

State Update: Government of Madhya Pradesh

With a decadal growth rate of more than 20% (2001-2011), the state of Madhya Pradesh (MP) has shown concerted efforts in working its way out of being one of the BIMARU states in India. Accounting for 6% of the country's population and 9.4% of land area, the state has however been behind in human development which in turn has capped growth potential of the state. MP today contributes just about 3.3% to India's GDP, which appears to be a relatively small contribution given its endowments in terms of location, land area, natural resources and available human capital.

At the micro-level, the state records a per capita gross state domestic product (GSDP) of Rs 43,275 (as of 2011-12), which has grown exponentially from its 2000-01 level of Rs 13,231. However, on comparing with the national level (average of Rs 61,564), MP's performance falls a bit short.

This update broadly covers the current economic scenario in the state of MP along with the government's performance in terms of fiscal management; the state recently having announced its budget for 2013-14.

Demographic Factsheet

- **Population** - 7.26 crore persons (as on March 1, 2011), with decadal growth of 20.3% (2001-2011), higher than national level decadal growth rate of 17.6%. Population density of 236 persons per square kilometre, below national average of 382 persons per square kilometre. Birth rate of 27.3%, death rate of 8.3%.
- **Urbanisation** - 27.6% of population stays in urban areas
- **Literacy** – 70.6% (as per Census 2011); with male literacy at 80.5% and female literacy at 60.0%
- **Gender ratio** - 930 females per thousand males (Census 2011)

Economy of Madhya Pradesh

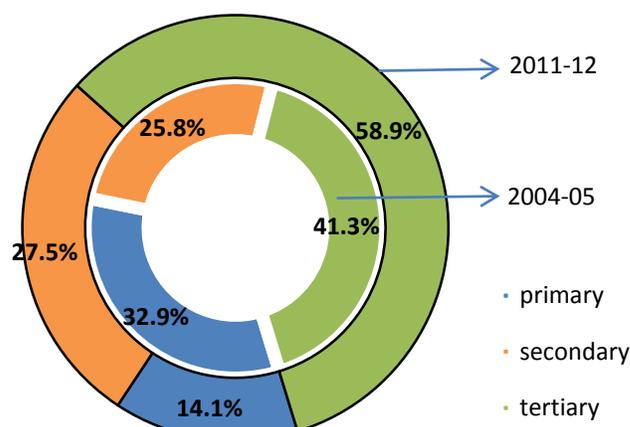
Registering an annualised growth rate of 10.3% (in constant terms, CAGR for the period 2008-12), MP has achieved a growth rate well above the national level growth rate of 8.2% for the same period. In terms of current prices, GDP growth in the state has been robust, touching 25.2% in FY11 and 16.1% in FY12 (against a high base of the previous year).

While, budget estimates for 2013-14 suggest lower growth rates of 13.9% in FY13 and 14.0% in FY14, it reflects the impact of slowdown in overall economic activity in India. This estimated growth draws strength from strong double-digit growth in all sectors, particularly the primary and tertiary sectors of the state's economy.

Sectorally speaking, Madhya Pradesh has moved from being an agri-dominated state to a tertiary economy. The tertiary sector alone accounts for 58.9% of GSDP as of 2011-12. This is followed by the secondary sector accounting for 27.5% of GSDP and finally, the primary sector at 14.1%.

Despite this decline in share, MP's primary sector, led by agriculture has surpassed expectations of production. MP's agriculture sector registered high growth of 18% (current terms) in FY12.

Exhibit 1: Sectoral Composition of MP's GSDP



Source: MP FRBM, 2013-14

Budget 2013-14

Budget 2013-14, presents actual accounts (A) for the year 2011-12 and revised estimates (RE) for accounts in 2012-13 along with budgeted estimates (BE) for the year 2013-14. We examine Budget 2013-14 for the state with respect to its revenue and capital accounts and performance thereof -

Revenue Account Profile

Madhya Pradesh has been one of the few states in the country having a revenue surplus for nearly a decade. Continuing in this mode, the government of MP posted a revenue surplus of Rs 6,420 crore, in line with the Thirteenth Finance Commission (ThFC) roadmap for fiscal consolidation for state governments (which prescribed that states with a revenue surplus states as of FY09 must continue as revenue surplus). This surplus is budgeted to moderate slightly to Rs 5,215 crore in FY14, consequent on the government's expenditure programme increasing.

Table 1: Revenue Account FY12-FY14 (Rs crore)

Revenue A/c Heads	FY12 (A)	FY13 (RE)	FY14 (BE)
Revenue Receipts	62,604	71,729	79,603
Tax revenue	45,193	51,110	57,075
Non-tax revenue	7,483	7,517	7,583
Revenue Expenditure	52,693	65,308	74,389
Development expenditure	33,261	42,319	47,566
Non-development expenditure	16,229	18,754	22,295
Of which, interest expenses	5,300	5,951	6,519
Revenue Surplus	9,911	6,420	5,215

Source: Budget 2013-14, Government of Madhya Pradesh

- On the tax front, the state is attempting to implement tax rationalisation measures to boost own-tax revenues without actually raising tax rates. Additionally, the increased contribution of secondary and services sector brings more productive units under the purview of taxation (rather the agricultural sector that cannot and is not taxed in the country). Tax revenues for the state are budgeted to grow by nearly 13.0% in FY14.

- Tax allocations from the centre to states have been rather consistent, accounting for about 30.0% of the state's total revenue receipts. Going forward, the state expects such allocations to slightly decline, particularly because central tax collections have moderated against a constrained economic environment.
- Non-tax revenue receipts (royalties, fees, user charges, central government compensations to state, etc.), is one component that is heavily influenced by extraneous factors and is hence, rather volatile. However, given its limited importance in overall revenue receipts (just around 10% share) it does not adversely impact the state's revenue position. Simultaneously, to keep a certain momentum in these flows, the state undertakes review and revision of appropriate user charges at regular intervals.
- In terms of expenditure, most of the government expenses are developmental in nature and targeted towards funding the creation of social services (education, health, social development, etc.), which in turn helps support improve quality of human capital in the state.
- The state, given its relatively small size of debt stock has been able to keep its interest payment expenses at low levels. Interest expenses grew by 12.3% in FY13, consequent on an increase in borrowings of the state, which is budgeted to grow at a slower pace of 9.5% in FY14. Also, with the restructuring of debt of the state's power DISCOMS by the state into perpetual loans, these interest expenses would see a rise (starting FY15).
- The state's obligations relating to arrear payments on salary and pension following implementation of the Sixth Pay Commission are scheduled to end in FY14, following which MP would have additional fiscal space.

Capital Account Profile

The capital account of the state remains in deficit. This holds particular relevance for a growing state like Madhya Pradesh which needs to enhance its project capital expenditure. Major areas that are being targeted for development expenditure include roads, power and irrigation.

Table 2: Capital Account FY12-FY14 (Rs crore)

Capital A/c Heads	FY12 (A)	FY13 (RE)	FY14 (BE)
Capital Receipts	21,559	13,143	20,433
<i>Internal Debt</i>	5,718	10,028	17,578
<i>Loans from Gol</i>	1,033	1,465	2,281
Capital Expenditure	27,969	20,454	25,576
<i>Capital Outlay</i>	9,055	11,079	11,114
<i>Repayment of Public Debt</i>	3,150	3,500	8,017
Capital A/c deficit	6,410	7,311	5,143

Source: Budget 2013-14, Government of Madhya Pradesh

- MP is moving towards increasing its internal debt portfolio rather than being dependent on the Government of India (GoI) as a source of borrowings. In FY14 for instance, internal debt would account for 86.0% of the state's capital receipts, while borrowings from central government would account for 11.2%, as per budget estimates.
- The state's open market borrowings have however, been at competitive rates. The going average annual rate of interest for market loans for the state in fact, moderated from 8.9% in FY12 to 8.7% in FY13, with the average rate of interest on o/s debt being 8.0% as at end FY13. MP as well, like most other states in the country, has registered an increase in involuntary high cost debt through the National Small Savings Fund (NSSF) route, which could pressure borrowing costs in the near-term for the state.

- With increase in debt stock for the state, repayments on public debt are accordingly also expected to increase in ensuing years.

Budget Management & Fiscal Prudence

Madhya Pradesh has adhered to fiscal consolidation target prescribed by the ThFC and maintained its revenue surplus position. The fiscal deficit ratio for the state stood at 1.9% in FY13, which is budgeted to increase to 2.9% in FY14, given the fiscal leg-space of the prudential norm of 3.0%.

Table 3: Capital Account FY12-FY14 (Rs crore)

	ThFC Target		Achievement		Budget Estimates (FY14)	
	Year	Level	Year	Level	Year	Level
Revenue Deficit	2011-12	Surplus	2011-12	Surplus	2013-14	Surplus (Rs 5,215 cr)
Fiscal Deficit/GSDP	2011-12	3.0%	2011-12	1.9%	2013-14	2.9%
Public Debt/GSDP	2014-15	25.0%	2011-12	22.7%	2013-14	22.6%

Source: Budget 2013-14, Government of Madhya Pradesh

Although the stock of outstanding liabilities of the state is relatively small at Rs 89,866 crore in FY13 (budgeted to increase to Rs 101,686 crore in FY14), the state has paid attention to debt management practises -

- The state is a front-runner in terms of debt management of state power PSUs. With the restructuring of debt of power DISCOMS into perpetual debt, the state has assumed to take care of debt-service obligations on these borrowings. This debt for the state is interest-free for the first three years, starting FY12. Simultaneously, devolution of working capital loans to the DISCOMS would be balanced carefully. MP has not accepted the restructuring package of the central government as accumulated PSU losses and debt of its power units are small, and indeed have already been managed through this arrangement of the state.
- Guarantees outstanding as of end-March 2011, stood at Rs 17,065 crore. There is a conscious attempt at reducing the number of guarantees provided to state PSUs and taking them away from undue protection cover from the state.
- Interest expenses of the state as a percentage of revenue receipts stood at 8.3% in FY13. This is budgeted to decline to 8.2% in FY14, supported by a stronger revenue receipts base. Both the ratios are well below, the prudential limit of 15.0% set by the state.
- The state has a very well-managed short-term liabilities position, as is evident from the fact that it has not availed of the ways and means advances (WMA) or overdraft facility of the RBI to tide over temporary liquidity constraints.

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