Bihar Budget Analysis 2016-17

The Finance Minister of Bihar, Mr. Abdul Bari Siddiqui, presented the Budget for Bihar for the financial year 2016-17 on February 26, 2016.

Budget Highlights

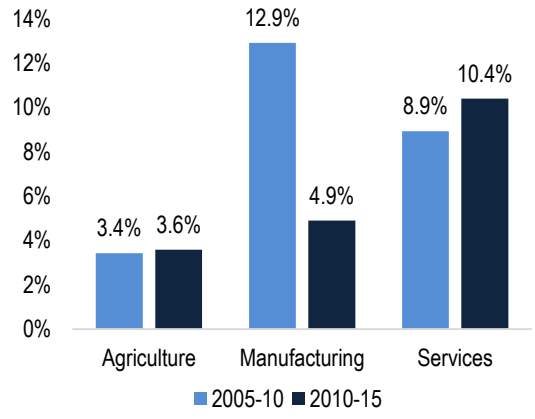
- The **Gross State Domestic Product** of Bihar for 2016-17 is estimated to be Rs. 5,58,809 crore. This is 15% higher than the revised estimates for 2015-16.
- **Total expenditure** for 2016-17 is estimated to be Rs 1,44,696 crore, an 8.9% increase over the revised estimates of 2015-16. In 2015-16, there was an increase of Rs 12,164 crore (10%) in the revised estimates over the budget estimates.
- **Total receipts (excluding borrowings)** for 2016-17 are estimated to be 24% higher, at Rs 1,24,608 crore. In 2015-16, total receipts fell short of the budgeted target by Rs 3,005 crore.
- **Revenue surplus** for the next financial year is targeted at Rs 14,649 crore, or 2.61% of the Gross State Domestic Product (GSDP). **Fiscal deficit** is targeted at Rs 16,014 crore (2.91% of GSDP). **Primary deficit** is targeted at Rs 7,835 crore (1.4% of GSDP)
- The Departments of Energy, Home and Panchayat Raj saw increases in allocations for the year 2016-17. The Department of Education, on the other hand, has a 11% decrease in allocation in 2016-17.

Policy Highlights

- **Power projects:** Rs 8,582 crore is proposed to be spent on creating assets related to power projects. This includes construction of 4 new thermal power units in Katti thermal plant and Barauni thermal power project.
- **Panchayat Raj:** Based on the recommendation of the 14th Finance Commission, Panchayat Raj institutions will receive funds worth Rs 3,142 crores.
- **Infant mortality:** To reduce the infant mortality rate in the state, 510 new born child care centres, 35 new born child stabilization units and 16 special new born child care units will be established.
- **Modernization of police:** 1,531 smart phones, 1,428 motor cycles, anti-terrorism squads and instruments for Bihar Police Radio Organization will be provided.
- **Water supply:** Framework is being designed to provide water pipelines to all houses in the state.

Background: Bihar Economy

Figure 1: Growth rate of sectors in Bihar



Sources: Central Statistics Office; PRS.

Average growth in Bihar's economy at constant prices (adjusting for inflation) witnessed a decline from 8.2% in 2005-10 to 7.8% in 2010-15.

Figure 1 shows the growth rate of individual sectors in the period between 2005-10 and 2010-15.

Over 2005-15, agriculture and services witnessed an increase in growth rate, whereas growth in the manufacturing sector saw a decline.

- Growth rate in the manufacturing sector decreased from 12.9% to 4.9%.
- Agriculture growth increased from 3.4% in 2005-10 to 3.6% in 2010-15.
- In the meanwhile, services sector growth increased from 8.9% to 10.4%.

60% of Bihar's economy is contributed by the services sector, followed by 23% by agriculture and 17% by manufacturing. The agriculture sector employed 56% of the state's population, followed by the services (36%) and manufacturing (8%) sectors.[1]

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Department expenditure in 2016-17

The departments listed below account for **52%** of the total budgeted expenditure of Bihar in 2016-17.

Table 3: Department-wise expenditure for Bihar Budget 2016-17 (in Rs crore)

Department	2015-16 Revised	2016-17 Budgeted	% change from RE 2015-16 to BE 2016-17	Budget provisions for 2016-17
Education	24,610	21,897	-11.0%	▪ Mid-day meals will be provided to 1.36 crore students from class 1 to class 8 in 2016-17. ▪ Capital expenditure constitutes 1.9% of the expenditure on education, which is a drop from 3.9% in 2015-16.
Pension	12,979	16,285	25.5%	▪ Allocation towards pensions in 2016-17 has increased by 25.5%, over the revised estimates of 2015-16. This growth rate is higher than the growth rate of 14.4% between 2014-15 and 2015-16.
Energy	9,935	14,367	44.6%	▪ 2 new units with capacity of 250 MW units are being set up under Barauni Thermal Power Projects. In addition, 2 new units with a capacity of 195 MW units are being constructed in Katti thermal power plant. ▪ Capital outlay on power projects (spending on creating assets, such as power generators) has increased from 35% of the energy expenditure in 2015-16 to 60% in 2016-17.
Health	4,984	8,234	65.2%	▪ To reduce infant mortality rate, 510 new born child care centres, 35 new born child stabilization units and 16 special new born child care units are to be established. ▪ Healthcare facilities for childbirth will be provided at all medical colleges, city hospitals, sub-divisional hospitals, and primary health care facilities. ▪ 'ASHA' program will ensure visits of trained health care activists to the houses of women who have given birth.
Home	6,560	7,297	11.2%	▪ 1,531 smart phones, 1,428 motor cycles, anti-terrorism squads and machinery for Bihar police radio organization will be provided for the police.
Panchayat Raj	4,531	7,183	58.5%	▪ On the recommendation of the 14th Finance Commission the panchayat raj institutions will receive funds worth Rs 3,142 crore in this year. ▪ Under Backward Area Grants Fund, panchayat raj institutes for the backward districts will be granted funds for their development and to boost productivity.
% of total expenditure	**47.5%**	**52.0%**		
Other Departments	69,700	69,433	0.0%	

Note: All amounts are net numbers. Source: Department-wise Net Provision, Bihar State Budget 2016-17; PRS.

Other announcements:

- **Agriculture:** The government has budgeted to spend Rs 2,718 crore on agriculture in 2016-17, which is lower than the 2015-16 revised estimates by Rs 167 crore.
  - The state government aims to achieve self-sufficiency in production of seeds.
  - Check dams will be developed in southern Bihar.
- **Urban Development:** A framework is being developed to provide water pipelines to all the houses in the state.

Receipts in 2016-17

- The total revenue receipts for 2016-17 are estimated to be Rs 1,24,590 crore, an increase of 24% over the revised estimates of 2015-16. The tax to GSDP ratio is targeted at 5.32% in 2016-17, which is slightly more than the revised estimates of 5.26% in 2015-16. This implies that growth in collection of taxes has been higher than the growth in the economy.
- Tax revenue is expected to increase by 15.9% (Rs 4,074 crore) in 2016-17 over the revised estimates of 2015-16. Non-tax revenue is estimated to increase by 18.2% (Rs 362 crore).
- Grants from the centre are set to increase by 56.7%, from Rs 12,358 crore in 2015-16, to Rs 34,142 crore in 2016-17. The other component of transfers from the centre, which is the state's share in central taxes, is estimated to increase by 15%, to Rs 58,360 crore in 2016-17.

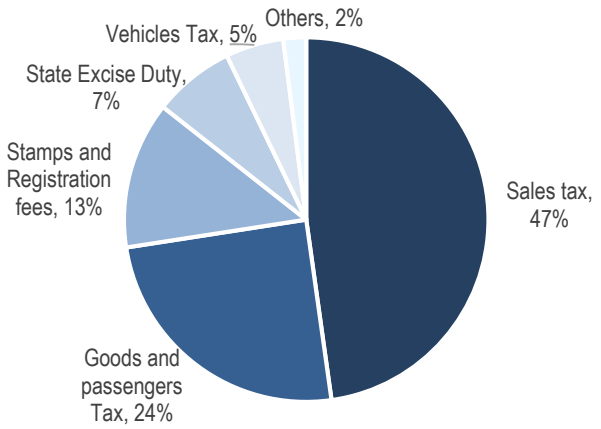
Table 4: Break up of state government receipts (in Rs crore)

Item	2014-2015 Actuals	2015-2016 Budgeted	2015-2016 Revised	2016-2017 Budgeted	% change from RE 2015-16 to BE 2016-17
State's Own Tax	20,750	30,875	25,656	29,730	15.9%
State's Own Non Tax	1,558	3,396	1,996	2,358	18.2%
State's share in Central Taxes	36,963	50,748	50,748	58,360	15.0%
Grants-in-aid from Centre	19,146	18,171	21,785	34,142	56.7%
Total Revenue Receipts	**78,418**	**1,03,189**	**1,00,184**	**1,24,590**	**24.4%**
Recovery of Loans and Advances	1,493	17	17	17	5.2%
Borrowings (gross)	13,918	17,709	18,478	21,255	15.0%
Total Capital Receipts	**15,411**	**17,725**	**18,495**	**21,272**	**15.0%**
Total Receipts	**93,828**	**1,20,914**	**1,18,678**	**1,45,863**	**22.9%**

Sources: State Budget Documents; PRS.

- Total tax revenue of Bihar is estimated to be Rs 29,730 crore in 2016-17. The composition of the state's tax revenue is shown in Figure 2.

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



- **Tax Revenue:** Sales tax is the largest component of various tax sources of the state. Sales tax levied on the sale of goods in the state is expected to generate Rs 13,909 crore (47% of tax revenue) in 2016-17.
- The state is expected to generate Rs 7,211 crore (24%) through levy of tax on goods and passengers.
- In addition, revenue will be generated through levy of excise duty on the production of various forms of alcohol, stamp duties, registration charges on real estate transactions and electricity duties, among others.

- **Non Tax Revenue:** Bihar has expected to generate Rs 2,358 crore through non-tax sources in the year. Mining is the largest non-tax revenue source, which is expected to generate Rs 1,110 crore, an increase of 10% over 2015-16 (RE).
- Another major non-tax source of revenue is the interest payments received on the loans provided by the government, which is expected to generate Rs 368 crore, an increase of 17% over 2015-16 (RE).
- Others sources of non-tax revenue include tolls on roads and bridges, forests, electricity, industries, etc.

Deficits, Debts and FRBM Targets for 2016-17

The Bihar 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 implies that the recurring receipts of the government are unable to cover its recurring expenditures. However, the budget estimates a revenue surplus of Rs 14,649 crore (or 2.87% of state GDP) in 2016-17. This implies that revenue receipts were higher than the revenue expenditure. The estimate is within the target of eliminating revenue deficit, prescribed by the state's FRBM Act and 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 2015-16, fiscal deficit increased to 5.85% of the state GDP and is estimated to decline to 2.87% in 2016-17. The estimates for 2015-16 exceeded the 3% limit set under the FRBM Act and the 14th Finance Commission.

Outstanding Liabilities: It is the accumulation of borrowings over the years. In 2016-17, the outstanding public debt is expected at 18.89% of state GDP.

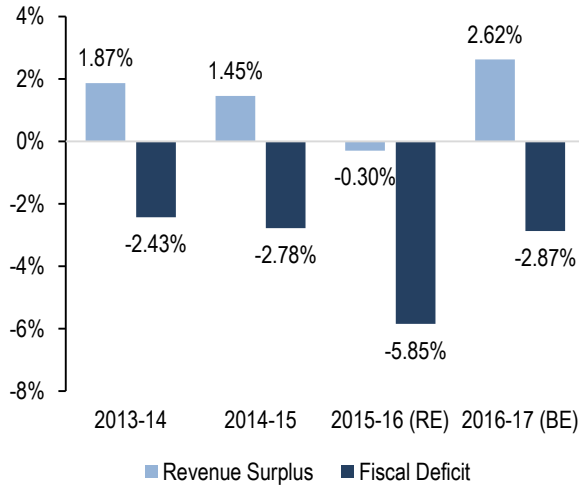
Table 5: Budget targets for deficits for the state of Bihar in 2016-17 (% of GSDP)

Year	Revenue Deficit (-)/Surplus (+)	Fiscal Deficit (-)/Surplus (+)	Outstanding Public Debt
2014-15	1.45	-2.78	18.54
RE 2015-16	-0.30	-5.85	-
BE 2016-17	2.62	-2.87	18.89
2017-18	2.37	-3.00	19.26
2018-19	2.14	-3.00	19.59

Note: Figures for 2017-18 and 2018-19 are projections.
Source: Medium Term Fiscal Policy Statement 2016-17; Budget at a Glance; PRS.

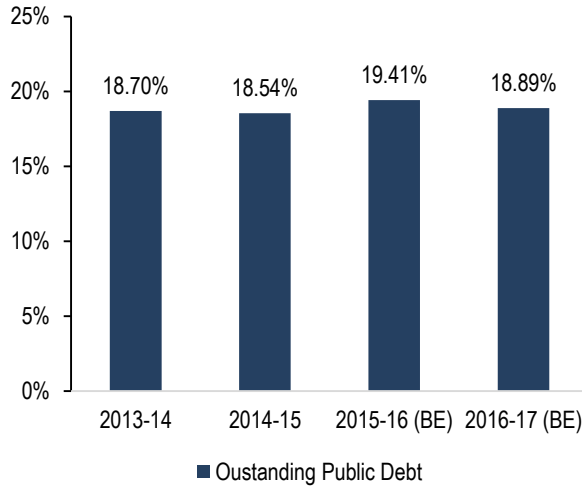
Figures 3 and 4 show the trend in deficits and outstanding liabilities from 2013-14 to 2016-17:

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



Sources: Bihar State Budget Documents; PRS.

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



Note: Revised Estimates for 2015-16 unavailable.
Sources: Bihar State Budget Documents; PRS.

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

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