

Himachal Pradesh Budget Analysis: 2019-20

The Finance Minister, Mr. Jai Ram Thakur, presented the Budget for Himachal Pradesh for financial year 2019-20 on February 9, 2019.

Budget Highlights

- The **Gross State Domestic Product (GSDP)** of Himachal Pradesh for 2019-20 (at current prices) is estimated to be Rs 1,68,972 crore. This is 12% higher than the revised estimate for 2018-19.
- **Total expenditure** for 2019-20 is estimated to be Rs 44,388 crore, a 1.7% increase over the revised estimate of 2018-19. In 2018-19, as per the revised estimate, there is estimated to be an increase of Rs 2,185 crore (5.3%) of expenditure over the budgeted estimate.
- **Total receipts (excluding borrowings)** for 2019-20 are estimated to be Rs 35,024 crore, an increase of 8% as compared to the revised estimate of 2018-19. In 2018-19, total receipts (excluding borrowings) are estimated to surpass the budgeted estimate by Rs 781 crore (2.5%).
- **Revenue deficit** for the next financial year is targeted at Rs 2,342 crore, or 1.4% of the Gross State Domestic Product (GSDP). **Fiscal deficit** is targeted at Rs 7,352 crore (4.4% of GSDP).
- The sectors of Education Transport, and Water Supply, Sanitation, Housing and Urban Development saw the highest increase in allocations.

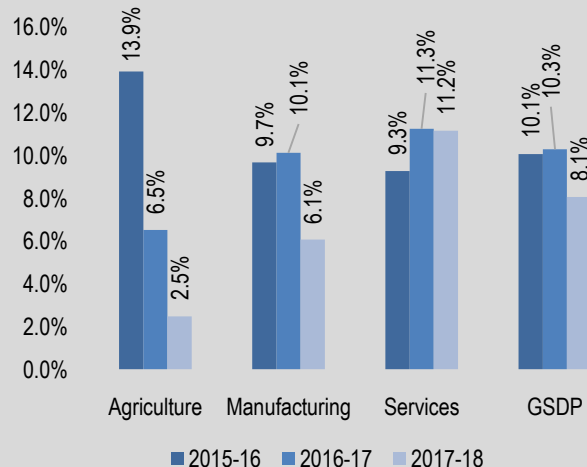
Policy Highlights

- **Reservation:** 10% reservation will be provided to the economically weaker sections of the general category in employment and educational institutions.
- **Education:** Rs 7,858 crore has been allocated towards the education sector. Video conference facility will be setup in schools. 15 new Atal Aadarsh Vidya Kendras will be established under the ongoing “Atal Aadarsh Vidya Kendra Yojna”. Further, a new “Atal Nirmal Jal Yojna” will provide water filters in all government schools in the state.
- **Agriculture and Irrigation:** Rs 3,995 crore has been allocated towards agriculture, irrigation and flood control. The allocation includes a subsidy of up to Rs 25,000 for purchase of indigenous cow breeds, a Rs 150 crore allocated towards the Mukhya Mantri Nutan Polyhouse Yojna for construction of 5,000 polyhouses, and an increase of two rupees per litre in milk procurement price. Further, electricity charges paid by farmers for irrigation will be reduced from 75 paise to 50 paise per unit.

Himachal Pradesh’s Economy

- **GSDP:** The growth rate of Himachal Pradesh’s GSDP (at current prices) has decreased from 10.1% in 2015-16 to 8.1% in 2017-18.
- **Sectors:** In 2017-18, the sectors of agriculture, manufacturing, and services contributed to 15%, 42% and 43% of the GSVa, respectively. Between 2016-17 and 2017-18, these sectors grew by 2.5%, 6.1% and 11.2%, respectively.
- **Per capita income:** The per capita GSDP of Himachal Pradesh in 2017-18 (at current prices) was Rs 1,86,778. This is 9.2% higher than that in 2016-17.
- **Unemployment:** According to the 5th Annual Employment-Unemployment Survey (2015-16), Himachal Pradesh has the 6th highest unemployment rate at 10.6% as compared to the all-India level of 5%.

Figure 1: Growth in GSDP and sectors in Himachal Pradesh (year-on-year)



Sources: GSVa by Economic Activities, CSO, MOSPI; PRS.
 Note: Agriculture includes mining. Manufacturing includes construction and electricity. Services includes trade, transport, and financial services. All numbers are as per current prices.

Budget Estimates for 2019-20

- The total expenditure in 2019-20 is targeted at Rs 44,388 crore. This is 1.7% higher than the revised estimates of 2018-19. This expenditure is proposed to be met through receipts (other than borrowings) of Rs 35,024 crore and borrowings of Rs 7,081 crore. Total receipts for 2019-20 (other than borrowings) are expected to be 8% higher than the revised estimate of 2018-19.

Table 1: Budget 2019-20 - Key figures (in Rs crore)

Items	2017-18 Actuals	2018-19 Budgeted	2018-19 Revised	% change from BE 2018- 19 to RE 2018- 19	2019-20 Budgeted	% change from RE 2018- 19 to BE 2019- 20
Total Expenditure	34,812	41,440	43,625	5.3%	44,388	1.7%
A. Receipts (except borrowings)	29,114	31,660	32,441	2.5%	35,024	8.0%
B. Borrowings	5,600	6,505	7,944	22.1%	7,081	-10.9%
Total Receipts (A+B)	34,714	38,165	40,385	5.8%	42,105	4.3%

Notes: BE is Budget Estimate; RE is Revised Estimate. The budget reports all numbers in net figures.

Sources: Himachal Pradesh Budget Documents 2019-20; PRS.

Expenditure in 2019-20

- Capital expenditure** for 2019-20 is proposed to be Rs 8,299 crore, which is a decrease of 18.8% over the revised estimates of 2018-19.
- Capital expenditure includes expenditure affecting the assets and liabilities of the state, such as: (i) capital outlay, i.e. expenditure which leads to creation of assets (such as bridges and hospitals), and (ii) repayment and grant of loans by the state government.
- Himachal Pradesh's capital outlay for 2019-20 is estimated to be Rs 4,580 crore, which is 6.4% lower than the revised estimate of 2018-19.
- Revenue expenditure** for 2019-20 is proposed to be Rs 36,089 crore, which is an increase of 8% over revised estimates of 2018-19. This expenditure includes payment of salaries and maintenance of assets.

Committed Liabilities

Committed liabilities of a state typically includes expenditure on payment of salaries, pensions, and interest payments. A larger proportion of state budget allocated for committed expenditure crowds out other developmental expenditure.

In 2018-19, Himachal Pradesh spent Rs 21,668 crore on committed liabilities (49.67% of revised estimates). States, on average, spend 39% of their budget on committed liabilities. In 2019-20, the committed liabilities of the state are Rs 23,837 crore. This is a 10% increase from the revised estimate of 2018-19.

Table 2: Expenditure budget 2019-20 (in Rs crore)

Items	2017-18 Actuals	2018-19 Budgeted	2018-19 Revised	% change from BE 2018-19 to RE 2018-19	2019-20 Budgeted	% change from RE 2018-19 to BE 2019-20
Capital Expenditure	7,759	7,872	10,217	29.8%	8,299	-18.8%
of which Capital Outlay	3,756	4,240	4,894	15.4%	4,580	-6.4%
Revenue Expenditure	27,053	33,568	33,408	-0.5%	36,089	8.0%
Total Expenditure	34,812	41,440	43,625	5.3%	44,388	1.7%
A. Debt Repayment	3,500	3,184	4,623	45.2%	3,261	-29.5%
B. Interest Payments	3,788	4,260	4,100	-3.8%	4,550	11.0%
Debt Servicing (A+B)	7,288	7,444	8,723	17.2%	7,811	-10.5%

Notes: 1. The budget reports all numbers in net figures. 2. Capital outlay denotes expenditure which leads to creation of assets.

Sources: Himachal Pradesh Budget Documents 2019-20; PRS.

Sector expenditure in 2019-20

The sectors listed below account for **60%** of the total budgeted expenditure of Himachal Pradesh in 2019-20. A comparison of the state's expenditure on key sectors with that by other states can be found in the Annexure.

Table 3: Sector-wise expenditure for Himachal Pradesh Budget 2019-20 (Rs crore)

Departments	2017-18 Actuals	2018-19 BE	2018-19 RE	2019-20 BE	% change from RE 2018-19 to BE 2019-20	Budget provisions for 2019-20
Education	6,041	7,282	7,339	7,858	7%	<ul style="list-style-type: none"> 15 new Atal Aadarsh Vidya Kendras will be established under the ongoing "Atal Aadarsh Vidya Kendra Yojna". "Atal Nirmal Jal Yojna" will be started to provide water filters in schools.
Transport	2,667	3,348	3,362	3,561	6%	<ul style="list-style-type: none"> 500 kilometres of roads will be constructed and metalling and tarring of 1,000 kilometres of roads will be undertaken under the "Pradhan Mantri Gram Sadak Yojana". An outlay of Rs. 600 crore will be made under "Mukhya Mantri Gram Sadak Yojna".
Water Supply, Sanitation, Housing and Urban Development	2,723	2,853	3,017	3,207	6%	<ul style="list-style-type: none"> Households belonging to economically weaker sections will be provided pipe length up to 50 meters at a 50% subsidy under a new 'Mukhya Mantri Swajal Yojana' for supply of tap water.
Health and Family Welfare	2,006	2,557	2,644	2,751	4%	<ul style="list-style-type: none"> 500 Health Sub Centres and 125 Primary Health Centres will be upgraded to Health and Wellness Centres. Free health insurance cover will be provided to MGNREGA workers, who have completed at least 50 days of wage employment.
Agriculture and allied activities	1,908	2,553	2,554	2,633	3%	<ul style="list-style-type: none"> The allocation includes assured income support of Rs 6,000 per annum to farmers with land holdings of less than 2 hectares under the central "Pradhan Mantri Kisan Samman Nidhi" scheme.
Social Welfare and Nutrition	1,280	1,444	1,604	1,592	-1%	<ul style="list-style-type: none"> Pension amount for pensioners getting Rs.750 per month will be increased to Rs. 850, and to Rs. 1,500 per month for all pensioners getting a pension of Rs. 1,300. The contribution of the government under the New Pension Scheme will be increased from 10% to 14%.
Rural Development	924	1,809	1,432	1,722	20%	<ul style="list-style-type: none"> A new skill development programme called "Mukhya Mantri Gram Kaushal Yojna" will be launched which will provide skill training to artisans in traditional arts and help them gain an assured income. An outlay of over Rs 200 crore have been promised to Panchayati Raj institutions.
Police	1,094	1,303	1,314	1,425	8%	<ul style="list-style-type: none"> The honorarium of SPOs deployed along J&K border will be increased from Rs. 6,000 to Rs.7,000. Five de-addiction and rehabilitation centres will be set up for drug victims.
Irrigation and Flood Control	917	1,311	1,480	1,362	-8%	<ul style="list-style-type: none"> Electricity rate paid by farmers for irrigation will be reduced from 75 paise to 50 paise per unit.
% of total expenditure	58%	61%	61%	60%		

Source: Himachal Pradesh Budget Speech 2019-20, Himachal Pradesh AFS 2019-20, Himachal Pradesh Demand for Grants 2019-20; PRS.

Receipts in 2019-20

- The **total revenue receipts** for 2019-20 are estimated to be Rs 33,747 crore, an increase of 8.2% over the revised estimates of 2018-19. Of this, Rs 10,364 crore (31% of the revenue receipts) will be raised by the state through its **own resources**, and Rs 23,383 crore (69% 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 2,443 crore through non-tax sources in 2019-20. Of this, Rs 973 crore will be received by the state as revenue from power.

Himachal Pradesh has budgeted to receive Rs 7,921 crore in 2019-20 in own tax revenue. This is a 15.7% increase from the revised estimates in 2018-19. The increase in tax revenue is expected to be driven by higher GST collections (an increase of Rs 556 crore from the revised estimates of 2018-19).

Himachal Pradesh's total GST revenue (including central transfers) is estimated to be Rs 5,477 crore in 2019-20, an increase of 30.8% over the revised estimate of 2018-19.

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

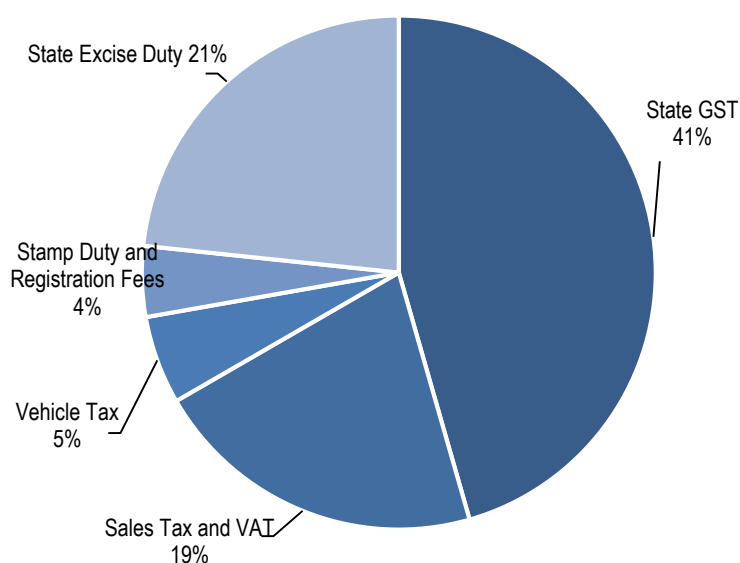
Items	2017-18 Actuals	2018-19 Budgeted	2018-19 Revised	% change from BE 2018-19 to RE 2018-19	2019-20 Budgeted	% change from RE 2018-19 to BE 2019-20
State's Own Tax	7,108	8,248	6,847	-16.99%	7,921	15.69%
State's Own Non-Tax	2,364	1,981	2,324	17.31%	2,443	5.12%
Share in Central Taxes	4,801	6,387	5,430	-14.99%	7,398	36.25%
Grants-in-aid from Centre	13,094	13,784	16,589	20.35%	15,985	-3.64%
Total Revenue Receipts	27,367	30,400	31,190	2.60%	33,747	8.20%
Borrowings	5,600	6,505	7,944	22.12%	7,081	-10.87%
Other receipts	1,746	1,260	1,252	-0.62%	1,277	2.00%
Total Capital Receipts	7,347	7,765	9,196	18.43%	8,357	-9.11%
Total Receipts	34,714	38,165	40,385	5.82%	42,105	4.26%

Note: The budget reports all numbers in net figures.

Sources: Himachal Pradesh Budget Documents 2019-20; PRS.

- **Tax Revenue:** Total own tax revenue of Himachal Pradesh is estimated to be Rs 7,921 crore in 2019-20. The composition of the state's own tax revenue is shown in Figure 2. The tax to GSDP ratio is targeted at 4.7% in 2019-20, which is in the same range as the revised estimate of 4.5% in 2018-19. This implies that growth in collection of taxes has been at par with the growth in the economy.

Figure 2: Composition of the state's tax revenue in 2019-20 (Budget Estimates)



Sources: Himachal Pradesh Budget Documents 2019-20; PRS.

- State Goods and Services Tax (SGST) is the largest component of tax revenue of the state. It is expected to generate Rs 3,238 crore in 2019-20. This is an increase of 20.7% from the revised estimates of 2018-19.
- In 2019-20, Himachal Pradesh is expected to generate Rs 1,491 crore through levy of sales tax (on items such as petroleum products), and VAT. This is an increase of 16.9% over the revised estimates of 2018-19.
- Further, in 2019-20 the state is expected to generate Rs 378 crore from electricity taxes and duties, and Rs 363 crore from vehicle taxes.

Deficits, Debts and FRBM Targets for 2019-20

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 2,342 crore (or 1.4% of GSDP) in 2019-20. 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 2019-20 estimates for Himachal Pradesh suggest that the state will not be meeting this target of eliminating revenue deficit.

Revenue Deficits

In 2018-19, as per the revised estimate, there is estimated to be an increase in revenue deficit of Rs 950 crore (30%) over the budgeted estimate. In 2019-20, Himachal Pradesh is expected to incur a revenue deficit of Rs 2,342 crore.

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 2019-20, fiscal deficit is estimated to be Rs 7,352 crore, which is 4.4% of the GSDP. The estimate is more than 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 2019-20, the outstanding liabilities are expected at 34% of the GSDP.

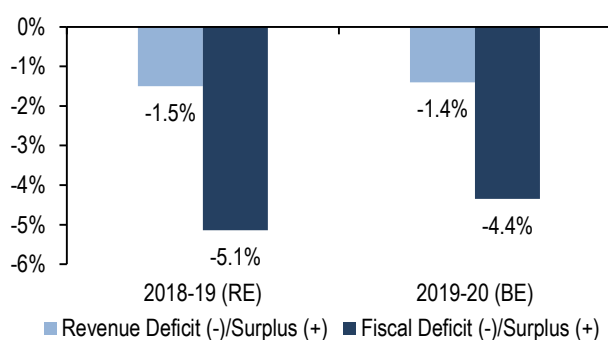
Table 5: Budget targets for deficits for Himachal Pradesh in 2019-20 (% of GSDP)

Year	Revenue Deficit (-)/Surplus (+)	Fiscal Deficit (-)/Surplus (+)	Outstanding Liabilities
2018-19 (RE)	-1.5%	-5.1%	34.6%
2019-20 (BE)	-1.4%	-4.4%	34.0%
2020-21	-1.4%	-4.3%	33.5%
2021-22	-1.3%	-4.3%	32.9%
2022-23	-2.8%	-5.8%	32.5%

Sources: Himachal Pradesh Budget Documents 2019-20; PRS.

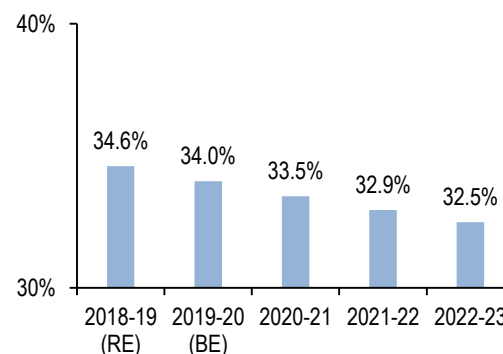
Figures 3 and 4 show the trend in deficits and outstanding liabilities targets from 2018-19 to 2022-23.

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



Sources: Himachal Pradesh Budget Documents; PRS.

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



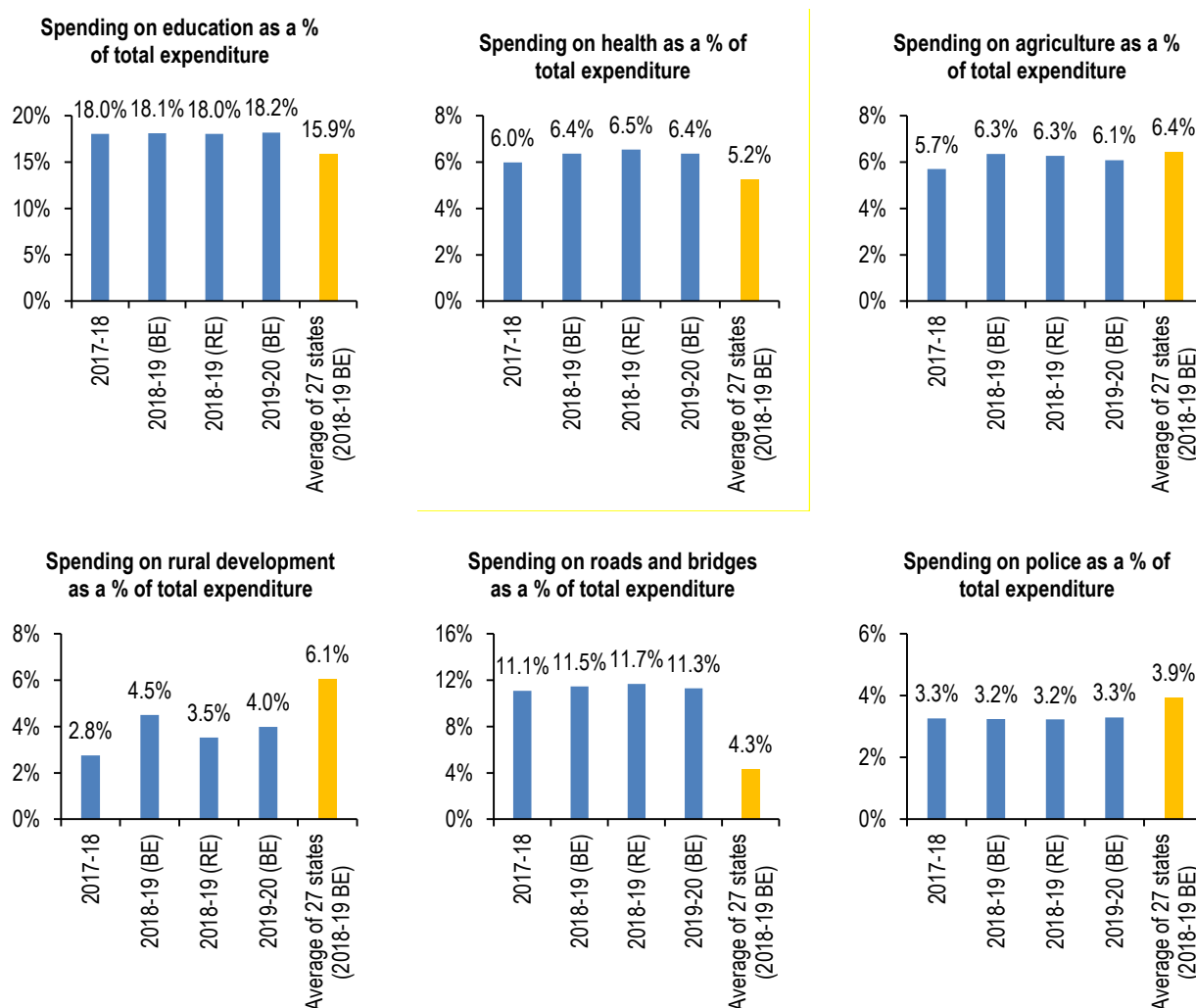
Sources: Himachal Pradesh Budget Documents; PRS.

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Annexure

The graphs below compare Himachal Pradesh's expenditure on four key sectors as a proportion of its total budget, with 26 other states.¹

- **Education:** Himachal Pradesh has allocated 18.2% of its expenditure on education in 2019-20. This is higher than the average expenditure allocated to education by 26 other states (15.9%) (using 2018-19 BE).
- **Health:** Himachal Pradesh has allocated 6.4% of its total expenditure on health, which is higher than the average expenditure of 26 other states (5.2%).
- **Agriculture and allied activities:** The state has allocated 6.1% of its total budget towards agriculture and allied activities. This is lower than the allocations of 26 other states (6.4%).
- **Rural development:** Himachal Pradesh has allocated 4% of its expenditure on rural development. This is significantly lower than the average (6.1%) of the 26 other states.
- **Police:** Himachal Pradesh has allocated 3.3% of its total expenditure on police, which is lower than the average expenditure of 26 other states (4%).
- **Roads and bridges:** Himachal Pradesh has allocated 11.3% of its total expenditure on roads and bridges, which is significantly than the average expenditure of 26 other states (4.3%).



Note: 2017-18, 2018-19 (BE), 2018-19 (RE), and 2019-20 (BE) figures for Himachal Pradesh are based on gross expenditure numbers reported in the budget documents.

Source: Annual Financial Statement (2018-19 and 2019-20), various state budgets; PRS.

¹ The 26 other states include all states except Arunachal Pradesh, Manipur, and Meghalaya. It also includes the Union Territory of Delhi.