

STATE SERIES: OUR EXCLUSIVE REPORT ON STATE FINANCES**FEBRUARY 15, 2019**
ISSUE NO: 88, FY19**UTTAR PRADESH BUDGET: CREATING
A FOURSOME OF RURAL LIVELIHOOD
&COWS, WOMEN WELFARE, RELI-
GIOUS TOURISM & INFRASTRUCTURE**

After presenting a massive budget of Rs 4.28 lakh crore last fiscal, Uttar Pradesh Government increased it further to Rs 4.80 lakh crore in FY20 (BE), 6.7% increase over FY19 (RE).

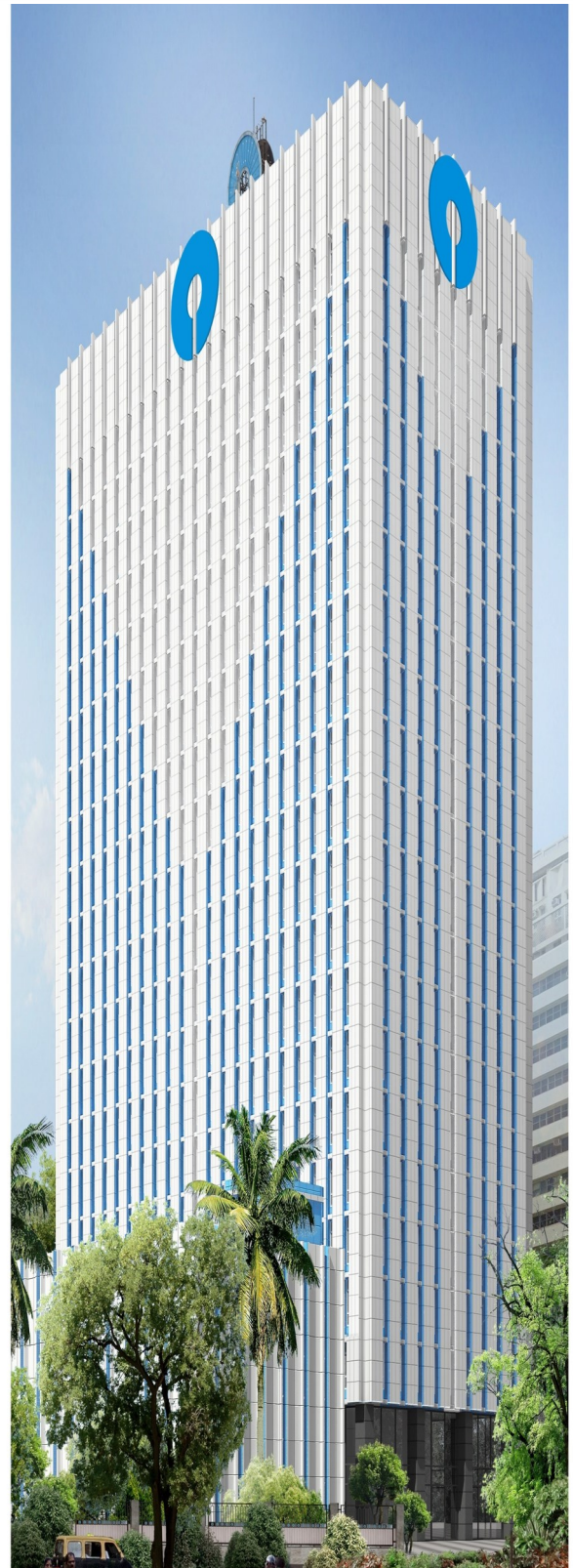
In FY20, capital expenditure is budgeted to decline by 0.9% over FY19RE (possibly on a higher base) while revenue expenditure is pegged to jump by 9.4%. The state's fiscal deficit has been pegged at Rs 46,911 crore in FY20 or 2.97% of the state's GDP while total debt to GSDP is projected to reach 30% by FY20. UP will not be eligible for additional borrowing. The projected GST collection for FY19 by Uttar Pradesh Government is optimistic, even as FY20 numbers look reasonable.

Interestingly, FY20 capital expenditure estimates are significantly higher for areas such as Police, Health and Rural Development.

The budget aims to create a generous fusion between rural livelihood and cattle economy, women welfare (launching of new schemes for girls), development of tourist destinations, modernization and training of police force and connecting major towns by air and expressways. The allocation towards rural development has been substantial.

The focus on 'Housing for All' gets reflected in the provision of Rs 6,240 crore made towards PM Awas Yojana (Gramin). This is in addition to allocation made towards National Rural Employment Generation Scheme and National Rural Drinking Water programme. Expectedly, a massive budget for cow welfare is provided in the budget at Rs 500 crore. A significant proportion has also been allocated for maintenance and construction of gaushalas in rural areas. This would help UP farmers who have been up in arms over a massive stray cattle problem.

Government has also allotted Rs 3,194 crore for construction of expressways and a massive amount of Rs 13,135 crore is allotted for laying of roads in the state, which should enable state's highways and roads to stand in league with other states with better road connectivity. The focus on Metro rail projects aims to solve the connectivity issues within the cities and solve traffic woes in high density cities. Overall, the budget aims at clicking with the masses for its focus on social welfare scheme announcements, cow welfare, religious tourism, infrastructure development and improvement in law and order.



ARITHMETIC OF UTTAR PRADESH BUDGET

- ◆ After presenting a massive budget of Rs 4.28 lakh crore last fiscal, Uttar Pradesh Government has increased it further to Rs 4.80 lakh crore in FY20 (BE), 6.7% increase over FY19 (RE).
- ◆ In FY20, capital expenditure is budgeted at Rs 1.16 lakh crore (-0.9% decline over FY19) while revenue expenditure is pegged at Rs 3.64 lakh crore (9.4% over FY19 RE). The tax revenue is pegged at Rs 2.93 lakh crore, with a 47.8% and 52.2% share between state's own tax revenue and state's share in central taxes respectively. The decline in capital expenditure in FY20 is because of a 110% jump owing mainly to lower base in FY18. Meanwhile, the revenue expenditure has increased by 25% over FY18 to Rs 3.33 lakh crore.
- ◆ **The state's fiscal deficit has been pegged at Rs 46,911 crore in FY20 or 2.97% of the state's GDP while total debt to GSDP is projected to reach 30% by FY20.**
- ◆ The budget this year has focused on rural development, infrastructure development, launching of new schemes for girls and women welfare and tourist development indirectly aiming at employment generation. The budget also specifically focuses on modernization and training of police force, connecting major towns by air and expressways, education and skill development.
- ◆ It also includes quite a few populist schemes with the new schemes totaling Rs 21,213 crore. Among these new schemes, the Government has announced 'Kanya Sumangala Yojana' which aims at raising health and educational standard of girls, brighten their future and bring in a positive change in the thinking towards women. An amount of Rs 1,200 crore has been proposed for this scheme.
- ◆ The Government has reinforced its commitment towards infrastructure by providing for development of airstrips, construction of roads, bridges, metro rail connectivity, land acquisition, regional air connectivity etc.

Fiscal Status of Uttar Pradesh (Rs crore)									
Particulars	FY15	FY16	FY17	FY18	FY19 (BE)	FY19 (RE)	FY20 (BE)	Growth (FY19 RE/FY18) %	Growth (FY20 BE/FY19 RE) %
1. Revenue Receipts	193422	227076	256875	278775	348619	380022	391734	36.3	3.1
2. Tax Revenue	140795	172080	195394	218332	256248	275840	293039	26.3	6.2
3. Non Tax Revenue	52626	54996	61481	60443	92371	104182	98695	72.4	-5.3
4. Capital Receipts	35783	75239	67944	47652	72280	59504	78950	24.9	32.7
5. Loan Recoveries	262	726	259	236	5165	5165	5682	2088.6	10.0
6. Borrowing	35520	74514	67685	47417	67115	54338	73268	14.6	34.8
7. Total receipts	229204	302315	324819	326428	420899	439525	470684	34.6	7.1
8. Revenue Expenditure	171027	212736	236592	266224	321520	332774	363957	25.0	9.4
Of which Interest payment	18864	21448	26936	29136	32434	31871	35374	9.4	11.0
9. Capital Expenditure	64581	91213	96833	55599	106864	116799	115744	110.1	-0.9
10. Total Expenditure	235608	303949	333425	321823	428385	449573	479701	39.7	6.7
11. Revenue Surplus	22394	14340	20283	12552	27099	47248	27777	276.4	-41.2
12. Fiscal Deficit	32513	58475	55989	27810	44053	43840	46911	57.6	7.0
13. Primary deficit	13649	37027	29053	-1326	11620	11969	11537	-1002.6	-3.6
14. GSDP	955953	1098912	1247658	1378643	1488934	1476455	1579807	7.1	7.0
15. Fiscal Deficit as % GSDP	3.40	5.32	4.49	2.02	2.96	2.97	2.97		
16. Primary Deficit as % GSDP	1.43	3.37	2.33	-0.10	0.78	0.81	0.73		
17. Revenue Surplus as % GSDP	2.34	1.30	1.63	0.91	1.82	3.20	1.76		
18. Debt to GDP Ratio	27.9	29.5	29.9	29.7	29.8	30.0	30.0		

Source: UP Budget Documents, SBI Research

CAPITAL EXPENDITURE

- ◆ Total expenditure is estimated to be Rs 4.79 lakh crore in FY20, 6.7% growth over FY19 (RE).
- ◆ The capital expenditure is budgeted to show a modest decline of 0.9% compared to FY19 (RE), however, that is on account of a high base. In terms of capital expenditure FY19 could be termed as a watershed year in the areas of water availability, housing and urban development, overall social services, economic services such as renewable energy, transportation etc. Owing to this, the capex for FY19 (RE) recorded a 110% growth resulting in a high base for FY20 estimates.
- ◆ In case of capital expenditure, the FY20 estimates have been kept higher for areas such as police, health and welfare, agriculture and rural development, while in some of the areas where extensive focus was given in FY19, the allocation has been moderated. The resource allocation has articulated the growth agenda quite well and also shows the intent of State Government to carry forward the national agenda.
- ◆ Revenue expenditure constitutes around 76% of the total expenditure. The State spends a huge amount on salaries, pension and interest payment which has increased by 14.6% compared to 18.6% in FY19 (RE). The salary alone which is around 30% of total revenue expenditure, is poised to increase by 17% in FY20. Interest payment is also expected to increase by 11% to Rs 35,374 crore after 9% growth as per the FY19 (RE).
- ◆ Huge reduction in the allocation to energy to Rs 10,456 crore compared to Rs 21,750 crore in FY19. However this needs to be seen against the backdrop of huge jump in the previous fiscal. Given the huge power shortage in the State, this area should have been focused in this budget as well.
- ◆ There is a significant increase in allocation for police within expenditure on general services. The budget proposes more than threefold increase to Rs 2,596 crore as against Rs 834 crore in FY19 (RE). This will certainly help in modernizing internal security and maintaining of law and order in the State.
- ◆ The State Government has focused on agriculture and allied activities (58% growth to Rs 1,522 crore) and rural development (23% increase to Rs 5,145 crore) in economic services and health and welfare within social services (18% increase to Rs 3,329 crore). Since Uttar Pradesh is the largest producer of food grains in the country, the increased fund allocation in these areas is essential for country's development.

Uttar Pradesh: Capital Expenditure (Rs Crore)								
Particulars	FY16	FY17	FY18	FY19 (BE)	FY19 (RE)	FY20 (BE)	Growth (FY19 RE/ FY18) %	Growth (FY20 BE/FY19 RE) %
Total Capital Expenditure (i+ii+iii)	91213	96833	55599	106864	116799	115744	110.1	-0.9
(i) Capital Expenditure on Various services	64423	69789	39088	74244	88528	77641	126.5	-12.3
(a) General Services	5259	5727	2776	4378	5681	5157	104.6	-9.2
Police	1015	1265	606	576	834	2597	37.6	211.4
Public Construction	1285	1114	1010	1462	1607	1847	59.1	14.9
Others	2959	3348	1160	2340	3240	713	179.3	-78.0
(b) Social Services	11707	17150	11625	22444	22812	22391	96.2	-1.8
Education, Sports, Art & Culture	1130	2018	928	2073	2137	2164	130.3	1.3
Health and Welfare	2256	2922	2112	2757	2811	3329	33.1	18.4
Water availability, Housing and Urban Development	7286	10658	7576	15714	15893	15179	109.8	-4.5
SC,ST and OBC welfare + Social welfare and nutrition+Other Social services	1034	1552	1009	1900	1971	1719	95.3	-12.8
(c) Economic Services	47457	46911	24687	47422	60035	50075	143.2	-16.6
Agriculture and allied Activities	2272	3921	1614	817	963	1522	-40.3	58.0
Rural Development	4757	2249	2313	3621	4185	5145	80.9	22.9
Irrigation and flood Control	5052	5201	3107	7980	7980	8421	156.8	5.5
Renewable and non-renewable energy	18809	11735	8313	12982	21750	10456	161.6	-51.9
Transportation	15715	22653	8325	20542	23637	22565	183.9	-4.5
Special area activities + Industry and Mining+Others	852	1152	1015	1480	1520	1966	49.8	29.3
(ii) Public Debt	17673	20303	15002	30547	20547	35374	37.0	72.2
(iii) Loans and advances	9118	6741	1509	2074	7724	2728	411.9	-64.7

Source: UP Budget Documents, SBI Research

REVENUE EXPENDITURE

- ◆ The Government estimates combined share of salary, pension and interest payment will constitute 52.7% of total Receipts and 70.4% of tax revenue in FY20. This is higher by around 5% over the revised estimates for FY19.
- ◆ In FY20, Uttar Pradesh is expected to spend Rs 60,748 crore on servicing its debt (of this Rs 35,374 crore on interest payments and rest are on repaying loans). This is 15% higher than FY19 (RE).
- ◆ For FY20, the Government estimates the fiscal deficit to GSDP ratio to be 2.97% which is similar to FY19 revised estimate and it stands lower than prescribed target of 3%. The States will be eligible for flexibility of 0.25% over and above this for any given year for which the borrowing limits are to be fixed if their debt-GSDP ratio is less than or equal to 25% in the preceding year. Our analysis suggests that UP is not eligible for additional relaxation of 0.25% because it has more than 25% of debt to GSDP ratio for the past three years and is increasing (from 27.9% in FY15 to 30% in FY20). One of the positive things is UP continuously remains one of the revenue surplus states in past few years.
- ◆ We do believe that, the projected GST collection for FY19 by Uttar Pradesh Government is optimistic. In FY18, the total collection of GST was Rs 39,304 crore. Considering the volatile trend in past few months and rationalization of GST rates announced with effect from Jan'19, especially in the 28% bucket, we believe that the revised estimates of FY19 budget at Rs 1.07 lakh crore is over ambitious. However, the FY20 estimates for GST collection are kept at a moderate Rs 1.10 lakh crore with a growth of 3%.

Uttar Pradesh: Tax Revenue Structure (Rs Crore)							
Heads of Account	FY17	FY18	FY19 (BE)	FY19 (RE)	FY20 (BE)	Growth (FY19 RE/FY18) %	Growth (FY20 BE/FY19 RE) %
Tax Revenue (+ii+iii+iv)	195394	218332	256248	275840	293040	26.3	6.2
i. Goods and Service Tax	...	39304	96684	106888	110072	172.0	3.0
CGST	...	1718	43704	49092	53019	2757.5	8.0
SGST	...	25374	49422	54025	52980	112.9	-1.9
IGST	...	12212	3558	3771	4073	-69.1	8.0
ii. Taxes on Income and Expenditure	59549	68343	71932	74910	80902	9.6	8.0
iii. Taxes on Property and Capital Transactions	12405	14732	18799	20499	20034	39.1	-2.3
iv. Taxes on Commodities and Services	123441	95953	68834	73544	82031	-23.4	11.5
State's Own Non-Tax	28944	19795	28822	28821	30633	45.6	6.3
Grants-in-aid from Centre	32537	40648	63549	75360	68062	85.4	-9.7
Total Revenue Receipts	256875	278775	348619	380022	391734	36.3	3.1

Source: UP Budget Documents, SBI Research

Uttar Pradesh: Revenue Expenditure in Major Heads (Rs Crore)							
Particulars	FY17	FY18	FY19 (BE)	FY19 (RE)	FY20 (BE)	Growth (FY19 RE/FY18) %	Growth (FY20 BE/FY19 RE) %
Revenue Expenditure							
Salary	84592	84160	103264	100461	117779	19.4	17.2
Pension and Other Services	28227	38476	45495	47617	53134	23.8	11.6
Interest Payment	26936	29136	32434	31871	35374	9.4	11.0
Salary+Pension+Interest Payment	139755	151773	181193	179949	206288	18.6	14.6
Debt Servicing	38543	41205	52980	52417	60748	27.2	15.9
Revenue Expenditure	236592	266224	321520	332774	363957	25.0	9.4
Revenue Receipts	256875	278775	348619	380022	391734	36.3	3.1
Salary/Revenue Expenditure	35.8%	31.6%	32.1%	30.2%	32.4%		
Salary+Pension+Interest Payment/ Revenue Expenditure	59.1%	57.0%	56.4%	54.1%	56.7%		
Debt Servicing/Revenue Expenditure	16.3%	15.5%	16.5%	15.8%	16.7%		
Salary/Revenue Receipts	32.9%	30.2%	29.6%	26.4%	30.1%		
Salary+Pension+Interest Payment/ Revenue Receipts	54.4%	54.4%	52.0%	47.4%	52.7%		
Debt Servicing/Revenue Receipts	15.0%	14.8%	15.2%	13.8%	15.5%		

Source: UP Budget Documents, SBI Research

CONCLUSION

- ◆ The third annual budget of the UP Government has made special allocations for cows, culture, infrastructure and tourism. The allocation towards rural development has been substantial.
 - ◆ **Rural Push:** A provision of Rs 6,240 crores has been made towards PM Awas Yojana (Gramin), Rs 3,488 crore has been provided for NREGS, Rs 3,000 crore has been allocated for piped drinking water scheme, Rs 2,954 crore has been provided for National rural drinking water programme and Rs 1,393 crore has been provided for National Rural Livelihood mission.
 - ◆ **Infrastructure development:** The Government has earmarked Rs 3,194 crore for construction of expressways and Rs 13,135 crore for laying of roads in the state. To promote tourism and religious activities, Government has allocated Rs 207 crore to develop Gangaghat to Kashivishwanath Temple corridor, Rs 101 crore for Ayodhya, Rs 125 crore for Braj Tirth and Rs 300 crore for development of shrines. Metro rail projects have been given due focus. All these initiatives are not only going to put UP high on development map but would also generate employment in the economy.

- ◆ **Cattle welfare:** A massive budget for cow welfare is kept at over Rs 500 crore. The UP Government proposed Rs 247.60 crore for maintenance and construction of gaushalas in rural areas while Rs 200 crore has been sanctioned for Kanha gaushala and destitute cattle shelter scheme in urban areas. This would help UP farmers who have been up in arms over a massive stray cattle problem.
- ◆ To boost physical and social infrastructure the budget earmarks Rs 1,000 crore for construction, expansion and strengthening of airstrips in the state, Rs 3,000 crore for piped drinking water scheme in Bundelkhand, Vindhya region and villages affected by low quality water, Rs 6,000 for Swachh Bharat Mission, Rs 6,240 crore for PM Awas Yojana and in many other similar schemes. Rs 13,135 crore has been allocated for development of roads under PWD and Rs 2,100 crore for construction of bridges.
- ◆ UP Government has announced Kanya Sumangla Yojana for welfare of girls. A sum of Rs 12,000 crore has been allocated for the same.
- ◆ Overall, the budget seems to be an extension of the Interim Union Budget announced by the Central Government and aims at clicking with the masses for its focus on social welfare scheme announcements, cow welfare, religious tourism, infrastructure development and improvement in law and order.

ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of “tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis”.

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management , corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

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