4. Reform scenarios: fiscal prospects

INTRODUCTION

Using past trends and all the relevant recent developments, we undertake in this chapter projections of alternative scenarios of Haryana State Finances. Briefly, the exercise is structured as follows. The receipts of the State are projected to yield figures of total receipts. These include figures for revenue receipts as well as borrowing, and indicate the permitted expenditure levels for the State. On the expenditure side, revenue expenditure is classified as per the economic classification and their relevant categories are projected. To this is added the expenditure commitment on account of the implementation of the Pay Commission recommendations. Further, net loans and advances of the State government are projected as per the historical trends. These together yield permitted capital expenditure as a residual. This method assumes that all the required adjustment in expenditure is borne by capital expenditure. To see the impact of important policy measures, we project a baseline, incorporating the expenditure commitments resulting from the recommendations of the Central Fifth Pay Commission. Adding on the budgetary implications of the already committed power sector reforms gives scenario 1. scenario 2 incorporates assessed spending gaps as discussed in chapter 3 into scenario 1, and finally, scenario 3 adds on the suggested resource augmenting measures. Further, since the revised estimates for 1997–98 are now available, the present exercise uses these figures and on this basis builds estimates for subsequent years. A detailed discussion of the methodology used for projection, alongwith the detailed results, can be seen in appendix 1.

Figure 2: Capital Expenditure

(as percentage of GSDP)

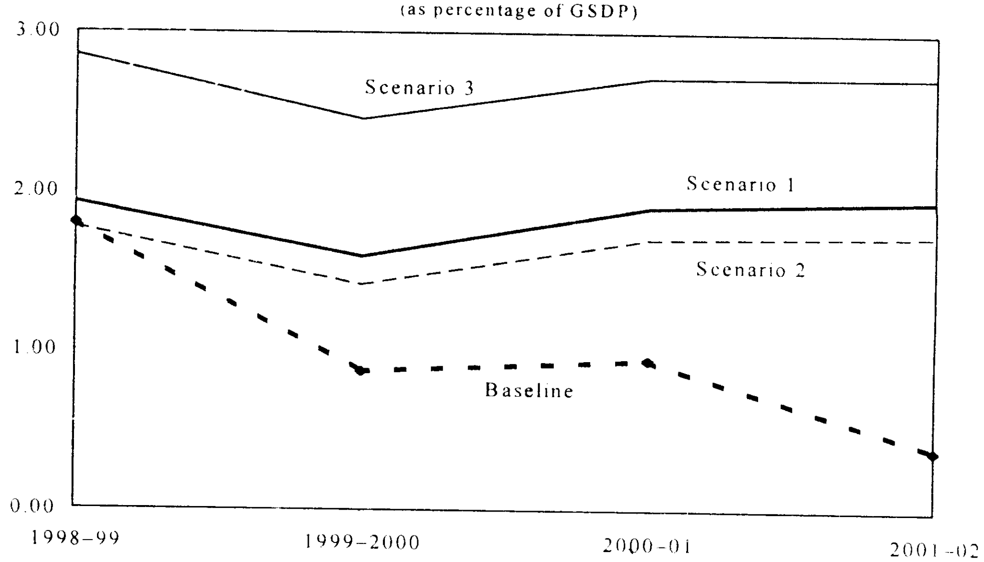
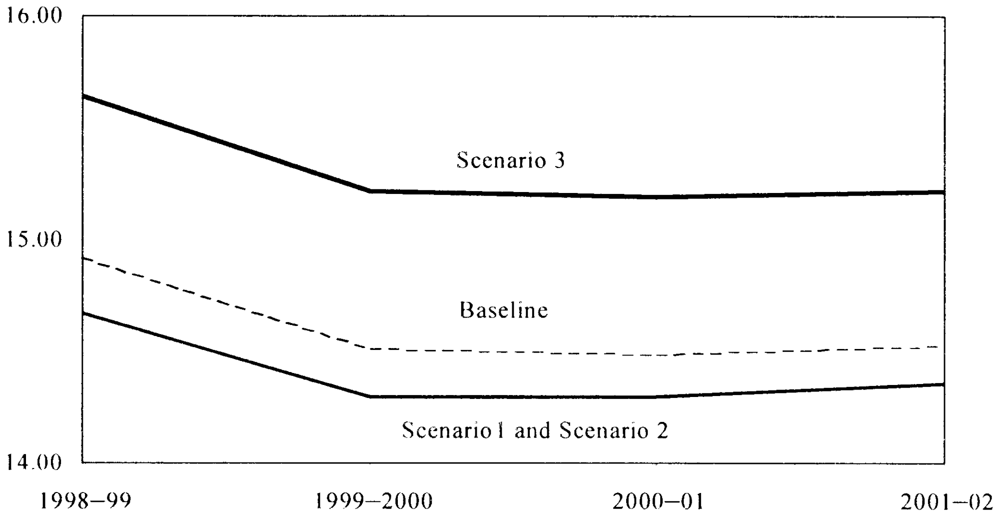


Figure 3: Total Revenue Receipts

(as percentage of GSDP)



BASELINE SCENARIO

Baseline captures the *status quo*, modified by the salary revisions resulting from the Pay Commission recommendations only. It does not present a very comfortable picture with revenue expenditures as a proportion of GSDP rising in successive years, while capital expenditures register a fall from the already low levels, going down to just .38 percent of GSDP by 2001–02. The long-term impact on the growth of the State economy of such an eventuality is expected to be significantly negative. Revenue deficits are projected for 1998–99 to be higher than in 1996–97, despite the substantial addition to receipts from the removal of prohibition, mainly on account of the payment of salary arrears. They, however, fall to 2.20 percent in 2000–2001, only to start rising again, ending up at 2.61 percent in the year 2001–02.

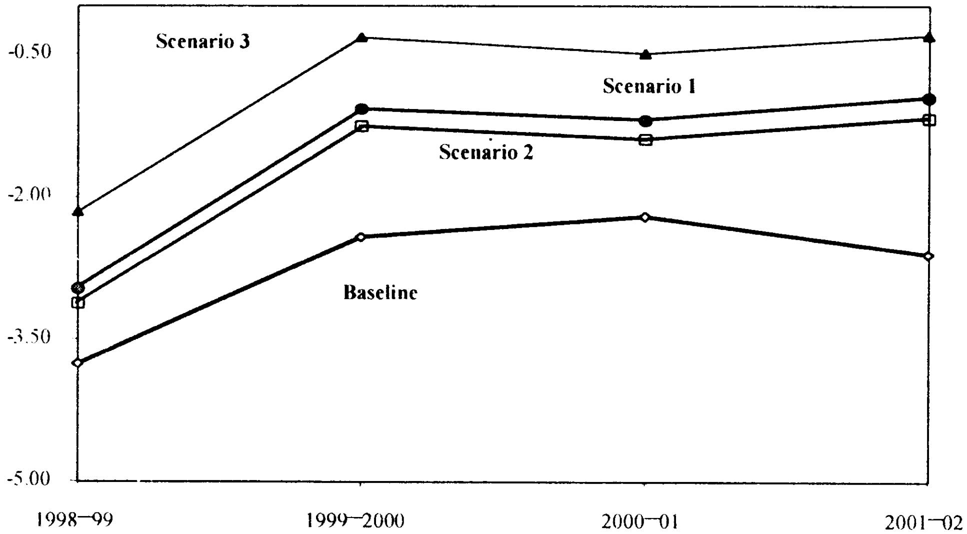
POWER SECTOR REFORM

This scenario modifies the above scenario to take into account the committed power sector reform, and involves substituting the new commitments on power for all the old transactions between HSEB and the government. With the power sector reform, capital expenditure is higher in all the projection years. In fact, the short time horizon of our projections does not fully capture the benefits of this reform on the State finances *per se*. Additionally, its success is certain to boost the growth of Haryana significantly in the medium and long run and yield indirect benefit to the government in the form of higher revenues.

Table 4.1 : Capital Outlay as a Percentage of GSDP under Alternative Scenarios

	1998–99	1999–2000	2000–01	2001–02
Baseline	1.80	0.87	0.95	0.39
Scenario 1	1.93	1.59	1.90	1.95
Scenario 2	1.77	1.41	1.70	1.73
Scenario 3	2.85	2.46	2.72	2.72
Fiscal deficit	5.64	3.38	3.23	3.08

Figure 4: Revenue Deficit
(as percentage of GSDP)



RESTRUCTURING EXPENDITURE

The spending gaps assessed in chapter 3 call for a step up in expenditures on primary education and maintenance of roads. Incorporating these gaps into revenue expenditure as additional expenditure has the obvious implication of reducing the resources available for capital outlay (scenario 2). It is obvious that this is not sustainable in view of the negative impact on growth. Thus for higher levels of capital expenditures to be achieved and sustained, additional resources will need to be generated.

AUGMENTING RESOURCES

The low levels of capital expenditure feasible under scenario 2 prepare the ground for the need to explore some resource augmenting measures. The measures proposed (details are given in chapter 5) include some revenue augmenting taxes, and a higher recovery rate on revenue expenditure on irrigation. These two sets of measures together are expected to yield 1.22 percent of GSDP in 1998–99. Correspondingly, revenue deficit decreases from 2.16 percent in 1998–99 to 0.31 percent in the last year of the simulation. The additional resources permit a level of capital expenditure of 2.5 percent or higher, of GSDP during the projection period.