

**STATE SERIES 3: OUR EXCLUSIVE REPORT ON STATE FINANCES****MARCH 16, 2018**  
**ISSUE NO: 78, FY18****THE ROAD TO “UTTAM PRADESH”**

As per Budgetary figure of UP, the total revenue receipts for FY19 are estimated to increase by 14% over the revised estimates of FY18. State's tax revenue (Own Tax Collection along with State's share in central taxes) is expected to increase by 18% in FY19 (including estimated GST) over the revised estimates of FY18.

We do believe that, the projected GST collection for FY19 by Uttar Pradesh Government is quite optimistic. Considering the declining trend in past few months and reduction in GST rates in most of the items in 28% bracket, we believe that the budgeted figure for FY19 is ambitious, even after adjusting for 9 months. Alternatively, the Government is expecting more buoyancy in FY19 through better compliance.

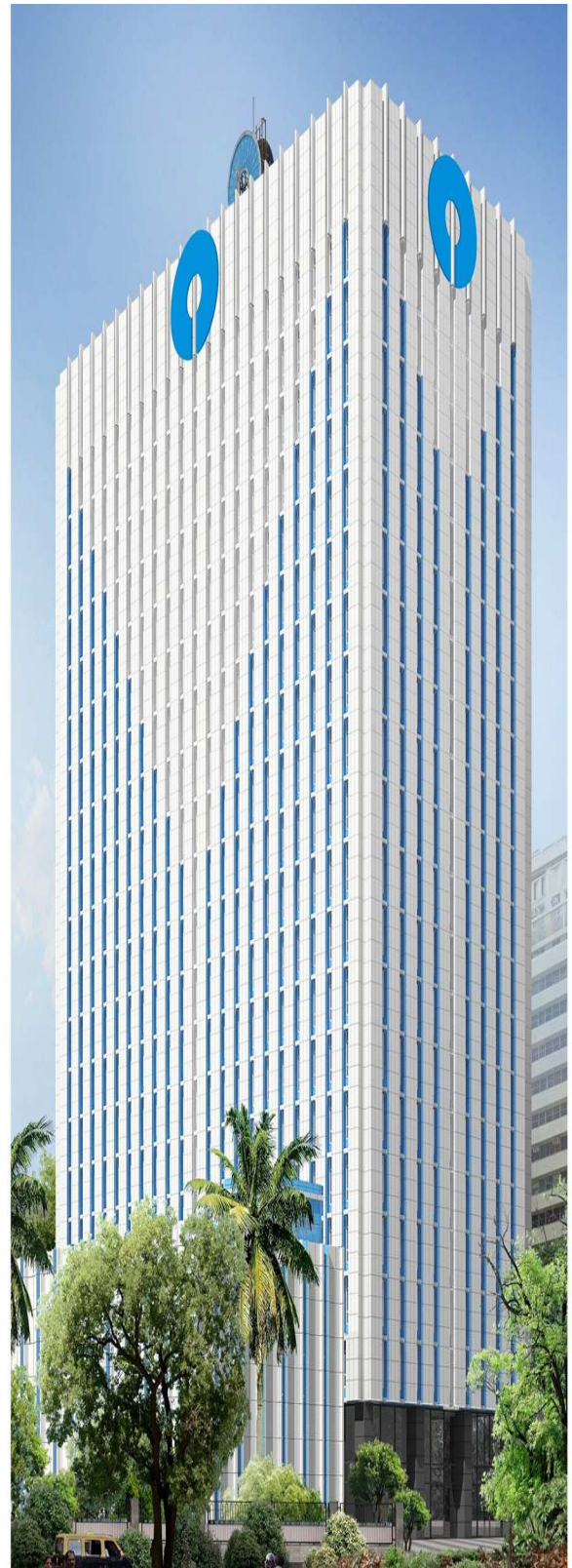
The total expenditure is estimated to increase by 16% over the revised estimate of FY18. Out of this, revenue expenditure increases by 12% (from growth of 21% in FY18) and capital expenditure increases by 30% (from degrowth of 15% in FY18).

The good thing is that in this year budget there is a higher growth in fund allocation towards irrigation, energy, urban development, agriculture rural development, transport, etc. which are key drivers of sustainable growth to an economy. The Government has tried its best to meet the gap in capital expenditure that was created in last year.

Interestingly, the capital expenditure on police services (modernizing law and order situation by acquiring new machinery) has declined continuously since FY17 from Rs 1265 crore to Rs 576 crore in FY19 which is not a good sign even though the law and order situation of the UP has improved significantly in last one year.

To boost physical and social infrastructure the budget has earmarked Rs 650 crore for Bundelkhand expressway project, Rs 550 crore Gorkahpur link expressway project, Rs 1,000 crore for Purvanchal expressway and Rs 500 crore for Agra-Lucknow expressway. We believe State Government allocation towards such infrastructure will help to create long term and sustainable growth.

To promote tourism and religious activities, Government has also allocated funds. This will generate additional revenue and employment for the state. There is great potential in the tourism sector in UP and if wisely exploited it will become the key driver of economic growth.



## CRITICAL EVALUATION OF UTTAR PRADESH BUDGET

- Uttar Pradesh Government recently presented a massive Rs 4,28,385 crore budget for FY19 in the State Assembly, which is touted to be the biggest-ever Budget for the State. The state's budgetary allocation for FY19 was exceeded by 16% compared to the last year's revised estimate of Rs 3,68,401 crore. In FY18, Government presented its annual budget with a great hope to transform Uttar Pradesh into "Uttam Pradesh" and also announced farm loan waiver scheme of Rs 36,000 crore (2.40% of GSDP) as it's poll promise. In order to accommodate the same in the last year's budget and controlling the fiscal deficit to below 3% (as per 14th Finance Commission guideline) it had done a great damage to its capital expenditure by reducing 15% over previous year.
- This year budget has a great significance because it is not only setting the roadmap for 2019 Lok Sabha elections for the politically important state but also how the state is going to address some of the challenges that it is continuously facing in area like farmers distress, 24 hour power supply, affordable and qualitative education to all, road and transport infrastructure and regional imbalance.
- As per Budgetary figure, the total revenue receipts for FY19 are estimated to be Rs 3,48,619 crore, an increase of 14% over the revised estimates of FY18. State's tax revenue (Own Tax Collection along with State's share in central taxes) is expected to increase by 18% in FY19 to Rs 2,56,248 crore (including estimated GST of Rs 96,684 crore) over the revised estimates of FY18. In Non tax revenue, the budgetary estimate for FY19 shows a growth 4% over the Revised figure of FY18. The interesting thing is, in Revenue receipts the Government is expecting the growth to decline from previous year collection (from 19% in FY18 to 14% in FY19) and in Non tax revenue segment, the growth is expected to decline to 4% in FY19 from the previous year growth of 44%.
- In FY19, the budgetary estimate of capital receipts is Rs 72,280 crore out of which the Government is expected to get by more than Rs 5000 crore through loan recoveries which is nearly 17 times higher than previous three years and the rest of Rs 67,115 crore through market borrowing.

Fiscal Status of Uttar Pradesh over last five years (Rs crore)									
Particulars	FY14	FY15	FY16	FY17	FY18 (BE)	FY18 (RE)	FY19 (BE)	Growth (FY18 RE/FY17) %	Growth (FY19 BE/FY18 RE) %
<b>1. Revenue Receipts</b>	<b>168214</b>	<b>193422</b>	<b>227076</b>	<b>256875</b>	<b>319397</b>	<b>305029</b>	<b>348619</b>	<b>18.75</b>	<b>14.29</b>
2. Tax Revenue	129359	140795	172080	195394	232908	216365	256248	10.73	18.43
3. Non Tax Revenue	38855	52626	54996	61481	86489	88663	92371	44.21	4.18
<b>4. Capital Receipts</b>	<b>15490</b>	<b>35783</b>	<b>75239</b>	<b>67944</b>	<b>57793</b>	<b>55137</b>	<b>72280</b>	<b>-18.85</b>	<b>31.09</b>
5. Loan Recoveries	590	262	726	259	284	284	5165	9.81	1717.48
6. Borrowing	14900	35520	74514	67685	57509	54853	67115	-18.96	22.35
<b>7. Total receipts</b>	<b>183704</b>	<b>229204</b>	<b>302315</b>	<b>324819</b>	<b>377191</b>	<b>360166</b>	<b>420899</b>	<b>10.88</b>	<b>16.86</b>
<b>8. Revenue Expenditure</b>	<b>158147</b>	<b>171027</b>	<b>212736</b>	<b>236592</b>	<b>307119</b>	<b>286514</b>	<b>321520</b>	<b>21.10</b>	<b>12.22</b>
Of which Interest payment	17412	18864	21448	26936	33212	30278	32434	12.41	7.12
<b>9. Capital Expenditure</b>	<b>42503</b>	<b>64581</b>	<b>91213</b>	<b>96833</b>	<b>77541</b>	<b>81887</b>	<b>106864</b>	<b>-15.43</b>	<b>30.50</b>
<b>10. Total Expenditure</b>	<b>200650</b>	<b>235608</b>	<b>303949</b>	<b>333425</b>	<b>384660</b>	<b>368401</b>	<b>428385</b>	<b>10.49</b>	<b>16.28</b>
11. Revenue Surplus	10067	22394	14340	20283	12279	18515	27099	-8.71	46.36
<b>12. Fiscal Deficit</b>	<b>23680</b>	<b>32513</b>	<b>58475</b>	<b>55989</b>	<b>42968</b>	<b>41074</b>	<b>44053</b>	<b>-26.64</b>	<b>7.25</b>
13. Primary deficit	6267	13649	37027	29053	9756	10796	11620	-62.84	7.63
14. GSDP	855135	955953	1098912	1247658	1445770	1378643	1488934	10.50	8.00
15. Fiscal Deficit as % GSDP	2.77	3.40	5.32	4.49	2.97	2.98	2.96		
16. Primary Deficit % GSDP	0.73	1.43	3.37	2.33	0.67	0.78	0.78		
17. Revenue Surplus % GSDP	1.18	2.34	1.30	1.63	0.85	1.34	1.82		
18. Debt GDP Ratio	28.3	27.9	29.5	29.9	28.6	29.5	29.8		

Source: UP Budget Documents, SBI Research

## TOTAL EXPENDITURE

- ◆ The total expenditure is estimated to be Rs 4,28,325 crore in FY19, 16% increase over the revised estimate of FY18. Out of this, revenue expenditure increases by 12% (from growth of 21% in FY18) and capital expenditure increases by 30% (from negative growth of 15%) in compare to FY18 (RE).
- ◆ Revenue expenditure, which mostly includes salaries, pension, interest payment and subsidy, contributes nearly 75% of total expenditure. In revenue expenditure the combined share of salary, pension and interest payment is 54% and the figure is expected to increase to 56% in FY19 because of increase in salary component due to implementation of pay fixation.
- ◆ Total capital expenditure is proposed at Rs 1,06,864 crore, out of which Capital expenditure on public borrowing and interest payment is estimated at Rs 32,621 crore (30547+2074) and rest are (Rs 74,244 crore) various socio economic services meant for creating long term assets. Among capital expenditure on various activities (General, Social and Economic), there is a significant increase in expenditure of Rs 16,900 crore comparing to the previous years where Rs 12,423 crore were reduced to accommodate some part of Loan waiver.
- ◆ This year budget has seen a higher growth in fund allocation towards irrigation, energy, urban development, agriculture rural development, transport, etc. which are key drivers of sustainable growth to an economy. The Government has tried its best to meet the gap in capital expenditure that it had created in last year is a good step in the right direction.
- ◆ Out of the allocations on Capital expenditure for 2018-19, Rs 12,982 crore will be for energy, and Rs 7980 crore for irrigation, Rs 15,714 crore on urban development and Rs 3,621 crore on Rural Development.
- ◆ The capital expenditure on Police services (modernizing law and order situation by acquiring new machinery) has declined continuously since FY17 from Rs 1265 crore to Rs 576 crore in FY19 which is not a good sign even though the law and order situation of the UP has improved significantly in last one year.

Uttar Pradesh: Capital Expenditure (Rs Crore)							
Particulars	FY16	FY17	FY18 (BE)	FY18 (RE)	FY19 (BE)	Growth (FY1 RE/ FY17) %	Growth (FY19 BE/FY18 RE) %
<b>Total Capital Expenditure (i+ii+iii)</b>	<b>91213</b>	<b>96833</b>	<b>77541</b>	<b>81887</b>	<b>106864</b>	<b>-15.4</b>	<b>30.5</b>
<b>(i) Capital Expenditure on Various services</b>	<b>64423</b>	<b>69789</b>	<b>53258</b>	<b>57344</b>	<b>74244</b>	<b>-17.8</b>	<b>29.5</b>
<b>(a) General Services</b>	<b>5259</b>	<b>5727</b>	<b>3601</b>	<b>3832</b>	<b>4378</b>	<b>-33.1</b>	<b>14.2</b>
Police	1015	1265	639	651	576	-48.5	-11.5
Public Construction	1285	1114	1455	1674	1462	50.3	-12.7
Others	2959	3348	1507	1507	2340	-55.0	55.2
<b>(b) Social Services</b>	<b>11707</b>	<b>17150</b>	<b>15111</b>	<b>17292</b>	<b>22444</b>	<b>0.8</b>	<b>29.8</b>
Education, Sports, Art & Culture	1130	2018	1722	1787	2073	-11.4	16.0
Health and Welfare	2256	2922	2333	2420	2757	-17.2	13.9
Water availability, Housing and Urban Development	7286	10658	9789	11698	15714	9.8	34.3
SC,ST and OBC welfare + Social welfare and nutrition+Other Social services	1034	1552	1267	1387	1900	-10.7	37.0
<b>(c) Economic Services</b>	<b>47457</b>	<b>46911</b>	<b>34545</b>	<b>36220</b>	<b>47422</b>	<b>-22.8</b>	<b>30.9</b>
Agriculture and allied Activities	2272	3921	722	770	817	-80.4	6.1
Rural Development	4757	2249	3378	3261	3621	45.0	11.0
Irrigation and flood Control	5052	5201	4093	4235	7980	-18.6	88.4
Renewable and non-renewable energy	18809	11735	7384	8143	12982	-30.6	59.4
Transportation	15715	22653	15454	16270	20542	-28.2	26.3
Special area activities + Industry and Mining+Others	852	1152	3515	3541	1480	207.3	-58.2
<b>(ii) Public Borrowing</b>	<b>17673</b>	<b>20303</b>	<b>22010</b>	<b>22014</b>	<b>30547</b>	<b>8.4</b>	<b>38.8</b>
<b>(iii) Loans and advances</b>	<b>9118</b>	<b>6741</b>	<b>2273</b>	<b>2529</b>	<b>2074</b>	<b>-62.5</b>	<b>-18.0</b>

Source: UP Budget Documents, SBI Research

## REVENUE EXPENDITURE

- ◆ The Government has estimated that the combined share of salary, pension and interest payment will constitute 52% of total Receipts and 71% of tax revenue in FY19. For FY19, Uttar Pradesh is expected to spend Rs 11,564 crore on subsidies, which is 15% higher than the budget estimates of 2017-18.
- ◆ In FY19, Uttar Pradesh is expected to spend Rs 52,980 crore on servicing its debt (out of this Rs 32,434 crore on interest payments and rest are on repaying loans). This is 25% higher than the revised estimates of FY18.
- ◆ For FY19, UP government estimated the fiscal deficit to GSDP ratio to be 2.96% which is lower than fourteenth finance commission's prescribed target of 3%. The commission enunciated that there will be maximum relaxation of 0.5% over and above of 3% but with some condition. One condition is if the debt-GSDP ratio is less than or equal to 25% in the preceding year, then the State has a relaxation of additional 0.25% over the fiscal deficit target of 3%.
- ◆ Our analysis suggests UP is not eligible for additional relaxation of 0.25% because it has more than 25% of debt to GSDP ratio for past three years and is increasing (from 28.3% in FY14 to 29.8% in FY19). One of the positive thing is that Uttar Pradesh is it continuously remain 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 quite optimistic. In FY18, the total collection of GST for Uttar Pradesh was Rs 28603 crore. Considering the declining trend in past few months and reduction in GST rates in most of the items in 28% bracket, we believe that the budgeted figure for FY19 at Rs 96684 crore is ambitious, even after adjusting for 9 months. Alternatively, the Government is expecting more buoyancy in FY19 through better compliance.

Uttar Pradesh: Tax Revenue Structure (In Rs Crore)						
Heads of Account	FY17	FY18 (BE)	FY18 (RE)	FY19	Growth (FY18 RE/FY17) %	Growth (FY19 BE/FY18 RE) %
<b>Tax Revenue (i+ii+iii+iv)</b>	<b>195394</b>	<b>232908</b>	<b>216365</b>	<b>256248</b>	<b>10.7</b>	<b>18.4</b>
i.Goods and Service Tax	...	28603	28603	96684		238.0
CGST	...	...	...	43704		
SGST	...	28,603	28603	49422		72.8
IGST	...	...	...	3558		
ii.Taxes on Income and Expenditure	59549	67173	67173	71932	12.8	7.1
iii.Taxes on Property and Capital Transactions	12405	18163	13389	18799	7.9	40.4
iv.Taxes on Commodities and Services	123441	118969	107200	68834	-13.2	-35.8
State's Own Non-Tax	28944	18437	17502	28822	-39.5	64.7
Grants-in-aid from Centre	32537	68052	71161	63549	118.7	-10.7
<b>Total Revenue Receipts</b>	<b>256875</b>	<b>319397</b>	<b>305029</b>	<b>348619</b>	<b>18.7</b>	<b>14.3</b>

Source: UP Budget Documents, SBI Research

Uttar Pradesh: Revenue Expenditure in Major Heads (Rs Crore)						
Particulars	FY17	FY18 (BE)	FY18 (RE)	FY19 (BE)	Growth (FY18 RE/FY17) %	Growth (FY19 BE/FY18 RE) %
<b>Revenue Expenditure</b>						
Salary	84592	95080	85920	103264	1.6	20.2
Pension and Other Services	28227	35889	37339	45495	32.3	21.8
Interest Payment	26936	33212	30278	32434	12.4	7.1
Salary+Pension+Interest Payment	139755	164181	153537	181193	9.9	18.0
Debt Servicing	38543	45222	42292	52980	9.7	25.3
<b>Revenue Expenditure</b>	<b>236592</b>	<b>307119</b>	<b>286514</b>	<b>321520</b>	<b>21.1</b>	<b>12.2</b>
<b>Revenue Receipts</b>	<b>256875</b>	<b>319397</b>	<b>305029</b>	<b>348619</b>	<b>18.7</b>	<b>14.3</b>
Salary/Revenue Expenditure	36%	31%	30%	32%		
Salary+Pension+Interest Payment/Revenue Expenditure	59%	53%	54%	56%		
Debt Servicing/Revenue	16%	15%	15%	16%		
Salary/Revenue Receipts	33%	30%	28%	30%		
Salary+Pension+Interest Payment/Revenue Receipts	54%	51%	50%	52%		
Debt Servicing/Revenue Receipts	15%	14%	14%	15%		

Source: UP Budget Documents, SBI Research

## CONCLUSION

- ◆ To boost physical and social infrastructure the budget has earmarked Rs 650 crore for Bundelkhand expressway project, Rs 550 crore Gorkahpur link expressway project, Rs 1,000 crore for Purvanchal expressway and Rs 500 crore for Agra-Lucknow expressway. For power sector schemes, Rs 29,883 crore has been allocated. We believe State Government allocation towards such infrastructure will help to create long term and sustainable growth.
- ◆ For the mid-day meal scheme, Rs. 2,048 crore has been allocated and Rs. 167 crore for distributing fruits to students which is a welcome step.
- ◆ To promote tourism and religious activities, Government has allocated Rs 94.26 crore for construction of Kailash Mansoravar Bhawan in Ghaziabad for pilgrims. Another Rs 1,500 crore has been kept for organising Kumbh Mela-2019 in Allahabad. This will generate additional revenue and employment for the state and there is great potential in the tourism sector in UP and if wisely exploited then it will become the key driver of economic growth.

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## 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 , corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

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