

Himachal Pradesh Budget Analysis 2018-19

The Finance Minister of Himachal Pradesh, Mr. Jai Ram Thakur, presented the Budget for financial year 2018-19 on March 9, 2018.

Budget Highlights

- The **Gross State Domestic Product** of Himachal Pradesh for 2018-19 (at current prices) is estimated to be Rs 1,52,229 crore. This is 12% higher than the revised estimates for 2017-18.
- **Total expenditure** for 2018-19 is estimated to be Rs 41,440 crore, a 6.3% increase over the revised estimate of 2017-18. In 2017-18, the revised estimates indicate that the expenditure is expected to be Rs 38,995 crore (9%) higher than the budget estimate.
- **Total receipts (excluding borrowings)** for 2018-19 are estimated to be Rs 31,660 crore, an increase of 8.1% as compared to the revised estimates of 2017-18. In 2017-18, total receipts exceeded the budgeted estimate by Rs 343 crore.
- **Revenue deficit** for 2018-19 is targeted at Rs 3,168 crore, or 2.1% of the Gross State Domestic Product (GSDP). **Fiscal deficit** is targeted at Rs 7,855 crore (5.2% of GSDP) for 2018-19.
- Departments of Rural Development, Tribal Development, and Health, Family and Welfare saw the highest increase in allocations.

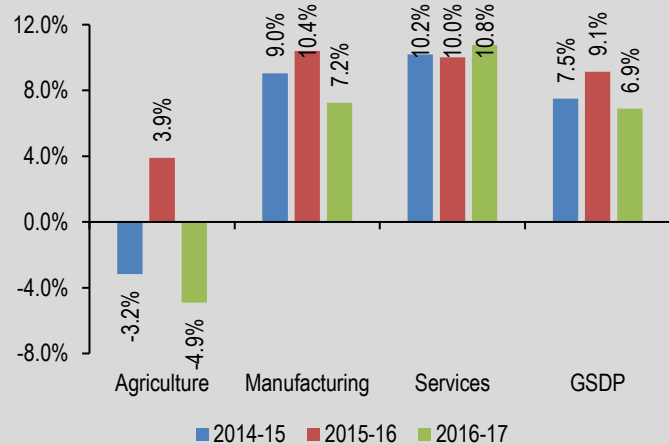
Policy Highlights

- **Irrigation:** A new scheme called ‘Jal Se Krishi Ko Bal’ has been launched with an outlay of Rs 250 crore for the next five years. Under the scheme, new check dams and ponds will be constructed. As per the budget, electricity for irrigation will be provided at 75 paisa per unit to farmers as compared to the existing rate of one rupee per unit.
- **Healthcare:** Medical emergency assistance under the Himachal Pradesh Patrakar Yojana has been increased from the Rs 50,000 to Rs 2,50,000.
- **Education:** In order to improve quality of education, the government has planned to establish 36 language labs in schools across the state.
- **Urban Development:** The state government will devolve Rs 122 crore to urban local bodies in 2018-19 as per the recommendations of the 5th State Financial Commission.

Himachal Pradesh Economy

- **Economic growth:** The Gross State Domestic Product (GSDP) of Himachal Pradesh is estimated to grow at 6.9% in 2016-17 as compared to 2015-16.
- **Sectoral growth:** In the year 2017-17, the manufacturing sector contributed 455 to the state’s economy. This was followed by services at 42%, and agriculture at 13%.
- The growth in the manufacturing sector decreased from 9% in 2014-15 to 7.2% in 2016-17. The services sector grew from 10.2% in 2014-15 to 10.8% in 2016-17. The growth in the agriculture sector fell from -3.2% in 2014-15 -4.9% in 2016-17.
- **Per capita income:** The per capita income (at current prices) is estimated at Rs 1,43,945 in 2016-17, a 5.8% increase over the previous year.

Figure 1: Growth in sectors (2011-12 prices)



Note: Agriculture includes mining. Manufacturing includes construction and electricity. Services includes trade, transport, and financial services.
Sources: GSVa by Economic Activities, Central Statistics Office; PRS.

Budget Estimates for 2018-19

- The total expenditure in 2018-19 is targeted at Rs 41,440 crore. This is 6.3% higher than the revised estimates of 2017-18. This expenditure is proposed to be met through receipts (other than borrowings) of Rs 31,660 crore and borrowings of Rs 6,505 crore.
- In 2017-18, revised estimates of total expenditure were 9% higher (Rs 3,212 crore) than the budget estimates.
- Total receipts for 2018-19 (other than borrowings) are expected to be 8.1% higher than the revised estimates 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	36,076	35,783	38,995	9.0%	41,440	6.3%
A. Borrowings*	8,603	6,146	6,377	3.8%	6,505	2.0%
B. Receipts (except borrowings)	27,370	28,932	29,275	1.2%	31,660	8.1%
Total Receipts (A+B)	35,973	35,078	35,652	1.6%	38,165	7.0%
Revenue Deficit	920	-1,041	-2,627	152.3%	-3,168	20.6%
As % of state GDP	0.7%	-0.7%	-1.9%	-	-1.7%	-
Fiscal Deficit	-5,869	-4,964	-7,472	50.5%	-7,855	5.1%
As % of state GDP	-4.7%	-3.5%	-5.5%	-	-5.2%	-
Primary Deficit	-2,510	-1,464	-3,655	-	-3,595	-1.6%
As % of state GDP	-2.0%	-1.0%	-2.7%	-	-2.4%	-

Notes: BE is Budget Estimate; RE is Revised Estimate. '-' sign indicates deficit; '+' indicates surplus.

Sources: Himachal Pradesh Budget Documents 2018-19; PRS.

Expenditure in 2018-19

- **Capital expenditure** for 2018-19 is proposed to be Rs 7,872 crore, which is a decrease of 5.7% 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 33,568 crore, which is an increase of 9.5% over revised estimates of 2017-18. This expenditure includes payment of salaries, maintenance, etc. Note that in 2017-18, Himachal Pradesh's revenue expenditure was 6.6% higher than its budget estimates, while the capital expenditure was 18% higher.
- In 2018-19, Himachal Pradesh is expected to spend Rs 7,444 crore on servicing its debt (i.e., Rs 3,184 crore on repaying loans, and Rs 4,260 crore on interest payments). This is 11.6% higher than the revised estimates of 2017-18.

In 2018-19, the state aims to spend Rs 11,263 crore on salaries and Rs 5,893 crore on providing pensions. Expenditure on both these heads constitutes 41% of the revenue expenditure.

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

Item	2016-17 Actuals	2017-18 Budgeted	2017-18 Revised	% change from BE 2017-18 to RE 2017-18	2018-19 Budgeted	% change from RE 2017-18 to BE 2018-19
Capital Expenditure	10,732	7,028	8,344	18.7%	7,872	-5.7%
Revenue Expenditure	25,344	28,755	30,651	6.6%	33,568	9.5%
Total Expenditure	36,076	35,783	38,995	9.0%	41,440	6.3%
A. Debt Repayment	3,943	3,105	3,500	12.7%	3,184	-9.0%
B. Interest Payments	3,359	3,500	3,817	9.1%	4,260	11.6%
Debt Servicing (A+B)	7,302	6,605	7,317	10.8%	7,444	1.7%

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. Fiscal Deficit calculated based on total expenditure less public debt and revenue receipts.

Source: Himachal Pradesh Budget Documents 2018-19; PRS.

Sector expenditure in 2018-19

The departments listed below account for **54.3%** of the total budgeted expenditure of Himachal Pradesh in 2018-19. A comparison of Himachal Pradesh's expenditure on key sectors with 18 other states can be found in the [Annexure](#).

Table 3: Department-wise expenditure for Himachal Pradesh Budget 2018-19 (Rs crore)

Department	2016-17 Actuals	2017-18 Budgeted	2017-18 Revised	2018-19 Budgeted	% change from RE 2017-18 to BE 2018-19	Budget provisions for 2018-19
Education	4,514	5,453	5,827	6,230	6.9%	<ul style="list-style-type: none"> In order to improve quality of education, the government will establish 36 language labs in schools.
Public Works	3,894	3,901	4,192	4,524	7.9%	<ul style="list-style-type: none"> Himachal Road Improvement Scheme launched with an outlay of 50 crore for cross drainage. Increasing the target of tarring of existing state roads from 1,785 km to 2,500 km for the year 2018-19. Rs 100 crore allocated for maintenance of roads.
Irrigation	2,996	2,750	3,006	3,090	2.8%	<ul style="list-style-type: none"> Jal Se Krishi Ko Bal scheme launched with an outlay of Rs 250 crore for five years. Two new schemes: (i) Flow Irrigation Scheme with an outlay of Rs 150 for five years, and (ii) Solar Irrigation Scheme with an outlay of Rs 200 crore for five years have been launched.
Health and Family Welfare	1,580	1,669	1,957	2,181	11.5%	<ul style="list-style-type: none"> Medical emergency assistance under the Himachal Pradesh Patrakar Yojana increased from the Rs 50,000 to Rs 2,50,000, removing the annual income limit
Tribal Development	1,108	1,440	1,432	1,620	13.1%	<ul style="list-style-type: none"> The amount will be spent on irrigation, horticulture, roads, education, health, and drinking water supply etc.
Rural Development	1,101	1,296	1,326	1,570	18.4%	<ul style="list-style-type: none"> Number of employment days provided under MNREGA to be increased from 100 to 120.
Police	1,098	1,157	1,249	1,377	10.2%	<ul style="list-style-type: none"> Three new all women police stations to be set up in Solan, Hamirpur, and Chamba Districts in 2018-19.
Power	3,979	909	1,142	946	-17.1%	<ul style="list-style-type: none"> 182 MW capacity from Hydro Electric projects will be added in 2018-19.
Social Justice and Empowerment	668	739	845	944	12.3%	<ul style="list-style-type: none"> Budget provision of Rs 600 crore for a social security pension scheme.
% of total expenditure	58.0%	54.0%	53.8%	54.3%		

Note: All amounts are net numbers.

Source: Himachal Pradesh Budget Documents 2018-19; PRS.

Receipts in 2018-19

- The **total revenue receipts** for 2018-19 are estimated to be Rs 30,400 crore, an increase of 8.5% over the revised estimates of 2017-18. Of this, Rs 10,229 crore (33.6% of the revenue receipts) will be raised by the state through its **own resources**, and Rs 20,171 crore (66.4% 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:** Himachal Pradesh has estimated to generate Rs 1,981 crore through non-tax sources in 2018-19.

Himachal Pradesh witnessed a 7% fall in tax revenue collections during 2017-18 over the budget estimates. In 2018-19, tax revenue is estimated to grow by 12% over the revised estimates of 2017-18.

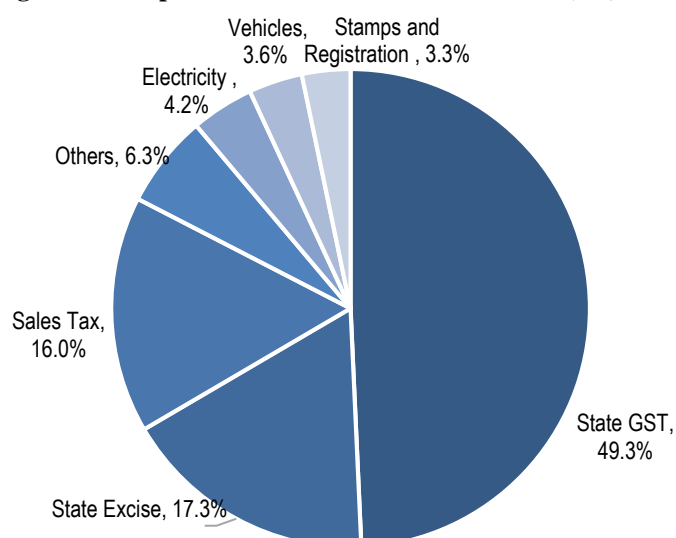
Table 4: Break up of state government receipts (Rs crore)

Item	2016-2017 Actuals	2017-2018 Budgeted	2017-18 Revised	% change from BE 2017-18 to RE 2017-18	2018-2019 Budgeted	% change from RE 2017-18 to BE 2018-19
State's Own Tax	7,042	7,946	7,379	-7.1%	8,248	11.8%
State's Own Non-Tax	1,717	1,602	2,142	33.7%	1,981	-7.5%
Share in Central Taxes	4,341	4,819	4,801	-0.4%	6,387	33.0%
Grants-in-aid from Centre	13,164	13,347	13,702	2.7%	13,784	0.6%
Total Revenue Receipts	26,264	27,714	28,024	1.1%	30,400	8.5%
Borrowings	8,603	6,146	6,377	3.8%	6,505	2.0%
Other receipts	1105.62	1218.59	1251.2	2.7%	1259.55	0.7%
Total Capital Receipts	9,709	7,364	7,628	3.6%	7,765	1.8%
Total Receipts	35,973	35,078	35,652	1.6%	38,165	7.0%

Sources: Himachal Pradesh Budget Documents 2018-19; PRS.

- Tax Revenue:** Total own tax revenue of Himachal Pradesh is estimated to be Rs 8,248 crore in 2018-19. The composition of the state's tax revenue is shown in Figure 2. The tax to GDP ratio is targeted at 5.4% in 2018-19, which is equal to the revised estimate in 2017-18.

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



Sources: Himachal Pradesh Budget Documents 2018-19; PRS.

- State GST is expected to be the largest component of Chhattisgarh's own tax revenue in 2018-19. State GST is expected to generate Rs 4,064 crore. The transfer-in from IGST is expected to be Rs 170 crore.
- State excise is the second largest component of tax revenue of the state. It is expected to generate Rs 1,426 crore in 2018-19. This is an increase of 12% from the revised estimates of 2017-18.
- Further, the government is expected to generate Rs 1,320 crore through taxes on sales and trade. This is a decrease of 50% over the revised estimates of 2017-18.
- Electricity will contribute Rs 350 crore, which is equal to the revised estimates of 2017-18. About 4.2% of the tax revenue will be generated through levy of electricity tax. Land revenue will account to 0.3% of the total tax revenue.

Deficits, Debts and FRBM Targets for 2018-19

The Himachal Pradesh Fiscal Responsibility and Budget Management (FRBM) Act, 2005 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 deficit of Rs 3,168 crore (2.1% of GSDP) in 2018-19. This implies that revenue receipts are expected to be lower than the revenue expenditure, resulting in a deficit. The 14th Finance Commission had recommended that states should eliminate revenue deficits. The estimates in the Himachal Pradesh Budget 2018-19 suggest that the state is not 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 7,855 crore, which is 5.2% of the GSDP. The estimate exceeds the 3% limit prescribed by the 14th Finance Commission. While setting the 3% target, the Finance Commission has recommended that this 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.

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

Year	Revenue	Fiscal
	Deficit (-)/Surplus (+)	Deficit (-)/Surplus (+)
2016-17	-0.7%	-4.7%
BE 2016-17	-0.7%	-3.5%
RE 2017-18	-1.9%	-5.5%
BE 2018-19	-2.1%	-5.2%

Note: Fiscal Deficit calculated based on total expenditure less public debt and revenue receipts. The Statement of Fiscal Policy did not provide targets for revenue surplus and fiscal deficit.

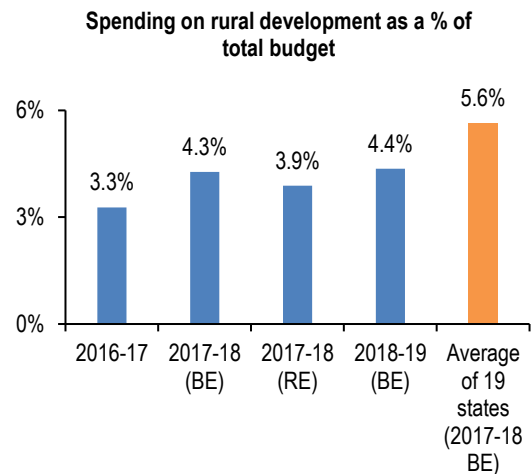
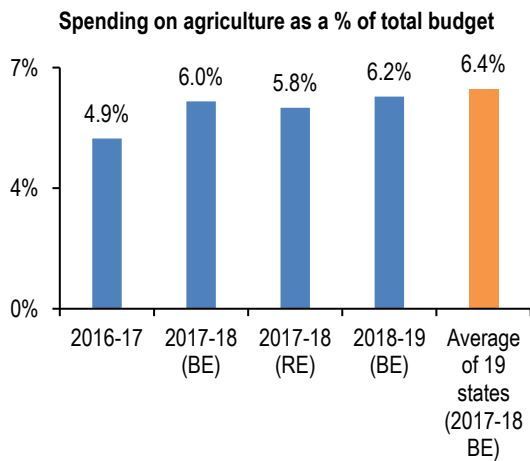
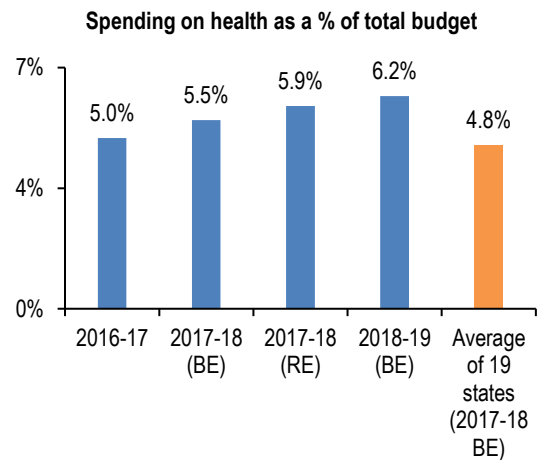
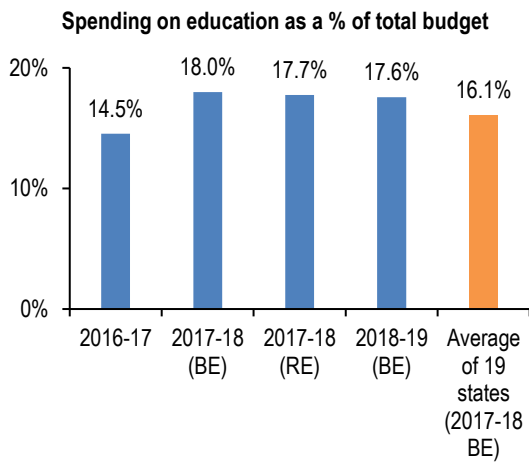
Sources: Himachal Pradesh Budget Documents 2018-19; PRS.

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.

Annexure

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

- **Education:** Himachal Pradesh has allocated 17.6% on education in 2018-19. This is higher than the average expenditure allocated to education by 18 other states (using 2017-18 BE).
- **Health:** Himachal Pradesh has allocated 6.2% of its total expenditure on health, which is higher than the average expenditure of 18 other states.
- **Agriculture and allied activities:** The state has allocated 6.2% of its total budget on agriculture and allied activities. This is marginally lower than the allocations of 18 other states (6.4%).
- **Rural development:** Himachal Pradesh has allocated 4.4% of its expenditure on rural development. This is lower 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 Himachal Pradesh.

Source: Annual Financial Statement, Himachal Pradesh Budget Documents 2018-19, various state budgets; PRS.

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