

Bihar Budget Analysis 2017-18

The Finance Minister, Mr. Abdul Bari Siddiqui presented the Budget for Bihar for financial year 2017-18 on February 27, 2017.

Budget Highlights

- The **Gross State Domestic Product** of Bihar for 2017-18 at current prices is estimated to be Rs 6,32,180 crore. This is 17% higher than the revised estimates for 2016-17.
- **Total expenditure** for 2017-18 is estimated to be Rs 1,60,086 crore, 3.7% higher than the revised estimates of 2016-17. In 2016-17, there was an increase of Rs 9,631 crore (6.7%) in the government’s expenditure during the year, over the budget estimate.
- Education received the highest allocation of Rs 25,251 crore in 2017-18, which is 11% higher than the revised estimates of 2016-17. Other departments that have witnessed an increase in allocation include Rural Works (24%) and Panchayat Raj (21%). On the other hand, the Department of Energy (-30%) and Health (-16%) have witnessed a decrease in allocation.
- **Total receipts (excluding borrowings)** for 2017-18 are estimated to be Rs 1,37,176 crore, an increase of 9.5% over the revised estimates of 2016-17. In 2016-17, total receipts exceeded the budgeted target by Rs 1,163 crore. This is primarily on account of an increase in grants received from the centre to implement the National Food Security Act, and the Mahatma Gandhi National Rural Employment Guarantee Act, among others.
- Bihar’s tax revenue is expected to be Rs 32,001 crore in 2017-18. This is an increase of 14.7% (Rs 4,104 crore) over the revised estimates of 2016-17. Sales Tax collection (76% of the total own tax revenue) is expected to be Rs 24,400 crore. This is 74% higher than the revised estimates of 2016-17.
- No tax proposals have been made in the budget. Note that the Goods and Services Tax (GST) is expected to be rolled out in 2017-18. It will subsume some taxes such as Sales Tax and Entertainment Tax (unless it is levied by local bodies).
- **Revenue surplus** for the next financial year is targeted at Rs 14,556 crore, or 2.3% of the Gross State Domestic Product (GSDP). **Fiscal deficit** is targeted at Rs 18,112 crore (2.9% of GSDP). Note that during 2016-17, fiscal deficit is estimated to be Rs 22,512 crore, which is 4.2% of GSDP. This is higher than the 3% limit recommended by the 14th Finance Commission.

Bihar’s Economy

Economy

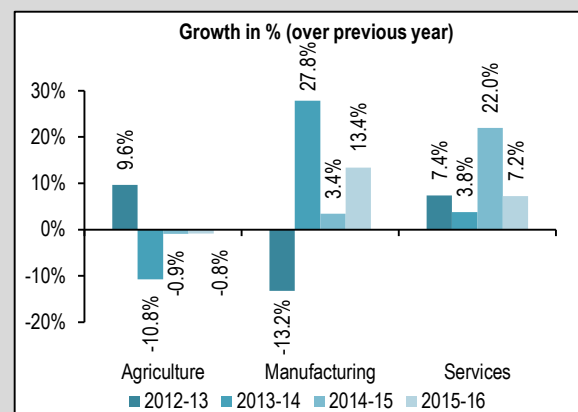
Between 2011-12 and 2015-16, the agriculture sector contracted on an annual rate of 0.1% (in real terms). At the same time, the manufacturing sector grew at an annual rate of 8.4%, and services grew at an annual rate of 9.9%. During this period, share of services in the GSDP increased from 54% to 59%, while that of agriculture reduced from 25% to 18%

During this period, the per capita income of Bihar increased at 23%, marginally higher than the national rate of 22%. According to the Bihar Economic Survey, with a per capita income of Rs 26,801 in 2015-16, Bihar ranked the lowest among all states.

Workforce Participation

Workforce Participation Rate is the proportion of workers or job seekers to its population. The Rate for Bihar (2011) was 33.4%, lower than 33.7% in 2001, indicating lower participation of workers. Note that during the same time period, the national average increased from 39.1% in 2001 to 39.8% in 2011.

Sources: Bihar Economic Survey 2016-17; PRS.



Sources: Bihar Economic Survey 2016-17; PRS.

Budget Estimates for 2017-18

- The total expenditure in 2017-18 is targeted at Rs 1,60,086 crore. The revised estimate for the total expenditure in 2016-17 is Rs 1,54,327 crore, which is 6.7% (Rs 9,631 crore) more than the budgeted target of 2016-17.
- The expenditure in 2017-18 is proposed to be met through receipts (other than borrowings) of Rs 1,37,176 crore and borrowings of Rs 23,863 crore. Total receipts for 2017-18 (other than borrowings) are expected to be 7.5% higher than the revised estimates 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	1,12,328	1,44,696	1,54,327	6.7%	1,60,086	3.7%
A. Borrowings	18,383	21,255	19,470	-8.4%	23,863	22.6%
B. Receipts (except borrowings)	96,142	1,24,608	1,27,556	2.4%	1,37,176	7.5%
Total Receipts (A+B)	1,14,525	1,45,863	1,47,026	0.8%	1,61,039	9.5%
Revenue Deficit (-)/Surplus(+)	12,507	14,649	8,244		14,556	
As % of GSDP	2.57%	2.62%	1.53%		2.30%	
Fiscal Deficit (-)/Surplus(+)	-12,062	-16,014	-22,512		-18,112	
As % of GSDP	-2.48%	-2.87%	-4.16%		-2.87%	
Primary Deficit (-)/Surplus(+)	-4,964	-7,835	-14,043		-8,521	
As % of GSDP	-1.02%	1.40%	-2.60%		-1.35%	

Notes: BE is Budget Estimate; RE is Revised Estimate. Fiscal deficit = (Revenue receipts + Recovery of loans) – (Revenue expenditure + Capital outlay + Loans provided by the state)

Sources: Bihar State Budget Documents 2017-18; PRS.

Expenditure in 2017-18

- Government expenditure 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 of Bihar is proposed to be Rs 37,483 crore, which is an increase of 2.8% over the revised estimates of 2016-17. This includes expenditure which leads to creation of assets, and repayment of loans, among others. The Department of Rural Works had the highest allocation for capital expenditure at Rs 8,332 crore, followed by Energy with Rs 5,810 crore.
- Total revenue expenditure for 2017-18 is proposed to be Rs 1,22,603 crore, which is an increase of 3.7% over revised estimates of 2016-17. This expenditure includes payment of salaries, administration of government programs, etc.

The total expenditure in 2016-17 increased by Rs 9,631 crore over the budget estimate. As a result, the Fiscal Deficit increased from 2.9% of GSDP to 4.2%. Note that the state FRBM Act, 2006 and the 14th Finance Commission have recommended a limit of 3% for Fiscal Deficit, which may be extended to 3.5% under certain conditions.

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	28,712	34,755	35,034	0.8%	37,483	7.0%
Revenue Expenditure	83,616	1,09,941	1,19,294	8.5%	1,22,603	2.8%
Total Expenditure	1,12,328	1,44,696	1,54,327	6.7%	1,60,086	3.7%
A. Debt Repayment	4,125	4,074	4,260	4.6%	4,797	12.6%
B. Interest Payments	7,098	8,179	8,469	3.5%	9,591	13.3%
Debt Servicing (A+B)	11,223	12,253	12,728	3.9%	14,389	13.0%

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.

Sources: Bihar State Budget Documents 2017-18; PRS.

Department expenditure in 2017-18

The departments listed below account for around 66% of the total budgeted expenditure of Bihar in 2017-18.

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

Department	2016-17 Budgeted	2016-17 Revised	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18	Budget provisions for 2017-18
Education	21,897	22,844	25,251	10.5%	<ul style="list-style-type: none"> Rs 6,394 crore has been allocated for the Sarva Shiksha Abhiyaan, 5% lower than the revised estimates of 2016-17. Rs 3,478 crore has been allocated for Rajkiya Prathamik Vidyalaya, and Rs 2,039 crore for Rajkiya Madhyamik Vidyalaya. Rs 2,436 crore has been allocated for the Mid-Day Meal Scheme, a two-fold increase over the revised estimates of 2016-17.
Pension	16,285	16,285	19,878	22.1%	<ul style="list-style-type: none"> The expenditure on pensions is expected to increase by Rs 3,592 crore. This may be on account of the proposed implementation of the Seventh Central Pay Commission recommendations.
Energy	14,367	15,657	10,905	-30.4%	<ul style="list-style-type: none"> 46% of the Department's allocation (Rs 5,095 crore) is estimated to be on revenue expenditure, which includes subsidy on electricity. Rs 5,810 crore has been allocated for investment in state power corporations, and loans for power projects. This is 30% less than 2016-17.
Rural Works	7,150	7,650	9,518	24.4%	<ul style="list-style-type: none"> Rs 5,500 crore has been allocated for the Pradhan Mantri Gram Sadak Yojana. This is 55% higher than the allocation in 2016-17.
Rural Development	5,510	9,168	9,717	6.0%	<ul style="list-style-type: none"> Rs 5,927 crore has been allocated for housing, which is 12% higher than 2016-17. This includes allocations for Indira Awas Yojana (now known as Pradhan Mantri Awas Yojana (Grameen)).
Panchayat Raj	7,183	7,184	8,694	21.0%	<ul style="list-style-type: none"> Rs 4,097 crore has been allocated for assistance to Panchayat Raj Institutions, 15% more than 2016-17.
Home	7,297	7,356	7,448	1.3%	<ul style="list-style-type: none"> 97% of the allocated funds are to be spent on revenue expenses, which includes payment of salaries to the police. Rs 214 crore (3% of the allocation) is expected to be spent on construction of police stations and acquisition of land.
Health	8,234	8,284	7,002	-15.5%	<ul style="list-style-type: none"> Rs 2,225 crore has been allocated for urban health services-allopathic. This is 18% lower than 2016-17. Rs 2,389 crore has been allocated for rural health services. This is 23% lower than 2016-17. Allocations for urban and rural areas include funds for schemes such as National Rural Health Mission. These funds are used for maintenance of hospitals and salaries for doctors. Rs 819 crore has been allocated for capital expenses, such as construction of hospitals. This is 10% less than 2016-17.
Road Construction	6,599	6,599	6,636	0.6%	<ul style="list-style-type: none"> Rs 5,506 crore has been allocated for construction of state highways. Rs 450 crore has been allocated for the India-Nepal border road.
Sub Total	94,523	1,01,027	1,05,050	4.0%	
% of total expenditure	65%	65%	66%		
Other Departments	50,173	53,300	55,036		
Total Expenditure	1,44,696	1,54,327	1,60,086		

Sources: Bihar State Budget Documents 2017-18; PRS.

Receipts in 2017-18

- The total revenue receipts for 2017-18 are estimated to be Rs 1,37,158 crore, an increase of 7.5% over the revised estimates of 2016-17.
- State's tax revenue is expected to increase by 14.7% (Rs 4,104 crore) in 2017-18 over the revised estimates of 2016-17. This is on account of a 74% increase (Rs 10,379 crore) expected in sales tax collections.
- The tax to GSDP ratio is targeted at 5.1% in 2017-18, which is lower than the revised estimate of 5.2% in 2016-17. This implies that growth in collection of taxes at 15% is expected to be lower than the economic growth estimated at 17%.
- Non-tax revenue in 2017-18 is estimated to increase by 20.6% (Rs 491 crore) over the revised estimates of 2016-17. This is on account of higher interest receipts (69% increase).
- Grants from the centre are expected to decrease by 3.7%, from Rs 38,376 crore in 2016-17 (RE), to Rs 36,956 crore in 2017-18. Note that during 2016-17, grants witnessed an increase of 12.4% from the budgeted estimate to the revised estimate. The other component of transfers from the centre is the state's share in central taxes, which is estimated to increase by 10.9%, to Rs 65,326 crore in 2017-18.

Tax collections for 2016-17 have been revised down from Rs 29,730 crore to Rs 27,897 crore. This decrease of 6.2% is primarily on account of a shortfall in State Excise Duty collections, due to the implementation of alcohol prohibition in the state.

The State Excise Duty collections in 2016-17 were Rs 46 crore, 98% less than the budget estimate of Rs 2,100 crore.

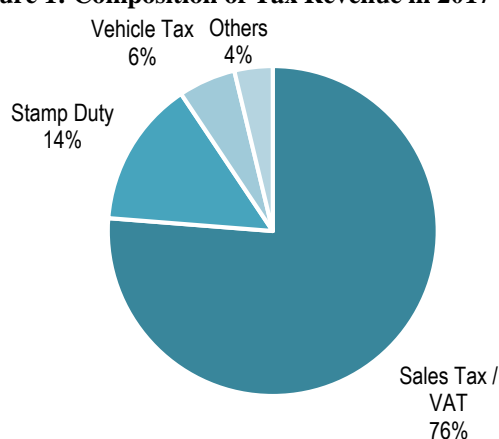
Table 4: Break up of state government receipts (in Rs crore)

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	25,449	29,730	27,897	-6.2%	32,001	14.7%
State's Own Non Tax	2,186	2,358	2,384	1.1%	2,875	20.6%
State's share in Central Taxes	48,923	58,360	58,881	0.9%	65,326	10.9%
Grants-in-aid from Centre	19,566	34,142	38,376	12.4%	36,956	-3.7%
Total Revenue Receipts	96,123	1,24,590	1,27,537	2.4%	1,37,158	7.5%
Borrowings	18,383	21,255	19,470	-8.4%	23,863	22.6%
Recovery of loans	19	17	19	8.6%	18	-4.7%
Total Capital Receipts	18,402	21,272	19,489	-8.4%	23,881	22.5%
Total Receipts	1,14,525	1,45,863	1,47,026	0.8%	1,61,039	9.5%

Sources: Bihar State Budget Documents 2017-18; PRS.

Total tax revenue of Bihar is estimated to be Rs 32,001 crore in 2017-18. The composition of the state's tax revenue is shown in Figure 1.

Figure 1: Composition of Tax Revenue in 2017-18



Sources: Bihar State Budget Documents 2017-18; PRS.

- **Tax Revenue:** Sales Tax is expected to be the largest component (76%) of the tax revenue, with an estimated collection of Rs 24,400 crore.
- Sales Tax collections are expected to increase by 74% over the revised estimates of 2016-17. Note that GST is expected to be introduced in 2017-18. It will subsume taxes such as Sales Tax and Entertainment Tax (unless levied by local bodies).
- Whether the roll-out of GST will increase tax collection will become clear in due course of time. Some of the reasons behind estimating a higher tax collection may be an increase in compliance, or higher tax rates.
- Rs 4,600 crore is expected to be generated from the levy of Stamp Duty. In addition, Rs 3,001 crore will be collected by levying taxes on vehicles and duty on electricity, among others.
- **Non Tax Revenue:** Bihar has estimated to generate Rs 2,875 crore through non-tax sources in 2017-18. This includes Rs 1,350 crore through mining and metallurgical industries.
- No new changes in the existing tax rates have been announced in this budget.

Deficits, Debts and FRBM Targets for 2017-18

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 14,556 crore (or 2.3 % of GSDP) 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 meeting the target of eliminating revenue deficit, as 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. A high fiscal deficit may imply a higher repayment obligation for the state in the future. In 2017-18, fiscal deficit is estimated to be Rs 18,112 crore, which is 2.9% of the GSDP. This is within the limit prescribed by the 14th Finance Commission.

In 2016-17, the fiscal deficit is estimated to be Rs 22,512 crore. This is 4.16% of GSDP and higher than the 3% limit recommended by the 14th Finance Commission.

Outstanding Liabilities: It is the accumulation of borrowings over the years. In 2017-18, the outstanding liabilities are expected at 19.78% of GSDP.

Table 5: Budget targets for deficits for the state of Bihar in 2017-18 (% of GSDP)

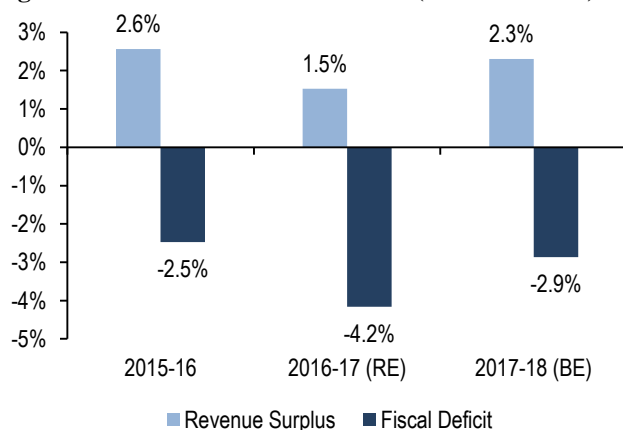
Year	Revenue Deficit (-)/Surplus (+)	Fiscal Deficit (-)/Surplus (+)	Outstanding Liabilities
2015-16	2.57%	-2.48%	18.23%
2016-17 (RE)	1.53%	-4.16%	19.61%
2017-18 (BE)	2.30%	-2.87%	19.78%
2018-19	2.08%	-3.00%	20.03%
2019-20	1.88%	-3.00%	20.25%

Note: Outstanding numbers for 2016-17 are Budget estimates.

Sources: Bihar State Budget Documents 2017-18; PRS.

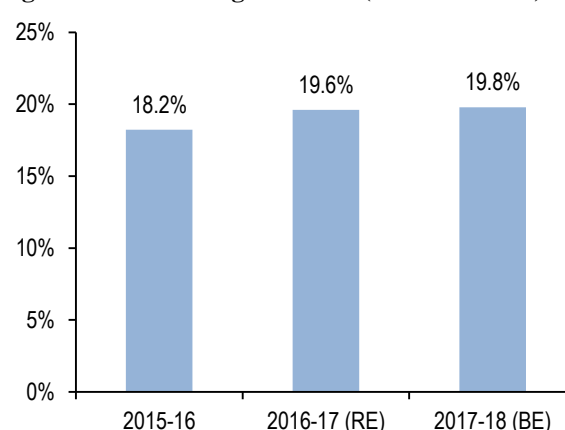
Figures 2 and 3 show the trend in deficits and outstanding liabilities from 2015-16 to 2017-18:

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



Sources: Bihar State Budget Documents; PRS.

Figure 3: Outstanding liabilities (as % of GSDP)



Sources: Bihar State Budget Documents; PRS.

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