

Jammu and Kashmir Budget Analysis 2017-18

The Finance Minister of Jammu and Kashmir, Mr. Haseeb A. Drabu, presented the Budget for Jammu and Kashmir for financial year 2017-18 on January 11, 2017.

Budget Highlights

- The **Gross State Domestic Product** of Jammu and Kashmir for 2017-18 at constant prices is estimated to be Rs 1,06,530 crore. This is 7.8% higher than the estimate for 2016-17.
- **Total expenditure** for 2017-18 is estimated to be Rs 79,472 crore, a 29.3% increase over the revised estimate of 2016-17. In 2016-17, there was a decrease of Rs 3,189 crore (4.9%) of expenditure in the revised estimate over the budget estimate.
- **Total receipts (excluding borrowings)** for 2017-18 are estimated to be Rs 65,798 crore, an increase of 26.8% over the revised estimates of 2016-17. In 2016-17, total receipts fell short of the budgeted target by Rs 1,300 crore.
- **Revenue surplus** for the next financial year is targeted at Rs 9,349 crore, or 6.2% of the state Gross Domestic Product (GDP). **Fiscal deficit** is targeted at Rs 9,354 crore (6.2% of state GDP).
- Departments of Power, Rural Development, Police, and Health and saw the highest increase in allocations.

Policy Highlights

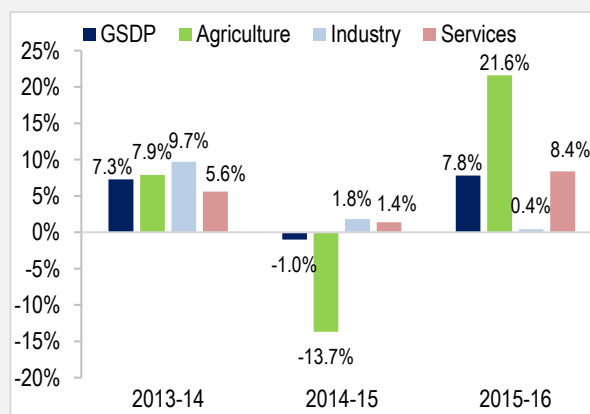
- **Budgetary reforms:** An Online computerized system known as Budget Estimation, Allocation and Monitoring System, will be used to distribute the budget and authorize expenditure. The existing treasury system to disburse expenditure will be replaced by a departmentally aligned Pay and Accounts Office (PAO) System.
- **Insurance:** An insurance scheme for nine crops including paddy, wheat, maize, apple, mango, saffron, pulses, and oil seeds will be launched against damages from natural disasters including floods, drought etc.
- Jammu and Kashmir State Power Development Corporation is proposed to become a debt - free company with an equity base of Rs 3,000 crore.
- **Transport sector:** The token tax and passenger tax is being waived for six months from July, 2016 to December, 2016. An amnesty for waiving off interest and penalty on arrears of passenger tax up to the year 2015-16 is being proposed.
- Incandescent Bulbs are proposed to be kept under 40% rate tax category. In addition to the above, manufacturing of incandescent bulbs shall be kept in the negative list of industries.

Jammu and Kashmir's Economy

Economy: In 2016-17 and 2017-18, the state's economy is projected to grow at 7.6% and 7.8% respectively. This is in line with the growth of 7.8% in the year 2015-16. In 2014-15, the state saw economic decline of 1%.

Unemployment: The unemployment rate persons between 18-29 years of age in the state is 24.6%, which is higher than the national unemployment rate of 13.2% in the same age group. Among persons who are 15 to 17 years of age in the state who are seeking employment, the unemployment rate is 57.7%. The corresponding unemployment for the country is 19.8%.

Investments: Investment in industries has slowed down in 2015-16, when compared to the previous years. Between 2009-10 and 2014-15, investments in industries amounted to Rs 4,866 crore. This was Rs 973 crore on an average per year. This has decreased to Rs 267 crore in 2015-16.



Budget Estimates for 2017-18

- The total expenditure in 2017-18 is targeted at Rs 79,472 crore. The revised estimate for the total expenditure in 2016-17 was Rs 61,480 crore, which is 4.9% (Rs 3,189 crore) lower than the budgeted target of 2016-17.
- The expenditure in 2017-18 is proposed to be met through receipts (other than borrowings) of Rs 65,798 crore and borrowings of Rs 10,537 crore. Total receipts for 2017-18 (other than borrowings) are expected to be 26.8% higher than the revised estimate 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	45,750	64,669	61,480	-4.9%	79,472	29.3%
A. Borrowings*	5,654	8,479	5,619	-33.7%	10,537	87.5%
B. Receipts (except borrowings)	40,096	53,202	51,902	-2.4%	65,798	26.8%
Total Receipts (A+B)	45,750	61,681	57,521	-6.7%	76,335	32.7%
Revenue Deficit (-)/Surplus(+)	-640	6,485	7,606		9,349	
As % of state GDP	-0.6%	4.9%	5.8%		6.2%	
Fiscal Deficit (-)/Surplus(+)	-6,001	-6,430	-7,384		-9,354	
As % of state GDP	5.2%	4.9%	5.6%		6.2%	
Primary Deficit (-)/Surplus(+)	-2,282	-1,705	-2,615		-4,197	
As % of state GDP	2.0%	1.3%	2.0%		2.8%	

Notes: BE is Budget Estimate; RE is Revised Estimate. GSDP for 2016-17 BE and 2016-17 RE taken to be Rs 1,32,207 crore.

Sources: Jammu and Kashmir State Budget Documents 2017-18; PRS.

Expenditure in 2017-18

- 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 30,653 crore, which is an increase of 62.1% over the revised estimates of 2016-17. This includes expenditure which leads to creation of assets, and repayment of loans, among others.
- Total revenue expenditure for 2017-18 is proposed to be Rs 48,819 crore, which is an increase of 14.7% over revised estimates of 2016-17. This expenditure includes payment of salaries, administration of government programs, etc.

Capital expenditure in Centrally Sponsored Schemes (CSS)

The budget estimates to spend Rs 10,000 crore on various centrally sponsored schemes in 2017-18. 70% of this amount is budgeted to be spent on creating capital assets such as roads under various schemes. The remaining is spent on revenue expenses.

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	9,330	19,694	18,912	-4.0%	30,653	62.1%
Revenue Expenditure	36,420	44,975	42,568	-5.4%	48,819	14.7%
Total Expenditure	45,750	64,669	61,480	-4.9%	79,472	29.3%
A. Debt Repayment	1,825	1,914	1,917	0.2%	3,145	64.1%
B. Interest Payments	3,719	4,725	4,769	0.9%	5,157	8.1%
Debt Servicing (A+B)	5,544	6,639	6,686	0.7%	8,302	24.2%

Sources: Jammu and Kashmir State Budget Documents 2017-18; 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 2017-18

The departments listed below account for **52%** of the total budgeted expenditure of Jammu and Kashmir in 2017-18.

Table 3: Sector-wise expenditure for Jammu and Kashmir Budget 2017-18 (in Rs crore)

Department	2015-16 Actuals	2016-17 Budgeted	2016-17 Revised	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18	Budget provisions for 2017-18
Power	6,641	13,183	10,063	16,521	64.2%	<ul style="list-style-type: none"> ▪ Rs 8,200 crore is budgeted to be spent on purchasing of power from generation companies. ▪ Revenue of Rs 4,800 crore is expected to be realised through the supply of electricity.
Education	6,316	8,667	8,707	9,239	6.1%	<ul style="list-style-type: none"> ▪ Rs 2,360 crore is budgeted to be spent under Sarva Shiksha Abhiyan. ▪ 18.2% of the expenditure is budgeted to be spent on capital expenses to create capital assets for education.
Police	4,454	4,771	5,123	6,092	18.9%	<ul style="list-style-type: none"> ▪ Rs 135 crore is budgeted to be spent on modernisation of police force. ▪ Rs 200 crore is budgeted to be spent on capital expenses related to police.
Agriculture and allied activities	2,113	3,430	3,137	3,674	17.1%	<ul style="list-style-type: none"> ▪ Rs 244 crore is budgeted to be spent on agricultural research and education. ▪ The Rs 150 crore was budgeted for Kisan Credit Cards in 2016-17. No amount has been allocated for this scheme in 2017-18.
Health and Family Welfare	1,923	3,037	2,944	3,509	19.1%	<ul style="list-style-type: none"> ▪ Rs 589 crore is budgeted to be spent under National Health Mission. ▪ 22.6% of the expenditure is budgeted to be spent on capital expenses to create capital assets.
Rural Development	376	2,372	2,244	2,863	27.5%	<ul style="list-style-type: none"> ▪ Rs 490 crore is budgeted to be spent on MGNREGS. ▪ Rs 675 crore is budgeted to be spent on capital outlay in panchayati raj institutions.
Other Departments	23,927	26,221	29,262	37,574	28.4%	
Total Expenditure	45,750	61,681	61,480	79,472	30%	

Note: All amounts are net numbers. Source: Jammu and Kashmir Budget Speech 2017-18; PRS.

Other announcements:

- **Tobacco:** Raw tobacco (currently in the zero percent tax slab) will be taxed at forty percent at par with other tobacco products.
- **Land use:** The Government is expected to bring a comprehensive policy or legislation to prevent the conversion of agriculture land for industrial purposes.

Receipts in 2017-18

- The total revenue receipts for 2017-18 are estimated to be Rs 58,168 crore, an increase of 15.9% over the revised estimates of 2016-17. The tax to GSDP ratio is targeted at 10% in 2017-18, which is in the same range as the revised estimate of 10.3% in 2016-17. 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 17.6% (Rs 1,489 crore) in 2017-18 over the revised estimates of 2016-17. Tax revenue in 2016-17 (RE) is estimated to be Rs 8,442 crore, which is lower than the budgeted estimates by Rs 778 crore (8.4%).
- Non-tax revenue is estimated to increase by 1.6% (Rs 84 crore). This is driven by receipts from the sale of power, and is estimated to be Rs 5,308 crore in 2017-18, an increase from Rs 5,224 crore in 2016-17.
- Grants from the centre are set to increase by 22.6%, from Rs 27,008 crore in 2016-17 (RE), to Rs 33,118 crore in 2017-18. The other component of transfers from the centre is the state's share in central taxes, which is estimated to increase by 2.2%, to Rs 9,711 crore in 2017-18.

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

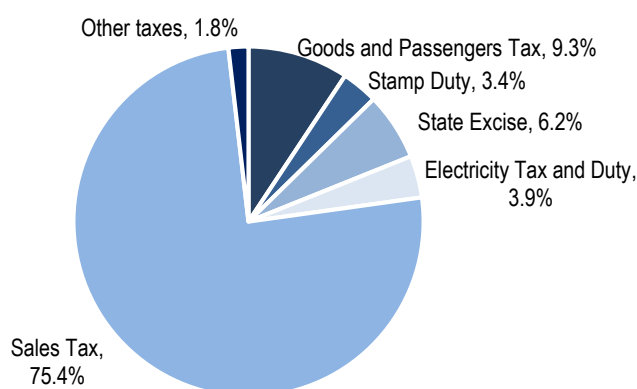
Item	2015-2016 Actuals	2016-2017 Budgeted	2016-17 Revised	% change from BE 2016-17 to RE 2016-17	2017-2018 Budgeted	% change from RE 2016-17 to BE 2017-18
State's Own Tax	7,326	9,220	8,442	-8.4%	9,931	17.6%
State's Own Non Tax	3,913	4,019	5,224	30.0%	5,308	1.6%
State's share in Central Taxes	7,813	9,500	9,500	0.0%	9,711	2.2%
Grants-in-aid from Centre	16,728	27,721	27,008	-2.6%	33,118	22.6%
Total Revenue Receipts	35,780	51,460*	50,174	-2.5%	58,168*	15.9%
Borrowings	5,654	8,479	5,619	-33.7%	10,537	87.5%
Other receipts	4,316	1,742	1,728	-0.8%	7,630	341.6%
Total Capital Receipts	9,970	10,221	7,347	-28.1%	18,167	147.3%
Total Receipts	45,750	61,681	57,521	-6.7%	76,335	32.7%

*includes additional resource mobilisation.

Sources: Jammu and Kashmir State Budget Documents 2017-18; PRS.

- Total own tax revenue of Jammu and Kashmir is estimated to be Rs 9,931 crore in 2017-18. The composition of the state's tax revenue is shown in Figure 2.

Figure 1: Composition of Tax Revenue in 2017-18 (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 7,485 crore in 2017-18. This is an increase of 20% from 2016-17.
- Further, the government is expected to generate Rs 925 crore through goods and passenger tax. This is an increase of 13.9% over the estimates of 2016-17.
- 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 5,308 crore through non-tax sources in 2017-18. This includes receipts from power, forestry, and mining.
- The government is estimated to generate Rs 4,800 crore from supply of power, which is an increase of 2% over 2016-17 (RE). In 2016-17, the state budgeted to earn Rs 3,500 crore from sale of power, this is further revised to Rs 4,700 crore.
- It may be noted that the revenue realised from the sale of power has been lower than the targeted amount since 2004-05. In 2015-16, the state estimate to collect Rs 2,939 crore in its budget estimates. However, only a revenue of Rs 1,671 crore was realised.

CSS transfers from centre

In 2016-17, the state budgeted to receive Rs 8,876 crore for CSS from the centre. The revised estimate was Rs 1,200 crore lesser than the budgeted amount.

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 9,349 crore (or 6.2% of state GDP) 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 within the target of eliminating revenue deficit, 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. In 2017-18, fiscal deficit is estimated to be Rs 9,354 crore, which is 6.2% of the state GDP. The estimate exceeds the 3% limit prescribed 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 47.3% of state GDP.

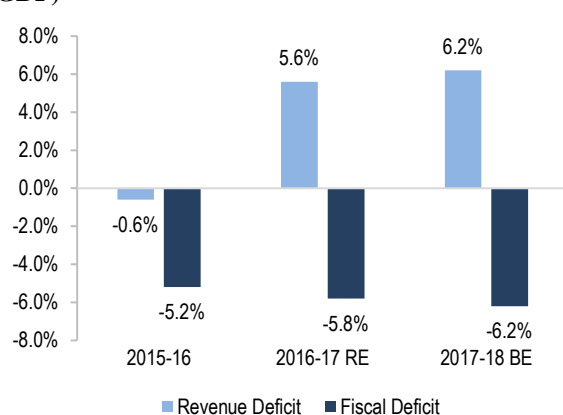
Table 5: Budget targets for deficits for the state of Jammu and Kashmir in 2017-18 (% of GSDP)

Year	Revenue Deficit (-)/Surplus (+)	Fiscal Deficit (-)/Surplus (+)	Outstanding Liabilities
2015-16	0.6	-5.2	45.8
RE 2016-17	-5.8	-5.6	49.3
BE 2017-18	-6.2	-6.2	47.3
2018-19	-	-	45.5
2019-20	-	-	44.0

Note: '-' means data not available. Sources: Jammu and Kashmir State Budget Documents 2017-18; PRS.

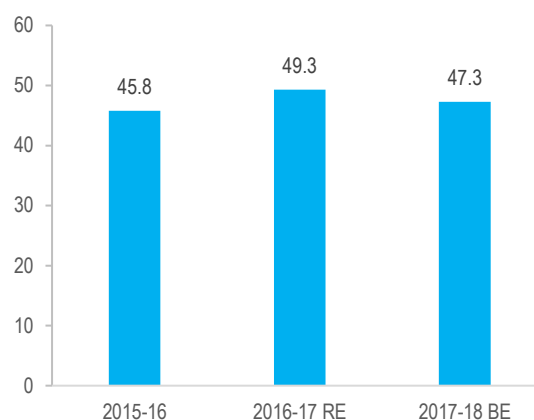
Figures 3 and 4 show the trend in deficits and outstanding liabilities from 2015-16 to 2017-18:

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



Sources: Jammu and Kashmir State Budget Documents; PRS.

Figure 3: Outstanding liabilities (as % of state GDP)



Sources: Jammu and Kashmir State Budget Documents; PRS.

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