

Maharashtra Budget Analysis 2016-17

The Minister of Finance of Maharashtra, Mr. Sudhir Mungantiwar, presented the Budget for Maharashtra for the financial year 2016-17 on March 18, 2016.

Budget Highlights

- The **Gross State Domestic Product** of Maharashtra for 2016-17 is estimated to be Rs 22,03,231 crore (current prices). This is 12% higher than the estimates for 2015-16.
- **Total expenditure** for 2016-17 is estimated to be Rs 2,56,992 crore, an increase of 8.3% over the revised estimates of 2015-16. In 2015-16, the total expenditure was revised to Rs 2,37,237 crore, an increase of Rs 7,265 crore (3.2%) over the budget estimates.
- **Total receipts** (excluding borrowings) for 2016-17 are estimated to be 14% higher, at Rs 2,21,961 crore. In 2015-16, total receipts exceeded the budgeted target by Rs 49 crore.
- **Revenue deficit** for the next financial year is targeted at Rs 3,645 crore, or 0.16% of the Gross State Domestic Product (GSDP). **Fiscal deficit** is targeted at Rs 35,031 crore (1.59% of GSDP). **Primary deficit** is targeted at Rs 6,812 crore (0.31% of GSDP).
- Allocations for the Departments of Urban Development and Agriculture have increased by 51.2% and 8% respectively, in 2016-17, whereas the Department of Industries, Energy and Labour has a 32.5% decrease.

Policy Highlights

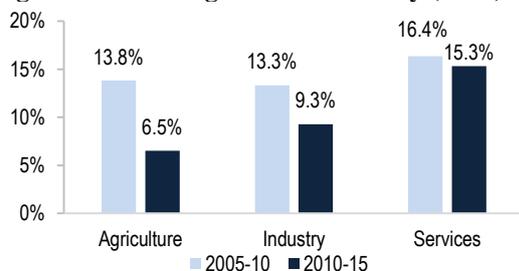
- **Water resources:** Rs 2,000 crore has been allocated in 2016-17 for the ‘Farm Pond on Demand’ Scheme, with a view to provide for one lakh farm ponds, 37,500 wells and 90,000 electric pumps.
- **Energy subsidy:** Rs 4,462 crore is proposed to be allocated for the subsidizing of energy tariff for agriculture, power loom, industrial and commercial consumers. Further, for the provision of energy to industries in the Vidharba and Marathwada regions, Rs 1,000 crore a year has been proposed.
- **Modernisation of infrastructure:** 21,000 km of state highways and major district roads is proposed to be modernised under public private partnership over the next eight years.
- **Ease of transport for women:** 300 exclusive ‘Tejasvini’ buses are proposed to be provided for women passengers, with an allocation of Rs 50 crore in 2016-17.

Tax Proposals

- **Value Added Tax (VAT):** The lower general rate of VAT is proposed to be increased from 5% to 5.5%. The centre would be providing compensation to states for any loss in revenue after the roll-out of the goods and services tax. The state government hopes that the increased tax rate will result in a higher tax revenue, and thereby result in a higher compensation to the state in such a circumstance.
- **Motor Vehicle Tax:** Tax on two and three wheeler vehicles is proposed to be increased from 7%. A rate of 8% will be applicable for vehicles of less than 100cc, 9% for 100cc-299cc, and 10% for above 299cc.
- **Sugarcane purchase tax:** The sugarcane purchase tax is proposed to be exempted for the year 2015-16. The exemption will be available to sugar factories who meet export obligations set by the government.

Background: Maharashtra Economy

Figure 1: Sectoral growth in economy (in %)



Note: Average annual growth rate is 4 year Compounded Annual Growth Rate. Sources: Central Statistics Office; PRS.

Average growth of Maharashtra’s economy (at current prices) decreased from 11.9% between 2005-10 to 10% between 2010-15. Figure 1 shows average annual growth rates of individual sectors from 2005 to 2015.

- Agricultural growth decreased from 13.8% in 2005-10 to 6.5% in 2010-15. Over the same period, growth in industry decreased from 13.3% to 9.3%, and in the services sector, from 16.4% to 15.3%.
- As of 2014-15, 64% of Maharashtra’s economy is contributed by the services sector, followed by 26% by industry and 10% by agriculture.
- The agriculture sector employed 51% of the state’s population, followed by the services (40%) and manufacturing (9%) sectors.¹

Budget Estimates for 2016-17

- The total expenditure in 2016-17 is targeted at Rs 2,56,992 crore. The revised estimates for the total expenditure in 2015-16 was Rs 2,37,327 crore, which is 3.2% (Rs 19,665 crore) more than the budgeted target of 2015-16.
- The expenditure in 2016-17 is proposed to be met through receipts (other than borrowings) of Rs 2,21,961 crore and borrowings of Rs 35,047 crore. Total receipts for 2016-17 (other than borrowings) are expected to be 11.3% higher than the revised estimate of 2015-16.

Table 1: Budget 2016-17 - key figures (in Rs crore)

Items	2014-15 Actuals	2015-16 Budgeted	2015-16 Revised	% change from BE 2015-16 to RE 2015-16	2016-17 Budgeted	% change from RE 2015-16 to BE 2016-17
Total Expenditure	1,98,217	2,30,062	2,37,327	3.2%	2,56,992	8.3%
A. Borrowings (net)	29,783	30,840	37,759	22.4%	35,047	-7.2%
B. Receipts (except borrowings)	1,66,391	1,99,329	1,99,378	0.0%	2,21,961	11.3%
Total Receipts (A+B)	1,96,174	2,30,169	2,37,137	3.0%	2,57,008	8.4%
Revenue Deficit	-12,138	-3,757	-9,290		-3,645	
(-)/Surplus(+)	0.68%	0.20%	0.47%		0.17%	
<i>As % of state GDP</i>						
Fiscal Deficit	-31,827	-30,733	-37,950		-35,031	
(-)/Surplus(+)	1.78%	1.63%	1.93%		1.59%	
<i>As % of state GDP</i>						
Primary Deficit	-7,862	-3,070	-11,733		-6,812	
(-)/Surplus(+)	0.44%	0.16%	0.60%		0.31%	
<i>As % of state GDP</i>						

Notes: BE is Budget Estimate; RE is Revised Estimate; Borrowings include Public Debt. Total receipts include borrowings and hence, total expenditure includes loan repayments. GSDP for 2016-17 taken from Budget at a glance 2016-17, as Rs 22,03,231 crore, at current prices. Sources: State Budget Documents 2016-17; PRS.

Expenditure in 2016-17

- 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 increase by 9.5% to Rs 32,538 crore over the revised estimates of 2015-16. This includes expenditure which leads to creation of assets, repayment of loans, among others.
- Total revenue expenditure for 2016-17 is proposed to be Rs 2,24,455 crore, which is an increase of 8.1% over revised estimates of 2015-16. This expenditure includes payment of salaries, administration of government programs, etc.

Table 2: Expenditure budget 2016-17 (in Rs crore)

Item	2014-15 Actuals	2015-16 Budgeted	2015-16 Revised	% change from BE 2015-16 to RE 2015-16	2016-17 Budgeted	% change from RE 2015-16 to BE 2016-17
Capital Expenditure	20,664	28,074	29,716	5.8%	32,538	9.5%
Revenue Expenditure	1,77,553	2,01,988	2,07,611	2.8%	2,24,455	8.1%
Total Expenditure	1,98,217	2,30,062	2,37,327	3.2%	2,56,992	8.3%
A. Interest Payments	23,965	27,663	26,217	-5.2%	28,220	7.6%
B. Loan repayment	19,531	12,964	9,998	-22.9%	13,772	37.8%
Debt servicing (A+B)	43,495	40,627	36,214	-10.9%	41,992	16.0%

Sources: State Budget Documents 2016-17; PRS.

Departmental expenditure in 2016-17

The Departments below account for **52%** of the estimated expenditure of the state in 2016-17.

Table 3: Department-wise plan outlay for Maharashtra Budget 2016-17 (in Rs crore)

Department	Actuals 2014-15	Revised 2015-16	Budgeted 2016-17	% change from RE 2015-16 to BE 2016-17	Budget proposals for 2016-17
School Education	34,775	40,063	42,621	6.4%	<ul style="list-style-type: none"> Sarva Shiksha Abhiyan has been given an allocation of Rs 740 crore, a decrease of 56% from its allocation in 2015-16. Rs 100 crore has been allocated for the conversion of 1,000 <i>Anganwadis</i> into <i>Adarsh Anganwadis</i> in 2016-17. The digitisation of 43 public libraries is proposed in 2016-17, with Rs 40 lakh allotted to each library for a total allocation of Rs 17 crore.
Urban Development	6,187	11,747	17,762	51.2%	<ul style="list-style-type: none"> Rs 6,000 crore was allocated in 2016-17 as compensation for urban local bodies in lieu of local body tax which was discontinued in August 2015. This allocation was Rs 3,328 crore in 2015-16. Rs 1,000 crore has been allocated to create basic urban amenities in all municipal councils and D-class municipal corporations in 2016-17. Rs 180 crore has been allocated for the development of metro rail projects in Nagpur and Pune, and Rs 90 crore for the Mumbai Metro Line Phase-II.
Rural Development and Water Conservation	11,002	13,907	14,734	5.9%	<ul style="list-style-type: none"> A total allocation of Rs 3,474 crore is proposed for the MGNREGS and the State Employment Guarantee Scheme in 2016-17, an increase of 31.2% from 2015-16. The Chief Minister Rural Road Development Scheme is proposed with an allocation of Rs 500 crore in 2016-17.
Water Resources	9,824	11,652	11,720	0.6%	<ul style="list-style-type: none"> Rs 2,078 crore has been allocated to the Pradhan Mantri Krishi Sinchai Yojana, an increase of 121% over its allocation in 2015-16. Rs 1,000 crore has been allocated under the 'Jalyukt Shivar' program, to conduct water conservation works in villages in order to deal with adverse weather conditions.
Industries, Energy and Labour	15,469	14,583	9,840	-32.5%	<ul style="list-style-type: none"> A new scheme has been announced for the upgradation and modernisation of the electricity distribution system in 120 zones in the state, with an allocation of Rs 300 crore. Rs 784 crore has been allocated for investment in the energy sector in the state, in order to increase capacity. Rs 456 crore is proposed to be allocated in 2016-17 to increase the capacity of renewable energy sources.
Agriculture	5,528	7,116	7,686	8.0%	<ul style="list-style-type: none"> Rs 3,360 crore has been allocated in 2016-17 as a relief package for farmers, against drought and natural calamities, as compared to Rs 5,003 crore in 2015-16. Rs 1,855 crore has been allocated for crop insurance. A subsidy of up to 25% or Rs 50 lakh on the purchase of agriculture processing units has been announced.
Tribal Development	5,828	7,596	7,644	0.6%	<ul style="list-style-type: none"> Rs 290 crore for schools, Rs 300 crore for roads and Rs 370 crore for <i>ashramshalas</i> has been allocated under the Tribal Sub Plan in 2016-17. Rs 405 crore has been allocated under various schemes for minorities in 2016-17.
Public Health	6,132	8,048	6,912	-14.1%	<ul style="list-style-type: none"> Rs 970 crore has been allocated for the National Health Mission in 2016-17, a decrease of 51.4% from the allocation in 2015-16. Rs 324 crore has been allocated for health services in rural and urban areas in 2016-17.
% of total expenditure	53.7%	49.5%	54.7%	52.1%	
Other departments	91,733	1,16,208	1,07,583	1,22,981	
Total expenditure	1,98,217	2,30,062	2,37,237	2,56,992	

Sources: Budget Speech 2016-17; Budget Highlights 2016-17; Civil Budget Estimates Part 2, 2016-17; PRS.

Receipts in 2016-17

- The total revenue receipts for 2016-17 are estimated to be Rs 2,20,810 crore, an increase of 11.3% over the revised estimates of 2015-16.
- Tax revenue is expected to increase by 10.5% (Rs 13,687 crore) in 2016-17 over the revised estimates of 2015-16. Non-tax revenue is estimated to increase by 36% (Rs 5,298 crore).
- Grants from the centre are expected at Rs 24,964 crore in 2016-17, Rs 18 crore less than the revised estimate of 2015-16. State's share in central taxes, is estimated to increase by 12.5%, to Rs 31,627 crore in 2016-17.

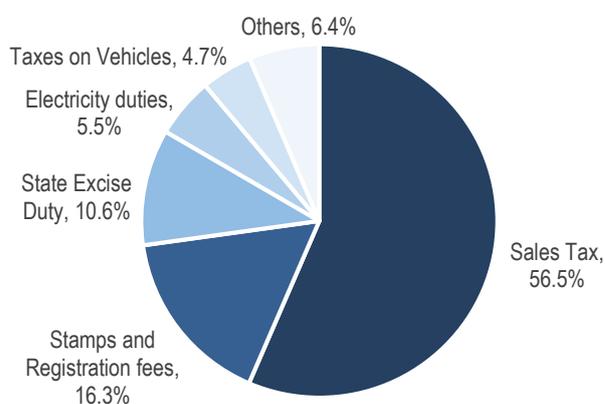
The state's own tax to GSDP ratio is targeted at 6.54% in 2016-17, which is lower than the revised estimates of 6.63% in 2015-16. The decrease in the tax to GDP ratio implies that tax collection on the amount of economic activity happening in the state is expected to be lower in 2016-17 than 2015-16. This is on account of lower sales tax collection on the sale of petroleum, due to declining oil prices.

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

Item	2014-2015 Actuals	2015-2016 Budgeted	2015-2016 Revised	% change from BE 2015-16 to RE 2015-16	2016-2017 Budgeted	% change from RE 2015-16 to BE 2016-17
State's Own Tax	1,15,090	1,30,635	1,30,535	-0.1%	1,44,222	10.5%
State's Own Non Tax	12,581	20,665	14,699	-28.9%	19,997	36.1%
State's share in Central Taxes	17,604	29,062	28,106	-3.3%	31,627	12.5%
Grants-in-aid from Centre	20,141	17,869	24,982	39.8%	24,964	-0.1%
Total Revenue Receipts	1,65,416	1,98,231	1,98,321	0.0%	2,20,810	11.3%
Recovery of Loans and Advances	975	1,098	1,057	-3.8%	1,151	8.9%
Borrowings (net)	29,783	30,840	37,759	22.4%	35,047	-7.2%
Total Capital Receipts	30,758	31,939	38,816	21.5%	36,198	-6.7%
Total Receipts	1,96,174	2,30,169	2,37,137	3.0%	2,57,008	8.4%

Sources: State Budget Documents 2016-17; PRS.

Figure 2: Composition of Tax Revenue in 2016-17 (BE)



Sources: Budget at a Glance, State Budget Documents 2016-17; PRS.

- **Tax Revenue:** Total tax revenue of Maharashtra is estimated to be Rs 1,44,222 crore in 2016-17. The composition of the state's tax revenue is shown in Figure 2.
- Sales tax is the largest component of the tax sources of the state. Sales tax levied on the sale of goods in the state is expected to generate Rs 81,438 crore (56.5% of tax revenue) in 2016-17.
- Further, the state is expected to generate Rs 23,548 crore (16.3%) through levy of fees stamp duties and registration fees on real estate transactions.
- In addition, revenue will be generated through levy of excise duty on production of various forms of alcohol, electricity duties, taxes on vehicles among others.
- **Non Tax Revenue:** Maharashtra has expected to generate Rs 19,997 crore through non-tax sources in 2016-17. In 2015-16, the government has revised its non-tax revenue estimates to Rs 14,699 crore, 28.7% lower than the budgeted target.
- In 2016-17, the Department of Urban Development is estimated to be the largest source of non-tax revenue source, at Rs 5,000 crore, followed by mining, at Rs 3,400 crore.

Deficits, Debts and FRBM Targets for 2016-17

The Maharashtra Fiscal Responsibility and Budget Management (FRBM) Act, 2006 provides annual targets to progressively reduce the outstanding public debt, revenue deficit and fiscal deficit of the state government.

Revenue deficit: It is the excess of revenue expenditure over revenue receipts. A revenue deficit indicates the need for the government to borrow on expenses which do not create assets. The government has estimated a revenue deficit of Rs 3,645 crore in 2016-17. In 2015-16, the government has revised its revenue deficit to Rs 9,290 crore, which is 147% higher than the budgeted target of Rs 3,757 crore. This is driven by increase in spending on relief to natural calamities.

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. The government had projected a fiscal deficit of Rs 35,031 crore (1.6% of GSDP) in 2016-17. This is a decline from a fiscal deficit of Rs 37,950 crore (1.93% of GSDP) in 2015-16.

Public Debt: It is the accumulation of borrowings over the years. In 2016-17, the outstanding public debt is expected at 13.56% of the GSDP, which is a slight increase from 13.52% in 2015-16. In addition, the government has contingent liabilities worth 0.37% of the GSDP. Contingent liabilities are guarantees provided by the government on the debt of its public sector undertakings in 2016-17.

Table 5: Budget targets for deficits for the state of Maharashtra (% of GSDP)

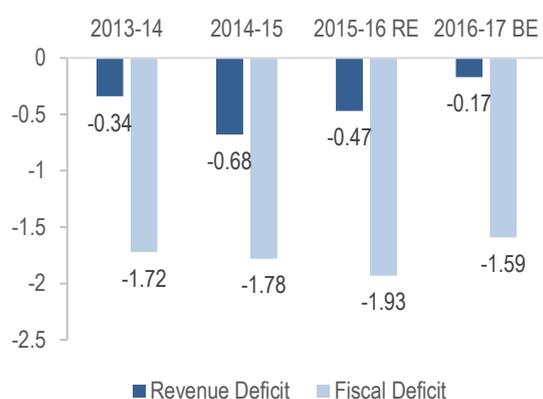
Year	Revenue Deficit (-)/Surplus (+)	Fiscal Deficit (-)/Surplus (+)	Outstanding Public Debt
2014-15	-0.68	-1.78	13.23
2015-16 RE	-0.47	-1.93	13.52
2016-17 BE	-0.17	-1.59	13.56
2017-18	0.00	-1.60	-
2018-19	0.00	-1.61	-

Note: '-' indicates data not available. Outstanding public debt includes internal debt of the state, and loans and advances from the central government.

Sources: Budget in Brief 2016-17; Medium Term Fiscal Policy Statement 2016-17; PRS.

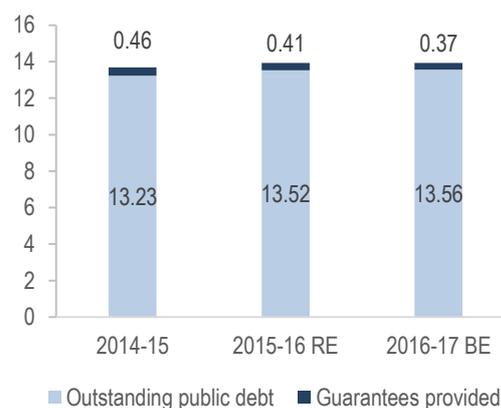
Figures 3 and 4 show the trend in deficits and outstanding public debt from 2013-14 to 2016-17:

Figure 3: Fiscal and revenue deficits (as % of state GDP)



Sources: Maharashtra State Budget Documents 2016-17; PRS.

Figure 4: Outstanding public debt and other guarantees (as % of state GDP)



Sources: Maharashtra State Budget Documents 2016-17; PRS.

¹ Fourth Annual Employment-Unemployment Survey, Labour Bureau, Government of India.

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