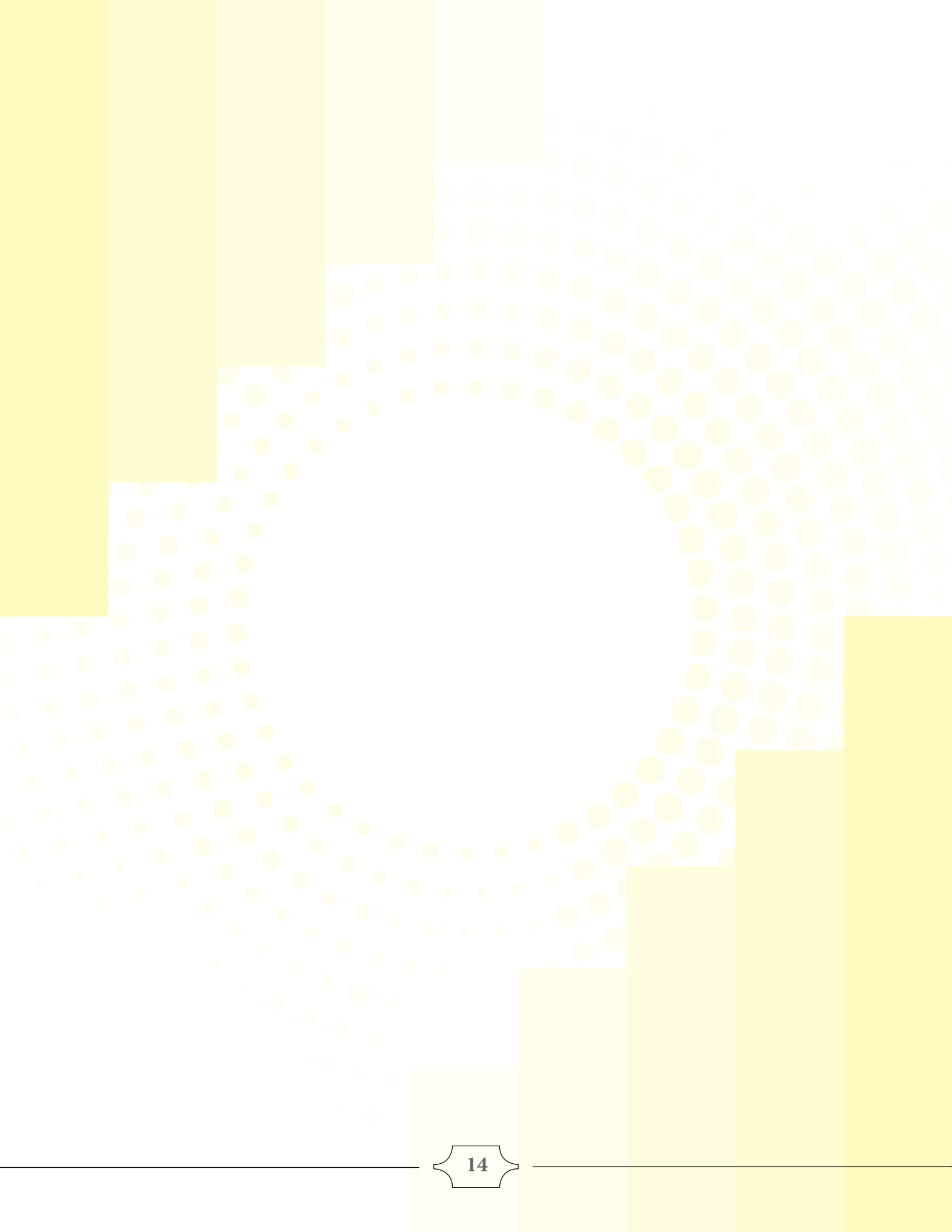


Chapter - 2
Public Finance



Chapter-2

Public Finance

Public Finance focuses on revenues, expenditure, fiscal deficit, and public debt. This chapter gives overview of public revenue, public expenditure, and fiscal discipline of Madhya Pradesh. To understand the impact of Covid-19 on the state finances and the recovery thereafter, the chapter uses 2018-19 as the benchmark year because it was the last year before the calamity of Covid-19 struck. Covid related disruptions continued during 2020-21 and 2021-22. Hence, the changes/trend growth rate during 2018-19 to 2021-22 may be considered to understand the disruption caused by Covid-19. Comparison of 2022-23 over 2021-22 will be used to gauge the recovery. Year 2018-19 was also the first full year in which GST was implemented. Hence, this year is good choice for benchmark as it ensures comparability of taxation regime over 2018-19 to 2022-23.

The details of the major fiscal indicators of Madhya Pradesh are given in Table 2.1. After being in revenue surplus continuously for 14 years since the financial year 2004-05, difficult economic environment led to a revenue deficit in 2019-20. Due to Covid-19, revenue deficit continued in 2020-21 and 2021-22 (RE) as well. According to the revised estimates for the year 2021-22, the fiscal deficit is likely to be 4.18 percent of the gross state domestic product. According to the budget estimate for the year 2022-23, the fiscal deficit is likely to be up to 4.56 percent of the gross state domestic product. This includes an additional loan of 65000.00 crores for capital works which is likely to be obtained from the Government of India.

In its final report submitted in November 2020, the 15th Finance Commission had provided a roadmap of fiscal path for all states including Madhya Pradesh. The Commission recommended the limit for fiscal deficit at 4 percent and 3.5 percent of the GSDP for 2021-22 and 2022-23 respectively. For 2023-24 to 2025-26, the Commission recommended a limit of 3 percent of GSDP. Further, the Commission provided an additional space of 0.5 percent of the GSDP for 2021-22 to 2024-25 conditional on undertaking power sector reforms. As per the MP FRBM report presented in March 2022, the state government would strive to achieve and maintain the revenue surplus after 2022-23, which can be used for capital expenditure.

Table 2.1 : Major Fiscal Indicators

(Rupees in crore)

Head	Year 2018-19	Year 2019-20	Year 2020-21	Year 2021-22	Year 2022-23
				(RE)	(BE)
Revenue Deficit	(-) 8,814	2,800	18,356	5,701	3,736
Fiscal Deficit	21,616	32,969	49,869	43,287	52,511
Primary Deficit	8,920	18,753	33,951	23,246	30,344
As % of GSDP*					
Fiscal Deficit	2.60	3.51	5.11	4.18	4.56

Head	Year 2018-19	Year 2019-20	Year 2020-21	Year 2021-22	Year 2022-23
				(RE)	(BE)
revenue deficit	(-) 1.06	0.30	1.88	0.55	0.32
Percentage of Interest Payment to Revenue Receipt	8.44	9.63	10.87	11.67	11.36

Source: Finance Department, Govt. of MP

(- surplus, + deficit)

(RE) = Revised Estimate (BE)=Budget Estimate

* The number for Gross State Domestic Product for year 2021-22 and year 2022-23 have been taken from Madhya Pradesh Fiscal Responsibility and Budget Management 2022 document

2.1 Receipts

The details of receipts of the State Government are given in Table 2.2. Between the years 2018-19 and 2022-23, the ratio of revenue receipts to total receipts has been more than 77 percent. The percentage of total receipts in GSDP in Madhya Pradesh has been about 20 percent during 2018-19 to 2022-23, while the percentage of revenue receipts in GSDP has been about 15 percent.

Revenue receipts as a percentage of GSDP has declined over the years, partly due to Covid-19 that affected both state's own tax collection and share in central taxes. Fiscal Deficit as a percentage of GSDP has risen from 2.6% to 4.56% from 2019 to 2023, highlighting enhanced borrowing needs of the government to deal with post-Covid-19 challenges and finance the ambitious capital expenditure plan. Though Madhya Pradesh historically has not been a highly indebted state like some other states in India, the rising trend of public debt warrants attention.

Table 2.2 : Total Receipts of State Government

(in ₹crore)

Head	Year 2018-19	Year 2019-20	Year 2020-21	Year 2021-22 (RE)	Year 2022-23 (BE)
Revenue Receipts	1,50,391	1,47,643	1,46,376	1,71,697	1,95,179
Change in Net Public Debt	18,973	23,430	52,413	40,082	51,829
Recovery of Advances	83.67	59.27	72.77	2,828.75	24.42
Net Public Account	(-)326	8,579	(-)1,562	5,871	2,118
Net Receipts from Contingency Fund (Unadjusted Amount)	0.00	0.00	0.00	0.00	0.00
Total Receipts	1,69,122	1,79,712	1,97,299	2,20,479	2,49,151
Revenue Receipts (Percentage of Total Receipts)	88.92	82.16	74.19	77.87	78.34

Revenue Receipts as a % of GSDP					
Head	Year 2018-19	Year 2019-20	Year 2020-21	Year 2021-22	Year 2022-23
				(RE)	(BE)
Revenue Receipts	18.10	15.73	14.99	16.57	16.96
Change in Net Public Debt	2.28	2.50	5.37	3.87	4.50
Recovery of Advances	0.01	0.01	0.01	0.27	0.00
Net Public Account	-0.04	0.91	-0.16	0.57	0.18
Total Receipts	20.35	19.15	20.21	21.28	21.65

Source: Finance Department, Govt. of MP

(RE) = Revised Estimate (BE)=Budget Estimate

2.2 State's Own Tax Revenue

The composition of the state's revenue receipts is shown in Table 2.3 and receipts under major tax revenue heads are shown in Table 2.4. The share of state taxes has risen from 6.15 % to 6.21% of GSDP during 2018-19 to 2021-22 (RE). The state own tax collection grew at an annual growth rate of 7.94 percent during this period. However, the tax-collection is expected to grow at 13.32 percent in 2022-23 (BE), thus reversing the trend. The impact of stagnant revenues is clearly visible for the share in central taxes that grew only at an annual rate of 0.59 percent for triennium ending in 2021-22. This is also expected to revive at 9.81 percent during 2022-23 BE.

Table 2.3 : Composition of Revenue Receipts

(₹in crore)

Head	Year 2018-19	Year 2019-20	Year 2020-21	Year 2021-22	CAGR (%)	Year 2022-23 (B.E.)	Growth % (Year 2021-22 to Year 2022-23)
State Taxes	51,126	55,855	54,484	64,297	7.94	72,859	13.32
State share in Central Taxes	57,353	49,486	46,888	58,378	0.59	64,106	9.81
Central Grants	28,624	31,952	35,101	36,896	8.83	44,594	20.87

The composition of revenue receipts as a % of GSDP

Head	Year 2018-19	Year 2019-20	Year 2020-21	Year 2021-22	Year 2022-23
				(RE)	(BE)
State Taxes	6.15	5.95	5.58	6.21	6.33
State share in Central Taxes	6.90	5.27	4.80	5.63	5.57
Central Grants	3.44	3.40	3.60	3.56	3.87

Source: Finance Department, Govt. of MP

(RE) = Revised Estimates, (BE) = Budget Estimates

* State GST Compensation received from the center is included under this.

Coming to the state's own resources, land revenue is expected to improve as a percentage of GDP to 0.10%. The same is true for Stamp Duty and Registration Fees which show a rising trend, reflecting the overall buoyant economic trend and positive sentiment. Excise Duty on liquor has been stable at 1.15% to 1.04% of GDP from 2018 to 2023

Sales Tax collections have risen from 1.19% to 1.47% while Taxes on vehicles (Road Tax etc.) fallen from 0.36% to 0.32%. Electricity taxes have fallen from 0.31% to 0.26%. However, the main fall is in collection of SGST that declined from 2.38 percent of the of GSDP in 2018-19 to 2.08 percent in 2021-22. It is expected to increase to 2.17 percent of GSDP in 2022-23 (BE). Also, SGST revenue is expected to rise 15.74% in the current year, highlighting both post-COVID-19 recovery in the state government's finances, effective implementation of GST in the state, and assimilation of GST system by traders in their regular business. With an end of the era of GST compensation in June 2022, revival of the SGST collection will be an important determinant of the health of the state finances.

Table 2.4 : Tax Revenue

(₹in crore)

Own Tax Revenue	Year 2018-19	Year 2019-20	Year 2020-21	Year 2021-22	Year CAGR (%)	Year 2022-23 (B.E.)	Growth % (Year 2021-22 to Year 2022-23)
Land Revenue	383	562	503	767	25.95	1,240	61.74
Stamp and Registration	5,277	5,568	6,816	7,400	11.92	8,200	10.81
State Excise Duty	9,542	10,829	9,526	10,340	2.71	13,255	28.19
Sales Tax	9,903	11,257	13,296	16,154	17.72	16,968	5.04
SGST	19,750	20,447	17,257	21,600	3.03	25,000	15.74
Vehicle Tax	3,008	3,251	2,749	3,200	2.08	3,700	15.63
Tax on goods and passengers	117	145	75	40	-30.18	30.00	-25.00
Electricity tax and duty	2,616	2,268	2,608	3,750	12.75	3,364	-10.29

Source: Finance Department, Govt. of MP

(RE) = Revised Estimates, (BE) = Budget Estimates

2.3 Non-Tax Revenue of the State

The year-wise receipts of the State on major non-tax revenue heads are shown in Table 2.5. Fluctuations are reflected in the non-tax revenue of the state. Madhya Pradesh is a forest rich state with nearly 30 % area of the state being covered by thick dense forest. Revenue from forest produce as a percentage of GSDP has fallen from 0.24% to 0.12%. Irrigation revenues have fallen to 0.06% from 0.15% in 2018-19. Non-ferrous mining and metallurgical industry revenue has risen continuously from 0.47% in 2019 to 0.61% in 2022 and expected to be stable at 0.61% in 2023.

Table 2.5: Non-Tax Revenue of the State

(₹in crore)

Non-Tax Revenue	Year 2018-19	Year 2019-20	Year 2020-21	Year 2021-22	CAGR (%)	Year 2022-23 (B.E.)	Growth % (Year 2021-22 to Year 2022-23)
Forestry And Wildlife	2,009	834	1,240	1,311	13.27	1,403	7.01
Irrigation	1,230	406	413	473	-27.26	697	47.34
Non-Ferrous Mining And Metallurgical Industry	3,933	4,320	4,557	6,300	17.00	7,050	11.90

Source: Finance Department, Govt. of MP

(RE)=Revised Estimates, (BE)=Budget Estimates

2.4 State's Share in Central Taxes

According to the data received on the basis of the Budget Estimates for the year 2022-23 (presented on February 2022) of the Government of India, the Budget Estimate for the financial year 2022-23 is estimated at Rs.64,107 crores. This is an increase of about 10 per cent over the Revised Estimates. With the recovery of central taxes from the covid lows, the state can expect increase in the receipts under share in central taxes in the coming years.

2.5 Expenditure

From the following table 2.6, it can be seen that the size of Madhya Pradesh Government Budget has increased from Rupees 16,393 crores in 2001 to Rs. 2,47,715 crores in 2023. This translates into a budget of around 15 times as against that in 2001 in nominal terms.

Table 2.6 : Size of Madhya Pradesh Budget (2000-01 to 2022-23)

(in Rupees Crore)

Year	Total Expenditure
2000-2001	16,392
2004-2005	26,288
2009-2010	47,641
2014-2015	1,06,785
2019-2020	1,80,672
2020-2021	1,96,319
2021-2022 (RE)	2,17,813
2022-2023 (BE)	2,47,715

(RE)=Revised Estimates, (BE)=Budget Estimates

Source: Based on data from State Finances: A Study of Budgets, RBI (various years)

Public expenditure is a medium through which the government provides social and physical infrastructure for the development of the state. Therefore, the size, structure and productivity of public expenditure is an indicator of the development of the economy. The details of revenue and capital expenditure of the state are in Table 2.7. It can be seen that, revenue expenditure as a percentage of GDP has shown an increasing trend from 17.04% in 2019 to 17.28% in 2023. Due to the state government's commitment to infrastructure building capital expenditure as percentage of GDP has risen from 3.54% in 2019 to 3.58% in 2022, and it is expected to increase to 3.97% in 2023. Loans and Advances have also risen from 0.13% to 0.27% during this period.

Table 2.7 : Revenue and Capital Expenditure

(₹ in crore)

Head	2018-19	2019-20	2020-21	2021-22	CAGR (%)	2022-23 (BE)	Growth % (2021-22 to 2022-23)
Revenue Expenditure	1,41,577	1,50,444	1,64,733	1,77,398	7.82	1,98,915	12.13
Capital Expenditure	29,424	29,241	30,355	37,089	8.02	45,685	23.18
Loans and Advances	1,090	986	1,230	3,325	45.01	3,113	-6.37

percentage of GSDP					
Head	2018-19	2019-20	2020-21	2021-22	2022-23 (B.E.)
Revenue Expenditure	17.04	16.03	16.87	17.12	17.28
Capital Expenditure	3.54	3.12	3.11	3.58	3.97
Loans and Advances	0.13	0.11	0.13	0.32	0.27

The level of capital expenditure reflects the level of public investment, which not only creates public assets, but also accelerates private investment. The state government faces tight budget constraints, so it is important to increase capital expenditure while controlling revenue expenditure. As per the MP FRBM report presented in March 2022, the state government would strive to achieve and maintain the revenue surplus after 2022-23, which can be used for capital expenditure. Further, capital receipts are being used for construction of drinking water, education, irrigation, energy, roads and bridges. The growth rate trend in capital expenditure from 2018-19 to 2022-23 has been an average of 8.46 per cent.

2.6 Externally Aided Project

Government of Madhya Pradesh has also received significant external aid by international agencies like ADB, World Bank, JICA, KfW etc. in various sectors like urban development, irrigation, public transport (vide table 2.9).

Table 2.8: Externally-Aided Project in Madhya Pradesh

(Values in ₹Crore)

Total Amount Released (Grant and Loan)	2021-22	2022-23
Asian Development Bank	1,661	1,189
Asian Infrastructure Investment Bank	71	53
KfW	100	45
International Bank for Reconstruction and Development	235	187
International Development Association	428	227
JICA	105	42
New Development Bank	1,370	564
Madhya Pradesh	3,973	2,309

Source: Ministry of Finance, Govt

This illustrates both the commitment of government towards infrastructure projects and credibility as the funding is received from international agencies based on their return on investment. Moreover, this also highlights the fact that the international financial institutions recognize Madhya Pradesh as an emerging state economy.

Box 2.1 : Integration of Electronic Payments under Government Banking Business of Madhya Pradesh State Government with RBI's Core Banking Solution 'E-Kuber'

Moving towards digitization in the field of government banking business, on December 05, 2022, the integration of the Integrated Financial Management Information System (IFMIS) of the State Government of Madhya Pradesh with the Core Banking Solution 'e-Kuber' of the Reserve Bank of India was implemented. Under this arrangement, the withdrawal accounts of all the 54 treasuries of Madhya Pradesh State have been opened in the Reserve Bank of India and are being operated successfully. Following are the benefits of integration of State Treasuries with e-Kuber:

1. The respective treasuries process their payments through prescribed electronic file. A maximum of 50000 transactions can be kept in a single file.
2. The concerned treasuries can make payments by direct transfer from their drawal accounts to the bank accounts of the beneficiaries/payees, thus avoiding discrepancies arising during the conduct of banking business of the State Government by agency banks.
3. In case of failure of any of the transactions made by the state government under this process, the amount of that transaction is deposited in the government account on the same day.
4. The state government can use its cash balance in a better way, and it will be possible for the government to do better cash management.

2.7 Fiscal Prudence

For any economy to mature, fiscal prudence is critical. Madhya Pradesh had a debt-GSDP ratio of 39.5 percent in 2005. With objectives to ensure prudence in fiscal management by progressive elimination of revenue deficit and reduction in fiscal deficit, the state brought Madhya Pradesh Rajkoshiya Uttardayitva Evam Budget Prabandhan Adhiniyam, 2005 (MP FRBM Act).

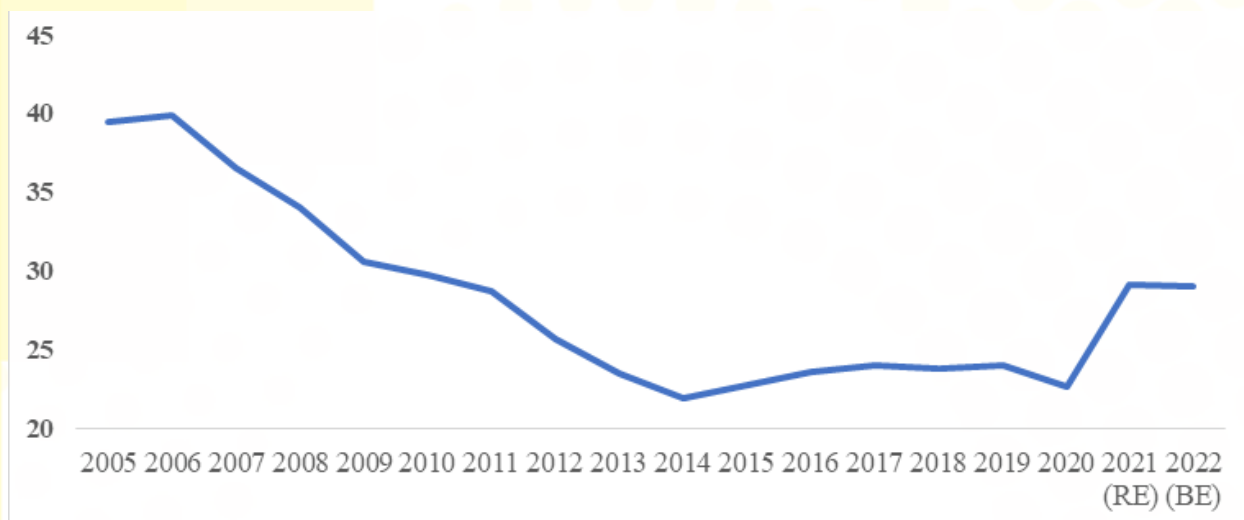


Figure 2.1 : Debt-to-GSDP Ratio

Source: Based on data from State Finances: A Study of Budgets, RBI (various years)

Table 2.9 : Debt to GSDP Ratio

Year	Finance Commission Path	Achieved
2015	24.35	22.7
2019	25.63	24
2020	25.75	22.6
2021 (RE)	31.3	29.1
2022 (BE)	31.7	29

Source: State Finances: A Study of Budgets, RBI (various years), Report of 14th Finance Commission, and Report of 15th Finance Commission

The efforts for fiscal consolidation are clearly visible in the Graph 2.1. The debt-GSDP ratio declined from 39.5 percent in 2005 to 22.6 percent of GSDP in 2020. However, the response to Covid-19 required the state to spend while facing declining revenues. As on March 31, 2022, the debt-GSDP ratio increased to 29 percent. Recognizing the need for responding to prevailing challenges, the 15th Finance Commission also calibrated the recommended fiscal consolidation path where the

debt-GSDP ratio was expected to expand from 25.63 percent in 2019 to 31.7 percent in 2022. Clearly, the state has consistently kept the debt lower than the recommended path, as seen in table 2.9.

The average interest rate on the outstanding borrowing on March 2021 was 8.23 percent, which has declined to 8 percent on the outstanding borrowing on March 2022 (MP FRBM Report, 2022). This will help in controlling the expenditure on interest payment. However, with tightening of monetary policy and rising interest rates cycle, the state needs to be cautious in managing new borrowings. Overall, the analysis suggests that healthy fiscal policies of state government led the sustainable fiscal position in the state. The Covid-19 caused disruptions in the revenue receipts, which necessitated the increased reliance on borrowings. However, the trends in 2022-23 shows a beginning of recovery in both state's own revenue receipts and share in central taxes. This can pave a way for revival of revenue surpluses and fiscal consolidation.

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