

Jammu and Kashmir Budget Analysis 2018-19

The Finance Minister of Jammu and Kashmir, Mr. Haseeb A. Drabu, presented the Budget for Jammu and Kashmir for the financial year 2018-19 on January 11, 2018.

Budget Highlights

- The **Gross State Domestic Product** of Jammu and Kashmir for 2018-19 (at constant prices) is estimated to be Rs 1,16,637 crore. This is 6.9% higher than the estimate for 2017-18.
- **Total expenditure** for 2018-19 is estimated to be Rs 80,313 crore, a 15.2% increase over the revised estimates of 2017-18. In 2017-18, there was a decrease of Rs 9,744 crore (12.3%) of expenditure in the revised estimates over the budget estimates.
- **Total receipts (excluding borrowings)** for 2018-19 are estimated to be Rs 71,180 crore, an increase of 14.4% as compared to the revised estimates of 2017-18. In 2017-18, total receipts fell short of the budgeted estimate by Rs 3,553 crore.
- **Revenue surplus** for the next financial year is targeted at Rs 13,084 crore, or 8.3% of the state Gross Domestic Product (GDP). **Fiscal deficit** is targeted at Rs 9,673 crore (6.1% of state GDP). **Primary deficit** is targeted at Rs 4,948 crore (3.1% of state GDP).
- The departments of Power, Home, Education, Home, and Health and Medical Education saw the highest increase in allocations.

Policy Highlights

- **Uniform Employment Code:** A uniform Employment Code to be framed which will include all labour laws in force in the state. The Code will provide a framework for the terms of employment and service of all workers except domestic workers and agricultural labour. A multidisciplinary committee will be set up to frame the Jammu and Kashmir Employment Code.
- **State Finance Commission:** A State Finance Commission will be constituted to recommend rules, and regulations, for panchayats and municipalities to receive the funds. Previously, such a Commission was constituted in 2011.
- **Chief Minister's Business Interest Relief Scheme:** Under the scheme, the government will provide one-third of the interest payments of borrowers with restructured accounts approved by the Reserve Bank of India. Rs 200 crore has been allocated towards this scheme. This scheme will be operative for two years starting January, 2018 to December, 2020.

Jammu and Kashmir's Economy

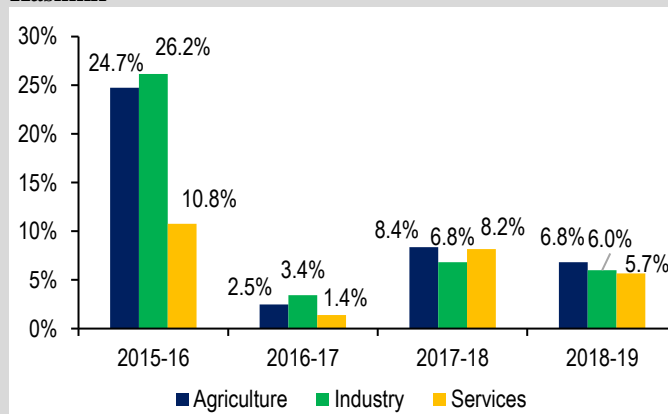
Economy: The state's economy is projected to grow at 6.9% in 2018-19. This is less than the 8.5% growth rate estimated for 2017-18.

Agriculture: Agriculture includes crops, livestock, forestry and fishing. In 2018-19, the sector is expected to grow at 6.8%. This is less than the growth rate (8.4%) estimated for 2017-18.

Industry: Industry includes manufacturing, electricity, water supply, construction and mining. In 2018-19, the sector is expected to grow at 6% as compared 6.8% in 2017-18.

Services: The services sector is the major contributor to the state economy, and is estimated to contribute 56% of the state economy in 2018-19. It includes trade, tourism, real estate, broadcasting and financial services. In 2018-19, the sector is expected to grow at 5.7% as compared to 8.2% in 2017-18.

Figure 1: Sector-wise growth rate (%) in Jammu and Kashmir



Source: Jammu and Kashmir Economic Survey 2017; PRS.

Budget Estimates for 2018-19

- The total expenditure in 2018-19 is targeted at Rs 80,313 crore. This is 15.2% higher than the revised estimates of 2017-18. This expenditure is proposed to be met through receipts (other than borrowings) of Rs 71,180 crore, and borrowings of Rs 9,133 crore. Total receipts for 2018-19 (other than borrowings) are expected to be 14.4% higher than the revised estimates of 2017-18.

Table 1: Budget 2018-19 - Key figures (in 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	50,197	79,472	69,728	-12.3%	80,313	15.2%
A. Borrowings	5,749	10,537	8,802	-16.5%	9,133	3.8%
B. Receipts (except borrowings)	44,448	65,798	62,245	-5.4%	71,180	14.4%
Total Receipts (A+B)	50,197	76,335	71,047	-6.9%	80,313	13.0%
Revenue Deficit	2,166	9,349	11,425	22.2%	13,084	14.5%
As % of state GDP	1.7%	6.6%	8.1%		8.3%	
Fiscal Deficit	-6,197	-12,425	-8,061	-35.1%	-9,673	20%
As % of state GDP	-4.9%	-8.8%	-5.7%		-6.1%	
Primary Deficit	-1,630	-7,268	-3,467	-52.3%	-4,948	42.7%
As % of state GDP	-1.3%	-5.2%	-2.5%		-3.1%	

Notes: BE is Budget Estimate; RE is Revised Estimate. '-' sign indicates deficit; '+' indicates surplus. GSDP for 2018-19 is Rs 1,57,384 crore. GSDP for 2017-18 BE and 2017-18 RE taken to be Rs 1,40,887 crore. GSDP for 2016-17 is Rs 1,26,230 crore.

Sources: Jammu and Kashmir State Budget Documents 2018-19; PRS.

Expenditure in 2018-19

- Capital expenditure** for 2018-19 is proposed to be Rs 29,128 crore, which is an increase of 12.7% 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 hospitals), and repayment of loans, among others.
- Revenue expenditure** for 2018-19 is proposed to be Rs 51,185 crore, which is an increase of 16.6% over the revised estimates of 2017-18. This expenditure includes payment of salaries, and pensions.
- In 2018-19, Jammu and Kashmir is expected to spend Rs 7,452 crore on servicing its debt (i.e., Rs 2,727 crore on repaying loans, and Rs 4,725 in crore on interest payments). This is 3.8% less than the revised estimates of 2017-18.

Expenditure on Centrally Sponsored Schemes

The budget estimates to spend Rs 10,423 crore on various centrally sponsored schemes in 2018-19. In 2017-18, while Rs 10,000 crore was allocated to be spent on centrally sponsored schemes, it has been revised down to Rs 8,200 crore. This is majorly due to the shortfall of capital expenditure under these schemes.

Table 2: Expenditure budget 2018-19 (in 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	10,385	30,653	25,846	-15.7%	29,128	12.7%
Revenue Expenditure	39,812	48,819	43,882	-10.1%	51,185	16.6%
Total Expenditure	50,197	79,472	69,728	-12.3%	80,313	15.2%
A. Debt Repayment	2,023	3,145	3,151	0.2%	2,727	-13.5%
B. Interest Payments	4,567	5,157	4,594	-10.9%	4,725	2.9%
Debt Servicing (A+B)	6,590	8,302	7,745	-6.7%	7,452	-3.8%

Sources: Jammu and Kashmir State 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 **40%** of the total budgeted expenditure of Jammu and Kashmir in 2018-19.

Table 3: Expenditure on major departments in Jammu and Kashmir Budget 2018-19 (in 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
Power	7,436	12,921	13,053	1.0%	<ul style="list-style-type: none"> Rs 6,200 crore is budgeted to be spent on purchasing power. This includes Rs 1,500 worth state power bonds. This is equal to the revised estimates of 2017-18.
Education	4,097	7,488	7,735	3.3%	<ul style="list-style-type: none"> Rs 2,411 crore has been allocated under Sarva Shiksha Abhiyan. This is 11% higher than the revised estimates for the scheme for 2017-18.
Home	4,299	5,634	5,954	5.7%	<ul style="list-style-type: none"> Rs 100 crore is allocated for capital spending under Modernisation of Police Force.
Health and Medical Education	1,898	3,368	3,529	4.8%	<ul style="list-style-type: none"> Rs 503 crore is allocated towards the National Health Mission. This is 17% less than the revised estimates of 2017-18. 20.8% of this expenditure is budgeted on capital outlay.
Rural Development	331	2,714	3,121	15.0%	<ul style="list-style-type: none"> Rs 499 crore is budgeted to be spent on MGNREGS. Rs 779 crore of Finance Commission Grants has been allocated towards capital outlay under Panchayati Raj.
Housing	690	1,572	2,201	39.9%	<ul style="list-style-type: none"> Rs 1,054 crore is budgeted to be spent on capital outlay for drainage. Rs 298 crore of Finance Commission Grants is budgeted to be spent on local bodies.

Source: Detailed Demand for Grants 2018-19; PRS.

Other highlights

- Deposit Linked Insurance:** The Deposit Linked Insurance of Government Provident Fund subscribers will be increased from Rs 10 lakh to Rs 50 lakh. Further, a similar insurance scheme will be framed for the employees eligible under the New Pension Scheme. A corpus fund of Rs 12,000 crore will be set up to make Government Provident Fund payments to the government employees.
- Housing for government employees:** To address the shortage of housing for government employees, particularly in Jammu and Srinagar, a Special Purpose Vehicle will be set up in partnership with the Jammu and Kashmir Bank to undertake all the pending housing projects. Further, Rs 500 crore is allocated for the creating new housing facilities for government employees over two years.
- Power arrears:** Interest and penal charges on power arrears owed to the state government by the industrialists, hoteliers, and resort owners will be waived. Further, interest and penal charges on power arrears to be paid by small scale industries will be waived till December 2017.

Receipts in 2018-19

- The **total revenue receipts** for 2018-19 is estimated to be Rs 64,269 crore, an increase of 16.2% over the revised estimates of 2017-18. Of this, Rs 16,955 crore (26.4% of the revenue receipts) will be raised by the state through its **own resources**, and Rs 47,314 crore (74.6% 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:** Jammu and Kashmir has estimated to generate Rs 5,761 crore through non-tax sources in 2018-19. Of this, Rs 5,042 crore will be received from the supply of power, which accounts for 87.5% of the total non-tax revenue.

Trends in fund from the central government:

- Approximately 70% of the state's revenue is received through central transfers. Of this, 50% is through grants-in-aid from the central government, and another 20% in terms of the state's share in central taxes.
- **Grants-in-aid:** In 2016-17, the actual grants-in-aid received from the centre were 26% less than the budgeted estimates of the state in that year.
- **State's share of taxes:** Following the 14th Finance Commission recommendations, the share of central taxes to be received by Jammu and Kashmir increased to 0.85% in 2015-16 from 0.5% previously.

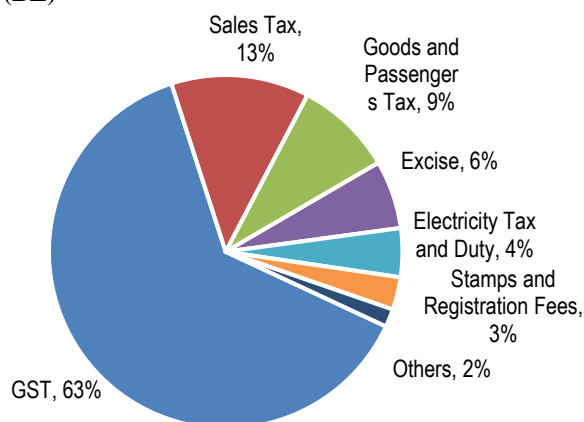
Table 4: Break up of state government receipts (in Rs crore)

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	7,819	9,931	10,136	2.1%	11,194	10.4%
State's Own Non-Tax	4,072	5,308	5,389	1.5%	5,761	6.9%
Share in Central Taxes	9,489	9,711	11,803	21.5%	12,984	10.0%
Grants-in-aid from Centre	20,598	33,118	27,979	-15.5%	34,330	22.7%
Additional resources	-	100	-	NA	-	NA
Total Revenue Receipts	41,978	58,168	55,307	-4.9%	64,269	16.2%
Borrowings	5,749	10,537	8,802	-16.5%	9,133	3.8%
Other receipts	2,470	7,630	6,938	-9.1%	6,911	-0.4%
Total Capital Receipts	8,219	18,167	15,740	-13.4%	16,044	1.9%
Total Receipts	50,197	76,335	71,047	-6.9%	80,313	13.0%

Sources: Jammu and Kashmir State Budget Documents 2018-19; PRS.

- **Tax Revenue:** Total own tax revenue of Jammu and Kashmir is estimated to be Rs 11,194 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 7.1% in 2018-19, which is in the same range as the revised estimate of 7.2% in 2017-18. This implies that growth in collection of taxes is estimated to be at par with the growth in the economy.

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



Source: Jammu and Kashmir State Budget Documents 2018-19; PRS.

- The Goods and Services tax (GST) is the largest component (63%) of the tax revenue of the state. It is being levied on the sale of goods and services, and includes tax collections in the state, and transfers from Integrated GST. Integrate GST is levied on inter-state sale of goods and services. The state is expected to generate Rs 7,061 crore in 2018-19 under GST.
- Further, the government is expected to generate Rs 1,415 crore through sales tax, and Rs 1,000 crore through the goods and passenger tax.
- In addition, revenue will be generated through the levy of duty on electricity, state excise duties, stamp duties on real estate transactions, taxes on vehicles, etc.

Deficits, Debts and FRBM Targets for 2018-19

The Jammu and Kashmir 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. However, the budget estimates a revenue surplus of Rs 13,084 crore (or 8.3% of the state GDP) in 2018-19. 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, 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. In 2018-19, fiscal deficit is estimated to be Rs 9,673 crore, which is 6.1% of the state GDP. The estimate exceeds the 3% limit prescribed by the 14th Finance Commission. 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.

Outstanding Liabilities: It is the accumulation of borrowings over the years. In 2018-19, the outstanding liabilities are targeted at 45.6% of the state's GDP.

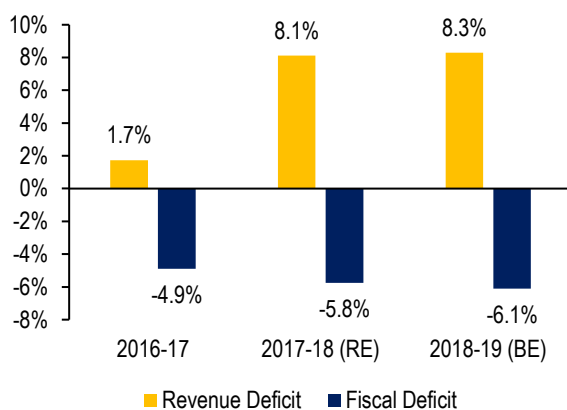
Table 5: Budget targets for deficits for the state of Jammu and Kashmir in 2018-19 (% of GSDP)

Year	Revenue	Fiscal	Outstanding Liabilities
	Deficit (-)/Surplus (+)	Deficit (-)/Surplus (+)	
2016-17	1.7%	4.9%	45.3%
RE 2017-18	8.1%	5.8%	47.3%
BE 2018-19	8.3%	6.1%	45.6%
2019-20	-	-	44.0%
2020-21	-	-	44.0%

Note: '-' means data not available. Sources: Jammu and Kashmir State Budget Documents 2018-19; PRS.

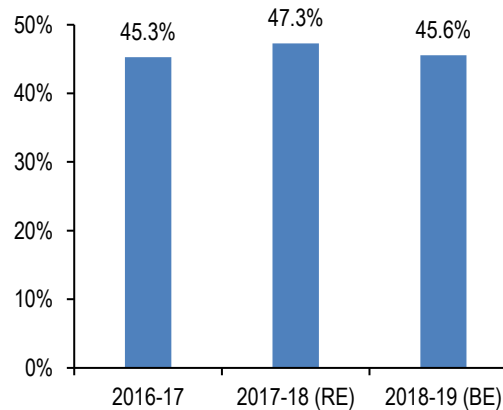
Figures 3 and 4 show the trend in deficits and outstanding liabilities targets from 2016-17 to 2018-19:

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



Sources: Jammu and Kashmir State Budget Documents; PRS.

Figure 4: Outstanding liabilities (as % of state GDP)



Sources: Jammu and Kashmir State Budget Documents; PRS.

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