as % of state GDP)



Sources: Madhya Pradesh State Budget Documents; PRS.

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