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SOME ASPECTS OF HARYANA STATE FINANCES
– AN EXPLORATORY ANALYSIS

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– An Exploratory Analysis

Abstract

To understand the state financial position the paper analysed fiscal performance of Haryana on three broad indicators: revenue and spending patterns, resource gaps and debt sustainability. Paper found that share of states own non-tax revenue has decreased significantly and share of central transfer of taxes and grants to Haryana has shown significant increasing trends. Comparative fiscal position for Haryana has deteriorated after 2008-09 as both its revenue deficit(RD) and gross fiscal deficit(GFD) had been more than NSC state's average and all states combined average. Pace of debt accumulation has increased in the state in recent years. Overall state finances is that Haryana are well managed. The broad trends in state finances do not indicate major problem of sustainability. Key fiscal parameters exhibit a sound fiscal health of the State but the analysis reveals that fault lines started to be visible in financial management of the state. The debt accumulation is likely to increase, so does the pressure of debt burden which may force state in a debt spiral. The state is also required to increase its revenue base by following a prudent fiscal strategy by increasing its own non-tax revenues through user charges and by recovering cost from government services.

Key Words: *State Finances, Haryana, Debt Sustainability, Deficit Indicators.*

JEL Classification: *H62, H63, H72.*

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1. INTRODUCTION

India is a federal state with well demarcated boundaries specified in constitution. The constitution provides for division of functional domains and resource raising powers between centre and states as per central list, state list and concurrent list. The states in the system are entrusted major responsibilities in the sphere of development expenditure such as agricultural development, infrastructure, poverty alleviation, water supply and irrigation, public order, public health and sanitation as well as in the sphere of administrative expenditure such as general administration, law and order etc. States also have important responsibilities in areas of concurrent jurisdiction such as education, electricity, economic and social planning and family planning. States are expected to play an important role in development of social and economic infrastructure because of their proximity to local issues. To fulfill these constitutional obligations State Governments provide various social and economic services and also transfer resources to the third tier of government – rural and urban local bodies such as municipalities. The role of sub-national (state) governments(SNGs) has gradually increased in India as SNGs presently spend around 60 per cent of the combined expenditure by centre and states. The States' ability to undertake and perform the developmental functions adequately, effectively and efficiently is critically predicated on their fiscal position, which is a function of their own efforts in generating resources – tax, non-tax receipts and borrowings as also the resource transfer from the Central Government. By very nature of revenue and expenditure powers and obligations, the states are faced with shortage of resources and consequently their fiscal performance has deteriorated. Several studies on State finances in India have observed that over a long period of time, revenue receipts of the States have generally been lower than their expenditures, leading to high levels of revenue and fiscal deficits (Karnik, 2005; Vadra, 2010 and Dasgupta, 2012). This has been an area of debate and concern. Kishore and Prasad (2007) observed that growing interest burden, increasing pension liabilities, unrestrained administrative expenditure, losses incurred by State Public Sector Undertakings (PSUs), inadequate tax buoyancy, and inappropriate user charges led to divergence in growth of receipts and expenditure and hence, created fiscal deficits. Various competent authorities—such as the Finance Commission (FC), Reserve

Bank of India (RBI), and Comptroller and Auditor General of India (CAG)—in their recent reports have repeatedly warned against the unsound financial practices of states (Rajaraman et al. 2005).

Rao (2002) observed that 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. 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.” Against this background, the Twelfth Finance Commission (TwFC) recommended a three pronged strategy to alleviate States’ fiscal distress—subjecting States to greater market discipline, rewarding States for fiscal consolidation targets achieved by providing debt and interest rate relief, and making statutory commitments to fiscal correction by passing of fiscal responsibility legislation. Fiscal performance of national and sub-national governments, both in developed and developing economies is an important measure to assess the macro-economic stability. There are plethora of studies analyzing finances of centre as well as combined finances of all states but there are very few studies analyzing finances at sub-national level. Hence state level studies are imperative to put centre state finances in perspective, to understand constraints faced by states and to have a comprehensive analysis of stability and sustainability. In view of the above, present study was undertaken to understand the fiscal position of Haryana.

Financial position of Haryana was sound before the mid-1980s. The state was having surpluses for capital expenditure and borrowings were used for productive purpose. But recent state government finances show increase signs of mismatch between resources generated and expenditure requirements. This is despite the fact that the state has paid special attention on intuitional reforms in fiscal management. It implemented Value Added Tax (VAT) in 2003, enacted Fiscal Responsibility Legislation (FRL) in July 2005 and introduced New Pension Scheme (NPS) in 2006. State has imposed Ceilings on Guarantee, set up Consolidated Sinking Fund (CSF) and Guarantee Redemption Fund (GRF).

2. DATA AND METHODOLOGY

To understand the state's financial position we need to analyse the fiscal performance of Haryana on three broad indicators: spending patterns (effectiveness of expenditures), resource gaps (deficits in budgetary position) and outstanding liabilities (stocks of public debt). The study using times series data from 2000-01 to 2013-14 on various variables such as receipts and its components (internal comprising tax and non-tax and external comprising share from central taxes and transfers from centre in the form of grants), expenditures (plan and non-plan, Development and non-development, revenue and capital, functional expenditure etc.), outstanding liabilities and repayment of loans, analysed indicators of performance, resource gaps and fiscal health of Haryana. The growth rates of various variables over the study period are calculated using semi-logarithmic function of the form $Y = ab^t$ in the following manner. Taking natural logarithm we can specify our growth equation as:

$$\ln Y_t = \alpha + \beta t + e$$

Where y = dependent variable; t = trend over specific period, β = coefficient of trend; \ln = natural logarithm; and e = error term. Here, the coefficient of time (β) measures the constant proportional or relative change in y for a given absolute change in the value of time t . Therefore the compound annual growth rate (CAGR) can be taken as: $CAGR = [\text{antilog}(\beta) - 1] \times 100$.

Data for the paper have been mainly drawn from various issues of Reserve Bank of India's State Finances: A Study of Budgets series, RBI Handbook of Statistics on State Government Finances, Budget documents of the Government of Haryana, the Finance Accounts of Auditor General, Haryana, various issues of Economic Survey of Haryana and White paper on Haryana Finance (part-1). The data collected are analysed using simple techniques as percentage, rate and mean. For easy comprehensibility data is presented in the form of tables and graphs.

3. ECONOMIC PROFILE OF HARYANA

The State of Haryana was created on November 1, 1966 as a result of bifurcation of the State of Punjab. Haryana is geographically a small State accounting for only 1.3 percent of the country's total area and 2.09 percent of the population. Haryana's contribution to India's Gross Domestic Product (GDP), taken at constant prices (2004-05) was 3.5 percent for 2013-14. The average growth recorded by the Haryana during the period from 2005-06 to 2013-14 was 8.5%. The per capita income (PCI) for Haryana has remained higher than the all

India per capita income during the period 2004-05 to 2013-14. In 2013-14, the PCI of Haryana was Rs 1,33,427 while the all India average was Rs 74,380. At the start 69.7 percent (1967) of its population was engaged in primary activities and it constituted 56.6 percent of its domestic product in 1970-71. Since then the State economy has gradually diversified in terms of contribution in SGDP. In 2013-14 about 51 percent of State's workforce is still engaged in the primary sector. The contribution of the primary sector in the State's economy which was 56.6 percent in 1966-67 came down to 42.5 percent in 1993-94 and further decreased to 15.3 percent in 2013-14. The share of the tertiary sector was 22.9 percent in 1966-67 which increased to 57.0 percent in 2013-14. The share of the secondary sector increased from 20.5 percent in 1966-67 to 32.7 percent in 2004-05, but this share had declined to 27.7 percent by 2013-14.

4. REVENUE RECEIPT

The total revenue receipts (TRR) include the State's own tax and non tax revenues, grants in aid and share in the central taxes from the government of India. The state's share in central taxes devolve as per the recommendations of the Central Finance Commissions. Data presented in column 2 and 3 of the table-1 shows a discernible decline in the State's ability to raise resources internally as share of its own revenue had shown declining trend over the period 2000-01 to 2013-14. It was highest in 2004-05 and lowest in 2009-10. The share of tax revenue has been more or less constant but share of non-tax revenue in total revenues of the state had declined sharply from 21.9 percent in 2000-01 to 13.1 percent in 2013-14, decreasing significantly at the trend rate of 4.49 percent per annum. Column 5 and column 6 of table-1 describes that central share in total revenue has shown increasing trends for the period indicating state's increasing dependence on centre and its inability to raise resources locally. In 2013-14 76.1 percent of state's revenue is in the form of taxes and 24.0 percent in the form of non-tax revenue. The last row of the table shows that share in central taxes has increased at the trend rate of 3.73 percent and devolution in the form of grants at the rate of 4.30 percent per annum, overall the percentage share of transfers from centre increased significantly at the rate of 4.04 percent per annum. Last two columns of the table shows that total tax revenue has been more or less static but non-tax revenue has decreased significantly at the rate of 1.68 percent per annum. Data presented in last two columns of the table-1 depicts increasing share of tax revenue in the total revenues of the state.

Table-1. Components of Revenue Receipts of Haryana*(in percent)*

Year	State Own Revenue (% Share)			Central Share (% Share)			total tax revenue (2+5)	total non-tax revenue (3+6)
	Tax Revenue	Non-tax Revenue	Total (2+3)	Share in taxes	Grants	Total (5+6)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2000-01	65.6	21.9	87.5	5.3	7.3	12.6	70.9	29.2
2001-02	65.4	21.9	87.3	5.9	6.8	12.7	71.3	28.7
2002-03	64.1	20.9	85.0	8.7	6.3	15.0	72.8	27.2
2003-04	64.5	22.6	87.1	6.1	6.8	12.9	70.6	29.4
2004-05	66.7	22.8	89.5	5.6	4.9	10.5	72.3	27.7
2005-06	65.5	17.8	83.3	8.6	8.1	16.7	74.1	25.9
2006-07	60.9	25.6	86.5	7.2	6.3	13.5	68.1	31.9
2007-08	58.8	25.8	84.6	8.3	7.1	15.4	67.1	32.9
2008-09	63.2	17.5	80.7	9.4	9.9	19.3	72.6	27.4
2009-10	63.0	13.0	76.0	8.5	15.5	24.0	71.5	28.5
2010-11	65.7	13.4	79.1	9.0	11.9	20.9	74.7	25.3
2011-12	66.7	15.5	82.2	8.8	9.0	17.8	75.5	24.5
2012-13	70.0	13.9	83.9	9.1	7.0	16.1	79.1	20.9
2013-14	67.3	13.1	80.4	8.8	10.9	19.7	76.1	24.0
CAGR	0.5*	-4.49	-0.75	3.73	4.30	4.04	0.58*	-1.68

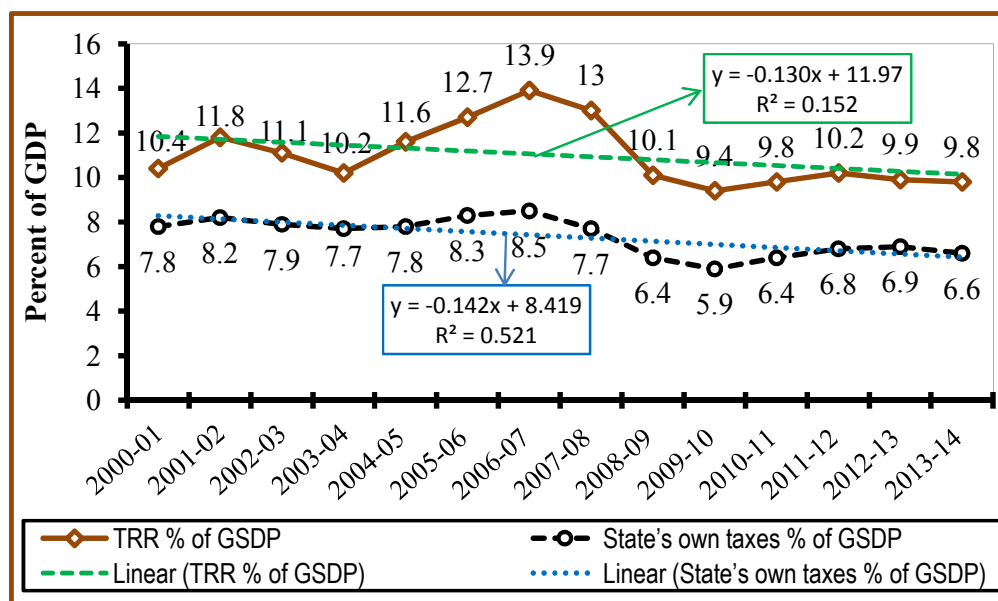
Source: State Budget Documents and Finance Accounts of AG, Haryana.

Note: 1. Totals of percentages may not sum to 100 due to rounding off.

3. *-not significant at 5% level of significance.

Total Revenue Receipt(TRR) has increased at the trend rate of 13.68 percent per annum from 2000-01 to 2013-14(appendix table-1A). For the period Own Tax Revenue(OTR) has increased at the rate of 14.84 percent per annum whereas Own Non-Tax Revenue (ONTR) has increased only at the rate of 9.35 percent per annum. Haryana share in central taxes and grants has increased at significantly higher rate than states own revenue resources. TRR as percentage of Gross State Domestic Product(GSDP) and Taxes as percentage of Gross State Domestic Product(GSDP) are presented in Chart-1. Chart shows a declining trend in both TRR and taxes as proportion of GSDP with fluctuations in between. As tax revenues are not sufficient to finance State's expenditure, govt. resorted to public debt as a source for financing Government's expenditure.

Graph-1:
Total Revenue Receipts(TRR) and State Taxes as percentage of GSDP- Haryana



Source: Constructed using data from RBI Study of State Budgets(*various issues*) and Economic Survey of Haryana(*various issues*)

Tax revenue is the major source of state revenues and sales tax(VAT) is main component of the State's own revenues followed by state excise and stamps & registration. These three constitute more than 92 percent of state own tax revenues(table-2). Major portion of states sales tax revenue comes from VAT on Petroleum Products as its share was 26.8 percent (2012-13) in Total Revenue from VAT.

Table-2. Composition of State's Own Tax Revenue

(in percent)

Items	2004-05	2009-10	2013-14
Sales Taxes	64.0	68.3	65.6
State Excise	13.6	15.6	14.5
Taxes on Goods & Passenger	5.8	3.0	1.9
Taxes & Duties on Electricity	0.8	0.9	0.9
Stamps & Registration	9.8	9.8	12.5
Taxes on Vehicles	1.9	2.1	4.3
Other Taxes	4.1	0.4	0.3
Total	100	100	100

Source: State Budget Documents and Finance Accounts of AG, Haryana.

Note: Data for 2013-14 is pre-actual.

Data presented in table-3 shows that revenue receipt as percentage of GSDP(RR/GSDP) has been less in Haryana than the average of all Non Special Category (NSC) states of India. In fact for the period 2010-13 and 2008-10, Haryana has least

RR/GSDP ratio in the country. This shows that state has not been able to garner enough revenue resources. For last three years Haryana has less than average of all NSC states OTR/GSDP ratio. Own non-tax revenue in the state has been more than NSC states average indicating State's better performance in mobilising own non-tax revenue(ONTR). Current Transfers from the centre as percentage of GSDP are significantly lower in Haryana as compared to other states. It may be noted that Fourth State Finance commission recommended state government to improve its OTR/GSDP ratio to 8.6% from 2013-14 onwards and state has failed to achieve it.

Table-3. Indicators of Revenue Receipts of State Governments

Period	RR/GSDP			OTR/GSDP			ONTR/GSDP			CT/GSDP		
	Haryana	NSC States	All States	Haryana	NSC States	All States	Haryana	NSC States	All States	Haryana	NSC States	All States
2004-08 (Avg.)	12.8	13.5	11.9	8.1	7.0	5.7	3.0	1.6	1.4	1.8	4.9	4.7
2008-10 (Avg.)	9.7	13.4	12.1	6.1	6.7	5.7	1.5	1.6	1.4	2.1	5.1	5.0
2010-13 (Avg.)	10.2	13.8	12.5	6.7	7.4	6.2	1.4	1.3	1.2	2.1	5.2	5.1

Source: RBI – Study of State Finances 2013-14.

Note: Avg. : Average; RR : Revenue Receipt; OTR : Own Tax Revenue.

CT : Current Transfers; ONTR: Own Non-Tax Revenue; GSDP : State GDP

5. REVENUE EXPENDITURE

Total Expenditure of the government has shown continuously increasing trend, increasing at the trend rate of 15.68 percent per annum(Appendix table-2A). Data presented in table-4 reveals that Development Revenue Expenditure(DRE) is the major form of expenditure of Haryana Government and its percentage share in total expenditure has shown increasing trend, increasing at the trend rate of 1.43 percent per annum. DRE in value terms has increased at the trend rate of 17.58 percent per annum whereas Non Development Revenue Expenditure(NDRE) has increased at the rate of 12.0 percent per annum. As a result, the share of DRE in total state expenditure has increased from 46.9 percent in 2000-01 to 60.2 percent in 2013-14 and NDRE share decreased from 36.3 percent to 28.3 percent for the period. Column-4 and column-7 of the table shows that share of revenue expenditure has shown increasing trend over the period whereas share of capital expenditure shown declining trend. The Revenue expenditure has increased at the trend rate of 15.25 percent against 20.91 percent for Capital outlay(Appendix Table-1A).

Table-4. Expenditure of Haryana Government*(In percent)*

Year	Revenue Expenditure as Percentage of Total Expenditure			Capital Expenditure as Percentage of Total Expenditure			Proportion of Total Expenditure	
	Development	Non-development	Total	Development	Non-development	Total	Non plan	Plan
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2000-01	46.9	36.3	83.2	16.4	0.3	16.8	82.2	17.8
2001-02	50.8	34.7	85.5	14.0	0.5	14.5	81.9	18.1
2002-03	54.6	40.9	95.5	4.0	0.5	4.5	80.3	19.7
2003-04	54.3	42.0	96.3	3.0	0.6	3.7	79.8	20.2
2004-05	52.2	40.6	92.7	6.8	0.5	7.3	78.4	21.6
2005-06	54.8	33.9	88.7	10.7	0.6	11.3	74.3	25.7
2006-07	59.8	27.2	87.1	12.4	0.5	12.9	73.8	26.2
2007-08	57.1	26.6	83.6	15.5	0.8	16.4	68.9	31.1
2008-09	57.1	24.9	82.0	17.2	0.8	18.0	68.7	31.3
2009-10	57.2	25.7	82.9	16.5	0.6	17.1	66.4	33.6
2010-11	58.4	29.1	87.5	11.8	0.6	12.5	67.8	32.2
2011-12	58.0	27.6	85.6	13.7	0.6	14.4	67.1	32.9
2012-13	58.8	27.1	85.8	13.4	0.8	14.2	68.6	31.4
2013-14(R.E.)	60.2	28.0	88.2	10.8	1.0	11.8	66.3	33.7
CAGR	1.43	-3.34	0.37*	3.69	5.58	4.51	-1.88	5.70

Source: RBI State Finances: A Study of State Budgets(various issues) and White paper on Haryana Finance, part-1 (last two columns)

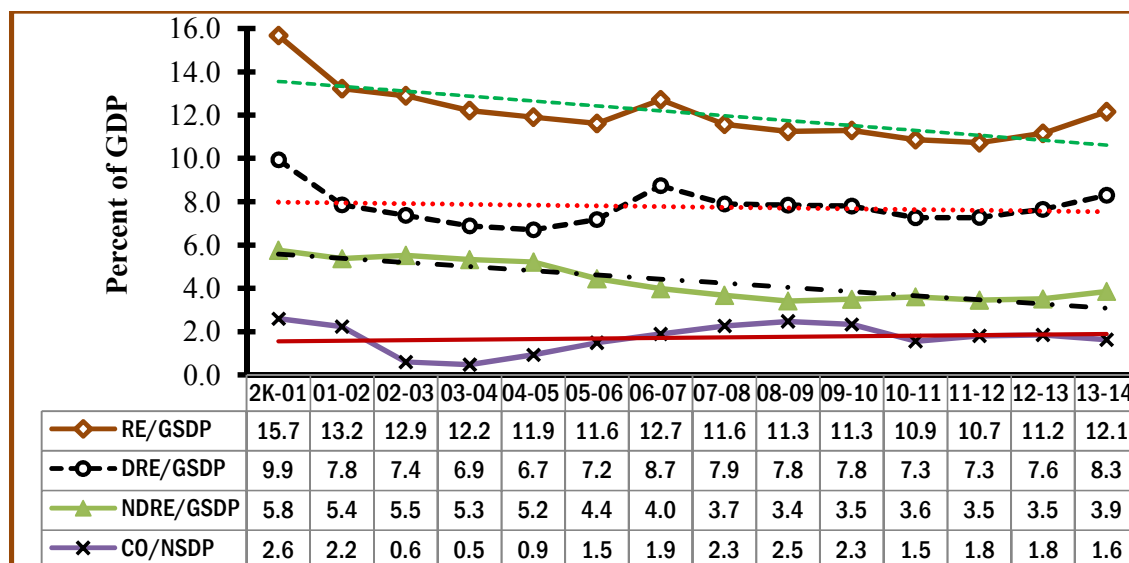
Note: 1. Totals of percentages may not sums to 100 due to rounding off.

2. *-not significant at 5% level of significance.

Within the budget estimates, expenditure is classified as plan and non-plan. While all old revenue expenditure is classified as non-plan expenditure, new expenditure on both scheme and capital works is categorized as plan expenditure. Last two columns of table-4 shows that major portion of the government expenditure is non-plan expenditure but the share of plan expenditure has increased significantly rising from 21.6 percent in 2004-05 to 33.7 percent in 2013-14. Table-5 shows comparative picture of various indicators of revenue expenditure. Revenue expenditure as percentage of SGDP has been lower in Haryana as compared to the average of NSC states and average of all states in India. For the period 2010-13, only Gujarat(10.3 percent) and Maharashtra (10.3 percent) among NSC states has lower RE/GSDP than Haryana. Graph-2 depicts a declining trend in RE/GSDP indicator for the period under study declining from 15.7 percent in 2000-01 to 12.1 percent in 2013-14. NDRE as percentage of SGDP is less than NSC states average and more than all states average for all sub periods indicating productive utilization of resources. Interest

Payments(IP/GSDP) as percentage of GSDP in Haryana has been lower than both NSC states average and all states average.

Graph-2:
Various Expenditure indicators as percentage of GSDP



Source: Constructed using data from RBI Study of State Budgets(*various issues*) and Economic Survey of Haryana(*various issues*)

Table-5. Revenue Expenditure of the State Governments

Period	RE/GSDP			DRE/GSDP			NDRE/GSDP			IP/GSDP		
	Haryana	NSC States	All States	Haryana	NSC States	All States	Haryana	NSC States	All States	Haryana	NSC States	All States
2004-08 (Avg.)	11.9	13.7	11.9	7.6	7.5	6.6	4.1	5.8	5.0	1.9	2.7	2.3
2008-10 (Avg.)	11.3	13.7	12.2	7.8	8.3	7.4	3.4	5.0	4.5	1.0	2.0	1.8
2010-13 (Avg.)	11.0	13.8	12.4	7.5	8.4	7.6	3.5	4.9	4.5	1.3	1.8	1.6

Source: RBI State Finances: A Study of State Budgets(*various issues*)

Note: Avg. : Average; RE : Revenue Expenditure; DRE : Development Revenue Expenditure; NDRE : Non-Development Revenue Expenditure
IP : Interest Payments; GSDP : Gross State Domestic Product

Table-6 shows that development expenditure as percentage of GSDP has been less in Haryana as compared to NSC states and all states also. Same trend was observed in Social Sector Expenditure(SSE) and capital outlay(CO) as percentage of GSDP.

Table-6. Development Expenditure: Select Indicators

	DEV/GSDP			SSE/GSDP			CO/GSDP		
	Haryana	NSC States	All States	Haryana	NSC States	All States	Haryana	NSC States	All States
2004-08 (Avg.)	9.3	10.3	9.1	4.3	5.9	5.2	1.6	2.4	2.2
2008-10 (Avg.)	10.3	11.2	10.0	5.7	6.7	6.0	2.4	2.6	2.4
2010-13 (Avg.)	9.1	11.0	9.8	5.4	6.9	6.1	1.5	2.2	2.1

Source: RBI State Finances: A Study of State Budgets(various issues)

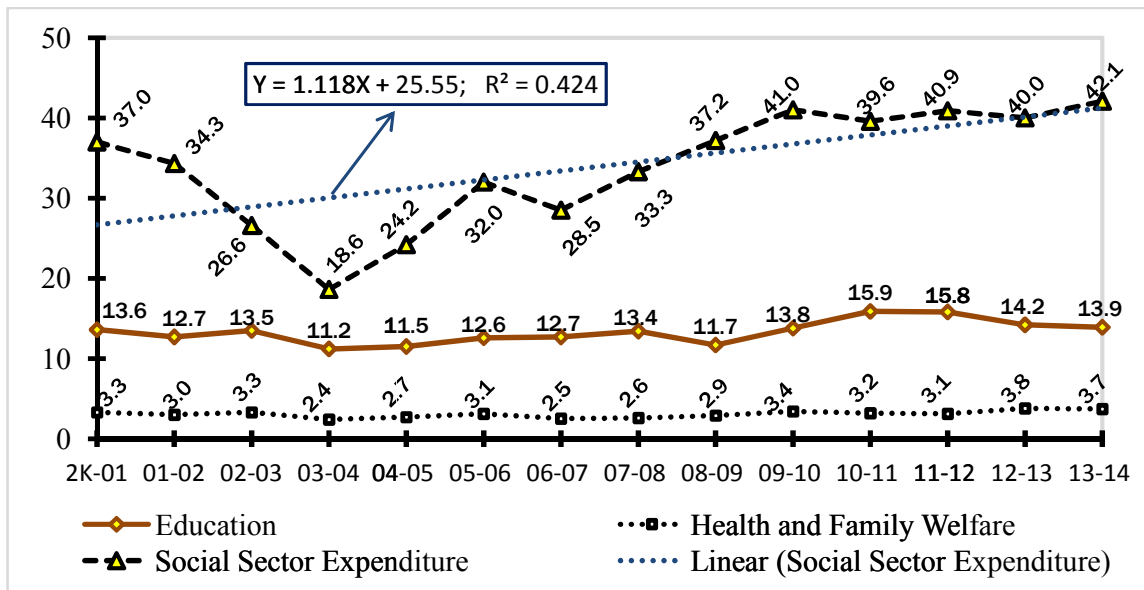
Note: Avg. : Average; DEV: Development Expenditure;

CO: Capital Outlay; SSE: Social Sector Expenditure;

GSDP: Gross State Domestic Product

The ultimate objective of development planning is human development or increased social welfare and well being of the people. Education, Health and Social Justice & Empowerment are the main component of the Social Sector. In any developing and emerging economy social sector plays a significant role. Increased social welfare of the people requires a more equitable distribution of development benefits alongwith better living environment.

Graph-3:
Expenditure on Social Sector as Ratio to Aggregate Disbursements



Source: Constructed using data from RBI Study of State Budgets(various issues) and Economic Survey of Haryana(various issues)

Graph-3 shows that expenditure on social sector(SSE) has shown an increasing trend over the period and has shown an upward trend since 2006-07. The expenditure on education

constitutes around 13.9 percent of total government disbursements and this has been more or less stable during the period 2000-01 to 2013-14. Similarly expenditure on health and family welfare has been also stable during the period and it was 3.7 percent of total disbursements during the period. The increasing trends in SSE and almost stable expenditures on health and education indicates, that some other components of social sector such as provision of pension for the old, the handicapped, the widows and the destitute and drinking water supply and improving sanitation has increased during the period.

6. STATE OF FISCAL HEALTH OF HARYANA

Mismatch between finance requirement and availability of finance give rise to resource gap. Hence, the paper analysed trends in resource gap during the study period. It may be noted that there is no single criterion to measure the resource gap in the Government finances. The choice of a particular measure is, therefore, purpose specific

6.1 Measures of Resource Gap

RBI manual on Financial and Banking Statistics(RBI, 2007) defines various indicators of resource gaps pertaining to state governments. For the purpose, we would only be using three indicators of resource gap or fiscal health namely Revenue Deficit (RD), Gross Fiscal Deficit(GFD) and Primary deficit. RBI (2007) definition of these three indicators is reproduced below.

- **Revenue Deficit:**

Revenue Account Gap or Revenue Deficit (RD) denotes the difference between revenue receipts and revenue expenditure. Revenue account is the most important segment of state finances. It embodies total revenue receipts comprising share in central taxes, own tax revenue, own non-tax revenue and grants-in-aid. Revenue expenditure comprises of development and non-development expenditure on operation and maintenance of plan and non-plan schemes. Surplus on revenue account is indicative of sound fiscal management and is the first source of funding capital expenditure. The Revenue Deficit (RD) is the most critical indicator of the fiscal health of the State as it reflects the excess of revenue expenditure over the revenue receipts and the surplus on revenue account indicates soundness of fiscal management.

Revenue Deficit (RD) = Revenue Receipts (RR) – Revenue Expenditure (RE)

- **Gross Fiscal Deficit (GFD):**

Gross Fiscal Deficit (GFD) is the difference between aggregate disbursements net of debt repayments and recovery of loans and revenue receipts and non-debt capital receipts. In a crude sense fiscal deficit determines the increase in government liability due to budgetary operations in a period.

Gross Fiscal Deficit(GFD)=RE + [Capital Disbursements (CD) - (Discharge of Internal Debt (DID) + Repayment of Loans to Centre (RLC) + Recoveries of Loans & Advances (RLA)] – RR.

= RE + [Capital Outlay (CO) + Loans & Advances by States (LAS) + DID+RLC – (DID +RLC+RLA)] –RR.

= (RE-RR) + [CO+(LAS-RLA) + (DID-DID) + (RLC-RLC)]

= RD + CO + Net Lending (NL)

- **Gross Primary Deficit (GPD):**

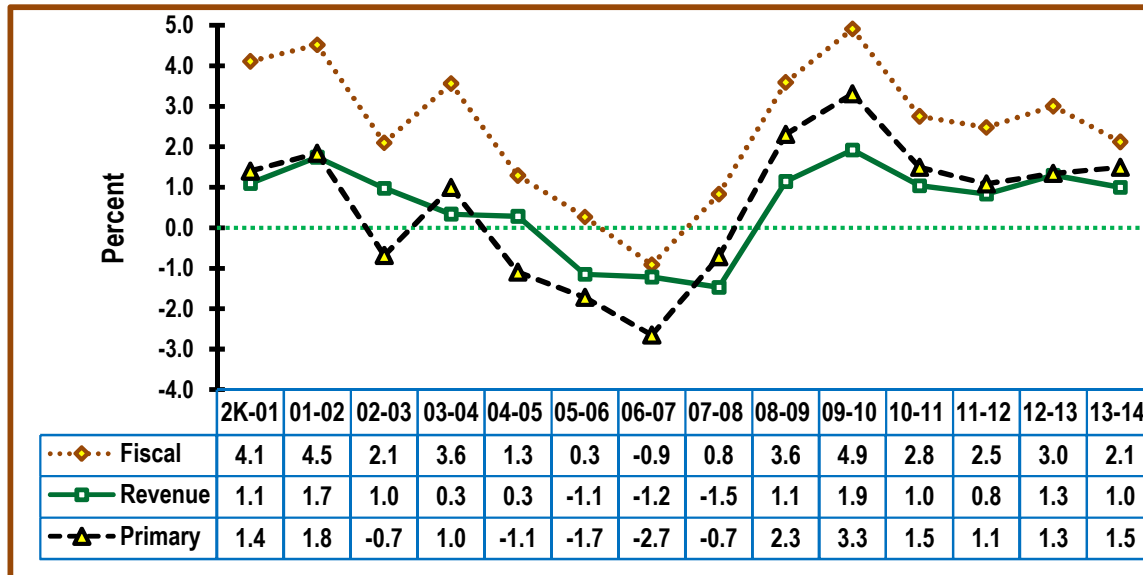
Gross Primary Deficit (GPD) is defined as GFD minus interest payments. Primary Deficit (PD) captures the net impact of fiscal operations on the future indebtedness of the State. It is simply the difference between FD and interest payment. The rationale of the concept is that the interest payment is the outcome of accumulated past liability. If there is surplus in PD the public liability shall decline and vice versa.

Primary Deficit (PD) = GFD – Interest Payment (IP)

A declining deficit signifies a consolidation of the resource position and sustainable functioning of the Government. A deficit is usually financed by way of borrowings by the State. Rangarajan and Subbarao (2007) argued *'It must be acknowledged upfront that fiscal deficits are not bad per se. In fact, they may be necessary, even desirable in some situations. The issues, therefore, are not whether or not there should be fiscal deficit, but its appropriate level.'* Fourth state finance commission observed that the fiscal situation of Haryana remained under stress since nineties and continued to incur revenue deficits till the fiscal 2004-05. These adverse trends in state finances led to siphoning of capital funds i.e. borrowings to meet revenue or consumption expenditure. As a result, the debt liability vis-à-vis, interest liability increased sharply. Due to this fiscal stress, the development process in the State got impacted to a large extent. Consequently, the state government resorted to several effective corrective measures to restore fiscal balances by virtue of which state revenue account turned

into surplus and, thereby, the State remained revenue surplus from 2005–06 to 2007–08. But due to slow down in state economy and Sixth Pay Commission liability the State again incurred revenue deficits from 2008–09 to 2011–12.

Graph-4:
Various Resource Gap Indicators as Percentage of GSDP



Source: Constructed using data from RBI Study of State Budgets(*various issues*) and Economic Survey of Haryana(*various issues*)

Note: Negative values denotes surpluses instead of deficits.

Over the last 25 years (1988–89 onwards) Haryana has confronted revenue deficit for 21 times and it could have revenue surplus only four times in 1993–94, 2005–06, 2006–07 and 2007–08. Broad deficit indicators of – revenue, fiscal and primary deficits – for the period 2001-02 to 2013-14 as ratio of Gross State Domestic Product (GSDP) at current prices are depicted in graph-4. Data plotted indicates that fiscal health of state improved in early half of the decade upto 06-07. Since then it started an upward trend and fiscal deficit was as high as 4.9 percent in 2009-10 primarily due to implementation of sixth pay commission recommendations and fiscal measure undertaken in wake of global financial crisis. Still Haryana has manageable gross fiscal deficit as FC-XII target of 3.0 percent for the year 2013-14 is well above fiscal deficit of 2.1 percent realised by Haryana. But the state is not able to bring its revenue deficit to zero as mandated by 13th Finance Commission.

Table-7. Deficit Indicators of Haryana

Period	RD/GSDP			GFD/GSDP			PD/GSDP			PRD/GSDP		
	Haryana	NSC States	All States	Haryana	NSC States	All States	Haryana	NSC States	All States	Haryana	NSC States	All States
2004-08 (Avg.)	-0.9	0.2	0.0	0.4	2.7	2.3	-1.5	0.0	0.0	-2.8	-2.5	-2.3
2008-10 (Avg.)	1.5	0.3	0.1	4.1	3.1	2.7	2.8	1.0	0.9	0.3	-1.7	-1.7
2010-13 (Avg.)	0.8	-0.1	-0.2	2.5	2.4	2.1	1.1	0.6	0.5	-0.5	-1.8	-1.7

Source: RBI State Finances: A Study of State Budgets(various issues)

Note: Avg. : Average; RD-Revenue Deficit; GSDP-Gross State Domestic Product
PD-Primary Deficit; GFD-Gross Fiscal Deficit; PRD- Primary Revenue Deficit

Comparing the fiscal deficit level of Haryana with NSC states table-7 shows that for sub-period 2008-10 and 2010-13, the revenue deficit(RD) and gross fiscal deficit(GFD) had been more than NSC state's average and all states average. In fact among NSC states for the period 2008-10 only West Bengal(5.1 percent) has higher GFD than Haryana and similarly only three states Kerala, Punjab and West-Bengal has higher RD than Haryana for the sub-period. Same trend was observed in RD for the period 2010-13. Primary revenue deficit and primary deficit of Haryana has also been higher than NSC states and all states average. This indicates that though Haryana has fiscal deficits within limits set by FRBM Act but it had higher deficits than most of other states in the country and state is able to bring revenue deficit to zero as mandated by FC-XIII. Haryana Fiscal Responsibility and Budget Management (FRBM) Act, 2005 which stipulated that (i) Revenue Deficit to be reduced to zero by 2008 – 09 (ii) Fiscal Deficit to be brought down to 3% of GSDP by 2009 (iii) Debt Liability to be contained to 28% of GSDP by 2010. As per the guidelines of Ministry of Finance, Government of India, the Government of Haryana has amended its FRBM Act, 2005. Now the Government of Haryana has to attain zero revenue deficit target from 2011–12 and maintain the same till 2014–15, fiscal deficit to be brought down to 3% of GSDP from 2011–12 and maintain the same till 2014–15. The total debt liability to be retained at 22.4% of GSDP in 2010–11, at 22.6% in 2011–12, 22.7% in 2012–13, 22.8% in 2013–14 and 22.9% in 2014–15. Major portion of gross fiscal deficit is being financed by market borrowings as shown in table-8.

Table-8. Financing of Gross Fiscal deficit*(Amount in Rs. billion)*

	2011-12	2013-14
Market Borrowings	59.9 (83.8)	97.7(108.8)
Loans from Centre	-1.3 (-1.8)	3.6(4.0)
Special Securities issued to NSSF	-3.3 (-4.6)	-3.4(-3.8)
Loans from LIC, NABARD, NCDC, SBI and other Banks	13.5 (18.9)	-10.1(-11.2)
Provident Funds, etc.	7.2 (10.0)	9.1(10.1)
Reserve Funds	-0.2 (-0.2)	--
Deposits and Advances	8.3 (11.6)	- 5.9(- 6.6)
Suspense and Miscellaneous	0.9 (1.3)	-14.5(-16.2)
Remittances	2.1 (3.0)	-2.5 (-2.7)
Others	-1.6 (-2.3)	-2.4 (-2.7)
Overall Surplus (-) /Deficit (+)	-14.1 (-19.8)	6.3 (7.0)
Gross Fiscal Surplus (-)/ Deficit (+) (Col.2 to 12)	71.5 (100.0)	89.8(100.0)

Source: RBI Study of State Budgets(*various issues*) and Economic Survey of Haryana(*various issues*)

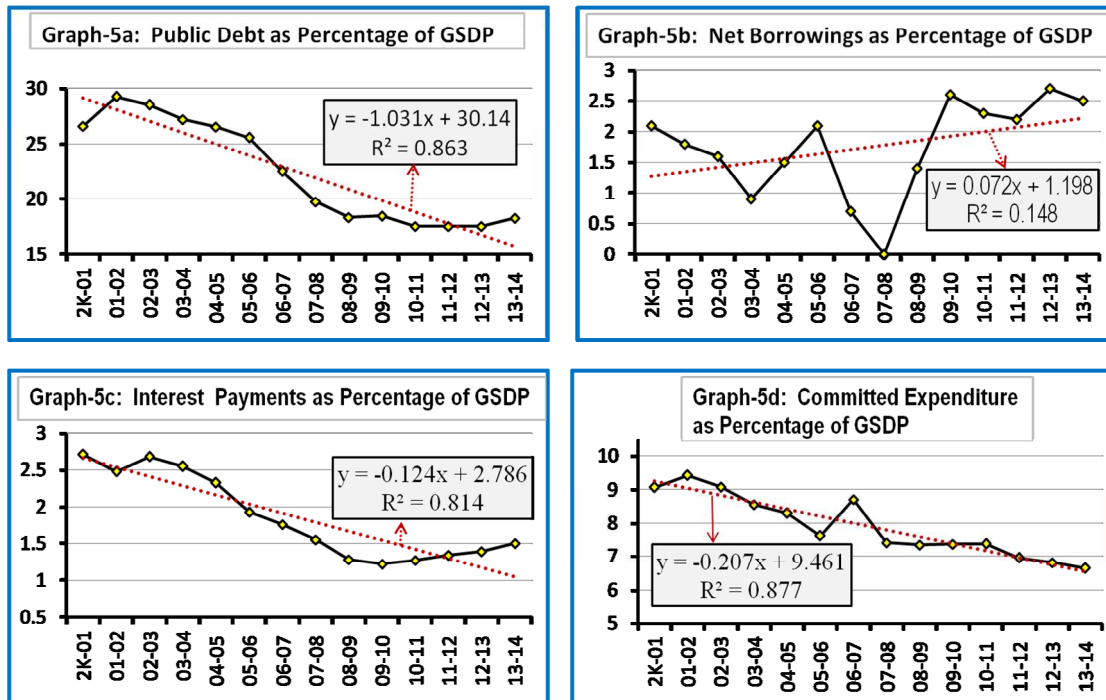
6.2 Debt and Liabilities

Total outstanding debt of Haryana is 70369 crore and it has increased significantly at the trend rate of 11.86 percent per annum. The consolidated debt as a ratio to GSDP has been substantially reduced from 29.3 percent in 2001-02 to 18.26 percent in 2013-14 which is well within the permissible limit(Table-9). Public debt as percentage of GSDP has decreased at the rate of 4.50 percent per annum and as percentage of revenue receipt it decreased by 2.50 percent per annum. Net borrowing as percentage of GSDP has shown increasing trend, increasing at the rate of 0.94 percent per annum. Interest payments and wages and salaries as percentage of GSDP and as percentage of revenue expenditure has shown significant increasing trends. Interest payments has increased from 1492 crore in 2000-01 to 5850 crore in 2013-14, increasing at the trend rate of 9.33 percent per annum. Pension liabilities for the state government has increased more alarmingly, increasing from 571 crore in 2000-01 to 4169 crore in 2013-14 at the trend rate 17.63 percent per annum(Appendix Table-1.3A). Given that GSDP of the state has increased at the trend rate of 16.71 percent, the interest payment-GSDP ratio declined for the period whereas pensions-GSDP ration increased slightly.

Data presented in table-9 and graph-5 and 6 shows fiscal health of Haryana government finances. A cursory look at graph-5 and 6 indicates that public debt as percentage of GSDP(graph-5a), revenue expenditure(graph-6b) and revenue receipts(graph-6a) have

decreased with time. Though this is a positive sign for fiscal strength but increase in net borrowing as percentage of GSDP(Graph-5b) is perturbing indicating that in recent years the pace of debt accumulation has increased in the state. Column-5 of the table-9 indicates that new debt(net borrowing) as percentage of GSDP has increased from 1.5 percent in 2004-05 to 2.5 percent in 2013-14 with fluctuations in-between.

Graph-5:
Indicators of Fiscal Health, Haryana- Debt/GSDP, New Debt/GSDP, IP/GSDP
and Committed Expenditure/GSDP

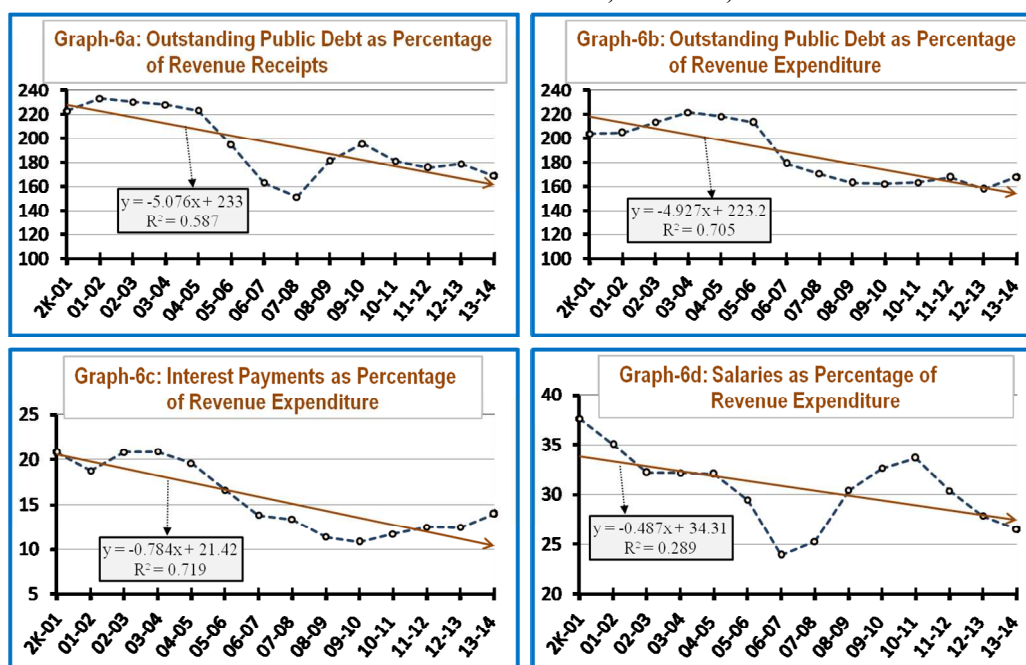


Source: Constructed using and computing data from RBI - Study of State Budgets(*various issues*), Economic Survey of Haryana(*various issues*), State Budget Documents and Finance Accounts of AG, Haryana.

A major part of this is debt repayments which had accumulated over the years. Though interest payments as percentage of GSDP (Graph-5c) and as percentage of revenue expenditure (Graph-6c) have declined with time but analysis of maturity profile of outstanding state government securities indicates that from year 2018-19, interest burden is likely to increase as 22.9 percent of its securities will be maturing during 2018-20 period and 67.9 percent state debt liabilities of Haryana would be maturing after 2020(RBI, 2014). This trend is likely to be for other states also as overall repayment pressure could be further aggravated from 2018-19.

Graph-6:

Indicators of Fiscal Health of the State-Debt/RR, Debt/RE, IP/RE and Salaries/RE



Source: Constructed using and computing data from RBI - Study of State Budgets(various issues), Economic Survey of Haryana(various issues), State Budget Documents and Finance Accounts of AG, Haryana.

Table-9. A Snapshot of Indicators of Fiscal Health in Haryana

	Total Outstanding Public Debt (Rs. Crore)	Public debt (as % of)		Net Borrowing as %age of GSDP	Interest Payment (% of)		Wages and Salaries(% of)	
		GSDP	R.R.		GSDP	R.E.	GSDP	R.E.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2000-01	14650	26.61	222.85	2.1	2.71	20.8	4.9	37.6
2001-02	17726	29.27	233.22	1.8	2.48	18.8	4.6	35.0
2002-03	19948	28.52	230.43	1.6	2.68	20.8	4.1	32.2
2003-04	22450	27.22	228.07	0.9	2.55	20.9	3.9	32.2
2004-05	24900	26.54	223.34	1.5	2.33	19.6	3.8	32.1
2005-06	26979	25.6	194.75	2.1	1.93	16.6	3.4	29.5
2006-07	29308	22.52	163.25	0.7	1.76	13.8	3.0	24.0
2007-08	29911	19.73	151.44	0.0	1.55	13.4	2.9	25.3
2008-09	33495	18.35	181.52	1.4	1.28	11.4	3.4	30.4
2009-10	41020	18.47	195.40	2.6	1.22	10.8	3.7	32.6
2010-11	46300	17.53	181.12	2.3	1.27	11.7	3.7	33.6
2011-12	53700	17.55	175.73	2.2	1.34	12.5	3.3	30.4
2012-13	60159	17.53	178.87	2.7	1.39	12.5	3.1	27.9
2013-14	70369	18.26	169.01	2.5	1.50	14.0	2.9	26.5
CAGR(%)	11.86	-4.50	-2.50	0.94	-6.33	-4.81	-2.96	-1.54

Source: Constructed using and computing data from RBI - Study of State Budgets(various

issues), Economic Survey of Haryana(*various issues*), State Budget Documents and Finance Accounts of AG, Haryana

Note: RR – Revenue Receipt RE – Revenue Expenditure

6.3 Debt Sustainability

Serious deterioration in government fiscal finances in the late 1990s and early 2000s asked for prudent fiscal management. The fiscal deterioration of 1990s and 2000s led to elevated levels of debt liabilities at both the national and sub-national level. The debt sustainability is important indicator of health of the government. It is argued that debts, particularly, fiscal debts are not undesirable, especially, in developing countries like India where revenue resources are seriously constrained. But what should be ideal size of debt is a matter of concern. There is need to attain optimum level of debts rather than eliminating it at considerable economic cost. Various studies in Indian context have tested the sustainability of debt both at national level (Seshan, 1987; Pattnaik, Prakash, & Misra, 2005; Rangarajan & Srivastava; 2005 and Sucharita, 2012) and sub-national level (asad, Goyal & Prakash, 2003; Dholakia, Mohan & Karan, 2004; Sawhney, 2005; Rajaraman, Bhide and Pattnaik, 2005; Ianchovichina, Liu and Nagarajan, 2006 and Das, 2013). The state borrowing regime in India is complex. There are multiple borrowing channels –each channel with its own rules. The states can obtain market financing, loans from the central government, and financing from employees' provident fund. RBI(2014) study of state finances uses indicator analysis to assess debt sustainability. The assessment is generally done in terms of credit worthiness indicators (nominal debt stock/own current revenue ratio;) and liquidity indicators (debt service/current revenue ratio and interest payment/current revenue ratio).

Table-10. Debt Sustainability Indicators

Period	Debt/GSDP RATIO			g-k			g-i		
	Haryana	NSC States	All States	Haryana	NSC States	All States	Haryana	NSC States	All States
1995-96 to 1999-2000	21.0	24.5	21.8	-9.3	-6.0	-4.8	1.3	2.4	3.5
2000-01 to 2004-05	26.1	35.6	30.1	0.1	-5.3	-4.7	2.1	-0.9	0.0
2005-06 to 2009-10	20.8	32.2	27.6	7.8	5.4	4.6	10.3	7.7	6.9
2010-11 to 2013-14	18.3	25.3	22.2	1.7	5.6	5.2	7.7	8.8	8.2

Source: RBI – Study of State Finances 2013-14

Note: k- Rate of growth of public debt

g - Rate of growth of nominal GSDP

i - Effective interest rate

These indicators enable an assessment of the ability of a state government to service its interest payments and repay its debts as and when they become due through current and regular sources of revenues. It is pointed out that the primary deficit path can be sustained as long as real growth of the economy remains higher than the real interest rates. Data presented in table-10 reveals that debt-GSDP ratio of Haryana has been less than both NSC states and all states combined. The debt-GSDP ratio is less than recommended by Haryana Fiscal Responsibility and Budget Management (FRBM) Act, 2005. Another important indicator of debt sustainability is that rate of growth of GSDP(g) should be more than rate of public debt(k), that is, $g-k > 0$. Data presented in table-10 shows that $g-k$ has been positive since 2001-02 indicating debt sustainability for the state. Comparison with other states reveals that position of Haryana vis-à-vis other NSC states for the period 2010-11 to 2013-14 has deteriorated. Last three columns of the table shows another indicator of debt sustainability that is rate of growth of GSDP(g) should be more than rate of effective interest rate (i), that is, $g-i$ should be positive. The recent trend shows that the indicator is positive indicating debt-sustainability though its strength has decreased for the period 2010-11 to 2013-14(10.3) as compared to 2005-06 to 2009-10 period.

Table-11. Debt Servicing Indicators

Period	Interest Payments to Revenue Receipts			Interest Payments to GSDP			Interest Payments to Revenue Expenditure		
	Haryana	NSC States	All States	Haryana	NSC States	All States	Haryana	NSC States	All States
1995-96 to 1999-2000	15.7	19.4	18.7	2.1	2.2	1.9	13.4	16.4	16.1
2000-01 to 2004-05	21.6	25.3	24.3	2.5	3.1	2.6	20.2	20.8	20.3
2005-06 to 2009-10	13.1	17.1	16.5	1.5	2.3	2.0	13.2	17.2	16.8
2010-11 to 2013-14	13.5	12.6	12.2	1.4	1.8	1.5	12.6	12.7	12.4

Source: RBI – *Study of State Finances 2013-14*

Data presented in Table-11 shows a steady decline in the debt service burden of Haryana and other Indian states as all debt service indicators, viz. interest payments to revenue receipts, interest payments to GSDP and interest payments to revenue expenditure, declined during 2005-06 to 2013-14. Interest payments to revenue receipts ratio of Haryana has been less than NSC states except for the last period 2010-11 to 2013-14 where it is higher than both NSC states average and all states average. This indicates that debt burden of

Haryana has increased faster than other states in recent years. All other debt service indicators reveals reduction in debt service burden.

7. SUMMARY AND CONCLUSIONS

The paper analysed trends in the finances for Haryana government for the period 2000-01 to 2013-14. The main findings emerging from discussions are as under.

- ☞ Share of states own non-tax revenue (ONTR) has decreased significantly while own tax revenue(OTR) remained more or less static. Share of central transfer of taxes and grants has shown significant increasing trends. Share of total non-tax revenue has shown decreasing trend whereas share of tax revenue in total revenue has been stagnant.
- ☞ The revenue receipts as percentage of GSDP, OTR as percentage of GSDP and Current Transfer as percentage of GSDP has been less in Haryana as compared to average of other Non Special Category(NSC). State OTR/GSDP ratio is significantly below the recommended level by Fourth State Finance Commission.
- ☞ Development Revenue Expenditure(DRE) is the major component of expenditure of Haryana Government and its percentage share in total expenditure has shown increasing trend whereas share on non development revenue expenditure has shown significant decreasing trends. Most of the states expenditure is of non-plan type though share of plan expenditure is increasing.
- ☞ Development expenditure as percentage of GSDP, social sector expenditure(SSE) and capital outlay(CO) as percentage of GSDP has been less in Haryana as compared to NSC states and all states also. Expenditure on social sector as ratio to aggregate disbursements has shown increasing trend.
- ☞ The increasing trends in SSE and almost stable expenditures on health and education indicates, that some other components of social sector such as provision of pension for the old, the handicapped, the widows and the destitute and drinking water supply and improving sanitation has increased during the period.
- ☞ Fiscal health of state improved in early half of the decade upto 06-07. Since then deficits started an upward trend and fiscal deficit was as high as 4.9 percent in 2009-10 primarily due to implementation of sixth pay commission recommendations and fiscal measure undertaken in wake of global financial crisis.
- ☞ Haryana has manageable gross fiscal deficit as FC-XII target of 3.0 percent for the year 2013-14 is well above fiscal deficit of 2.1 percent realised by Haryana. But state

is not able to bring its revenue deficit to zero as mandated by 13th Finance Commission.

- ☞ Comparative fiscal position for Haryana has deteriorated after 2008-09 as both its revenue deficit(RD) and gross fiscal deficit(GFD) had been more than NSC state's average and all states combined average. In fact among NSC states for the period 2008-10 only West Bengal(5.1 percent) has higher GFD than Haryana and similarly only three states Kerala, Punjab and West-Bengal has higher RD than Haryana for the sub-period. A major part of fiscal deficit is being financed through market borrowings. A small part is finances through deposits like provident fund etc.
- ☞ New Debt(net borrowings) as percentage of GSDP has increased from 1.5 percent in 2004-05 to 2.5 percent in 2013-14 with fluctuations in-between. Increase in net borrowing as percentage of GSDP is disturbing as it indicates that in recent years the pace of debt accumulation has increased in the state.
- ☞ Interest payments as percentage of GSDP and as percentage of revenue expenditure have declined with time but maturity profile of outstanding state government securities indicates that from year 2018-19, interest repayment burden is likely to increase as 22.9 percent of its securities will be maturing during 2018-20 period.
- ☞ Traditional debt sustainability indicators support the view that debt liabilities of the state are sustainable but debt sustainability position of Haryana on debt sustainability indicators vis-à-vis other NSC states for the period 2010-11 to 2013-14 has deteriorated.

The overall view of state finances is that Haryana has been a financially well managed state. The broad trends in state finances do not indicate major problem of sustainability. Key fiscal parameters exhibit a sound fiscal health but the analysis could see faultlines in financial management of the state necessitating immediate attention. The debt accumulation is likely to increase, so does the pressure of debt burden which may force state in a debt spiral, that is, debt to repay debt. The state is also required to increase its revenue base by following a prudent fiscal strategy by enhancing its own non-tax revenues through user charges and by recovering cost from government services. Given the shocks in the finances of state by foreseeable and unforeseeable events such as pay commission rewards, elections, financial packages etc. the government should form a corpus to bear these shocks. State governments

need to stick with fiscal rules policy with better financial management but it should also focus on sparing finance for productive activities. Deficits should be reduced on revenue account and capital outlay should not be reduced for achieving fiscal targets.

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Appendix Tables

Table-1A- Receipts of Haryana Government

Year	States Own Revenue			Central Share			Total Revenue Receipt
	Tax	Non-Tax	Total	Share in central taxes	Grants from the Centre	Total	
2000-01	4311.5	1439.4	5750.9	344.9	478.1	823.0	6573.9
2001-02	4972.4	1666.1	6638.5	449.0	513.0	962.1	7600.6
2002-03	5549.7	1807.9	7357.5	756.6	542.9	1299.5	8657.0
2003-04	6348.1	2223.1	8571.1	600.8	671.6	1272.4	9843.5
2004-05	7440.0	2544.4	9984.4	619.5	545.2	1164.7	11149.1
2005-06	9078.6	2458.6	11537.2	1201.0	1115.1	2316.1	13853.3
2006-07	10927.8	4590.8	15518.5	1295.6	1138.3	2433.9	17952.4
2007-08	11617.8	5097.1	16714.9	1634.4	1401.5	3035.8	19750.7
2008-09	11655.3	3238.4	14893.7	1724.6	1834.0	3558.6	18452.3
2009-10	13219.5	2741.4	15960.9	1774.5	3257.3	5031.8	20992.7
2010-11	16790.4	3420.9	20211.3	2301.8	3050.6	5352.4	25563.7
2011-12	20399.5	4721.7	25121.1	2681.6	2754.9	5436.5	30557.6
2012-13	23559.0	4673.2	28232.2	3062.1	2339.3	5401.4	33633.5
2013-14	26589.1	5066.2	31655.3	3645.4	6335.2	9980.6	41635.9
CAGR	14.84	9.35	13.68	19.00	20.84	20.06	14.73

Source: State Budget Documents and Finance Accounts of AG, Haryana.

Table-2A: Expenditure of Haryana, Government

Year	Revenue Expenditure			Capital Expenditure			Total Expenditure		
	D	ND	Total	D	ND	Total	D	ND	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
2000-01	4049.1	3132.3	7181.4	1415.1	30.1	1445.2	5464.2	3162.3	8626.5
2001-02	5139.6	3516.9	8656.5	1416.5	50.7	1467.1	6556.1	3567.6	10123.6
2002-03	5341.2	4000.9	9342.2	390.5	45.4	435.8	5731.7	4046.3	9778.0
2003-04	5701.8	4415.4	10117.2	319.2	66.5	385.7	6021.0	4481.9	10502.9
2004-05	6417.3	4989.8	11407.1	838.8	58.1	896.9	7256.1	5047.9	12304.0
2005-06	7810.4	4829.5	12639.9	1530.1	82.2	1612.3	9340.5	4911.7	14252.2
2006-07	11242.3	5119.9	16362.2	2337.7	89.9	2427.6	13580.0	5209.8	18789.8
2007-08	11960.6	5566.3	17526.9	3255.4	170.8	3426.2	15215.9	5737.1	20953.0
2008-09	14294.5	6240.3	20534.7	4306.9	194.8	4501.7	18601.3	6435.1	25036.4
2009-10	17432.1	7825.3	25257.4	5031.1	187.4	5218.5	22463.2	8012.6	30475.9
2010-11	18900.8	9409.4	28310.2	3832.2	199.0	4031.1	22733.0	9608.3	32341.3
2011-12	21695.6	10319.3	32014.9	5137.0	235.3	5372.3	26832.7	10554.6	37387.2
2012-13	26073.1	11998.6	38071.7	5925.0	358.9	6283.8	31998.0	12357.5	44355.6
2013-14	32235.6	15013.3	47248.6	5763.6	535.8	6299.4	37999.2	15549.1	53548.0
CAGR	17.33	11.81	15.25	20.07	22.02	20.91	17.58	12.0	15.68

Source: State Budget Documents and Finance Accounts of AG, Haryana

Note: 1. D – Development; ND – Non-Development

2. Due to different sources table may not be internally consistent

Table-3A: Key Fiscal Indicators of the State

Year	Fiscal Deficit	Revenue Deficit	Primary Deficit	Interest Payments	Pension Payments	Primary deficit as % of Fiscal Deficit
2000-01	2265	608	773	1492	571	34.13
2001-02	2740	1056	1115	1624	657	40.69
2002-03	1471	685	-475	1946	746	-24.41
2003-04	2933	274	820	2113	766	27.96
2004-05	1206	258	-1029	2235	902	-46.04
2005-06	286	-1213	-1814	2100	1033	-86.38
2006-07	-1179	-1590	-3444	2265	1173	-74.49
2007-08	1264	-2224	-1082	2346	1298	-46.12
2008-09	6558	2082	4219	2339	1614	64.33
2009-10	10900	4260	7350	2737	2390	67.43
2010-11	7260	2750	3940	3319	3094	54.27
2011-12	7153	1457	3152	4001	3204	44.07
2012-13	10362	4438	5,618	4,744	3636	54.22
2013-14	8314	5613	2,464	5,850	4169	29.64
CAGR				9.33	17.63	

Source: State Budget Documents and Finance Accounts of AG, Haryana