



State Finances of Haryana: An Analysis

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ABSTRACT

In India, states have been given an important role in human and economic development. Healthier subnational performance is necessary for the overall macro-economic development. In case of Haryana, major fiscal indicators of the State display a sound fiscal position. Further all the sectors of the economy are showing signs of higher growth and the State had well managed its debt and deficit targets. In this framework the present study would analyse the broader trends of revenue, expenditure and other key fiscal indicators of Haryana.

KEYWORDS : Revenue, Expenditure, Committed, Deficit.

Introduction

Fiscal performance of national and sub-national governments, both in developed and developing economies is an important measure to assess the macro-economic stability. With increasing trend of decentralization all over the world sub-national governments (SNGs) have gained more powers regarding raising revenues, disbursement of resources and the capacity to incur debt. This autonomy in many cases has resulted in the unsustainable fiscal situation, the burden of which ultimately falls on the central government eventually affecting the national fiscal health. As Liu and Webb (2011) observed, "When SNGs follow unsustainable fiscal policy, it can jeopardize the services they manage (but for which the central government may have ultimate political responsibility), the safety of the financial system, the country's international creditworthiness, and overall macroeconomic stability. Too often the central government then gets dragged in to provide bailouts, which can disrupt its own fiscal sustainability and reward the populist fiscal tactics of the recipient SNGs."

The states of India had a relatively healthy fiscal position during the 1970s and in the first half of 1980s. As Gopinath (2009) observed, "Although the states slashed their investment activities faced with revenue deficit from 1987-88, their debt and debt service burden soared with the high cost of borrowing for financing current expenditure amidst growing fiscal imbalances during 1986-87 to 1997-98". Though the structural imbalances in Indian Public Finance system has existed right from the beginning, the issue of subnational debt assumed greater significance since 1990s. It is because, "transition from plan to market based development since 1991 has envisaged greater role for sub national governments in providing physical and social infrastructure and creating accommodating investment climate" (Rao, 2002). Therefore it is necessary for the state governments to create a healthy fiscal environment. In this context, the present study will examine the various fiscal aspects of Haryana from the period 2000-01 to 2011-12.

Economic Profile of Haryana

The present state of Haryana, as a separate unit of Indian union, came into existence on November 1, 1966 as a result of bifurcation of the State of Punjab. The geographical area of Haryana is spread over 44212 sq. k.m. with a population around 25.35 million. The State has seen considerable economic growth in the past decade and the compound annual growth rate of its Gross State Domestic Product (GSDP) for the period 2001-02 to 2010-11 has been 16.42 per cent. During this period, its population grew by 19.90 from 2.11 crore in 2001 to 2.54 crore in 2011. Due to its higher GSDP growth rate and low population, the per capita income growth in Haryana fared better than that of other General Category States in the last decade.

The structural composition of the State's economy has witnessed progressive changes since the formation of the state. The relative share of agriculture and allied activities has fallen from 60.7 per cent in 1969-70 to 16.30 per cent in 2011-12. During the same period, the relative share of industry and service sector has registered a higher contribution of 29.1 per cent and 54.6 per cent respectively, compared to 17.1 per cent and 21.7 per cent in 1969-70. In spite of this, agriculture is the predominant occupation of the people and the state is one of the agriculturally advanced states in India. Population below poverty line is 14 per cent as against to national average of 27.5 per cent.

Revenue Receipts of the State

A State's revenue receipts comprise of tax and non-tax revenues and transfers from the centre. Total revenue receipts of the State had registered a very high compound annual growth rate (CAGR) of 14.68 per cent. Composition of the total revenue receipts of the State shows that performance of State's own tax revenue is satisfactory but own non-tax revenue (ONTR) is not performing well since last a few years. Haryana was the first state in India implementing the VAT in 2003 and sales tax/VAT has a significant contribution in total tax revenues and in total revenue receipts of the State. However ONTR is not performing well and this can be seen in the declining share of ONTR in the total revenue receipts and it came down from 21.90 per cent in 2000-01 to 15.45 per cent in 2011-12.

Table 1 Haryana: Growth and Composition of Revenue Receipts (Rs. Crores)

Year	State's Own Tax Revenue 1	Share in Central Taxes 2	Total TAX REVENUE 3 (1+2)	State's Own Non-Tax Revenue 4	Grants from the Centre 5	Total NON-TAX REVENUE 6 (4+5)	Total Revenue Receipts 7 (3+6)
2000-01	4311.48 (65.58)	344.88 (5.25)	4656.36 (70.83)	1439.39 (21.90)	478.14 (7.27)	1917.53 (29.17)	6573.89 (100)
2001-02	4972.43 (65.42)	449.01 (5.91)	5421.44 (71.33)	1666.07 (21.92)	513.04 (6.75)	2179.11 (28.67)	7600.55 (100)
2002-03	5549.68 (64.11)	756.59 (8.74)	6306.27 (72.85)	1807.85 (20.88)	542.90 (6.27)	2350.75 (27.15)	8657.02 (100)
2003-04	6348.05 (64.49)	600.75 (6.10)	6948.80 (70.59)	2223.06 (22.58)	671.63 (6.82)	2894.69 (29.41)	9843.49 (100)
2004-05	7440.03 (66.73)	619.50 (5.56)	8059.53 (72.29)	2544.37 (22.82)	545.15 (4.89)	3089.52 (27.71)	11149.05 (100)

2005-06	9078.63 (65.53)	1200.97 (8.67)	10279.60 (74.20)	2458.56 (17.75)	1115.13 (8.05)	3573.69 (25.80)	13853.29 (100)
2006-07	10927.76 (60.87)	1295.64 (7.22)	12223.40 (68.09)	4590.77 (25.57)	1138.26 (6.34)	5729.03 (31.91)	17952.43 (100)
2007-08	11617.82 (58.82)	1634.36 (8.27)	13252.18 (67.10)	5097.08 (25.81)	1401.48 (7.10)	6498.56 (32.90)	19750.74 (100)
2008-09	11655.28 (63.16)	1724.62 (9.35)	13379.90 (72.51)	3238.44 (17.55)	1833.96 (9.94)	5072.40 (27.49)	18452.30 (100)
2009-10	13219.51 (62.97)	1774.46 (8.45)	14993.97 (71.42)	2741.40 (13.06)	3257.30 (15.52)	5998.70 (28.58)	20992.67 (100)
2010-11	16790.37 (65.68)	2301.75 (9.00)	19092.12 (74.68)	3420.93 (13.38)	3050.62 (11.93)	6471.55 (25.32)	25563.67 (100)
2011-12	20399.46 (66.76)	2681.55 (8.78)	23081.01 (75.53)	4721.65 (15.45)	2754.93 (9.02)	7476.58 (24.47)	30557.59 (100)
CAGR	14.45	19.72	15.02	9.96	21.53	13.76	14.68

Note: Figure in parenthesis is per cent to total. (Source: RBI State Finances: A Study of State Budgets, various issues)

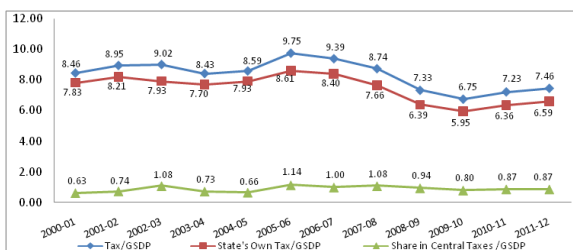
In 2005-06, ONTR showed a steep rise and increased to Rs. 4590.77 crores from Rs. 2458.56 crores in 2004-05. The sharp increase in non-tax revenue was mainly on account of an increase of Rs. 1848 crores in receipts under the major head Urban Development due to more receipts on applications from investors for grant of licence for change of land use and increase in rate of fee and charges and recovery of outstanding dues from Haryana Urban Development Authority (HUDA) on account of services rendered by Urban Estate Department of the Government.

Later, ONTR declined sharply in absolute terms in 2008-09 to Rs. 3238.44 crores from Rs. 5097.08 crores, however it has started rising since last three years. The decrease in non-tax revenue was mainly on account of a decrease of Rs 1921 crores in receipts under the major head 'Urban Development' due to less approval of projects because of global recession. Share of central taxes and grants from the centre increased rapidly and registered a very high CAGR of 19.72 per cent and 21.53 per cent respectively. Share of central transfers has also increased over last one decade.

Figure 1 below shows the pattern of tax-GSDP ratio during last one decade. This ratio fluctuated from 8.43 per cent to 9.02 per cent during the period 2000-01 to 2004-05 and reached to 9.75 per cent in 2005-06. Thereafter, tax-GSDP ratio declined continuously for next five years and in 2009-10 it became 6.75 per cent.

Figure 1 Haryana: Trends in Tax-GSDP Ratio

(Per Cent)



(Source: RBI State Finances: A Study of State Budgets, Statistical Abstracts of Haryana, various issues)

Table 2 Haryana: Total Revenue Expenditure and Capital Outlay of the State (Rs. Crores)

Year	Revenue Expenditure			Capital Outlay		
	Development Expenditure	Non-Development Expenditure	Total Revenue Expenditure	Development Expenditure	Non-Development Expenditure	Total Capital Outlay
2000-01	4049.11 (56.38)	3132.26 (43.62)	7181.37 (100)	1415.08 (97.92)	30.08 (2.08)	1445.16 (100)
2001-02	5139.60 (59.37)	3516.89 (40.63)	8656.49 (100)	1416.45 (96.55)	50.67 (3.45)	1467.12 (100)
2002-03	5341.21 (57.17)	4000.94 (42.83)	9342.15 (100)	390.45 (89.59)	45.36 (10.41)	435.81 (100)
2003-04	5701.76 (56.36)	4415.43 (43.64)	10117.19 (100)	319.21 (82.77)	66.46 (17.23)	385.67 (100)

2004-05	6417.29 (56.26)	4989.81 (43.74)	11407.1 (100)	838.80 (93.52)	58.13 (6.48)	896.93 (100)
2005-06	7810.37 (61.79)	4829.53 (38.21)	12639.9 (100)	1530.14 (94.90)	82.17 (5.10)	1612.31 (100)
2006-07	11242.29 (68.71)	5119.86 (31.29)	16362.15 (100)	2337.7 (96.30)	89.90 (3.70)	2427.60 (100)
2007-08	11960.55 (68.24)	5566.33 (31.76)	17526.88 (100)	3255.38 (95.02)	170.77 (4.98)	3426.15 (100)
2008-09	14294.48 (69.61)	6240.25 (30.39)	20534.73 (100)	4306.85 (95.67)	194.82 (4.33)	4501.67 (100)
2009-10	17432.13 (69.02)	7825.26 (30.98)	25257.39 (100)	5031.11 (96.41)	187.37 (3.59)	5218.48 (100)
2010-11	18900.81 (66.76)	9409.38 (33.24)	28310.19 (100)	3832.16 (95.06)	198.95 (4.94)	4031.11 (100)
2011-12	21695.64 (67.77)	10319.25 (32.23)	32014.89 (100)	5137.02 (95.62)	235.32 (4.38)	5372.34 (100)
CAGR	17.11	10.62	14.68	22.75	20.56	22.38

Note: Figure in parenthesis is per cent to total. (Source: RBI State Finances: A Study of State Budgets, various issues)

Composition of Total capital outlay shows that the major part is constituted by development capital expenditure and share of non-development expenditure is almost negligible for most of the years. Out of total development capital outlay, expenditure on economic services is much greater than that of social services.

Committed Expenditure

Table 3 presents the composition of committed expenditure and measures its burden on the finances of the State government. Table shows that all the components of committed expenditure had increased at a very high rate. Pensions and subsidies registered the highest growth rate followed by wages and salaries and interest payments.

Table 3 Haryana: Composition of Total Committed Expenditure (Rs. Crores)

Year	Salaries and Wages	Interest Payment	Pensions	Subsidies	Total Committed Expenditure	Total Committed Expenditure/RR	Total Committed Expenditure/RE
2000-01	2700	1492	571	226	4989	75.89	69.47
2001-02	3032	1624	657	860	6174	81.22	71.32
2002-03	3008	1946	746	884	6584	76.05	70.47
2003-04	3256	2113	766	957	7091	72.04	70.09
2004-05	3714	2235	902	1157	8007	71.82	70.20
2005-06	3893	2100	1033	1466	8492	61.30	67.18
2006-07	4126	2265	1173	3852	11416	63.59	69.77
2007-08	4566	2346	1298	3057	11266	57.04	64.28
2008-09	6546	2339	1614	3190	13689	74.19	66.66
2009-10	8440	2737	2390	3089	16656	79.34	65.94
2010-11	9809	3319	3094	3285	19507	76.31	68.90
2011-12	9960	4001	3204	3853	21018	68.78	65.65

Note: Figures are rounded-off. (Source: RBI State Finances: A Study of State Budgets; CAG Reports, various issues)

The analysis shows that total committed expenditure of the State had consumed, for most of the years, more than 70 per cent revenue receipts of the State and constituted more than 2/3rd part of total revenue expenditure. This implies that most of the resources are going for these committed liabilities and lesser resources are left for other developmental and non-developmental activities and increasing the reliance of the State on the central transfers and borrowed sources.

Trend of Key Fiscal Parameters

Since 2000-01, fiscal situation of the State government was not good and State was experiencing higher levels of deficits and debt. However situation has started improving since 2002-03 and outstanding debt showed continuously declining trend as per cent to GSDP although it had increased continuously in absolute terms. The year 1998-99 gave a decisive blow to the fiscal balance of Haryana when the expenditure ballooned in the wake of implementation of the Fifth Pay Commission report (Bishnoi, 2005). Impact of the pay revision by implementing the recommendations of the Fifth Pay Commission awards is clearly visible on the State finances till 2001-02. The reason for falling debt to GSDP ratio was higher GSDP growth rate than the growth rate of the debt for most of the years.

Table 4 Haryana: Key Fiscal Indicators of the State (Rs. Crores)

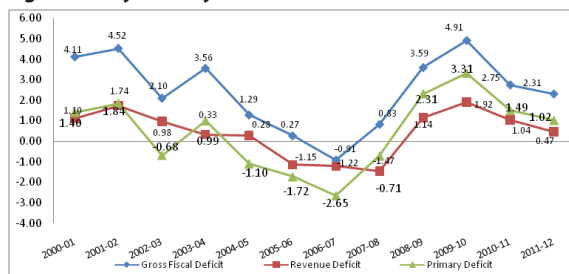
Year	Fiscal Deficit	Revenue Deficit	Primary Deficit	Total Outstanding Debt	Outstanding Guarantees	Outstanding Debt including Guarantees
2000-01	2265 (4.11)	608 (1.10)	773 (1.40)	14650 (26.61)	8209 (14.91)	22859 (41.52)
2001-02	2740 (4.52)	1056 (1.74)	1115 (1.84)	17726 (29.27)	8606 (14.21)	26332 (43.48)
2002-03	1471 (2.10)	685 (0.98)	-475 (-0.68)	19948 (28.52)	7690 (10.99)	27638 (39.51)
2003-04	2933 (3.56)	274 (0.33)	820 (0.99)	22450 (27.22)	5907 (7.16)	28357 (34.39)
2004-05	1206 (1.29)	258 (0.28)	-1029 (-1.10)	24900 (26.54)	4249 (4.53)	29149 (31.07)
2005-06	286 (0.27)	-1213 (-1.15)	-1814 (-1.72)	26979 (25.60)	5644 (5.36)	32623 (30.95)
2006-07	-1179 (-0.91)	-1590 (-1.22)	-3444 (-2.65)	29308 (22.52)	5704 (4.38)	35012 (26.90)
2007-08	1264 (0.83)	-2224 (-1.47)	-1082 (-0.71)	29911 (19.73)	4402 (2.90)	34313 (22.63)
2008-09	6558 (3.59)	2082 (1.14)	4219 (2.31)	33495 (18.35)	4575 (2.51)	38070 (20.86)
2009-10	10900 (4.91)	4260 (1.92)	7350 (3.31)	41020 (18.47)	4536 (2.04)	45556 (20.52)
2010-11	7260 (2.75)	2750 (1.04)	3940 (1.49)	46300 (17.53)	4528 (1.71)	50828 (19.24)
2011-12	7153 (2.48)	1457 (0.83)	3152 (1.08)	53700 (17.36)	5608 (1.81)	59308 (19.17)

Note: Figure in parenthesis is per cent to GSDP. (Source: RBI State Finances: A Study of State Budgets; CAG Reports various issues)

There has been a steep rise in the off-budget liabilities arising on account of guarantees extended by the State Governments in late 1990s. Ratio of guarantees to GSDP in 2000-01 was 14.91 per cent and since then it has been continuously declining. State government of Haryana took steps to curb this uncontrolled growth of liabilities. The government has constituted Consolidated Sinking Fund, Guarantees Redemption Fund, placed Ceiling on Contingent Liabilities and prescribed targets for contingent liabilities in FRBMA, 2005. These reforms helped to reduce the ratio of outstanding guarantees less than 2 per cent to GSDP by the end of 2011-12.

Deficit indicators of the State government indicates that fiscal health of the State was not good in the beginning of the last decade and fiscal deficit was quite high and reached to 4.52 per cent of GSDP in 2001-02. Revenue deficit and primary deficit also stood at 1.74 per cent and 1.84 per cent respectively. However situation has started improving thereafter and deficits showed a continuously declining trend.

Figure 2 Haryana: Key Deficit Indicators of the State



Since 2004-05, the deficit indicators displayed a healthier fiscal situation and FRBM Act targets were also achieved. This trend did not continue for a longer period because global depression and recommendations of the Sixth Pay Commission impacted the fiscal health of the State. With this, deficits registered a high growth and reached to the almost similar level where they were in late 1990s. Recent estimates have shown that fiscal health of the state is improving once again.

Conclusion

Although key fiscal parameters exhibit a sound fiscal health of the State but a prudent fiscal strategy is required to enhance own non-tax revenues through user charges and by recovering cost from government services. Despite increasing expenditure on social and developmental services the record of the State in improving its social indicators is dismal. Further, the regional disparities are rapidly rising without any thoughtful policy making to deal with the problem. Therefore, State government should prepare a long term prudent policy framework to address the issues of widening regional disparities, improvement of social indicators and raising the level of capital outlay for developing good infrastructural base for economic development of the State.

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