

Bihar Budget Analysis

2018-19

The Finance Minister of Bihar, Mr. Sushil Kumar Modi, presented the Budget for financial year 2018-19 on February 27, 2018.

Budget Highlights

- The **Gross State Domestic Product** of Bihar for 2018-19 (at current prices) is estimated to be Rs 5,15,634 crore. This is 11% higher than the revised estimate for 2017-18. Note that the GSDP in 2017-18 is expected to be 26% lower than what was estimated at the budget stage.
- **Total expenditure** for 2018-19 is estimated to be Rs 1,76,990 crore, a 2.4% increase over the revised estimate of 2017-18. In 2017-18, the revised estimates indicate that expenditure is expected to be Rs 12,799 crore (8%) higher than the budget estimate.
- **Total receipts (excluding borrowings)** for 2018-19 are estimated to be Rs 1,60,735 crore, an increase of 19% as compared to the revised estimates of 2017-18. In 2017-18, total receipts (except borrowings) fell short of the budgeted estimate by Rs 4,048 crore.
- **Revenue surplus** for the next financial year is targeted at Rs 21,312 crore, or 4.13% of the state Gross Domestic Product (GSDP). **Fiscal deficit** is targeted at Rs 11,204 crore (2.17% of GSDP).
- Departments of Rural Development, Education and Home saw the highest increase in allocations.

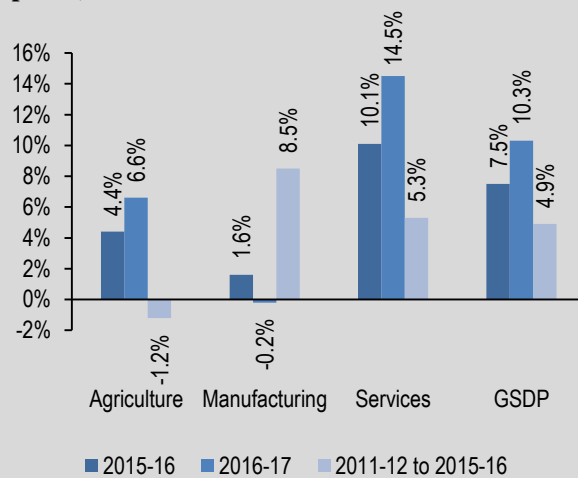
Policy Highlights

- **Education:** Rs 32,126 crore has been allocated towards education. Of this, Rs 14,039 crore has been allocated towards the Sarva Shiksha Abhiyaan. Rs 2,171 crore has been allocated towards the Midday Meal Scheme. The World Bank's project on Enhancing Teacher Effectiveness in Bihar will be implemented. Rs 116 crore has been allocated towards it.
- **Agriculture:** An agriculture road map has been set for the state for the period 2017-2022. This road map will provide for the overall development of the sector, food and nutrition security, and improving farmer income. The total allocation towards this road map is Rs 1.54 lakh crore (for 2017-22).
- **Home:** A National Emergency Response System will be set up for citizens to provide them with essential services during difficult situations. Through this system assistance will be provided in the areas related to police, health, firefighting, and female harassment.
- **SC and ST Welfare:** Rs 16,734 crore has been allocated towards SC welfare, and Rs 1,565 crore has been allocated towards ST welfare.

Bihar's Economy

- **Economy:** The Gross State Domestic Product (GSDP) of Bihar grew by 7.5% in 2015-16, and by 10.3% in 2016-17 (at constant prices). In 2016-17, the GSDP (at constant prices) was Rs 3.32 lakh crore.
- **Agriculture:** Agriculture in 2016-17 grew at 6.6%. However, the sector witnessed negative growth of 1.2% between 2011-12 to 2015-16. Total crop production in the state increased from 173.64 lakh tonne in 2011-12 to 180.99 lakh tonne in 2016-17.
- **Per Capita Income:** The Per Capita Income of Bihar has grown from Rs 23,525 in 2011-12 to Rs 29,178 in 2016-17 (an increase of 24%). The per capita expenditure on social services has increased from Rs 1,878 in 2011-12 to Rs 3,767 in 2016-17.

Figure 1: GSDP and sectoral growth in Bihar (2011-12 prices)



Source: Bihar Economic Survey 2017-18; PRS.

Budget Estimates for 2018-19

- The total expenditure in 2018-19 is targeted at Rs 1,76,990 crore. This is 2.4% higher than the revised estimates of 2017-18. This expenditure is proposed to be met through receipts (other than borrowings) of Rs 1,60,735 crore and borrowings of Rs 20,520 crore. Total receipts for 2018-19 are expected to be Rs 1,81,255 crore, which is 17.6% higher than the revised estimate of 2017-18.

Table 1: Budget 2018-19 - Key figures (Rs crore)

Items	2016-17 Actuals	2017-18 Budgeted	2017-18 Revised	% change from BE 2017-18 to RE of 2017-18	2018-19 Budgeted	% change from RE 2017-18 to BE 2018-19
Total Expenditure	1,26,302	1,60,086	1,72,884	8.0%	1,76,990	2.4%
A. Borrowings*	20,065	21,703	18,878	-13.0%	20,520	8.7%
B. Receipts (except borrowings)	1,07,120	1,39,336	1,35,289	-2.9%	1,60,735	18.8%
Total Receipts (A+B)	1,27,185	1,61,039	1,54,167	-4.3%	1,81,255	17.6%
Revenue Surplus	13,152	14,556	1,449	-90.0%	21,312	1370.5%
As % of state GDP	2.43%	2.30%	0.31%		4.13%	
Fiscal Deficit	-14,147	-18,112	-34,958	93.0%	-11,204	-68.0%
As % of state GDP	-2.62%	-2.87%	-7.50%		-2.17%	
Primary Deficit	-8,288	-8,521	-25,367	197.7%	-440	-98.3%
As % of state GDP	-1.53%	-1.35%	-5.44%		-0.09%	

Notes: BE is Budget Estimate; RE is Revised Estimate. '-' sign indicates deficit; '+' indicates surplus. Fiscal Deficit and Revenue Surplus for 2016-17 is excluding Uday Bonds. Including the Uday Bonds, the Revenue Surplus for 2016-17 is Rs 10,812 crore (2% of GSDP), and Fiscal Deficit is Rs 16,479 crore (3.05% of GSDP). GSDP for 2018-19 is Rs 5,15,634 crore. GSDP for 2017-18 BE and 2017-18 RE taken to be Rs 6,32,180 crore and Rs 4,66,365 crore respectively.

Sources: Bihar Budget Documents 2018-19; PRS.

Expenditure in 2018-19

- Capital expenditure** for 2018-19 is proposed to be Rs 40,250 crore, which is a decrease of 2.4% over the revised estimates of 2017-18. This includes expenditure which affects the assets and liabilities of the state, and leads to creation of assets (such as bridges and hospital), and repayment of loans, among others.
- Revenue expenditure** for 2018-19 is proposed to be Rs 1,36,740 crore, which is an increase of 3.9% over revised estimates of 2017-18. This expenditure includes payment of salaries, maintenance, etc.
- In 2018-19, Bihar is expected to spend Rs 18,089 crore on servicing its debt (i.e., Rs 7,326 crore on repaying loans, and Rs 10,763 crore on interest payments). This is 25.7% higher than the revised estimates of 2017-18.

In 2018-19, the state expects a 2.4% decrease in capital expenditure. Capital expenditure is used in creating assets for the state, such as roads, schools, and hospitals. It is also used for repaying loans.

Table 2: Expenditure budget 2018-19 (Rs crore)

Item	2016-17 Actuals	2017-18 Budgeted	2017-18 Revised	% change from BE 2017-18 to RE of 2017-18	2018-19 Budgeted	% change from RE 2017-18 to BE 2018-19
Capital Expenditure	31,537	37,483	41,223	10.0%	40,250	-2.4%
Revenue Expenditure	94,765	1,22,603	1,31,661	7.4%	1,36,740	3.9%
Total Expenditure	1,26,302	1,60,086	1,72,884	8.0%	1,76,990	2.4%
A. Debt Repayment	4,215	4,797	4,797	0.0%	7,326	52.7%
B. Interest Payments	8,191	9,591	9,592	0.0%	10,763	12.2%
Debt Servicing (A+B)	12,405	14,389	14,389	0.0%	18,089	25.7%

Sources: Bihar Budget Documents 2018-19; 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.

Sector expenditure in 2018-19

The departments listed below account for **66%** of the total budgeted expenditure of Bihar in 2018-19. A comparison of Bihar's expenditure on key sectors with 18 other states can be found in the [Annexure](#).

Table 3: Sector-wise expenditure for Bihar Budget 2018-19 (Rs crore)

Department	2016-17 Actuals	2017-18 Revised	2018-19 Budgeted	% change from RE 2017-18 to BE 2018-19	Budget provisions for 2018-19
Education	19,508	25,642	32,126	25%	<ul style="list-style-type: none"> Rs 14,039 crore has been allocated towards the Sarva Shiksha Abhiyaan. Rs 2,171 crore has been allocated towards the Midday Meal Scheme. Rs 4,527 crore has been allocated for support to universities.
Pension	12,508	19,878	15,829	-20%	<ul style="list-style-type: none"> The allocation towards pension is Rs 15,829 crore, which is 20% lower than the revised estimates of 2017-18.
Energy	13,514	12,381	10,258	-17%	<ul style="list-style-type: none"> Rs 4,308 crore has been allocated towards power companies. The state government has guaranteed Rs 1,700 crore towards Bihar State Power Company Limited. This will be provided through consortium of banks.
Rural Works	8,816	10,418	10,509	1%	<ul style="list-style-type: none"> In 2018-19, 9,000 km of roads will be constructed.
Rural Development	5,799	10,423	15,471	48%	<ul style="list-style-type: none"> Under the Jeevika scheme, 10 lakh Self Help Groups (SHGs) and 15,000 Village Organisations will be set up. Further 2.25 lakh SHGs will be provided with Rs 3,500 crore from banks. 8 lakh farmers will be provided with new technologies in agriculture.
Panchayati Raj	6,450	9,119	9,955	9%	<ul style="list-style-type: none"> Rs 4,729 crore will be allocated towards Panchayats as per recommendations of the 14th Finance Commission.
Home	6,537	7,644	8,616	13%	<ul style="list-style-type: none"> A National Emergency Response System for citizens will be set up. Rs 2,477 crore has been allocated towards the Crime and Criminal Tracking Network System.
Health	5,551	7,534	7,794	3%	<ul style="list-style-type: none"> An allocation of Rs 120 crore has been made to set up a State Cancer Institute in the Indira Gandhi Institute of Medical Sciences, Patna. A cancer hospital will be set up in Sri Krishna Medical College and Hospital, Muzaffarpur at a cost of Rs 150 crore.
Road Construction	6,363	7,206	6,889	-4%	<ul style="list-style-type: none"> Rs 2,440 crore has been allocated towards the construction of 330 km length across 6 state highways (SH 58, SH 82, SH 84, SH 85, SH 102 and SH 105).
Sub Total	85,046	110,245	117,447	7%	
% of total expenditure	67%	64%	66%		
Total Expenditure	126,302	172,884	176,990	2.4%	

Note: All amounts are net numbers. Source: Bihar Budget Documents 2018-19; PRS.

Receipts in 2018-19

- The **total revenue receipts** for 2018-19 are estimated to be Rs 1,58,051 crore, an increase of 18.7% over the revised estimates of 2017-18. Of this, Rs 35,448 (22.4% of the revenue receipts) crore will be raised by the state through its **own resources**, and Rs 1,22,603 crore (77.6% of the revenue receipts) will be **devolved by the centre** in the form of grants and the state's share in taxes.
- **Non Tax Revenue:** Bihar has estimated to generate Rs 4,446 crore through non-tax sources in 2018-19. Of this, Rs 1,600 crore will be received from non-ferrous mining and metallurgical industries.

In 2018-19, Bihar is expected to receive 68% of its receipts from the central government, in the form of share in taxes, and grants-in-aid. In 2017-18, the grants from centre were reduced by 10.2% from the budgeted estimates. However, in 2018-19, the state expects to receive Rs 46,431 crore from the centre in the form of grants, which is 40% more than the revised estimates of 2017-18.

Bihar also expects to increase its own non-tax revenue by 55.7% in 2018-19. This will be an increase of Rs 1,590 crore.

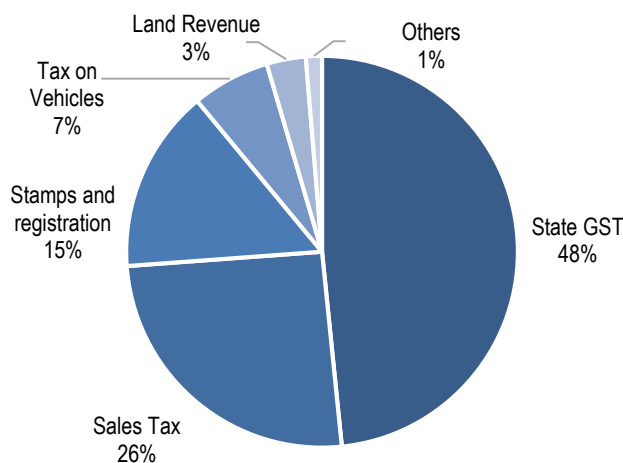
Table 4: Break up of state government receipts (Rs crore)

Item	2016-17 Actuals	2017-18 Budgeted	2017-18 Revised	% change from BE 2017-18 to RE of 2017-18	2018-19 Budgeted	% change from RE 2017-18 to BE 2018-19
State's Own Tax	23,742	32,001	32,001	0.0%	31,002	-3.1%
State's Own Non-Tax	2,403	2,875	2,855	-0.7%	4,446	55.7%
Share in Central Taxes	58,881	65,326	65,083	-0.4%	76,172	17.0%
Grants-in-aid from Centre	20,559	36,956	33,171	-10.2%	46,431	40.0%
Total Revenue Receipts	1,05,585	1,37,158	1,33,111	-3.0%	1,58,051	18.7%
Borrowings	20,065	21,703	18,878	-13.0%	20,520	8.7%
Other receipts	1,535	2,178	2,178	0.0%	2,684	23.2%
Total Capital Receipts	21,600	23,881	21,056	-11.8%	23,204	10.2%
Total Receipts	1,27,185	1,61,039	1,54,167	-4.3%	1,81,255	17.6%

Sources: Bihar Budget Documents 2018-19; PRS.

- **Tax Revenue:** Total own tax revenue of Bihar is estimated to be Rs 31,002 crore in 2018-19. The composition of the state's tax revenue is shown in Figure 2. The tax to GSDP ratio is targeted at 6% in 2018-19, which is marginally lower than the revised estimate of 6.9% in 2017-18. This implies that growth in collection of taxes will marginally reduce as compared to the growth in the economy.

Figure 2: Composition of Tax Revenue in 2018-19 (BE)



- State GST is expected to be the largest component of Bihar's tax revenue. It is expected to contribute Rs 15,000 crore.
- Sales tax is expected to be the second largest component of tax revenue for the state. It is expected to generate Rs 7,890 crore.
- The Bihar government expects to generate Rs 4,700 crore from stamp and registration fees. This is 2.2% higher than the revised estimates of 2017-18.
- Tax on vehicles will contribute to about 7% of the tax revenue, which amounts to Rs 2,000 crore.
- The remaining amount will be generated by the state through land revenue, and taxes and duties on electricity.

Deficits, Debts and FRBM Targets for 2018-19

The Bihar Fiscal Responsibility and Budget Management (FRBM) Act, 2006 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.

The budget estimates a revenue surplus of Rs 21,312 crore (or 4.13% of GSDP) in 2018-19. This implies that revenue receipts are expected to be higher than the revenue expenditure, resulting in a surplus. The 14th Finance Commission had recommended that states should eliminate revenue deficits. The estimates in the Bihar Budget 2018-19 suggest that the state is expected to meet this target of eliminating revenue deficit.

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 2018-19, fiscal deficit is estimated to be Rs 11,204 crore, which is 2.17% of the GSDP. The estimate is within the 3% limit prescribed by the 14th Finance Commission. However, as per the revised estimates of 2017-18, the fiscal deficit is expected to be Rs 34,958 crore (7.5% of the GSDP). As per the 14th Finance Commission, the fiscal deficit limit may be relaxed to a maximum of 3.5%, if states are able to contain their debt and interest payments to certain specified levels.

Outstanding Liabilities: It is the accumulation of borrowings over the years. In 2018-19, the outstanding liabilities are expected at 26.74% of the GSDP.

While fiscal deficit was estimated to be 2.87% of GSDP in 2017-18, as per the revised estimates of 2017-18, the fiscal deficit is 7.5% of GSDP.

Outstanding liabilities as a percentage of GSDP has been increasing over the past few years. They are estimated to increase from 19.64% in 2016-17 to 27.59% in 2020-21.

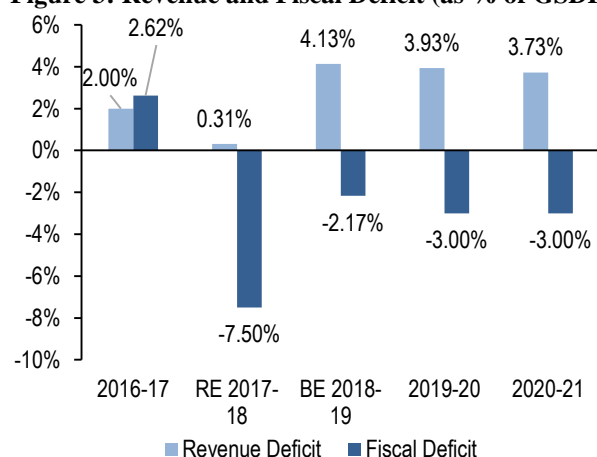
Table 5: Budget targets for deficits for Bihar in 2018-19 (% of GSDP)

Year	Revenue Deficit (-)/Surplus (+)	Fiscal Deficit (-)/Surplus (+)	Outstanding liabilities
2016-17	2.43%	2.62%	19.64%
RE 2017-18	0.31%	-7.50%	26.25%
BE 2018-19	4.13%	-2.17%	26.74%
2019-20	3.93%	-3.00%	27.19%
2020-21	3.73%	-3.00%	27.59%

Sources: Bihar Budget Documents 2018-19; PRS.

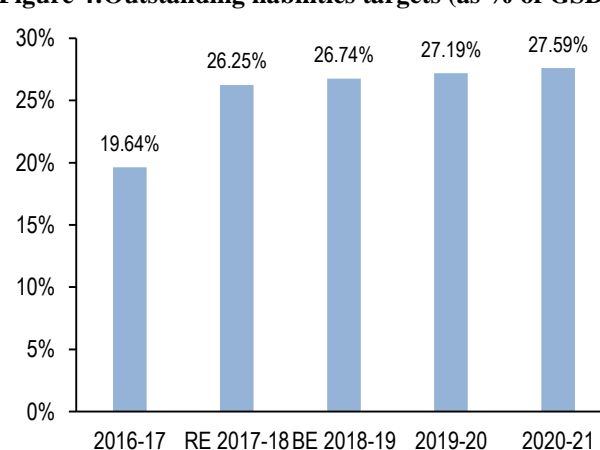
Figures 3 and 4 show the trend in deficits and outstanding liabilities targets from 2016-17 to 2020-21.

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



Note: Figures for 2019-20 and 2020-21 are projections.
Sources: Bihar Budget Documents; PRS.

Figure 4: Outstanding liabilities targets (as % of GSDP)



Note: Figures for 2019-20 and 2020-21 are projections.
Sources: Bihar Budget Documents; PRS.

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Annexure

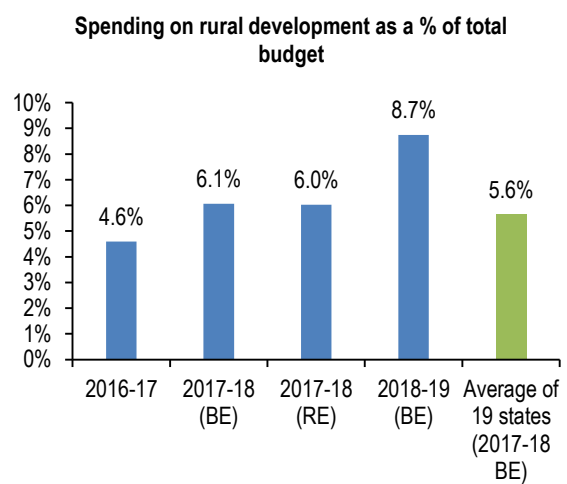
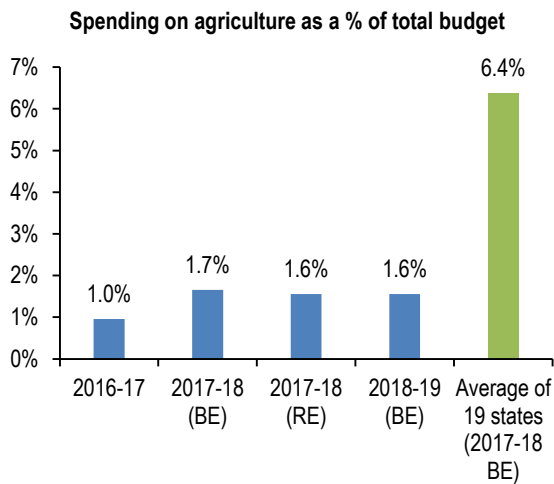
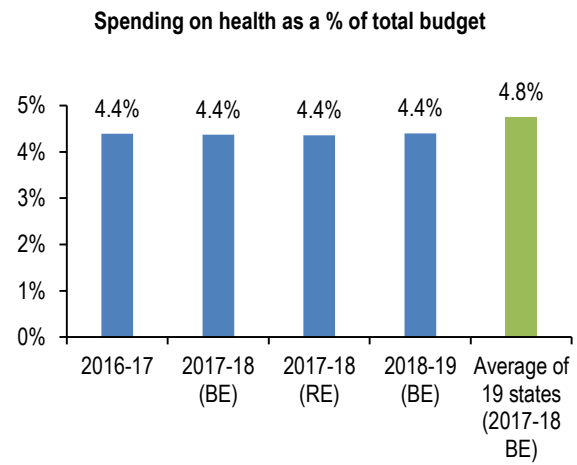
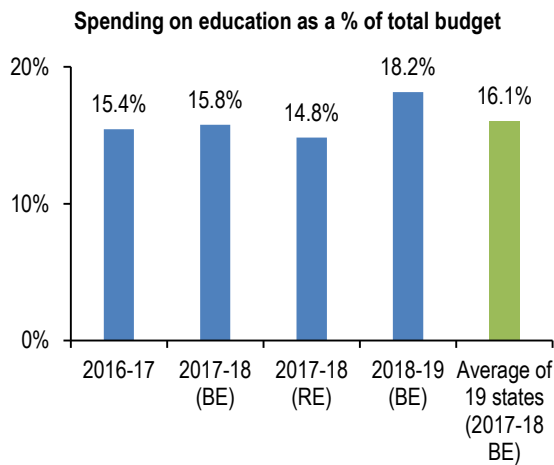
The graphs below compare Bihar’s expenditure on four key sectors as a proportion of its total budget, with 18 other states.¹

Education: Bihar has allocated 18% on education in 2018-19. This is higher than the average expenditure allocated to education by 18 other states (using 2017-18 BE).

Health: Bihar has allocated 4.4% of its total expenditure on health, which is marginally lower than the average expenditure of 18 other states.

Agriculture: The state has allocated 1.6% of its total budget on agriculture and allied activities. This is significantly lower than the allocations of 18 other states (6.4%).

Rural development: Bihar has allocated 8.7% of its expenditure on rural development. This is higher than the average (5.6%) of the 18 other states.



Note: 2017-18 (BE), 2017-18 (RE), and 2018-19 (BE) figures are for the state of Bihar.
 Source: Annual Financial Statement (2017-18 and 2018-19), various state budgets; PRS.

¹ The 18 states apart from Bihar are: Andhra Pradesh, Assam, Chhattisgarh, Delhi, Gujarat, Haryana, Jammu and Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, and West Bengal.