

# Jammu and Kashmir Budget Analysis 2016-17

The Finance Minister of Jammu and Kashmir, Mr. Haseeb A. Drabu, presented the Budget for Jammu and Kashmir for financial year 2016-17 on May 30, 2016.

## Budget Highlights

- The **Gross State Domestic Product** of Jammu and Kashmir for 2016-17 at current prices is estimated to be Rs 1,32,307 crore. This is 14% higher than the revised estimate for 2015-16.
- **Total expenditure** for 2016-17 is estimated to be Rs 64,669 crore, a 25.2% increase over the revised estimate of 2015-16. In 2015-16, there was an increase of Rs 5,197 crore (11.2%) in the revised estimate over the budget estimate.
- **Total receipts (excluding borrowings)** for 2016-17 are estimated to be Rs 53,202 crore, an increase of 25.6% over the revised estimates of 2015-16. In 2015-16, total receipts exceeded the budgeted target by Rs 3,066 crore.
- **Revenue surplus** for the next financial year is targeted at Rs 6,485 crore, or 4.91% of the state Gross Domestic Product (GDP). **Fiscal deficit** is targeted at Rs 6,430 crore (4.86% of state GDP). Primary Deficit is targeted at Rs 1,705 crore (1.29% of state GDP).
- Departments of Power, Education and Health and Medical Education saw increases in allocation for 2016-17. On the other hand, the Departments of Home and Public Works witnessed a decrease in allocation in 2016-17.

## Policy Highlights

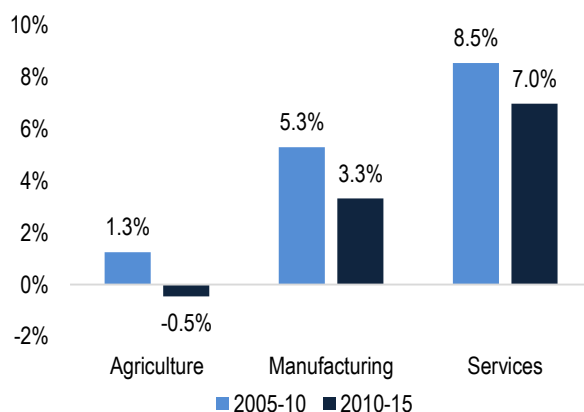
- **Water Resources:** A new department of Water Resources will be created, to undertake planning and management of water resources, including potable water, lakes and rivers.
- **Free electricity to BPL families:** Free electricity of up to 30 units and a fixed charges waiver will be given to Below Poverty Line (BPL) families. This would be undertaken from January 1, 2017 onwards.

## Tax Proposals

- **Tax increases:** The Value Added Tax (VAT) rate on items such as mobile phones, tablets, readymade garments, etc. is proposed to be increased from 13.5% to 14.5%. The toll tax on vehicles is proposed to be increased between 8% to 15% over prevailing rates.
- **Exemptions:** Tax exemptions to essential commodities, local industry, lodging services, etc. to be extended till March 31, 2017. Additionally, cotton and silk yarn, carpets, etc. are proposed to be added to the list of exemptions.

## Background: Jammu and Kashmir Economy

**Figure 1: Growth rate of sectors in Jammu and Kashmir**



Sources: Central Statistics Office; PRS.

Average growth of Jammu and Kashmir's economy at constant prices (adjusting for inflation) witnessed a decline from 5.8% in 2005-10 to 4.5% in 2010-15.

Figure 1 shows the growth rate of individual sectors in the period between 2005-10 and 2010-15.

Over 2005-15, all three sectors, i.e. agriculture, manufacturing and services witnessed a marginal decline in growth rate.

- Agriculture growth contracted from 1.3% in 2005-10 to -0.5% in 2010-15.
- Growth rate in the manufacturing sector decreased from 5.3% to 3.3%.
- Services sector growth decreased from 8.5% to 7%.

Services is the largest component of the state's economy, constituting 53% of the economy, followed by manufacturing and agriculture constituting 25% and 22% of the economy respectively. The agriculture sector employed 64% of the state's population, followed by the services (25%) and manufacturing (11%) sectors.<sup>1</sup>

## Budget Estimates for 2016-17

- The total expenditure in 2016-17 is targeted at Rs 64,669 crore. The revised estimate for the total expenditure in 2015-16 was Rs 51,670 crore, which is 11.2% (Rs 5,197 crore) more than the budgeted target of 2015-16.
- The expenditure in 2016-17 is proposed to be met through receipts (other than borrowings) of Rs 53,202 crore and borrowings of Rs 8,479 crore. Total receipts for 2016-17 (other than borrowings) are expected to be 28.5% higher than the revised estimate of 2015-16.

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

Items	2014-15 Actuals	2015-16 Budgeted	2015-16 Revised	% change from BE 2015-16 to RE of 2015-16	2016-17 Budgeted	% change from RE 2015-16 to BE 2016-17
<b>Total Expenditure</b>	<b>35,681</b>	<b>46,473</b>	<b>51,670</b>	<b>11.2%</b>	<b>64,669</b>	<b>25.2%</b>
A. Borrowings*	2,834	2,841	5,637	98.4%	8,479	50.4%
B. Receipts (except borrowings)	32,847	39,296	42,362	7.8%	53,202	25.6%
<b>Total Receipts (A+B)</b>	<b>35,681</b>	<b>42,137</b>	<b>47,999</b>	<b>13.9%</b>	<b>61,681</b>	<b>28.5%</b>
<b>Revenue Deficit</b> (-)/Surplus(+)	<b>-391</b>	<b>2,587</b>	<b>3,707</b>		<b>6,485</b>	
As % of state GDP	-0.38%	2.23%	3.19%		4.91%	
<b>Fiscal Deficit</b> (-)/Surplus(+)	<b>-5,616</b>	<b>-7,181</b>	<b>-6,925</b>		<b>-6,430</b>	
As % of state GDP	5.47%	6.19%	5.96%		4.86%	
<b>Primary Deficit</b> (-)/Surplus(+)	<b>-2,047</b>	<b>-7,119</b>	<b>-3,130</b>		<b>-1,705</b>	
As % of state GDP	1.99%	6.13%	2.70%		1.29%	

Notes: BE is Budget Estimate; RE is Revised Estimate. \*includes borrowings of Rs 2,140 crore in 2015-16 and Rs 4,860 crore in 2016-17 related to UDAY scheme. GSDP for 2015-16 BE and 2015-16 RE taken to be Rs 1,16,102 crore. Sources: Jammu and Kashmir State Budget Documents 2016-17; PRS.

## Expenditure in 2016-17

- 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.
- Total capital expenditure is proposed to be Rs 19,694 crore, which is an increase of 36.1% over the revised estimates of 2015-16. This includes expenditure which leads to creation of assets, and repayment of loans, among others.
- Total revenue expenditure for 2016-17 is proposed to be Rs 44,975 crore, which is an increase of 20.9% over revised estimates of 2015-16. This expenditure includes payment of salaries, administration of government programs, etc.

The state is expected to spend Rs 4,860 crore in 2016-17 on account of UDAY scheme. The expenditure on the scheme in 2015-16 (RE) was Rs 2,140 crore.

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

Item	2014-15 Actuals	2015-16 Budgeted	2015-16 Revised	% change from BE 2015-16 to RE 2015-16	2016-17 Budgeted	% change from RE 2015-16 to BE 2016-17
Capital Expenditure	6,352	11,246	14,473	28.7%	19,694	36.1%
Revenue Expenditure	29,329	35,227	37,197	5.6%	44,975	20.9%
<b>Total Expenditure</b>	<b>35,681</b>	<b>46,473</b>	<b>51,670</b>	<b>11.2%</b>	<b>64,669</b>	<b>25.2%</b>
A. Debt Repayment	1,124	1,473	1,696	15.1%	1,914	12.9%
B. Interest Payments	3,533	3,795	3,795	0.0%	4,725	24.5%
<b>Debt Servicing (A+B)</b>	<b>4,657</b>	<b>5,268</b>	<b>5,491</b>	<b>4.2%</b>	<b>6,639</b>	<b>20.9%</b>

Sources: Jammu and Kashmir State Budget Documents 2016-17; PRS. Note: Capital expenditure includes: i) spending that creates assets, ii) repayments on the loans taken by the government, and iii) loans provided by the government.

## Department expenditure in 2016-17

The departments listed below account for **48%** of the total budgeted expenditure of Jammu and Kashmir in 2016-17.

**Table 3: Department-wise expenditure for Jammu and Kashmir Budget 2016-17 (in Rs crore)**

Department	2014-15 Actuals	2015-16 Budgeted	2015-16 Revised	2016-17 Budgeted	% change from RE 2015-16 to BE 2016-17	Budget provisions for 2016-17
<b>Power</b>	4,832	4,985	7,766	13,243	70.5%	<ul style="list-style-type: none"> <li>▪ Rs 64 crore allocated for providing five LED lamps to each consumer at a cost of Rs 20 each.</li> <li>▪ 100% metering of power connections would be undertaken by Jammu and Kashmir Power Development Department.</li> </ul>
<b>Education</b>	2,463	4,834	6,005	7,547	25.7%	<ul style="list-style-type: none"> <li>▪ Fee waiver would be given for girls in state government schools up to higher secondary level.</li> </ul>
<b>Home</b>	3,504	4,188	4,889	4,872	-0.4%	<ul style="list-style-type: none"> <li>▪ Rs 1 lakh each allocated for 193 police stations for investigation costs.</li> <li>▪ Four women police stations to be set up in Pulwama, Kupwara, Kathua and Udhampur.</li> </ul>
<b>Health and Medical Education</b>	1,435	2,649	2,888	3,037	5.1%	<ul style="list-style-type: none"> <li>▪ Free medicines would be provided to patients under a 'Free Drug Policy'.</li> <li>▪ Exclusive women toilets to be constructed in state, district and sub-district hospitals.</li> </ul>
<b>Public Works</b>	612	2,298	2,660	2,539	-4.5%	<ul style="list-style-type: none"> <li>▪ 73% (Rs 1,857 crore) of the allocation is for capital expenditure, and 27% (Rs 682 crore) on revenue expenditure.</li> </ul>
<b>% of total expenditure</b>	<b>36%</b>	<b>41%</b>	<b>47%</b>	<b>48%</b>		
<b>Other Departments</b>	<b>22,834</b>	<b>27,519</b>	<b>27,462</b>	<b>33,432</b>		

Source: Jammu and Kashmir Budget Speech 2016-17; PRS.

### Other announcements:

- **UDAY Scheme:** Jammu and Kashmir is expected to spend Rs 4,860 crore in 2016-17 on the Ujwal DISCOM Assurance Yojana (UDAY). UDAY is a central government scheme which requires a state to take over 75% of the Electricity Distribution Companies (discoms) debt over 2015-16 (50% of the debt) and 2016-17 (25% of the debt). The scheme provides that this debt will not be counted in the fiscal deficit of the state for the first two years.
- **Proposals for women:** 10% of land in industrial estates will be reserved for women entrepreneurs. Two entrepreneur development centres to be set up in Jammu and Srinagar. In addition, five crore rupees allocated for a women city bus service in these two cities.
- **Funds:** Three Funds will be created: (i) Start-up Fund (allocation of Rs 5 crore), (ii) Heritage Conservation Fund (allocation of Rs 5 crore), and (iii) Journalist Welfare Fund (allocation of Rs 2 crore).
- **Land Bank:** Rs 40 crore allocated to create a land bank for acquisition of land and development of industrial estates.
- **Food Testing Laboratory:** Standard food testing laboratories to be set up in Jammu and Srinagar. In addition, mobile testing facilities to be established for conducting tests in interior parts of the state.
- **Handicrafts:** Rs 2 crore allocated for pashmina testing, certification and labelling. In addition, Rs 50 lakh allocated for spreading awareness about handicrafts.

## Receipts in 2016-17

- The total revenue receipts for 2016-17 are estimated to be Rs 51,460 crore, an increase of 25.8% over the revised estimates of 2015-16. The tax to GSDP ratio is targeted at 6.92% in 2016-17, which is in the same range as the revised estimate of 6.88% in 2015-16. This implies that growth in collection of taxes has been at par with the growth in the economy.
- State's own tax revenue is expected to increase by 15.4% (Rs 1,232 crore) in 2016-17 over the revised estimates of 2015-16. Tax revenue in 2015-16 (RE) is estimated to be Rs 7,988 crore, which is lower than the budgeted estimates by Rs 18 crore (0.2%).
- Non-tax revenue is estimated to increase by 16.3% (Rs 564 crore). This is driven by receipts from the sale of power, and is estimated to be Rs 4,019 crore in 2016-17, an increase from Rs 3,455 crore in 2015-16.
- Grants from the centre are set to increase by 29.7%, from Rs 21,373 crore in 2015-16 (RE), to Rs 27,721 crore in 2016-17. The other component of transfers from the centre is the state's share in central taxes, which is estimated to increase by 17.5%, to Rs 9,500 crore in 2016-17.

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

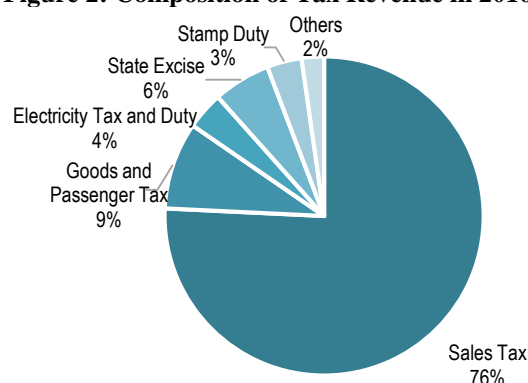
Item	2014-2015 Actuals	2015-2016 Budgeted	2015-2016 Revised	% change from BE 2015-16 to RE 2015-16	2016-2017 Budgeted	% change from RE 2015-16 to BE 2016-17
State's Own Tax	6,334	8,006	7,988	-0.2%	9,220	15.4%
State's Own Non Tax	1,978	3,509	3,455	-1.5%	4,019	16.3%
State's share in Central Taxes	4,477	8,088	8,088	0.0%	9,500	17.5%
Grants-in-aid from Centre	16,149	18,211	21,373	17.4%	27,721	29.7%
<b>Total Revenue Receipts</b>	<b>28,938</b>	<b>37,814</b>	<b>40,904</b>	<b>8.2%</b>	<b>51,460*</b>	<b>25.8%</b>
Borrowings	2,834	2,841	5,637	98.4%	8,479	50.4%
Other receipts	3,909	1,482	1,458	-1.6%	1,742	19.5%
<b>Total Capital Receipts</b>	<b>6,743</b>	<b>4,323</b>	<b>7,095</b>	<b>64.1%</b>	<b>10,221</b>	<b>44.1%</b>
<b>Total Receipts</b>	<b>35,681</b>	<b>42,137</b>	<b>47,999</b>	<b>13.9%</b>	<b>61,681</b>	<b>28.5%</b>

\*includes additional resource mobilisation estimated at Rs 1,000 crore.

Sources: Jammu and Kashmir State Budget Documents 2016-17; PRS.

- Total own tax revenue of Jammu and Kashmir is estimated to be Rs 9,220 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:** Sales tax is the largest component of the tax revenue of the state. Sales tax, levied on the sale of goods in the state is expected to generate Rs 6,985 crore in 2016-17. This is an increase of 16.7% from 2015-16.
- Further, the government is expected to generate Rs 815 crore through goods and passenger tax. This is an increase of 14% over the estimates of 2015-16.
- In addition, revenue will be generated through levy of duty on electricity, state excise duties, stamp duties on real estate transactions, taxes on vehicles, etc.
- **Non Tax Revenue:** Jammu and Kashmir has estimated to generate Rs 4,019 crore through non-tax sources in 2016-17. This includes receipts from police, water supply, health, education and mining.
- The government is estimated to generate Rs 3,541 crore from power, which is an increase of 18% over 2015-16 (RE). The income from power constitutes 88% of the total non-tax revenue of the state.
- Further, the government has estimated to generate Rs 86 crore through forestry, Rs 65 crore from non-ferrous mining and metallurgical industries and Rs 61 crore through water supply and sanitation in 2016-17.

## Deficits, Debts and FRBM Targets for 2016-17

The Fiscal Responsibility and Budget Management (FRBM) Act, 2006 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 capital assets. However, the budget estimates a revenue surplus of Rs 6,485 crore (or 4.91% of state GDP) in 2016-17. 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 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 is estimated to be Rs 6,430 crore, which is 4.86% of the state GDP. This does not include the liabilities incurred as part of UDAY schemes. The estimate exceeds the 3% limit prescribed by the 14<sup>th</sup> Finance Commission.

**Outstanding Liabilities:** It is the accumulation of borrowings over the years. In 2016-17, the outstanding liabilities are expected at 49.25% of state GDP.

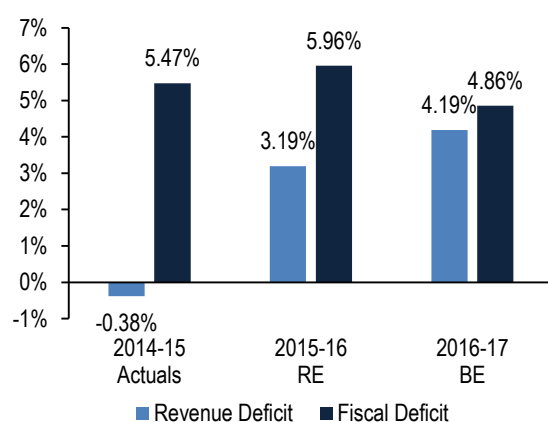
**Table 5: Budget targets for deficits for the state of Jammu and Kashmir in 2016-17 (% of GSDP)**

Year	Revenue Deficit (-)/Surplus (+)	Fiscal Deficit (-)/Surplus (+)	Outstanding Liabilities
2014-15	-0.38%	5.47%	47.05%
RE 2015-16	3.19%	5.96%	51.42%
BE 2016-17	4.19%	4.86%	49.25%
2017-18	-	3.00%	47.30%
2018-19	-	3.00%	45.57%

Source: Jammu and Kashmir State Budget Documents 2016-17; PRS.

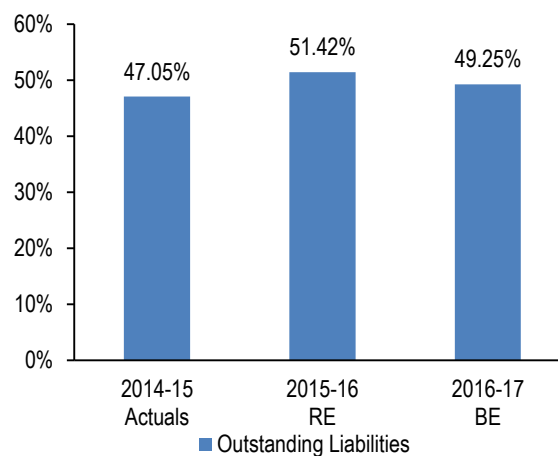
Figures 3 and 4 show the trend in deficits and outstanding liabilities from 2014-15 to 2016-17:

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



Sources: Jammu and Kashmir State Budget Documents; PRS.

**Figure 4: Outstanding liabilities (as % of state GDP)**



Sources: Jammu and Kashmir State Budget Documents; PRS.

<sup>1</sup> Fourth Annual Employment-Unemployment Survey, Labour Bureau, Government of India.

**DISCLAIMER:** This document is being furnished to you for your information. You may choose to reproduce or redistribute this report for non-commercial purposes in part or in full to any other person with due acknowledgement of PRS Legislative Research ("PRS"). The opinions expressed herein are entirely those of the author(s). PRS makes every effort to use reliable and comprehensive information, but PRS does not represent that the contents of the report are accurate or complete. PRS is an independent, not-for-profit group. This document has been prepared without regard to the objectives or opinions of those who may receive it.

**For more information on this subject, please contact Vibhor Relhan at 9050922538 or email at [vibhor@prsindia.org](mailto:vibhor@prsindia.org)**