

Himachal Pradesh Budget Analysis 2023-24

The Chief Minister of Himachal Pradesh, Mr. Sukhvinder Singh Sukhu, presented the Budget for the state for the financial year 2023-24 on March 17, 2023.

Budget Highlights

- The **Gross State Domestic Product (GSDP)** of Himachal Pradesh for 2023-24 (at current prices) is projected to be Rs 2.14 lakh crore, amounting to growth of 10% over 2022-23.
- **Expenditure (excluding debt repayment)** in 2023-24 is estimated to be Rs 47,926 crore, a decrease of 7% from the revised estimates of 2022-23. In addition, debt of Rs 5,487 crore will be repaid by the state.
- **Receipts (excluding borrowings)** for 2023-24 are estimated to be Rs 38,026 crore, a decrease of 2.6% from the revised estimates of 2022-23. In 2022-23, receipts (excluding borrowings) are estimated to be 7.2% higher than the budget estimates.
- **Revenue deficit** in 2023-24 is estimated to be 2.2% of GSDP (Rs 4,704 crore). In 2022-23, the revenue deficit is expected to be 3.2%, which is higher than the budget estimate (2% of GSDP).
- **Fiscal deficit** for 2023-24 is targeted at 4.6% of GSDP (Rs 9,900 crore). In 2022-23, fiscal deficit is estimated to be 6.4% of GSDP, which is substantially higher than the budget estimate (5% of GSDP).

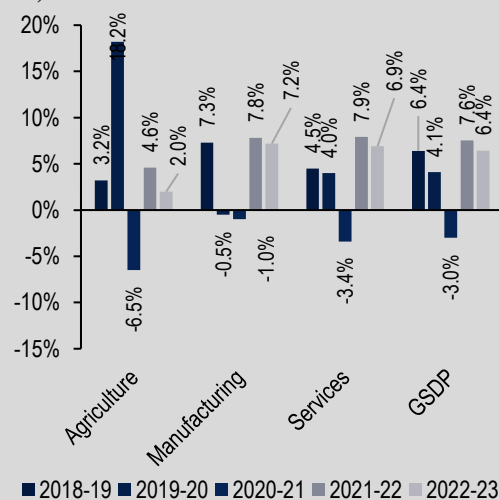
Policy Highlights

- **Legislative proposals:** Under the Himachal Pradesh Ceiling on Land Holding Act, 1972, the daughter of a family will be made a separate unit to give them the right to own land.
- **Renewable energy:** The youth of the state will be provided 40% subsidy to set up solar power projects on their own/leased land. The state government will formulate a policy to attract private sector investment for hydro power. The Himachal Pradesh Power Sector Development Programme will be launched to set up solar power projects, sub-stations, and distribution lines. Private bus and truck operators will be given subsidy to purchase e-buses and e-trucks.
- **Revenue generation:** The GST Revenue Enhancement Project will be launched to reduce the loss of GST compensation. The state will levy milk cess of Rs 10 per bottle of liquor to increase the income of milk producers. Further, water cess will be imposed on hydro power projects.
- **Education:** The Mukhya Mantri Vidyarthi Protsahan Yojana will be launched to provide education loans to economically weaker children at the interest rate of one percent for pursuing higher/professional education.

Himachal Pradesh's Economy

- **GSDP:** In 2022-23, Himachal Pradesh's GSDP (at constant prices) is estimated to grow at 6.4% over the previous year. In comparison, the national GDP is estimated to grow at 7% in 2022-23.
- **Sectors:** In 2022-23, agriculture, manufacturing, and services are estimated to contribute to 14%, 43%, and 43% to the economy (at current prices). In 2022-23, these sectors are estimated to grow at 2%, 7.2%, and 6.9% respectively over the previous year (at constant prices).
- **Per capita GSDP:** In 2023-24, the per capita GSDP of Himachal Pradesh (at current prices) is estimated at Rs 2,86,401, an increase of 9% over the previous year.
- **Unemployment:** As per the Periodic Labour Force Survey (July 2021-June 2022), the unemployment rate for Himachal was 4% in comparison to the national average of 4.1%.

Figure 1: Growth in GSDP and sectors in Himachal Pradesh at constant prices (2011-12)



Sources: Himachal Pradesh Economic Survey 2022-23; PRS.

Budget Estimates for 2023-24

- **Total expenditure (excluding debt repayment)** in 2023-24 is targeted at Rs 47,296 crore. This is a decrease of 7% from the revised estimate of 2022-23. This expenditure is proposed to be met through **receipts (excluding borrowings)** of Rs 38,026 crore and net borrowings of Rs 7,033 crore. Total receipts for 2023-24 (other than borrowings) are expected to register a decrease of 2.6% from the revised estimate of 2022-23.
- **Revenue deficit** in 2023-24 is estimated to be 2.2% of GSDP (Rs 4,704 crore), lower than the revised estimates for 2022-23 (3.2% of GSDP). **Fiscal deficit** for 2023-24 is targeted at 4.6% of GSDP (Rs 9,900 crore), which is lower compared to the revised estimates for 2022-23 (6.5% of GSDP).
- In 2022-23, fiscal deficit is expected to be 6.4% of GSDP as per the revised estimates, higher than the budget estimate (5% of GSDP). In 2023-24, it is targeted at 4.6% of GSDP. In both these years, fiscal deficit is projected to be higher than the permitted limit by the central government. For 2022-23, the limit is 4% of GSDP and for 2023-24, the limit is 3.5% of GSDP; out of which, 0.5% of GSDP will be available only upon undertaking power sector reforms in both years.

Credibility of Revised Estimates

Revised estimates (RE) presented in the budget are supposed to provide a more realistic picture of the ongoing financial year, based on data for 9-10 months. However, for Himachal Pradesh, the 2022-23 revised estimates for net expenditure (excluding borrowings) are unrealistic leading to the fiscal deficit estimates being substantially higher than the permitted limit. In 2022-23, at the revised stage, fiscal deficit is targeted at 6.4% of GSDP and net expenditure is expected to be 12% higher than budgeted while net receipts are expected to be 7% higher than the budgeted. Given that the estimated fiscal deficit is significantly higher than the permitted limit (4% of GSDP), the actual expenditure in 2022-23 is likely to be significantly lower than the revised estimates.

Table 1: Budget 2023-24 - Key figures (in Rs crore)

Items	2021-22 Actuals	2022-23 Budgeted	2022-23 Revised	% change from BE 2022-23 to RE 2022-23	2023-24 Budgeted	% change from RE 2022-23 to BE 2023-24
Total Expenditure	46,989	51,365	62,871	22.4%	53,413	-15.0%
(-) Repayment of debt	4,387	5,342	11,349	112.4%	5,487	-51.7%
Net Expenditure (E)	42,602	46,023	51,523	12.0%	47,926	-7.0%
Total Receipts	46,692	48,950	60,988	24.6%	50,546	-17.1%
(-) Borrowings	9,335	12,530	21,949	75.2%	12,520	-43.0%
Net Receipts (R)	37,357	36,420	39,039	7.2%	38,026	-2.6%
Fiscal Deficit (E-R)	5,245	9,602	12,483	30.0%	9,900	-20.7%
as % of GSDP	3.0%	5.0%	6.4%		4.6%	
Revenue Balance*	1,115	-3,903	-6,170	58.1%	-4,704	-23.8%
as % of GSDP	0.6%	-2.0%	-3.2%		-2.2%	
Primary Deficit	604	4,498	7,699	71.2%	4,338	-43.7%
as % of GSDP	0.3%	2.3%	3.9%		2.0%	

Note: *Negative sign indicates a deficit; positive sign indicates a surplus; BE is Budget Estimates; RE is Revised Estimates.

Sources: Himachal Pradesh Budget Documents 2023-24; PRS.

Expenditure in 2023-24

- **Revenue expenditure** for 2023-24 is proposed to be Rs 42,704 crore, a decrease of 5% from the revised estimate of 2022-23. This includes expenditure on salaries, pensions, interest, grants, and subsidies.
- **Capital outlay** for 2023-24 is proposed to be Rs 5,202 crore, a decrease of 18% from the revised estimate of 2022-23. Capital outlay is the expenditure towards the creation of assets.

Reverting to Old Pension Scheme

Himachal Pradesh has decided to withdraw from the defined contribution based National Pension System (NPS), and revert to the old pension scheme (OPS) which provides a defined benefit. No immediate financial strain is expected if a state reverts to OPS. In the near term, the overall pension expense might even decrease as government contribution towards NPS need not be paid anymore. However, when the employees who joined after the implementation of NPS begin to retire from 2034-35 onwards, the costs of reverting to OPS may become more visible. In 2022-23, Himachal Pradesh had the highest spending on pension and retirement benefits as percentage of revenue receipts among all states (21%).

Table 2: Expenditure budget 2023-24 (in Rs crore)

Items	2021-22 Actuals	2022-23 Budgeted	2022-23 Revised	% change from BE 2022-23 to RE 2022-23	2023-24 Budgeted	% change from RE 2022-23 to BE 2023-24
Revenue Expenditure	36,195	40,279	45,115	12%	42,704	-5%
Capital Outlay	6,029	5,647	6,311	12%	5,202	-18%
Loans given by the state	378	97	96	-2%	20	-79%
Net Expenditure	42,602	46,023	51,523	12%	47,926	-7%

Sources: Annual Financial Statement, Himachal Pradesh Budget 2023-24; PRS.

Committed expenditure: Committed expenditure of a state typically includes expenditure on payment of salaries, pension, and interest. A larger proportion of budget allocated for committed expenditure items limits the state's flexibility to decide on other expenditure priorities such as capital outlay. In 2023-24, Himachal Pradesh is estimated to spend Rs 30,400 crore on committed expenditure, which is 80% of its estimated revenue receipts. This comprises spending on salaries (42% of revenue receipts), pension (23%), and interest (15%). In 2022-23, committed expenditure is expected to increase by 7% over the budget estimates.

Table 3: Committed Expenditure in 2023-24 (in Rs crore)

Committed Expenditure	2021-22 Actuals	2022-23 Budgeted	2022-23 Revised	% change from BE 2022-23 to RE 2022-23	2023-24 Budgeted	% change from RE 2022-23 to BE 2023-24
Salaries	12,779	15,164	16,070	6%	16,144	0%
Pension	6,399	7,790	9,051	16%	8,694	-4%
Interest	4,641	5,105	4,785	-6%	5,562	16%
Committed Expenditure	23,819	28,059	29,905	7%	30,400	2%

Note: Salaries for 2022-23 Revised Estimates have been back calculated.

Sources: Annual Financial Statement; Explanatory Memorandum, Himachal Pradesh Budget 2023-24; PRS.

Sector-wise expenditure: The sectors listed below account for 56% of the total expenditure on sectors by the state in 2023-24. A comparison of Himachal Pradesh expenditure on key sectors with that by other states is shown in Annexure 1

Table 4: Sector-wise expenditure under Himachal Pradesh Budget 2023-24 (in Rs crore)

Sector	2021-22 Actuals	2022-23 Budgeted	2022-23 Revised	2023-24 Budgeted	% change from RE 2022-23 to BE 2023-24	Budget Provisions (2023-24)
Education, Sports, Arts, and Culture	7,197	8,669	9,251	9,068	-2%	■ Rs 4,147 crore has been allocated for elementary education.
Roads and Bridges	3,733	3,958	4,149	3,548	-14%	■ Rs 1,691 crore has been allocated for capital outlay on roads and bridges.
Health and Family Welfare	2,871	3,032	3,796	3,116	-18%	■ Urban health services (allopathy) and rural health services (allopathy) have been allocated Rs 407 crore and Rs 463 crore respectively.
Agriculture and Allied Activities	2,659	2,709	3,121	2,828	-9%	■ Rs 152 crore has been allocated for food subsidy.
Social Welfare and Nutrition	1,971	2,300	2,825	2,764	-2%	■ Pension under social security schemes has been allocated Rs 892 crore.
Water Supply and Sanitation	2,223	1,850	2,168	1,700	-22%	■ Urban water supply programme has been allocated Rs 334 crore.
Police	1,307	1,593	1,616	1,589	-2%	■ District police has been allocated Rs 811 crore.
Irrigation and Flood Control	707	935	986	861	-13%	■ Rs 390 crore has been allocated for capital outlay on irrigation and flood control.
Energy	1,778	672	1,247	625	-50%	■ Rs 267 crore has been allocated for assistance to electricity boards.
Urban Development	860	734	945	615	-35%	■ Rs 255 crore has been allocated for assistance to local bodies, corporations.
% of total expenditure on all sectors	60%	58%	59%	56%	-5%	

Sources: Annual Financial Statement, Himachal Pradesh Budget 2023-24; PRS.

Receipts in 2023-24

- **Total revenue receipts** for 2023-24 are estimated to be Rs 38,000 crore, a decrease of 2% from the revised estimate of 2022-23. Of this, Rs 16,473 crore (43%) will be raised by the state through its **own resources**, and Rs 21,527 crore (57%) will come **from the centre**. Resources from the centre will be in the form of state's share in central taxes (22% of revenue receipts) and grants (34% of revenue receipts).
- In 2023-24, **state's share in central taxes** is estimated at Rs 8,478 crore, an increase of 8% over the revised estimate of 2022-23. **Grants from the centre** in 2023-24 is estimated at Rs 13,049 crore, a decrease of 24% from the revised estimates for 2022-23. One of the key reasons for a lower grant is discontinuation of GST compensation grants since June 2022.
- **State's own revenue:** Himachal Pradesh's total own tax revenue is estimated to be Rs 13,026 crore in 2023-24, an increase of 20% over the revised estimate of 2022-23. A higher own tax revenue (OTR) as % of GSDP indicates a better ability to harvest taxes from the economic activities in the state. Tax collection depends on a number of factors including income level, structure of the economy, tax rates, and tax administration. In 2022-23, Himachal Pradesh's OTR as % of GSDP is estimated at 5.6% at the revised stage, lower than the average for all states (6.7%). In 2023-24, the OTR as % of GSDP ratio is estimated at 6.1%.

Table 5: Break-up of the state government's receipts (in Rs crore)

Items	2021-22 Actuals	2022-23 Budgeted	2022-23 Revised	% change from BE 2022-23 to RE 2022-23	2023-24 Budgeted	% change from RE 2022-23 to BE 2023-24
State's Own Tax	9,715	10,881	10,866	0%	13,026	20%
State's Own Non-Tax	2,612	2,769	3,023	9%	3,447	14%
Share in Central Taxes	7,349	6,778	7,884	16%	8,478	8%
Grants from Centre	17,633	15,946	17,172	8%	13,049	-24%
Revenue Receipts	37,309	36,375	38,945	7%	38,000	-2%
Non-debt Capital Receipts	48	45	94	108%	26	-72%
Net Receipts	37,357	36,420	39,039	7%	38,026	-3%

Note: State's Own Tax Revenue and Share in Central Taxes have been adjusted for share in central taxes in state's other taxes and duties. BE is Budget Estimates; RE is Revised Estimates.

Sources: Annual Financial Statement, Himachal Pradesh Budget 2023-24; PRS.

- In 2023-24, State GST is estimated to be the largest source of own tax revenue (48% share). State GST revenue is estimated to increase by 16% over the revised estimates of 2022-23.
- In 2023-24, revenue from Sales Tax/VAT is estimated to increase by 29% over the revised estimates of 2022-23. However, in 2022-23, the receipt on this account is estimated to be 21% lower than the budget estimates.

Table 6: Major sources of state's own-tax revenue (in Rs crore)

Head	2021-22 Actuals	2022-23 Budgeted	2022-23 Revised	% change from BE 2022-23 to RE 2022-23	2023-24 Budgeted	% change from RE 2022-23 to BE 2023-24
State GST	4,482	5,130	5,400	5%	6,264	16%
Sales Tax/ VAT	1,592	1,810	1,430	-21%	1,840	29%
Stamps Duty and Registration Fees	319	399	399	0%	439	10%
Taxes on Vehicles	510	512	680	33%	775	14%
State Excise	1,981	2,131	2,197	3%	2,351	7%
Land Revenue	5	23	15	-35%	17	14%
Taxes and Duties on Electricity	394	403	326	-19%	403	24%
GST Compensation Grants	1,168	1,700	1,700	0%	-	-
GST Compensation Loans	2,695	-	-	-	-	-

Sources: Annual Financial Statement, Revenue Budget, and Budget at a Glance statements, Himachal Pradesh Budget 2023-24; PRS.

Deficits, Debt, and FRBM Targets for 2023-24

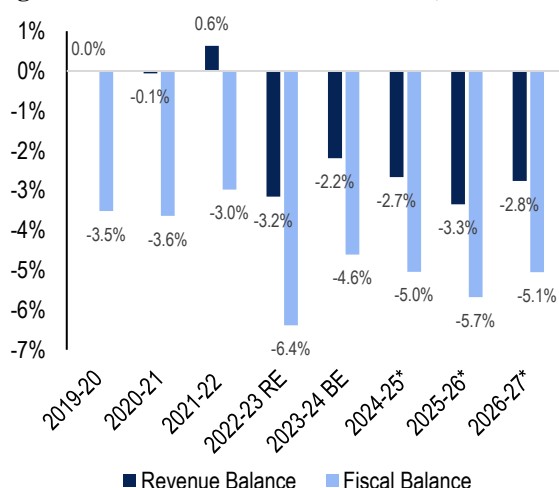
The Himachal Pradesh Fiscal Responsibility and Budget Management Act, 2005 provides annual targets to progressively reduce the outstanding liabilities, revenue deficit and fiscal deficit of the state government.

Revenue deficit: It is the difference of revenue expenditure and revenue receipts. A revenue deficit implies that the government needs to borrow to finance those expenses which do not increase its assets or reduce its liabilities. The budget estimates a revenue deficit of Rs 4,704 crore (2.2% of the GSDP) in 2023-24. In 2022-23, revenue deficit is estimated to be Rs 6,170 crore (3.2% of the GSDP), which is higher than the budget estimate (Rs 3,903 crore or 2% of GSDP).

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. Himachal Pradesh's fiscal deficit is estimated to be 4.6% of GSDP in 2023-24. In 2022-23, fiscal deficit is estimated to be 6.4% of GSDP higher than the budget estimates (5%). In 2022-23, the central government has allowed states a fiscal deficit of 4.0% of GSDP (including 0.5% for undertaking power sectors reforms). In both these years, fiscal deficit is projected to be higher than the permitted limit by the central government. For 2022-23, the limit is 4% of GSDP and for 2023-24, the limit is 3.5% of GSDP; out of which, 0.5% of GSDP will be available only upon undertaking power sector reforms in both years.

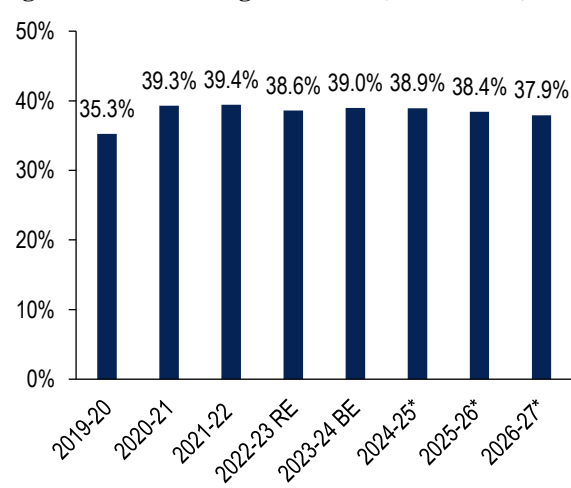
Outstanding liabilities: Outstanding liabilities is the accumulation of total borrowings at the end of a financial year, it also includes any liabilities on public account. At the end of 2023-24, the outstanding liabilities is estimated to be 39% of GSDP. The outstanding liabilities have risen as compared to the 2019-20 level (35.3% of GSDP). However, they are estimated to decrease over the next few years.

Figure 2: Revenue and Fiscal Balance (% of GSDP)



Note: * Projections; RE: Revised Estimates; BE: Budget Estimates. Sources: Budget at a Glance, Himachal Pradesh Budget 2023-24; PRS.

Figure 3: Outstanding Liabilities (% of GSDP)



Note: * Projections; RE: Revised Estimates; BE: Budget Estimates. Sources: Budget at a Glance, Himachal Pradesh Budget 2023-24; PRS.

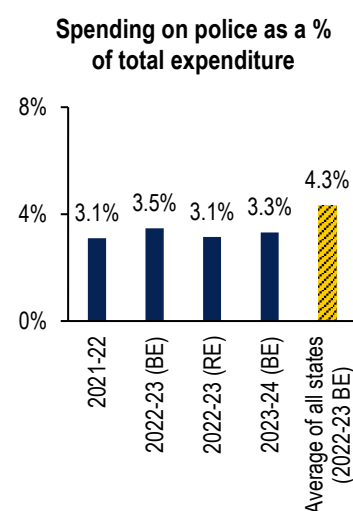
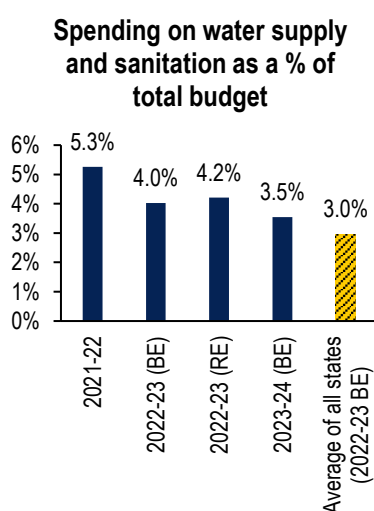
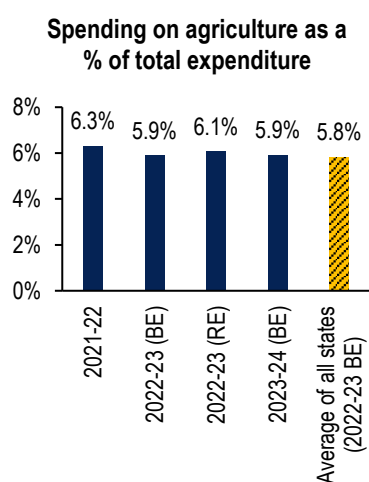
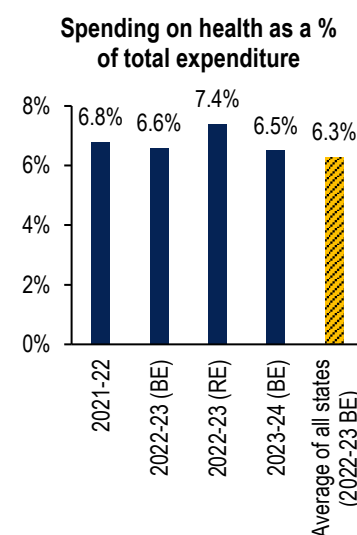
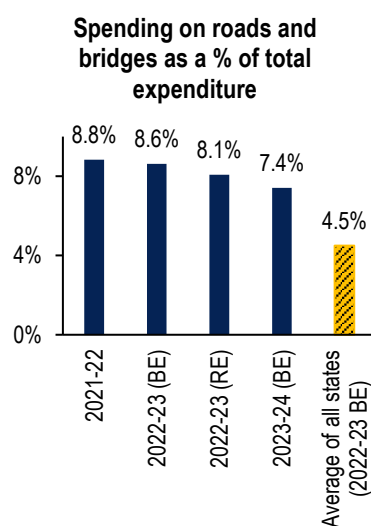
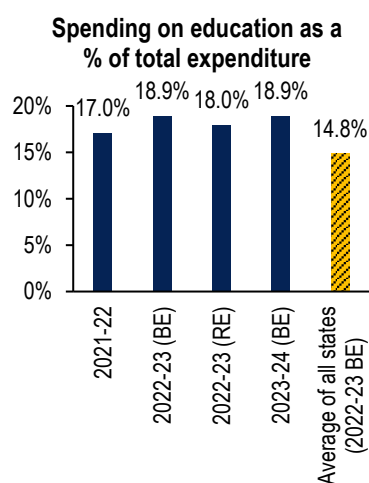
Outstanding Government Guarantees: Outstanding liabilities of states do not include a few other liabilities that are contingent in nature, which states may have to honour in certain cases. State governments guarantee the borrowings of State Public Sector Enterprises from financial institutions. As of March 31, 2023, total outstanding government guarantees were estimated to be Rs 1,885 crore (1.1% of GSDP), of which Rs 190 crore was for the Himachal Pradesh Power Corporation.

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Annexure 1: Comparison of states' expenditure on key sectors

The graphs below compare Himachal Pradesh's expenditure in 2023-24 on six key sectors as a proportion of its total expenditure on all sectors. The average for a sector indicates the average expenditure in that sector by 31 states (including Himachal Pradesh) as per their budget estimates of 2022-23.¹

- **Education:** Himachal Pradesh has allocated 18.9% of its total expenditure towards education, which is higher than the average allocation for education by states (14.8%).
- **Roads and Bridges:** Himachal Pradesh has allocated 7.4% of its expenditure towards roads and bridges. This is higher than the average allocation towards roads and bridges by states (4.5%).
- **Health:** Himachal Pradesh has allocated 6.5% of its expenditure on health in 2023-24. This is marginally higher than the average allocation for health by states in 2022-23 (6.3%).
- **Agriculture:** The state has allocated 5.9% of its total expenditure towards agriculture, which is marginally higher than the average allocation by states (5.8%).
- **Water Supply and Sanitation:** Himachal Pradesh has allocated 3.5% of its expenditure towards water supply and sanitation, which is higher than the average allocation by states (3.0%).
- **Police:** The state has allocated 3.3% of its expenditure towards police, which is lower than the average allocation by states (4.3%).



Note: 2021-22, 2022-23 (BE), 2022-23 (RE), and 2023-24 (BE) figures are for Himachal Pradesh.
Sources: Annual Financial Statement, Himachal Pradesh Budget 2023-24; various state budgets; PRS.

¹ The 31 states include the Union Territories of Delhi, Jammu and Kashmir, and Puducherry.

Annexure 2: Comparison of 2021-22 Budget Estimates and Actuals

The following tables compare the actuals of 2021-22 with budget estimates for that year.

Table 7: Overview of Receipts and Expenditure (in Rs crore)

Particular	2021-22 BE	2021-22 Actuals	% change from BE to Actuals
Net Receipts (1+2)	37,069	37,357	1%
1. Revenue Receipts (a+b+c+d)	37,028	37,309	1%
a. Own Tax Revenue	9,282	9,715	5%
b. Own Non-Tax Revenue	2,754	2,612	-5%
c. Share in central taxes	5,524	7,349	33%
d. Grants-in-aid from the Centre	19,468	17,633	-9%
Of which GST compensation grants	3,834	1,168	-70%
2. Non-Debt Capital Receipts	41	48	16%
3. Borrowings	11,731	9,335	-20%
Of which GST compensation loan	-	2,695	-
Net Expenditure (4+5+6)	44,858	42,602	-5%
4. Revenue Expenditure	38,491	36,195	-6%
5. Capital Outlay	6,013	6,029	0%
6. Loans and Advances	354	378	7%
7. Debt Repayment	5,334	4,387	-18%
Revenue Balance	-1,463	1,115	-176%
Revenue Balance (as % of GSDP)	-0.9%	0.6%	-
Fiscal Deficit	7,789	5,245	-33%
Fiscal Deficit (as % of GSDP)	4.5%	3.0%	-

Note: BE: Budget Estimates.

Sources: Himachal Pradesh Budget Documents of various years; PRS.

Table 8: Key Components of State's Own Tax Revenue (in Rs crore)

Tax Source	2021-22 BE	2021-22 Actuals	% change from BE to Actuals
Land Revenue	23	5	-79%
Taxes and Duties on Electricity	431	394	-9%
Sales Tax/ VAT	1,643	1,592	-3%
Stamps Duty and Registration Fees	311	319	3%
Taxes on Vehicles	488	510	5%
State Excise	1,868	1,981	6%
State GST	4,142	4,482	8%

Sources: Himachal Pradesh Budget Documents of various years; PRS.

Table 9: Allocation towards Key Sectors (in Rs crore)

Sector	2021-22 BE	2021-22 Actuals	% change from BE to Actuals
Irrigation and Flood Control	900	707	-21%
Police	1,527	1,307	-14%
Education, Sports, Arts, and Culture	8,272	7,197	-13%
Roads and Bridges	4,046	3,733	-8%
Social Welfare and Nutrition	2,128	1,971	-7%
Rural Development	1,377	1,325	-4%
Health and Family Welfare	2,976	2,871	-4%
Water Supply and Sanitation	2,243	2,223	-1%
Agriculture and Allied Activities	2,672	2,659	-1%
Housing	156	171	10%
Urban Development	728	860	18%
Welfare of SC, ST, OBC, and Minorities	96	168	75%
Energy	559	1,778	218%

Sources: Himachal Pradesh Budget Documents of various years; PRS.