Review of the Compliance of the Provisions of the Haryana Fiscal Responsibility and Budget Management Act

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1. Introduction

The Twelfth Finance Commission (TFC) as part of its fiscal restructuring plan required the States to pass fiscal responsibility legislation to phase out the revenue deficits and reduce fiscal deficits to 3 percent of GSDP by 2008-09. The progress in the reduction in revenue deficits was also linked to the writing off of the debt repayment to the Central government. By adhering to the targets set by TFC, the states stand to gain from restructuring and write off of central loans. The Government of Haryana enacted the Fiscal Responsibility and Budget Management (FRBM) Act in July 2005.

The FRBM Act adopted in the state, sets a comprehensive framework for prudent fiscal management in the state to achieve fiscal stability and sustainability. The Act has the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit, establishing improved debt management and improving transparency in a medium term framework. In this context the Act provides quantitative targets to be adhered by the state with regard to deficit measures and debt level.

The FRBM Act also stipulates that the state should build up adequate surplus (after elimination of deficit in the revenue account), which is to be utilized for discharging liabilities or for funding capital expenditure. The other major fiscal management objective of the Act is to lay down norms for prioritization of capital expenditure, and pursue expenditure policies that would provide impetus for economic growth, poverty reduction and improvement in human welfare. The state is also required to pursue policies to raise non-tax revenue with due regard to cost recovery and equity. The fiscal management principles enshrined in the Act call upon the state government to ensure transparency in setting and implementation of fiscal policy, stability and predictability in policy making process, improve responsibility the management of public finance and ensure intergenerational fairness, and improve efficiency in the design and implementation of fiscal policy related to management of assets and liabilities.

The performance of the state in terms of fulfilling the targets set under the FRBM Act looks encouraging. It is to be noted that the fiscal situation in Haryana has improved significantly by the time the state enacted the FRBM Act. The state was able to generate surplus in the revenue account and reduce the fiscal deficit to a mere 0.27 percent relative to GSDP in 2005-06, the year when the FRBM Act was enacted. The improvement in revenue performance and strict expenditure control are the key to the overall improvement in fiscal situation in the state. This has resulted in substantial decline in debt GSDP ratio. While the state is well on course with regard to fiscal targets of the FRBM Act, the fiscal management should continuously provide impetus to growth, poverty reduction and social welfare through appropriate policy interventions.

Haryana is one of the high income states in Indian Union. The per capita income of the state at Rs.49038 (current prices) is the highest in the country next only to Goa. The human development index, capturing attainment in human development with dimensions such as education and health achieved by the state has been significant[1]. The state has maintained high economic growth. The Gross State Domestic Product (GSDP) recorded a growth rate of 14.12 per cent at current prices during the period 2001-02 to 2007-08. The per-capita income also has grown at a high rate of 11.5 percent during this period. However, the current global economic crisis and the possibility of slow down in economic growth at the national level would put adverse impact on the Haryana economy for which the growth of the state economy is likely to slow down.

States' fiscal management in this context assumes significance for sustaining the growth momentum in the state. This requires creating an enabling environment to encourage the flow of investment and accommodating policies relating to the level and quality of infrastructure. Fiscal policy should be carefully designed to raise the resources required to provide efficient levels of infrastructure and human development and create policies and institutions to achieve allocative and technical efficiency in public spending. The Fiscal Responsibility and Budget Management (FRBM) Act enacted to design and implement a rule based fiscal management system will be able to provide such impetus.

In this report a review of compliance of the provisions of FRBM Act of Haryana is carried out. Progress of the government of Haryana in achieving various provisions of the FRBM Act of 2005-06 is examined in the light of recent fiscal achievements. A

[1] The Human Development Index of Haryana at 0.509 ranks fifth among 15 major states (National Human Development Report: 2001).

review of the macroeconomic and fiscal performance of Haryana since 1999-00 to 2008-09 (BE) is carried out and on the basis of the fiscal performance of the state a review of compliance of FRBM provisions has been made. The report is divided into following sections. In Section 2, macroeconomic outlook and growth performance of Haryana since 2000-01 is analyzed. In Section 3, an overview of state finances is analysed and compliance of FRBM Act provisions has been examined. The concluding remarks are contained in section 4.

2. Macroeconomic Outlook

Fiscal policy influences the economic performance of the state in a variety of ways. It helps to create efficient levels of infrastructure, which provide generalized externalities and enable a competitive platform for the private enterprise to flourish in a globalizing environment. For this purpose, it has to generate resources in a manner that is least distorting. It also has to finance its infrastructure without placing the burden on the future generation. Financing programmes by borrowing will leave the net burden of servicing the debt to the future generation unless the borrowed funds are used to generate income streams in the future to take care of the debt burden. Fiscal policy helps to foster human development which will help not only in empowerment of the people but also provide a strong basis for economic growth and technological development. While level of economic growth influences the revenue performance, fiscal discipline and allocation of resources consistent with policy priorities help in stability, growth and equity aspects of the economic policy. Preparation of a medium term fiscal policy framework for the state facilitates decision making in revenue effort and expenditure planning. However, the medium term fiscal framework can be prepared only after a proper assessment of the recent economic performance of the state.

The services and manufacturing sector are the main driving force of the Haryana economy. These are important sectors from tax point of view. The composition of GSDP reveals that the service sector has made substantial gain during the period from 1999-00 to 2006-07. The sectoral composition of the GSDP shown in Table 1 shows that share of service sector has increased from 39.40 percent in 1999-00 to 46.30 percent in 2006-07. The share of secondary sector, which was 28.50 percent in 1999-00, has also made gains as it has gone up to 32 percent in 2006-07. The share of primary sector has shown a decline during this period.

Sectoral growth of GSDP given in Table 2 for the years 2000-01 to 2006-07 shows that high growth in Haryana is propelled by both the services and the manufacturing sectors. The trend rate of growth of secondary and service sectors during this period are 16.5 and 15.5 percent respectively, while the aggregate GSDP grew at the rate of 14 percent. Although, the primary sector grew at the rate of 7 percent, it has shown higher growth rate during 2006-07 over the previous year. The economy of Haryana has grown at a rate higher than the all-India GDP, except that of the year 2004-05, where the growth rate of all-India GDP was higher (Figure 1).

Table 1
Composition of GSDP (at Current Prices)

(Per cent)

	Primary	**Secondary**	**Tertiary**
1999-00	32.10	28.50	39.40
2000-01	30.60	27.80	41.60
2001-02	27.70	29.00	43.30
2002-03	25.50	30.50	44.00
2003-04	25.20	30.80	44.00
2004-05	23.10	31.90	45.00
2005-06	21.10	32.70	46.20
2006-07	21.70	32.00	46.30

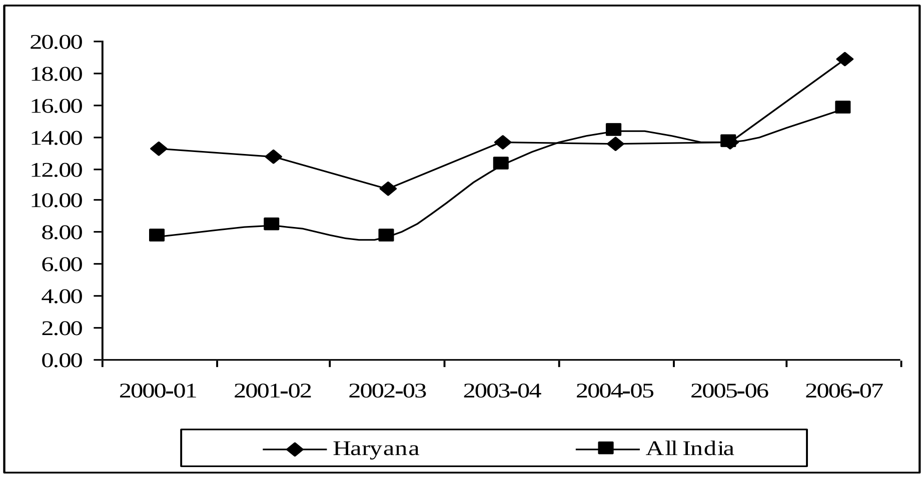
Source: Economic & Statistical Organisation, Haryana
Note: GSDP data are of 1999-00 series

Table 2
Growth of Sectoral GSDP

(Per cent per annum)

	Primary	**Secondary**	**Tertiary**	**GSDP**
2000-01	7.99	10.50	19.61	13.28
2001-02	2.08	17.63	17.37	12.76
2002-03	1.95	16.47	12.54	10.75
2003-04	12.34	14.80	13.68	13.68
2004-05	4.07	17.59	16.11	13.53
2005-06	3.79	16.48	16.66	13.63
2006-07	22.26	16.34	19.14	18.88
TGR	**7.0**	**16.5**	**15.5**	**14.0**

Figure 1
Growth Performance of Haryana and All-India



3. Fiscal Profile of the State

3.1 Fiscal Improvement in Recent years

The fiscal stress that had started building up towards the latter part of the nineties in the state seems to have been eased up since 2001-02. The state has made significant fiscal improvement in recent years. The fiscal deficit, which was 4.18 percent relative to GSDP in 2001-02 declined to 1.15 percent in 2007-08 revised estimates. The revenue deficit in fact started declining since 1999-00 and the state was able to generate revenue surplus as early as 2005-06 to the extent of 1.14 percent of GSDP (Table 3). The primary deficit also followed similar path and has declined since 2000-01 and primary surplus was reached in 2004-05. The improvement in fiscal situation has resulted in reduction of outstanding debt from 24 percent relative to GSDP in 2001-02 to 18 percent in 2007-08 revised estimates.

Table 3
Fiscal Profile of Haryana: An Overview

(Percent to GSDP)

	1999-00	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08 RE**	**2008-09 BE**
Revenues	**10.72**	**10.78**	**10.99**	**11.34**	**11.26**	**11.16**	**12.84**	**14.19**	**13.30**	**12.59**
Own Tax Revenues	6.86	7.42	7.59	7.65	7.70	7.95	8.53	8.64	8.53	8.30
Own Non-Tax	1.93	1.94	1.93	1.89	2.02	1.97	2.13	3.63	2.74	2.35

Revenues										
Central Transfers	1.93	1.42	1.47	1.79	1.54	1.24	2.18	1.92	2.03	1.95
Tax Devolution	1.02	0.59	0.69	1.04	0.73	0.66	1.13	1.02	1.04	1.02
Grants	0.91	0.82	0.78	0.75	0.81	0.58	1.05	0.90	0.99	0.93
Revenue Expenditure	**13.03**	**11.83**	**12.61**	**12.28**	**11.59**	**11.43**	**11.70**	**11.34**	**12.29**	**11.77**
Interest Payment	2.65	2.57	2.48	2.68	2.56	2.39	1.97	1.79	1.60	1.47
Pension	1.15	0.98	1.00	1.03	0.93	0.96	0.97	0.93	0.89	1.04
Capital Expenditure	1.85	2.85	2.57	1.08	3.22	1.01	1.41	0.33	2.16	1.99
Capital Outlay	**1.74**	**2.49**	**2.24**	**0.60**	**0.47**	**0.96**	**1.52**	**1.92**	**2.09**	**1.95**
Net Lending	0.10	0.37	0.33	0.48	2.76	0.05	-0.11	-1.59	0.07	0.04
Revenue Deficit	**2.31**	**1.05**	**1.61**	**0.94**	**0.33**	**0.28**	**-1.14**	**-2.86**	**-1.01**	**-0.82**
Fiscal Deficit	**4.16**	**3.90**	**4.18**	**2.03**	**3.56**	**1.29**	**0.27**	**-0.93**	**1.15**	**1.17**
Primary Deficit	**1.51**	**1.33**	**1.70**	**-0.65**	**0.99**	**-1.10**	**-1.71**	**-2.72**	**-0.45**	**-0.30**
Outstanding Debt	**22.53**	**22.69**	**24.40**	**24.89**	**25.27**	**24.12**	**23.67**	**20.91**	**18.24**	**16.82**

Source (Basic Data): Finance Accounts and State Budget – 2008-09
Note: The GSDP figures are of 1999-00 series given by CSO
Negative sign indicates revenue surplus

The sources of fiscal improvement in Haryana is analysed in Table 4. The change in fiscal situation in the years 2006-07 and 2007-08 over 2001-02 is analysed. Total revenue receipt relative to GSDP in 2006-07 has increased by about 3.2 percentage points, mainly due to improvement in own revenues, which has increased by 2.75 percentage points. The central transfers have increased by only 0.5 percentage point. Revenue expenditure in the state has been compressed, which has shown a decline 1.3 percentage points relative to GSDP during this time period. The revised estimates of 2007-08 also show a decline in revenue expenditure by 0.32 percentage point over 2001-02. Reduction in interest payment due to lowering of average cost of debt and the decline in social sector spending has contributed to control of revenue expenditure. The improvement in revenue receipts and compression of revenue expenditure has resulted in reduction of revenue deficit by 4.47 percentage points in 2006-07 over 2001-02. The reduction in fiscal deficit during this period has surpassed the reduction of revenue deficit which implies that capital expenditure too shows a decline. Emergence of large revenue surplus and decline in capital outlay has contributed to reduction of fiscal deficit over the years. The 2007-08 revised estimates show a reduction of fiscal deficit by about 3 percentage points over 2001-02. The resultant outstanding debt has declined by 1.78 and by about 5.87 percentage points respectively in 2006-07 and 2007-08 (RE) over 2001-02.

Table 4
Fiscal Improvement Since 2001-02

	Percent to GSDP			Percentage Points	
	2001-02	**2006-07**	**2007-08**	**Improvement in 06-07 over 01-02**	**Improvement in 07-08 over 01-02**
Total Revenue Receipts	**10.99**	**14.19**	**13.30**	**3.20**	**2.31**
Own Tax Revenues	7.59	8.64	8.53	1.05	0.94
Own Non-Tax Revenues	1.93	3.63	2.74	1.70	0.81
Central Transfers	1.47	1.92	2.03	0.46	0.56
Tax Devolution	0.69	1.02	1.04	0.34	0.35
Grants	0.78	0.90	0.99	0.12	0.21
Revenue Expenditure	**12.61**	**11.34**	**12.29**	**-1.27**	**-0.32**
General Services	4.76	4.05	3.79	-0.71	-0.97
Interest Payment	2.48	1.79	1.60	-0.69	-0.88
Social Services	4.16	3.65	4.04	-0.51	-0.12
Economic Services	3.69	3.64	4.45	-0.05	0.77
Capital outlay	2.24	1.92	2.09	-0.32	-0.15
Net lending	0.33	-1.59	0.07	-1.92	-0.26
Revenue Deficit	**1.61**	**-2.86**	**-1.01**	**4.47**	**2.62**
Fiscal Deficit	**4.18**	**-0.93**	**1.15**	**5.11**	**3.03**
Primary Deficit	**1.70**	**-2.72**	**-0.45**	**4.43**	**2.15**
Outstanding Debt	**22.69**	**20.91**	**16.82**	**-1.78**	**-5.87**

Note: Improvements in deficit figures are shown as reduction in deficit and the positive figures indicate the level of reduction.

The fiscal improvement in the state provided significant fiscal space to pursue developmental policies, which seems to have not been taken earnestly. The expenditure pattern reveals that, increase in nominal terms withstanding, it is not geared towards creating capital assets or spending in priority sector like social services at a higher rate. The compression of expenditure only resulted in reducing deficit indicators relative to GSDP. The scope for expanding government expenditure in priority sectors are clearly missed on the face of overwhelming improvements. The revenue deficit touched as low as 1 percent relative to GSDP in 2000-01 and remained at very low level before turning surplus in 2005-06. Similarly the fiscal deficit has remained around one percent of GSDP since 2004-05. While revenue performance of the state has increased significantly, the expenditures both in revenue and capital account were squeezed. Particularly the compression measures taken in social services and capital expenditure are matter of concern. The capital outlay was less than 1 percent relative to GSDP during 2002-03 to 2004-05 and less than 2 percent in the next two years.

3.2 Revenue Mobilisation

Improved revenue performance has largely contributed to the fiscal consolidation in the state. As discussed in section 3.1 the improvement in revenue performance is mainly due to rise in own revenue of the state. Both the own tax and own non-tax revenues of the state have contributed to growth of own revenues.

A disaggregated analysis of revenue performance of the state since 2000-01 helps to understand the sources of revenue improvement in the recent years. Own revenue profile given in Table 5 shows that the sales tax/VAT is the most important source of own tax revenue in Haryana (Sales tax constitutes about 41 percent of own tax revenue). As percentage to GSDP it has shown an increasing trend from 4.43 percent in 2000-02 to 5.70 percent in 2007-08 revised estimates. After the introduction of Value Added Tax (VAT) in 2003, it has evinced steady growth relative to GSDP. The other important tax revenue for the sate is stamps and registrations fees, which constitutes on average 8 percent of the own tax revenues. As percentage of GSDP it has increased from 0.72 percent in 2000-01 to 1.40 percent in 2006-07 with a very high growth rate. The spurt in demand for property in National Capital Territory portion of Haryana has contributed to realizing more revenue from this source. The state excise duty, constituting on average 10 percent of own tax revenues, has declined as percentage to GSDP over the years. Own non-tax revenue in the state has shown a higher growth over the years as percentage to GSDP it has gone up from 1.94 percent in 2001-02 to 3.63 percent in 2006-07.

Table 5
Own Revenue Receipts

(Percentage to GSDP)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 RE	2008-09 BE
Revenues	**10.78**	**10.99**	**11.34**	**11.26**	**11.16**	**12.84**	**14.19**	**13.30**	**12.59**
Own Tax Revenues	**7.42**	**7.59**	**7.65**	**7.70**	**7.95**	**8.53**	**8.64**	**8.53**	**8.30**
Sales Tax	4.43	4.50	4.60	4.65	5.08	5.27	5.42	5.70	5.68
State Excise Duties	1.45	1.34	1.21	1.12	1.08	1.04	0.96	0.91	0.86
Motor Vehicle Tax	0.15	0.16	0.16	0.16	0.15	0.16	0.18	0.17	0.16
Taxes on Goods and Passengers	0.63	0.76	0.90	0.80	0.75	0.71	0.58	0.29	0.28
Stamp Duty and Registration Fees	0.72	0.75	0.75	0.84	0.78	1.26	1.40	1.36	1.22
Other Taxes	0.04	0.09	0.03	0.12	0.10	0.09	0.10	0.10	0.09
Own Non-Tax Revenues	**1.94**	**1.93**	**1.89**	**2.02**	**1.97**	**2.13**	**3.63**	**2.74**	**2.35**

Source: (Basic Data): Finance Accounts and State Budget – 2008-09

The year on year growth performance of individual components, however, show volatility (Table 6). The growth rate of sales tax seems to have been picked up after the introduction of VAT in 2003. The excise duty, after a slow down, has shown increase in the growth rate since 2004-05. The stamps and registration fees, although very volatile in its growth performance, shows a high trend growth rate of 27 percent during the period 2000-01 to 2007-08 (RE). The higher growth of sales tax, excise duty, motor vehicle tax and stamps and registration fees have helped the own tax of the state to grow at a higher rate since 2004-05. Own non-tax revenue during this time period has shown a high growth rate of about 22 percent, although with large variations in year on year growth pattern.

Table 6
Own Revenue Receipts: Growth Rate

	2000 -01	2001 -02	2002 -03	2003 -04	2004 -05	2005 -06	2006 -07	2007 -08 (RE)	2008 -09 (BE)	**TGR**
Revenues	13.9	15.0	14.2	12.9	12.5	30.7	31.4	9.3	10.5	18.4
Own Tax Revenues	22.6	15.3	11.6	14.4	17.2	22.0	20.4	15.2	13.5	16.8
Sales Tax	30.8	14.4	13.3	15.0	24.0	17.7	22.3	22.7	16.4	18.5
State Excise Duties	9.8	4.1	0.4	5.1	9.7	9.2	10.0	10.9	10.0	7.1
Motor Vehicle Tax	1.1	20.9	10.4	15.7	6.1	22.6	29.9	11.8	10.0	16.2
Taxes on Goods and Passengers	13.2	36.0	30.9	1.2	6.8	7.4	-2.5	-41.1	11.6	4.5
Stamp Duty and Registration Fees	35.3	16.5	10.9	28.5	4.4	84.4	31.7	13.3	5.0	27.1
Other Taxes	-60.9	138.0	-59.5	293.5	-4.4	4.1	33.1	12.1	12.0	26.7
Own Non-Tax Revenues	14.1	12.3	8.5	21.1	10.8	22.9	102.7	-12.0	0.1	22.4

The buoyancy of state taxes, which shows a functional relationship between the growth performance of the economy and the revenue mobilization[2], indicate that the taxes have positively responded to the growth of the state economy in recent years. It can be seen from the Table 7 that the own tax revenue buoyancy, which was less than unity during the period 1993-94 to 1999-00, has increased during the period 2000-01 to 2007-08. The buoyancy of individual state taxes, except that of passengers and goods tax, improved significantly in the more recent years. Except for state excise duty and

[2] The buoyancy of the state taxes are estimated during the period 2001-02 to 2007-08 following the regression equation log t = a + b logy, where t = Tax, a = Constant term, b = Buoyancy coefficient, and y = GSDP.

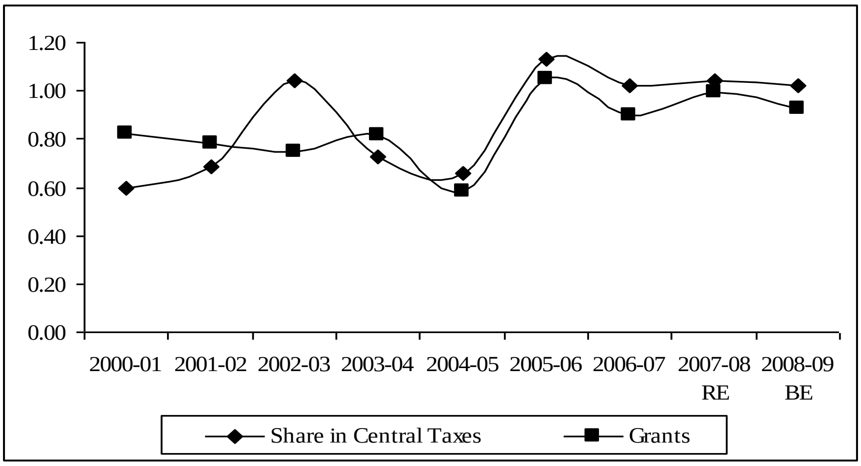
passenger and goods tax, all other taxes show buoyancy above unity during the second period.

Table 7
Tax Buoyancy

	1993-94 to 1999-00	2000-01 to 2007-08
Own Tax Revenues	0.932	1.178
Sales Tax	1.200	1.288
State Excise Duties	-0.228	0.524
Motor Vehicle Tax	0.691	1.141
Taxes on Goods and Passengers	0.977	0.278
Stamp Duty and Registration Fees	1.190	1.822
Other Taxes	0.224	1.778

While own revenues of the state has shown improvements in the recent years, the growth in central transfers have remained subdued (Figure 1). Tax devolution and grants as percentage to GSDP have registered volatility and after a decline till 2004-05 have recovered. Since 2005-06 both tax devolution and grants as percentage of GSDP have declined marginally.

Figure 1
Central Transfers



3.3 Expenditure

The changing profile of government expenditure in Haryana, given in Table 8, shows that expenditures both in revenue and capital account as percentage to GSDP have been compressed since 2001-02. The compression in revenue expenditure has come about by reducing expenditures on social services and general services. Within the social services, the expenditure on education and health relative to GSDP has shown declining trend. The relative share of educations in total revenue expenditure has shown sharp decline from 19 percent in 2000-01 to 16 percent in 2007-08 (RE) (not shown in the table). Similarly, the share of expenditure on health services has suffered a decline from 3.7 percent to 2.6 percent. While the expenditure on general services has shown a decline from the level of 2000-01 as percentage to GSDP due to decline in interest payments, expenditure in economic services has shown a rising trend during this period. The capital expenditure, which was about 2.5 percent relative to GSDP in 2000-01, has declined to about 2 percent in 2007-08 (RE).

The yearly growth rate of various components of expenditure in the state shows wide fluctuations (Table 9). Severe fluctuation in the case of capital expenditure reflects absence of serious planning effort. The overall growth pattern indicates that capital outlay after sharp decline till 2003-04, has revived in more recent years. The growth pattern of revenue expenditure reveals that after 2004-05, leaving interest payment, the growth rates of other individual components has increased. However, the year on year growth pattern, that depicts a revival of growth rate of expenditure components in more recent years over a period of slow growth failed to improve the overall growth of revenue expenditure relative to GSDP.

Table 8
Expenditure Profile

(Percent to GSDP)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (RE)	2008-09 (BE)
Revenue Expenditure	**11.83**	**12.61**	**12.28**	**11.59**	**11.43**	**11.70**	**11.34**	**12.29**	**11.77**
General Services	4.86	4.76	4.92	4.68	4.58	4.36	4.05	3.79	4.28
Interest Payment	2.57	2.48	2.68	2.56	2.39	1.97	1.79	1.60	1.47
Pension	0.98	1.00	1.03	0.93	0.96	0.97	0.93	0.89	1.04
Other General Services	1.31	1.28	1.21	1.19	1.23	1.41	1.33	1.30	1.76
Social Services	4.31	4.16	3.87	3.63	3.44	3.76	3.65	4.04	3.74
Education	2.25	2.20	1.96	1.82	1.76	1.82	1.78	1.98	1.90
Medical and Public Health	0.44	0.40	0.40	0.37	0.35	0.36	0.32	0.32	0.33
Other Social Services	1.62	1.56	1.52	1.44	1.33	1.58	1.55	1.74	1.52
Economic Services	2.66	3.69	3.49	3.28	3.42	3.59	3.64	4.45	3.76
Capital Outlay	**2.49**	**2.24**	**0.60**	**0.47**	**0.96**	**1.52**	**1.92**	**2.09**	**1.95**
Net Lending	0.37	0.33	0.48	2.76	0.05	-0.11	0.00	0.07	0.04

Source (Basic Data): Finance Accounts and State Budget 2008-09

While controlling expenditure over the year has contributed significantly to generate surplus in revenue account and reducing fiscal deficit, priority sector spending suffered adversely. The FRBM Act calls upon the state to build up revenue surplus to be utilized for funding capital expenditure. The Act also stipulates the state government to pursue expenditure policies that would provide impetus to economic growth, poverty reduction and improvement in human welfare. The fiscal profile shows that on both counts the expenditure pattern does not follow these objectives. The fiscal deficit has been reduced by reducing the capital outlay even on the face of surplus in the revenue account. The social sector spending, particularly on education and health, was reduced even when there was scope to expand these beyond the present level. The spending on education is less than 2 percent of GSDP and the health spending averages a paltry 0.3 percent of GSDP since 2003-04.

Table 9
Growth Rate of Expenditure Components

(Per cent per annum)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (RE)	2008-09 (BE)
Revenue Expenditure	**2.82**	**20.19**	**7.89**	**7.29**	**12.01**	**16.25**	**15.22**	**26.47**	**11.83**
General Services	7.13	10.51	14.44	8.09	11.21	8.09	10.44	9.27	31.68
Interest Payment	9.91	8.89	19.79	8.57	5.77	-6.03	7.87	4.16	7.50
Pension	-2.81	15.10	13.52	2.65	17.79	14.55	13.57	11.99	36.99
Other General Services	10.12	10.24	4.76	11.67	17.80	30.43	11.89	14.26	57.74
Social Services	11.04	8.72	3.08	6.66	7.43	24.16	15.51	29.28	8.02
Education	6.46	10.15	-1.46	5.98	9.39	17.62	16.29	29.93	11.78
Medical and Public Health	6.51	3.25	9.36	5.49	6.19	18.62	6.49	16.81	18.01
Other Social Services	19.55	8.23	7.85	7.85	5.26	34.20	16.69	31.14	1.88
Economic Services	-13.88	56.52	4.87	6.85	18.22	19.25	20.71	42.77	-1.59
Capital Outlay	**61.63**	**1.52**	**-70.30**	**-11.51**	**132.57**	**79.76**	**50.57**	**27.22**	**8.80**
Net Lending	300.13	1.84	61.75	549.40	-97.76	-322.2	-105.3	1660.8	-33.48

3.4 Outstanding Debt and Government Guarantee

Burden of accumulated debt has ceased to be a problem for the state due to improvement in fiscal situation. Decline in fiscal deficit and emergence of primary surplus depicting lack of fiscal pressure from non-interest expenditures has resulted in sharp reduction of debt overhang for the state. Outstanding debt of the Government of Haryana has dipped to a low of about 21 percent in 2006-07 and further to 17 percent in 2008-09 budget estimates (Table 3). The FRBM Act of the state stipulates that the outstanding total debt that includes contingent liabilities as percent of GSDP to be limited to 28 percent by 2009-10. Outstanding debt and contingent liabilities taken together constitute about 25 percent of GSDP in 2006-07 and has further gone down to 20 percent in 2008-09 budget estimates.

The structure of accumulated stock of debt has an important bearing on interest payment as different debt instruments carry different rates of interest depending on the type of borrowing and maturity structure. The share of market borrowing in the state has increased over the years while the share of loans and advances from the Central government has declined sharply (Table 10). Compared to a 40 percent share of central loans in total outstanding debt in 2000-01, it has reached a share of about 8 percent in 2007-08 (RE). Following the recommendation of the Twelfth Finance Commission, the central loans are stopped to the states, which caused this sharp decline in central loans in Haryana. While the share of high cost debt instruments like small savings, provident funds, etc. has registered a decline compared to the level seen in 2000-01, in recent years these are stabilized.

The effective rate of interest in the state has declined substantially and stabilized since 2005-06 (Figure 2). This may be attributed to the debt-swap scheme introduced by the Government of India and the debt restructuring formula introduced by the Twelfth Finance Commission that have lowered the average cost of debt of the state. Decline in the average cost of debt has resulted in higher fiscal space for the state government through reduction in the volume of interest payments, which has remained less than 2 percent of the GSDP.

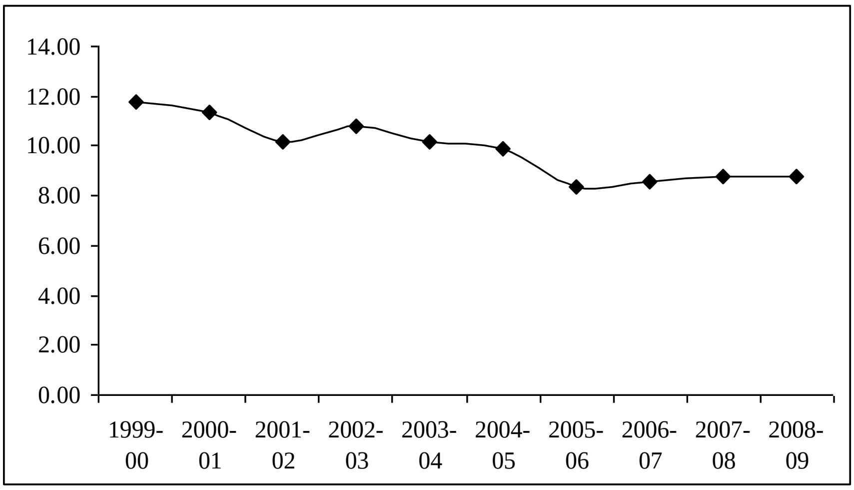
Table 10
Composition of debt

(Per cent)

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (RE)	2008-09 (BE)
Internal Debt	20.64	30.79	39.67	44.64	58.50	66.69	69.00	69.44	68.25	69.12
LA from Central Govt.	49.91	39.60	33.38	29.53	17.73	10.11	8.79	8.03	8.02	7.20
Public Debt	70.55	70.39	73.05	74.18	76.23	76.81	77.79	77.47	76.27	76.32
Small Savings	29.45	29.61	26.95	25.82	23.77	23.19	22.21	22.53	23.73	23.68

Source (Basic Data): Finance Accounts and Budget Documents, Government of Haryana

Figure 2
Effective Rate of Interest



The Planning Commission of India has indicated six parameters to determine the quality of debt stock of any states.

1. The Debt Stock should be below 30 percent of the GSDP.
2. Debt should be below 300 percent of the Total Revenue Receipts (TRR).
3. The interest payment should be less than 18 percent as a ratio of TRR.
4. The debt growth should not be more than 1.25 times the growth in revenues.
5. The revenue component of the fiscal deficit should not be more than 50 percent.
6. The fiscal deficit should not be more than 25 percent of the TRR.

The improvement in debt management in Haryana can be examined taking into consideration these criteria. The debt-GSDP ratio has gone down much below the prescribed ratio of 30 in recent years (Table 11). The debt as a percentage of TRR remained below 300 percent due to good revenue performance and decline in debt stock. The interest payment as a percentage of TRR, declined to about 12 percent in 2007-08 as against the prescribed limit of 18 percent. The state government has become able to generate surplus in the revenue account. Growth rate of debt has remained much lower than that of the revenue receipts of the state for which the resultant ratio of debt growth to revenue growth is below the permissible target of 1.25. The fiscal deficit has declined substantially and as percentage to total revenue receipts is way below the prescribed limit of 25 percent. The debt overhang looked from the view of these parameters, is not a matter of concern for the state.

Another heartening feature of the fiscal profile of the state is substantial decline in the outstanding guarantees given by the State. The outstanding government guarantees given by the state government has declined in absolute terms from Rs. 8209 crore in 2000-01 to Rs. 5074 crore in 2006-07 and remained at Rs.5000 crore in 2007-08 (RE) and 2008-09 (BE) (Table 12). As a percentage of GSDP, it declined from 14 percent of GSDP in 2000-01 to 4 percent in 2006-07. The government of Haryana has taken steps to control the growth of contingent liabilities in terms of fixing of its limits as a percentage to revenue receipts and also creating a Guarantee redemption Fund.

Table 11
Indicators of Debt Management

(Per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 RE	2008-09 BE
Debt Stock percent to GSDP	22.69	24.40	24.89	25.27	24.12	23.67	20.91	18.24	16.82
Debt as a percent of TRR	210.4	221.9	219.5	224.5	216.2	184.4	147.3	137.2	133.6
Interest percent to TRR	23.82	22.56	23.66	22.76	21.39	15.37	12.62	12.02	11.69
Growth rate of debt	14.05	21.27	12.96	15.44	8.37	11.49	5.02	1.81	7.64
Growth rate of revenue	13.93	14.98	14.20	12.90	12.53	30.74	31.43	9.34	10.52
Ratio of debt to Rev. growth	1.01	1.42	0.91	1.20	0.67	0.37	0.16	0.19	0.73
RD as a percent of FD	26.82	38.54	46.57	9.33	21.40	-424.8	306.5	-87.98	-70.17
FD as a percent of TRR	36.17	38.04	17.89	31.59	11.54	2.09	-6.57	8.66	9.29

Table 12
Outstanding Government Guarantee

	Government Guarantees (Rs. Crore)	Percentage to GSDP
2000-01	8209	14
2001-02	8601	13
2002-03	7684	11
2003-04	5869	7
2004-05	4209	4
2005-06	5627	5
2006-07	5074	4
2007-08	5000	3
2008-09	5000	3

Source (Basic Data): Finance accounts, Government of Haryana, Various issues

3.5 Medium Term Perspective

Although the state has a satisfactory fiscal situation, there are several risks that could create difficulties. The important risks are:

(i) The pay and pension revision is likely to increase the expenditures.

(ii) There could be a sharp reduction in the tax devolution. The progress on revenue collection by the Central Government shows that post budget concessions and slowdown in the economy could create a shortfall of revenue of about 1 percent of GDP. Given that Haryana gets 1.075 percent of the taxes devolved to the states, the estimated loss is likely to be about Rs. 180 crore.

(iii) The slowdown in the economy, particularly in the manufacturing sector is likely to reduce the States' own revenue collections.

To appraise the fiscal situation in the state beyond the ensuing year, a medium term fiscal profile covering the period from 2008-09 to 2010-11 is estimated by projecting the fiscal variables. The projected fiscal profile gives a base line scenario based on a 'business as usual' approach. The present trend of growth of fiscal variables and existing fiscal policy of the state government are assumed to remain same during the projection period except that of making adjustments for the risk factors spelled out above. These include possibility of declining state revenues and reduced tax devolution due to slow down of the economy and rising revenue expenditure due to salary revision. Although adjustments to reflect risk factors affect the trend growth of revenues and expenditures in the medium term, these have to be considered as part of the base line scenario as these are independent of any policy reforms initiated by the state government.

While preparing the fiscal profile in the medium term we have assumed that economy of Haryana will grow at a nominal rate of 14 percent for the next three years. The slow down at global and national level could affect the growth of Haryana economy adversely in the short run for which a growth rate of 14 percent (nominal) is assumed in the medium term, even though the trend growth rate between 2001-02 and 2007-08 is more than 14 percent.

In the medium term fiscal profile adjustments are made to account for decline in the state tax revenue collection due to economic slow down and reduced central tax devolution. For the purpose of revenue projection prescriptive growth rates based on buoyancy of individual taxes are suggested. The own tax buoyancy during the period 2001-02 to 2007-08 was 1.18 that implies growth of own tax revenue remained more than that of the state GSDP (Table 7). Among the state taxes, the sales tax/VAT and stamps and registration fees, with a buoyancy of 1.288 and 1.822 respectively, are the most buoyant source of revenue. Motor Vehicle tax also shows reasonably high buoyancy of 1.141. Taxes like state excise duty and goods and passenger tax, however, have very low buoyancy coefficients (0.524 and 0.278 respectively). Given that the slow down in the economy would adversely affect sectors like manufacturing and real estate, the collection from sales tax/VAT and stamps and registration fees are likely to decline. The prescriptive growth rates in these two taxes are, thus, assumed to be lower than that of the trend rate. The prescriptive growth rates for these two taxes were worked out by assuming a lower tax buoyancy of 1.15 in both the cases as against observed buoyancies of 1.288 and 1.822. The observed buoyancy of motor vehicle tax, state excise and tax on goods and passenger taxes are assumed to remain same during the projection period. The growth of the tax devolution to the state is reduced by 1 percentage points from the observed growth rate of 13 percent during the last two years to 12 percent to account for the decline in central tax devolution.

The expenditures are allowed to grow at the existing trend rate, except making adjustments for the pay revisions. The revenue expenditure is raised to the extent of additional provision already made by the state government to meet the salary and pension spending and payment of arrears on the basis of recommendations of Sixth Pay Commission. The additional expenditure for this will be to the tune of Rs.2000 crores in 2008-09 and Rs.4450 crores in 2009-10.

The projected fiscal profile based on the assumptions elaborated above shows that the state runs into fiscal difficulties in the medium term (Table 13). The revenue account, which was in surplus since 2005-06, goes into deficit in the year 2009-10. This is due to the interplay of both economic crisis and upward revision of salary and pension. The fiscal deficit is likely to cross the target of 3 percent relative to GSDP set by the state FRBM act. The fiscal indicators in the terminal year of the base line projection (2010-11) turns favourable as the heavy burden of paying increased salary and pensions and 60 percent of arrears would fall on the state exchequer in the year 2009-10. However, in

2010-11 the revenue surplus will be lower and the fiscal deficit will be higher than the existing level. A further slide in the growth of the economy and revenue generation by the state may wipe out this surplus in revenue account and the fiscal deficit may continue at a higher level.

Table 13
Medium Term Fiscal Profile

(Percent to GSDP)

	2007-08	2008-09	2009-10	2010-11
Revenues	**13.30**	**13.55**	**13.82**	**14.11**
Own Tax Revenues	**8.53**	**8.65**	**8.78**	**8.92**
Sales Tax	5.70	5.80	5.91	6.02
State Excise Duties	0.91	0.86	0.81	0.76
Motor Vehicle Tax	0.17	0.17	0.18	0.18
Taxes on Goods and Passengers	0.29	0.27	0.24	0.22
Stamp Duty and Registration Fees	1.36	1.44	1.53	1.62
Other Taxes	0.10	0.11	0.11	0.12
Own Non-Tax Revenues	**2.74**	**2.88**	**3.03**	**3.19**
Central Transfers	**2.03**	**2.02**	**2.01**	**2.00**
Tax Devolution	1.04	1.02	1.00	0.99
Grants	0.99	1.00	1.00	1.01
Revenue Expenditure	**12.29**	**12.55**	**14.62**	**13.24**
General Services	**3.56**	**3.41**	**3.26**	**3.13**
Interest Payment	1.60	1.49	1.39	1.30
Pension	0.89	0.88	0.87	0.86
Other General Services	1.07	1.05	1.03	1.01
Social Services	**4.04**	**3.99**	**3.93**	**3.88**
Education	1.98	1.93	1.88	1.84
Medical and Public Health	0.32	0.31	0.30	0.29
Other Social Services	1.74	1.75	1.76	1.77
Economic Services	**4.45**	**4.66**	**4.87**	**5.10**
Compensation and Assignment to LBs	**0.23**	**0.23**	**0.23**	**0.23**
Capital Expenditure	**2.16**	**2.20**	**2.25**	**2.29**
Capital Outlay	2.09	2.13	2.17	2.22
Net Lending	0.07	0.07	0.07	0.07
Revenue Deficit	**-1.01**	**-1.00**	**0.80**	**-0.87**
Fiscal Deficit	**1.15**	**1.21**	**3.04**	**1.42**
Primary Deficit	**-0.45**	**-0.28**	**1.65**	**0.12**
Outstanding Debt	**18.24**	**17.21**	**18.14**	**17.33**

Note: Negative sign in revenue deficit indicate surplus

4. Fiscal Profile: Concluding Observations

The finances of the government of Haryana have improved considerably by the time the state enacted the FRBM Act in 2005-06. While the time line to achieve the specified fiscal targets in the FRBM Act is 2008-09, the state could achieve revenue surplus in 2005-06 and brought down fiscal deficit to 2 percent of GSDP in 2002-03. The targets stipulated under FRBM Act, budgetary achievements, and the record of the state government in placing the required statements and disclosures before the state legislatures are given in Table 14. Achieving the specified fiscal targets such as achieving revenue balance, reducing fiscal deficit to 3 percent of GSDP and limiting debt burden to 28 percent of GSDP by 2008-09 was not difficult for the state as these targets were achieved much before the FRBM time stipulation. However, the enactment of FRBM Act was supposed to provide a more comprehensive fiscal management framework to provide impetus to growth of the economy and social development through right policy formulation and effective implementation.

Strong revenue performance, particularly own tax and non tax revenue, paved the way for fiscal consolidation in the state. Adoption of value added tax since 2003-04 and improved performance of other state taxes contributed significantly to revenue augmentation of the state. The stamps and registration fees registered marked improvement due to spurt in real estate activities in the state. The own tax revenue as percentage of GSDP has increased from 7.42 percent in 2000-01 to 8.53 percent in 2007-08 (RE). Along with the increase in revenue collection, the state government also adopted expenditure compression measures both in revenue and capital account over the years. This has resulted in sustained level of low revenue deficit and emergence of revenue surplus in 2005-06 and considerable reduction of fiscal deficit. The accumulated debt burden that reflects the outcome of fiscal profile, along with the contingent liabilities has gone down to about 22 percent of GSDP in 2007-08 (RE) as against the FRBM stipulation of 28 percent. Due credit should be given to the Government of Haryana for its improved fiscal performance.

The fiscal improvement in the state has, however, not been accompanied by allocating more resources to fund creation of capital assets and social services. Expenditures under these heads have declined as percentage of GSDP. In fact compression of expenditure has been carried out in all these components. More important spending heads such as education and health have witnessed reduced budgetary allocation in relation to GSDP. Although in nominal terms expenditures have increased, there was scope to expand spending in these heads as the fiscal space has increased in the state. The FRBM act, while enunciating the principles of fiscal management, requires the state government to utilize the revenue surplus in funding capital expenditures and putting in place expenditures policies that facilitates growth, reduce poverty and improve human development.

The capacity to expand the government spending could be a limiting factor for which the fiscal improvement in the state is not translated into allocating more funds to priority sectors. To meet this challenge the state government needs to improve the expenditure management focusing on an effective and efficient expenditure planning. The FRBM Act provides for a medium term fiscal framework for setting the fiscal policy objectives. The principles of fiscal management enunciated in the FRBM Act should be exploited by reorienting the budgetary process and establishing a credible expenditure planning. The expenditure planning in a medium terms, where sector expenditure profiles are created keeping the overall resource envelope as ceiling will be helpful to improve resource allocation in a prioritized manner to facilitate better service delivery. Directives from the top policy making institutions to improve sector service delivery will not be helpful unless the sector programmes are created with specific objectives and a detailed programme activities to carry out such programmes.

Despite strong fiscal performance by the state government in recent years, the coming years will be difficult due to the recent developments in the economy. The current global economic crisis, declining commodity prices, the possibility of slow down in economic growth at the national level would adversely impact the state economy. The slowdown in the economy, particularly in the manufacturing sector is likely to reduce the States' own revenue collections. The state will also receive reduced Central tax devolution due to shortfall in central revenue collection. In addition there will be substantial increase in expenditures due to pay and pension revision in the state based on recommendations of the Sixth Pay Commission. A medium term fiscal projection for Haryana taking into account these risk factors shows that the state may get into revenue deficit from the existing position of revenue surplus and fiscal deficit may rise beyond the

FRBM target in the year 2009-10. To continue to meet the FRBM targets, as the state has done successfully in recent years, the state needs to raise its revenue efforts by initiating effective measures to undertake reforms and streamline the tax administration.

Table 14

Haryana FRBM: Achievable Targets, Statements and Disclosures

Achievable Targets *(Percent to GSDP)*				
	2006-07	2007-08 (RE)	2008-09 (BE)	FRBM Targets (2008-09)
Revenue Deficit	-2.86	-1.01	-0.82	0
Fiscal Deficit	-0.93	1.15	1.17	3
Outstanding Debt including Contingent Liabilities	24.92	21.63	19.72	28
Statements on Fiscal Policy to be Laid Before the Legislature along with the Budget				
Macroeconomic Framework Statement	Placed in the Legislature: Form F-1			
Medium Term Fiscal Policy Statement	Placed in the Legislature: Form F-2			
Fiscal Policy Strategy Statement	Placed in the Legislature: Form F-3			
Disclosures				
Fiscal Indicators	Placed in the Legislature: Form D-1			
Components of Liabilities and Interest	Placed in the Legislature: Form D-2			
Consolidated Sinking Fund	Placed in the Legislature: Form D-3			
Guarantees	Placed in the Legislature: Form D-4			
Guarantee redemption Fund	Placed in the Legislature: Form D-5			
Assets	Placed in the Legislature: Form D-6			
Revenue Demands raised but not realized	Not Placed			
Liability in respect of Major Works and Contracts	Not Placed			
State's Economy and Fiscal strategy	Placed in the Legislature: Form D-9			
Report on No. of Employees and salary	Placed in the Legislature: Form D-10			