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Outstanding Fiscal Liability Trends in Haryana and its Implications: 2011-12 to 2020-21

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Abstract

The state Debt liability/ Fiscal liabilities in sub-national governments in India has been a matter of concern for the past two decades. Fiscal Responsibility and Budgetary Management Act was enacted in 2003 to provide legal support to the fiscal discipline measures of the central government. It was a step towards managing fiscal environment and providing a framework for the states to improve the debt profile, reduce deficit parameters, encourage judicious utilization of public funds and strive towards revenue surplus to create capital assets and meeting debt obligations. This study aims at analytical assessment of the trends in outstanding fiscal liabilities of state of Haryana, time - series analysis of Revenue Deficit (RD), Primary deficit (PD) and its impact on debt liabilities and utilization of borrowed resources during the ten-year period from 2011-12 to 2020-21.

Introduction:

The state Debt liability/ Fiscal liability in sub-national governments in India has been a matter of concern for the past two decades. Fiscal Responsibility and Budgetary Management Act was enacted in 2003 to provide legal support to the fiscal discipline measures of the central government. It was a step towards managing fiscal environment and providing a framework for the states to improve the debt profile, reduce deficit parameters, encourage judicious utilization of public funds and strive towards revenue surplus to create capital assets and meeting debt obligations. The central government has been publishing status paper every year on debt aspects of the central government and the states of India since 2010.

The Government of Haryana enacted the FRBMA in July, 2005 keeping in view the recommendations of 12th finance commission. The main objectives of the act were eliminating the revenue deficit, reducing the fiscal deficit, debt management, achieving inter-generational fairness, long term macro – economic stability and improved transparency. This study aims at analytical assessment of the trends in outstanding fiscal liabilities of state of Haryana, time - series analysis of Revenue Deficit (RD), Primary deficit (PD) and its impact on debt liabilities and utilization of borrowed resources during the ten - year period from 2011-12 to 2020-21.

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The total debt of the state government is bifurcated in to two heads -Public Debt and Public account liabilities. The Public debt further constitutes internal debt and loans from the Government of India. It includes all the loans raised by the state government like market loans, bonds, loans from centre, special securities issued to NSSF, loans from financial institutions etc. In case of public account, the Government acts as a banker or trustee. It includes all the money received under repayables like small savings, reserve funds, provident fund etc.

The debt accumulates when the receipts of the government are consistently less than the expenditure. The deficits add to the stock of debt. The rising outstanding liabilities of the government necessitate the analysis of the usage of the borrowed funds and an analytical assessment of the trends in debt sustainability indicators. If the debt is being raised to meet the current revenue obligations and repay the interest on the previous borrowings, the debt stability is compromised.

Objectives of the study:

1. To study the trends in outstanding fiscal liability indicators
2. To study the trends in outstanding overall debt/GSDP and public debt / GSDP ratio
3. To compare the rate of growth of GSDP to average interest rate of public debt
4. To study the trend in interest payment ratio to Revenue receipts and debt repayment to debt receipts

Research Methodology:

Literature Survey: An exhaustive study of the available literature on finances of Haryana was done to get a comprehensive understanding of debt liabilities, its components, expenditure on revenue and capital account, deficit indicators and rate of growth of GSDP. The audit reports of Haryana, CAG, from year 2010-11 were analysed along with Economic Surveys of Haryana for various years. The research papers on the fiscal aspects of Haryana and FRBM Act were also referred to.

Collection of Data: The data was collected from Secondary sources like Annual Audit Reports of Haryana and Economic Survey of Haryana for the ten year time period under the study (2011 – 2021).

Data tools and Methodology: The trends lines and bar graphs have been used to highlight the magnitude of the fiscal debt obligations over the years. The percentage method has been used to study the rate of growth of GSDP and debt liabilities. Ratio method, calculation of averages and the graphical representations have been used for comparison of various debt sustainability indicators.

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Analysis of Data and Interpretations:

A) Overall Outstanding and Public debts:

The overall outstanding liabilities and public debt liabilities determine the fiscal environment of a state. To understand the implications of these liabilities on the fiscal state of a sub – national government, the magnitude and growth rate rates over the study period were analysed. The magnitude of overall outstanding debt in Table -1 has shown an average rate of growth of 18% over the ten-year period. The debt grew by 121% in the first half of ten year period from 2011-12 to 2015-16. The growth rate of debt in 2020-21 over 2016-17 was 63%. The outstanding debt grew at a higher rate in the first five years of the decade than the last five years. The highest increase was in 2015-16 when the government took debt of Rs.17300 crore in the form of bonds to participating lender banks. This debt was undertaken as a part of revival package of DISCOMs (UDAY). Under the same scheme, the debt of Rs. 8650 crore was taken in the 2nd phase in 2016-17. In the year 2017-18 and 2018-19, the rate of growth of outstanding debt went down by a great extent to approx 12% before showing a growth to 17% in 2019-20. Most of the funds borrowed were raised in the form of internal debt through market borrowing. The contribution of loans from financial institutions increased in the period 2015-17.

Table – 1

Debt Indicators in Rs. Crore		
Year	Overall Outstanding Debt	Outstanding Public Debt
2011-12	54540	41396
2012-13	64818	50658
2013-14	76263	60291
2014-15	88446	70925
2015-16	120718	101709
2016-17	146371	124603
2017-18	164076	139754
2018-19	184216	156835
2019-20	215562	185491
2020-21	238708	205458

Source: Audit Reports of State Finances, CAG, Haryana, of various years

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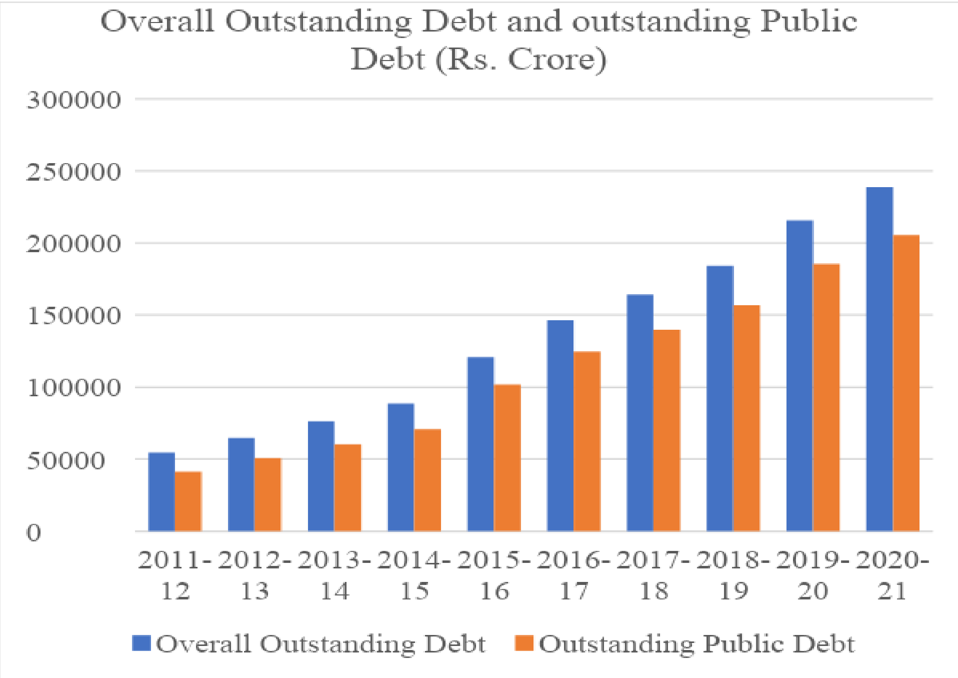
Figure -1



The above table and graph clearly indicate that public debt is the major constituent of overall outstanding debt. In Public debt, the internal sources are used extensively to raise resources whereas loans from the GOI (excluding the loans in lieu of GST shortfall) form less than 1% of the total public debt (Audit Reports of State Finances, CAG, Haryana, of various years). The table – 2 shows the rate of growth of overall outstanding debt, public debt and GSDP.

Table - 2

Year	Rate of growth of overall outstanding debt	Rate of growth of outstanding Public debt	Rate of growth of GSDP
2011-12	17.84	19.41	15.4
2012-13	18.84	22.37	16.5
2013-14	17.66	19.09	12.94
2014-15	15.97	17.63	11.65
2015-16	36.5	43.4	13.35
2016-17	21.25	22.51	13.34
2017-18	12.10	12.16	15.67
2018-19	12.27	12.22	9.29
2019-20	17.02	18.27	9.15
2020-21	10.74	10.76	-0.46

Source: Audit Reports of State Finances, CAG, Haryana, of various years and some figures were calculated

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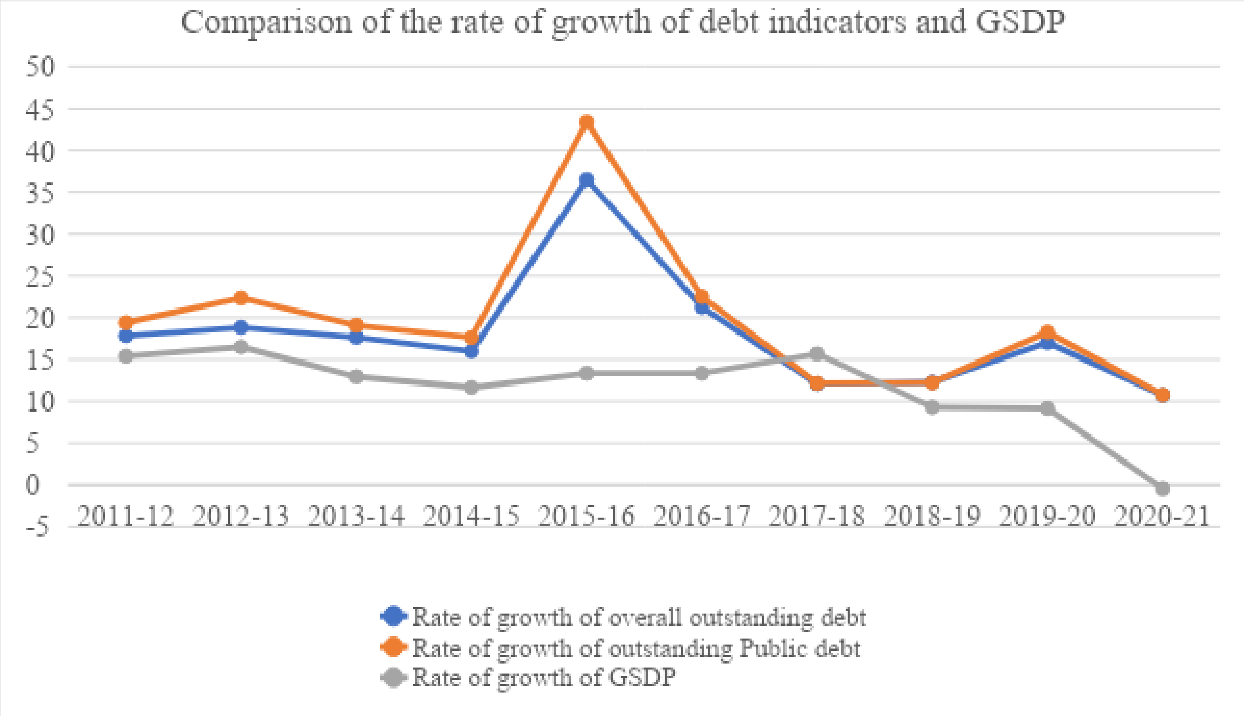
Figure - 2



The rate of growth of overall outstanding debt for the entire decade has been greater than the rate of growth of GSDP. The outstanding debt to GSDP ratio has also increased throughout the decade except for a little dip in 2017-18. This too is on account of higher debt in the period 2015-17 for UDAY scheme. To summarise the overall situation, the debt obligations have been rising and its rate of growth is more than the rate of growth of GSDP. The gap points out the fact that there is lack of fiscal environment conducive to the growth of economy. Comparing the actual debt to GSDP ratios for last five years to targets set by 14th & 15th finance commission (FC), there is a consistent negative achievement from 2017-2020(Table – 6). The targets set in the FC were 20.4%, 20.9% and 21.33% respectively whereas the actual debt/GSDP was at 25.6%, 26.3% and 28.29 % (audit report Haryana, CAG, March 2022). It implies that there is a gap in planning and actual execution. In the covid year 2020-21, though the ratio of Outstanding debt to GSDP increased to 31.4% but it was better than the limit set by FC.

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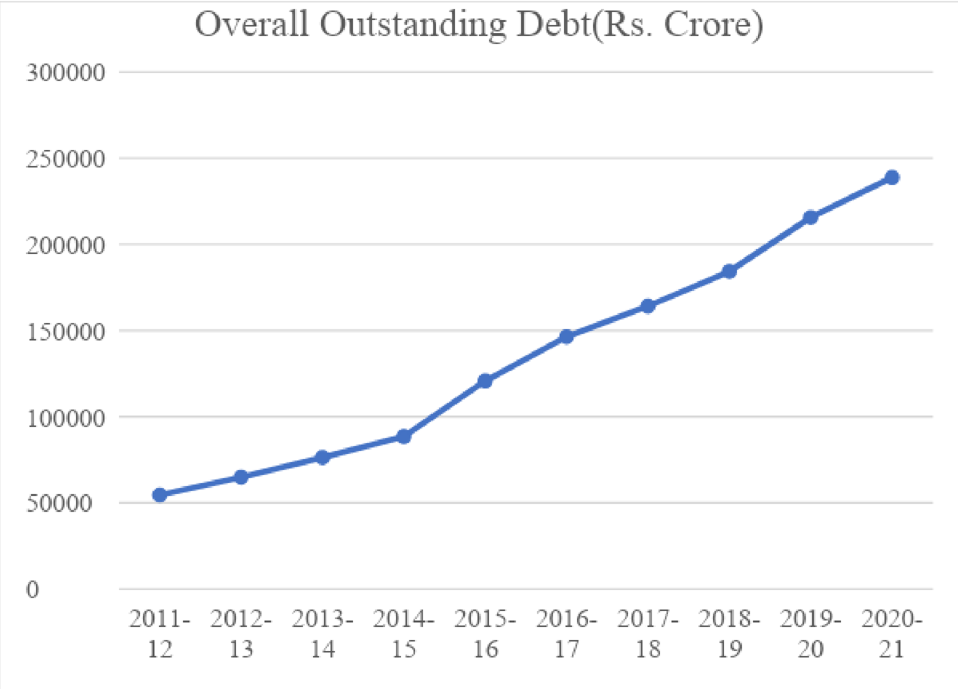
Figure - 3



B) Debt stability and Sustainability Indicators:

The table -1 and table -6 show a continuous rise in the overall outstanding debt and its ratio to GSDP. The rate of growth of both overall debt and public debt too is more than the rate of growth of GSDP. In such circumstances, it becomes important to analyse the various debt indicators and utilization of debt receipts. The literature of Public Finance clearly states that the borrowed funds of the state should be spent on capital account on the projects that will add to the future flow of income and creation of infrastructure. This expenditure creates a conducive environment in the economy for higher and efficient investments leading to the increased flow of income, savings and increased capacity of the banks to lend to the private sector. The rise in revenue receipts on account of growing economy can keep the deficit in check besides limiting revenue expenditure. The revenue surplus is to be used for either capital investment or servicing the debt.

Debt sustainability indicators like rate of growth of public debt, rate of interest being paid on public debt and its comparison to rate of growth of GDP, interest payment to RR, debt payment to debt receipts and primary revenue deficit help in assessing the debt stability and utilization of the borrowed funds and non- debt receipts.

Table - 3

Year	Rate of growth of GSDP	Average interest rate of public debt
2011-12	15.4	8.61
2012-13	16.5	8.62
2013-14	12.94	8.92
2014-15	11.65	9.14
2015-16	13.35	7.61
2016-17	13.34	8.17
2017-18	15.67	8.08
2018-19	9.29	8.16
2019-20	9.15	8.17
2020-21	-0.46	7.94

Source: Audit Reports of State Finances, CAG, Haryana, various years

Table – 3 compares the rate of growth of GSDP to average rate of interest being paid on public debt. The rate of growth of GSDP should be more than rate of interest to keep debt/ GSDP ratio stable provided the primary balance is either zero or surplus. A negative primary balance or existence of primary deficit indicates that the government is not able to meet its current consumption with its non - debt resources. The consistent presence of even moderately high primary deficit means that the borrowed funds are to be utilized towards interest payments on previous funds. This can threaten the stability of debt/GSDP ratio and debt servicing capability of the government. The state government will have to keep its primary expenditure under control in order to avoid their dependence on debt (Narayan.L,2016). In the time period 2011-2021, the accounts of government of Haryana have shown the primary deficit to be greater than one except in 2013-14 and reaching as high as 2.89 in 2016-17. In the succeeding period, the primary deficit decreased from 2.89 but still remained more than one. For a more in – depth analysis, the data on primary revenue expenditure and its ratio to Non – debt receipts were also analysed.

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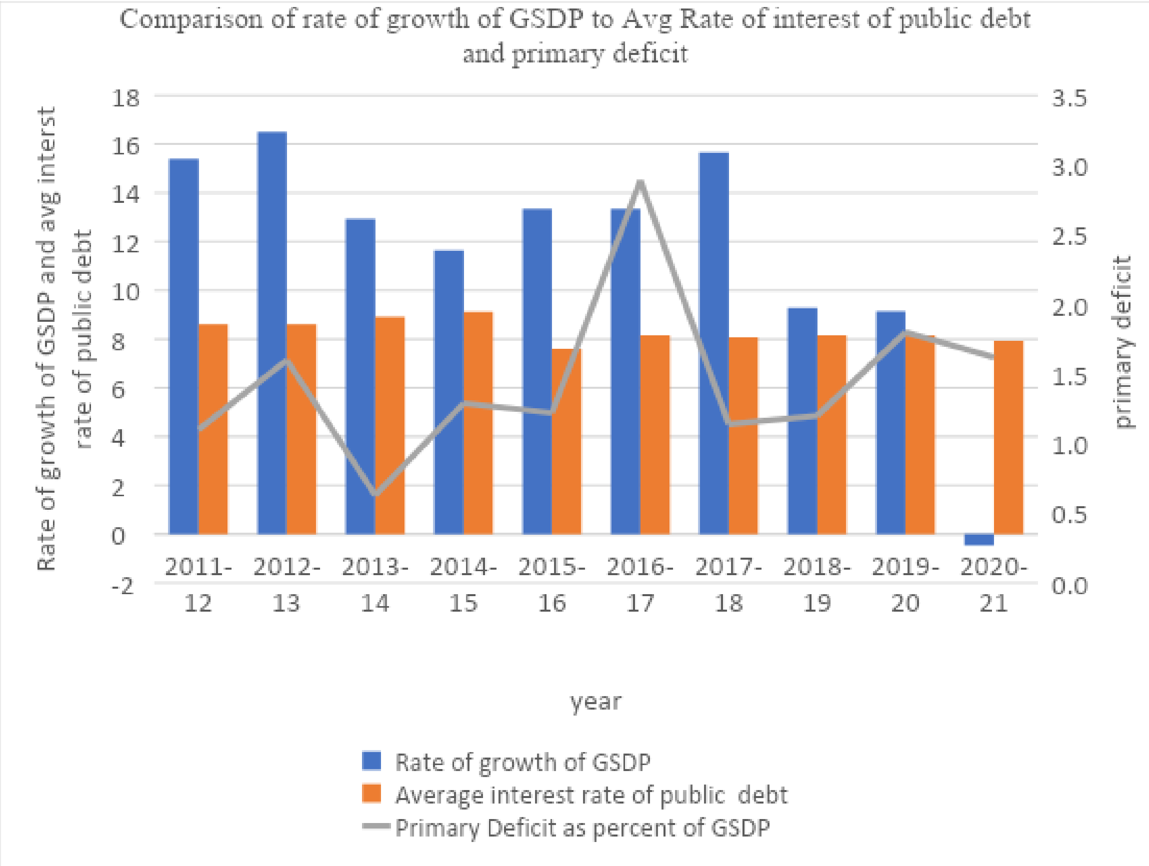
Figure - 4



Source: Audit Reports of State Finances, CAG, Haryana, various years

Primary Revenue expenditure (PRE) is the expenditure incurred on revenue account minus the interest payments. The excess of primary revenue expenditure over non – debt receipts represent the primary revenue deficit. In 2011- 14, the state had surplus in the primary revenue balance. In year 2011-12, the surplus amount of Rs.2847 was available after primary revenue expenditure to either pay some part of interest payments or for capital expenditure. This component however decreased to a great extent in the next year before improving in 2013-14. Thereafter, the primary revenue balance turned negative with highest level of Rs. 4365/-in 2016-17. This account again showed surplus in the succeeding years before turning negative in the covid year 2020-21. The ratio of primary revenue expenditure to non-debt receipts during the study period further proves that the revenue expenditure consistently claims non – debt receipts either completely or to a very high ratio i.e 85% to 108% (Table – 5). The major components of primary revenue expenditure are salaries, subsidies and pension which is a committed expense.

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Table – 4 (Data in Rs. Crore)

Year	Non- Debt Receipts	Primary Revenue Expenditure	Primary Revenue deficit(-)/surplus(+)
2011-12	30861	28014	2847
2012-13	33994	33328	666
2013-14	38284	36037	2247
2014-15	41091	42190	-1099
2015-16	47915	50689	-2774
2016-17	53496	57861	-4365
2017-18	69076	61296	7780
2018-19	71306	63606	7700
2019-20	73305	69260	4045
2020-21	68856	72831	-3975

Source: Audit Reports of State Finances, CAG, Haryana, various years

Figure - 5

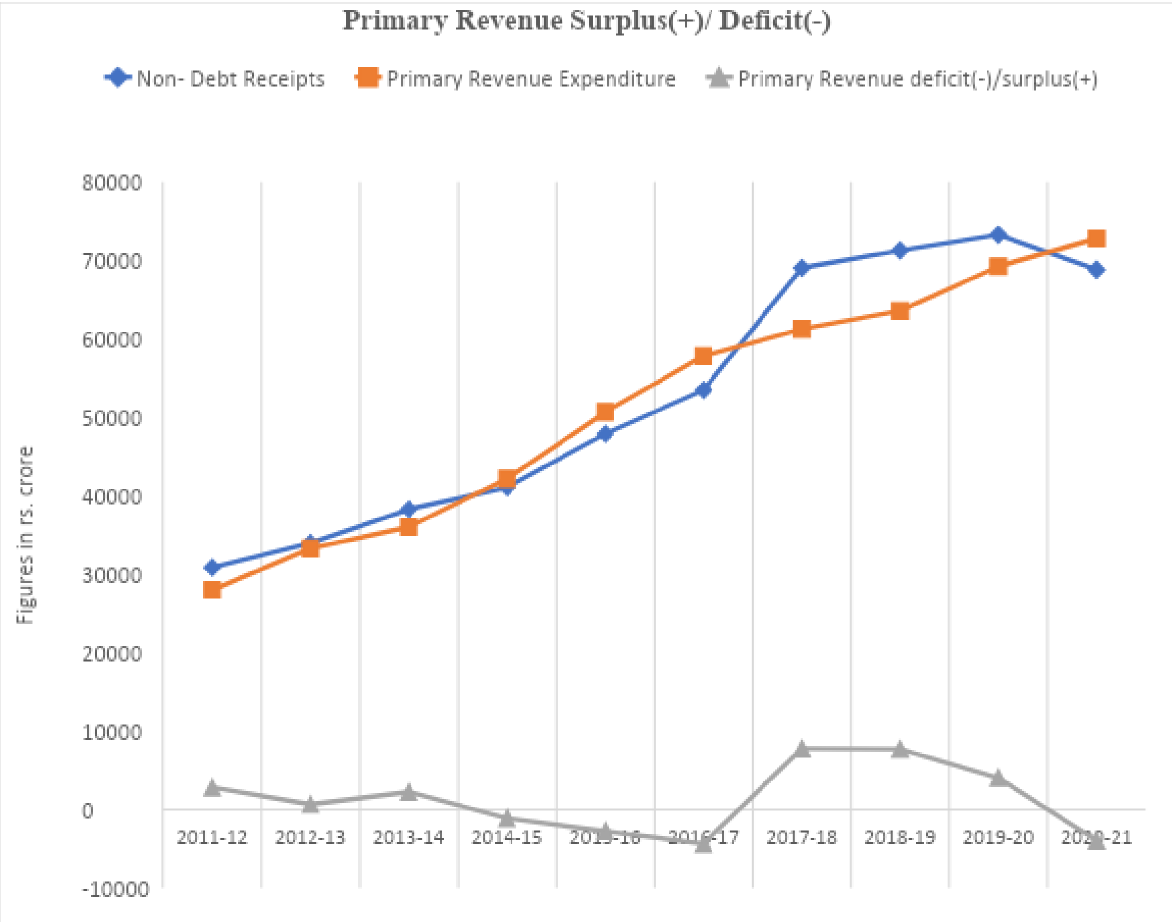

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Table – 5 illustrates the ratio of primary revenue expenditure to non- debt receipts. It clearly indicates that most of the non-debt receipts are being consumed to meet the primary revenue expenditure leaving a much smaller or no surplus for other expenditure on capital account or interest payments.

Table - 5

Year	Primary revenue expenditure/Non - debt Receipts
2011-12	90.77
2012-13	98.04
2013-14	94.13
2014-15	102.67
2015-16	105.79
2016-17	108.16
2017-18	88.74
2018-19	89.20
2019-20	94.48
2020-21	105.77
2021-22	99.67

Source: calculated from data available in various issues of audit reports on state finances, CAG, Haryana

Figure - 6

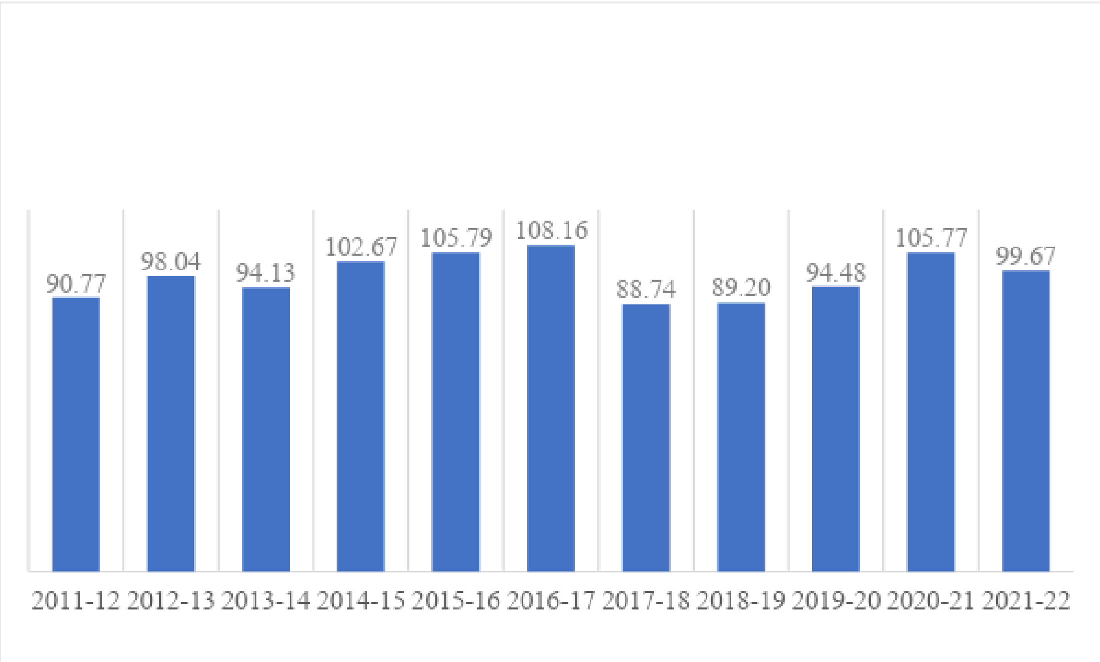

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Table -6

Year	Overall outstanding debt/GSDP	Primary Deficit as percent of GSDP	Revenue Deficit as percent of GSDP
2011-12	18.13	1.1	0.49
2012-13	18.50	1.6	1.28
2013-14	19.27	0.63	0.97
2014-15	20.02	1.29	1.9
2015-16	24.36	1.22	2.41
2016-17	26.06	2.89	2.92
2017-18	25.68	1.14	1.69
2018-19	26.38	1.2	1.6
2019-20	28.29	1.8	2.04
2020-21	31.47	1.62	2.95

Source: various issues of audit reports on state finances, CAG, Haryana

Figure - 7

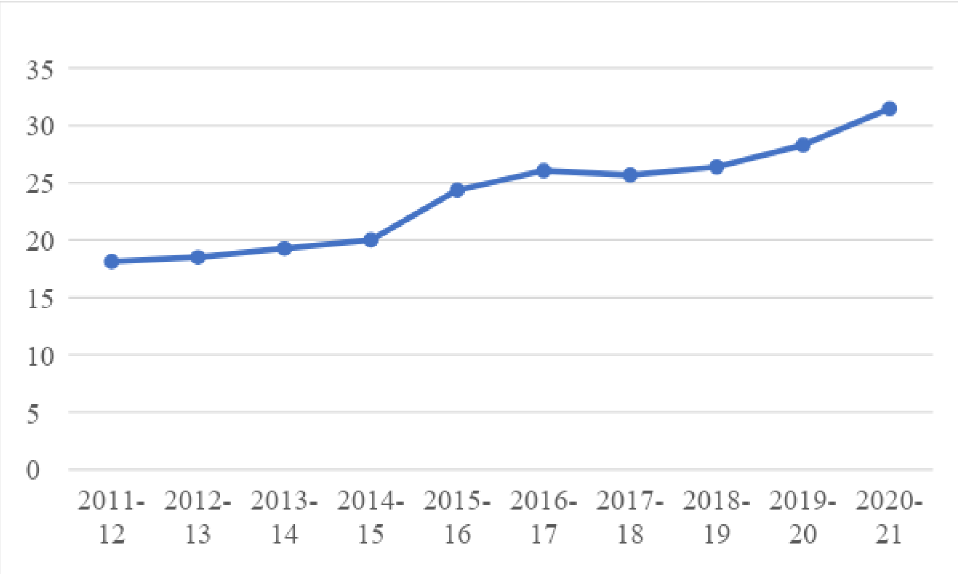
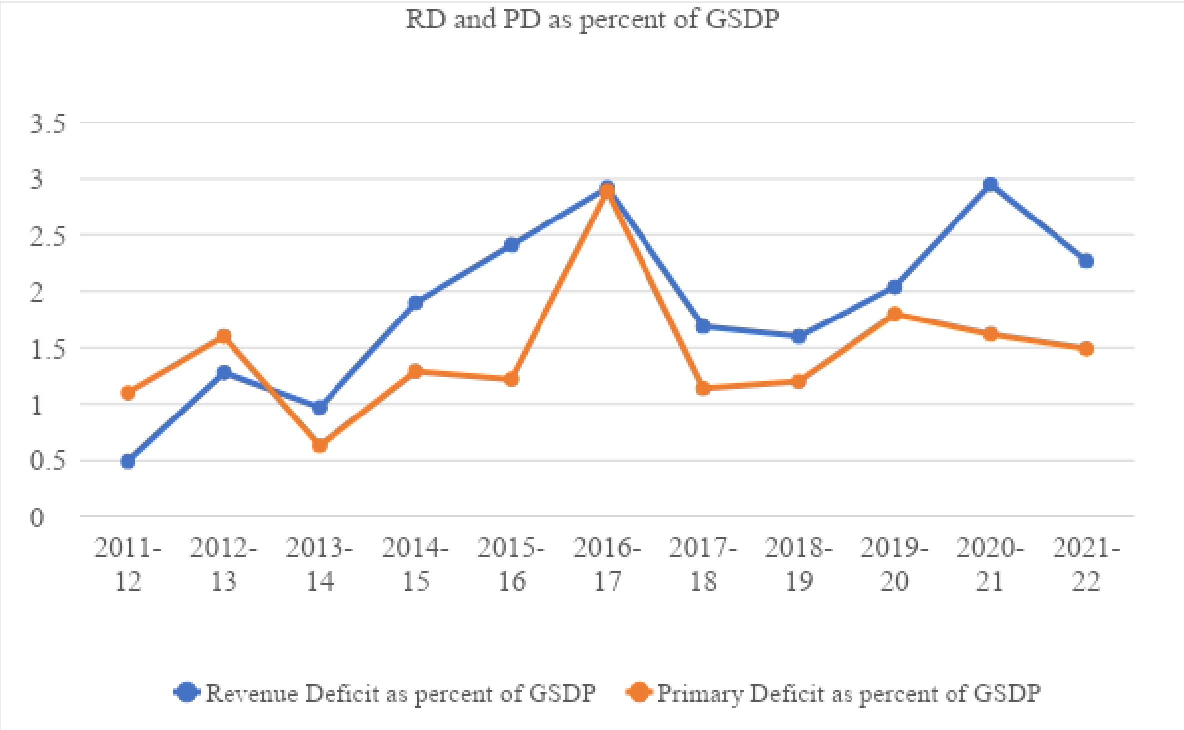


Figure - 8



The primary deficit (Table – 6) existed in the entire decade further strengthening the assessment that that the government is not able to meet its current consumption with its non – debt resources. The overall debt to GSDP ratio is continuously rising. To add to this is a more worrying situation that capital expenditure was just 6% to 17% of the total expenditure (TE) during this period (Table -8). In 2015-16, 35.9% of the borrowed funds were used for capital expenditure and a large part of borrowed funds were used for financing revenue deficit,58.2% (Narayan.L,2017). During the period 2014-17, the primary revenue expenditure was more than the non- debt receipts leaving no funds for capital expenditure. The capital expenditure during this period was greatly reduced to 6 to 8% of TE. This reduction in CE helped contain the deficit parameters to some extent. However, this kind of adjustment not only defeats the very purpose of fiscal correction but also compromises the state's ability to service debt in the future and achieve debt stability. The year 2017-19 shows improvement in CE but that too is actually on account of converting loans to DISCOMs into equity. This kind of capital expenditure is actually just an accounting exercise with no contribution to future flow of income. Moreover, the previous loan to DISCOMS in 2015-16 also added its share to the interest burden on the state exchequer. The lack of quality capital expenditure reduces a state's ability to increase revenue in the future and also negatively impacts the fiscal environment for a progressive economy. The high percentage of debt payment to debt receipts provides support to the inference of state's inability to maintain the debt stability in the future unless some serious changes are under taken in the policy measures. Due to the

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lack of managing primary expenditure within its non- debt resources, the burden of debt servicing has fallen mostly on more borrowing. Table – 7 shows the percentage of debt payment to debt receipts. Leaving aside a few years, 35% to 59% of the borrowed fund is being utilized in paying the principal amount of the debt borrowed in previous years. The interest payments are additional burden on the exchequer. The ratio of interest payment to revenue receipts too has been increasing over the years. These facts weave a picture of a circle of debt where more is being borrowed to meet previous obligations while repeatedly compromising on the capital expenditure and future flow of revenue to contain the deficit.

Table – **7**

Year	Percentage of interest payment to RR	Percentage of Debt payment to Debt Receipts
2011-12	13.09	37.5
2012-13	14.11	39.1
2013-14	15.39	45.3
2014-15	16.98	43.6
2015-16	17.42	19.0
2016-17	20.08	18.7
2017-18	19.08	29.5
2018-19	20.57	50.2
2019-20	22.97	35.5
2020-21	25.33	59.6

Source: calculated from data available in various issues of audit reports on state finances, CAG, Haryana

Table -8

Year	Capital Expenditure (Rs. Crore)	CE to Total Expenditure
2011-12	5372	14.13
2012-13	5762	12.99
2013-14	3935	8.44
2014-15	3716	6.92
2015-16	6908	8.79
2016-17	6863	8.6
2017-18	13538	15.35
2018-19	15307	16.42
2019-20	17666	17.02
2020-21	5870	6.07

Source various issues of audit reports on state finances, CAG, Haryana, CE to TE calculated from data available in these issues

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Concluding Remarks and Policy Implications:

The entire analysis undertaken above points out that the state of Haryana has maintained high level of outstanding debt to GSDP ratio. The rate of growth of GSDP has been lower than the rate of growth of debt though more than the growth of average rate of interest of public debt. The primary deficit has existed throughout the study period at a value more than 1% of GSDP and even reaching 2.8 in 2016-17. The target of eliminating revenue deficit by 2014 could not be achieved. The corresponding debt sustainability indicators also indicate a high ratio of interest payment to RR and debt payment to debt receipts. The capital expenditure too is at a low ratio to TE and therefore negatively impacting the future sources of income for the state. These facts clearly point out a threat to maintaining debt stability in the future unless Government takes deliberate and stringent steps towards increasing revenue receipts, limiting revenue expenditure, improving the magnitude and quality of CE, improving efficiency of CE, disinvestment from inefficient Public sector units where loan are being given at negligible rate of interest as compared to the rate at which government has borrowed from the market and making the loans conditional on efficiency in PSUs which are essential for public welfare.

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