



Interest Payment Burden and its Implications for Haryana

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Abstract:

The welfare function of the state and decentralization trend has put the onus of provision of public goods and services, development of infrastructure, social and economic services on the sub – national governments in India. The provision of developmental and social services necessitates the raising of resources at various levels. The states’ own resources of revenue and the transfers from the central government are usually not enough to meet the expenditure requirements and the governments have to resort to borrowing to raise the financial resources. These borrowed funds are supposed to be spent on the developmental projects and creation of infrastructure so as to generate a flow of income in the future and make it feasible to pay back the liabilities generated through borrowing. However, the expenditure pattern of the states and soft budget constraints usually distort the usage of the borrowed funds. The misplaced expenditure and persistent borrowing add to the outstanding liabilities of the government and generates an interest payment cycle where more needs to be borrowed to pay the previous borrowings. The present study intends to explore the burden of interest payments of outstanding debt liabilities in the state of Haryana in post FRBMA enactment period and its implications.

Introduction:

The welfare function of the state and decentralization trend has put the onus of provision of public goods and services, development of infrastructure, social and economic services on the sub – national governments in India. The provision of developmental and social services necessitates the raising of resources at various levels. The states’ own resources of revenue and the transfers from the central government are usually not enough to meet the expenditure requirements and the governments have to resort to borrowing to raise the financial resources. These borrowed funds are supposed to be spent on the developmental projects and creation of infrastructure so as to generate a flow of income in the future and make it feasible to pay back the liabilities generated through borrowing. However, the expenditure pattern of the states and soft budget constraints usually distort the usage of the borrowed funds. The misplaced expenditure and persistent borrowing add to the outstanding liabilities of the government and generates an interest payment cycle where more needs to be borrowed to pay the previous borrowings. The present study intends to explore the burden of interest payments of outstanding debt liabilities in the state of Haryana in post FRBMA enactment period and its implications.



Objective:

The present study aims to analyse the burden of interest payments in state finances of Haryana after the FRBMA,2005 and its implications.

Research Methodology:

In order to study the burden of interest payments on the state exchequer, the study has analysed the trends during the study period in the interest payments, interest payments to revenue receipts, own tax receipts and revenue expenditure. The average growth rate over the entire period, year to year percentage changes, average changes over the five-year periods, ratios to GSDP were also assessed. An extensive study of various budget reports, Economic Survey of Haryana for various years, audit reports of Haryana, RBI reports and research papers pertaining to fiscal parameters was undertaken to understand the underlying factors affecting the trends.

Data Analysis and Observations:

The interest payments of the Government of Haryana are reflected in the table -1. In the immediate time period after enactment of FRBMA, 2005, the interest payments have increased only marginally and even decreased in 2008-09. Thereafter the interest payments have shown the increasing trend. The interest payments grew at the rate of 7.85% and 3.5% during 2006-07 and 2007-08. The revenue account too showed surplus during this period which was a good performance and with in the recommendations of 12th finance commission and FRBMA stipulations. In 2008-09, the interest payments declined by a small extent as compared to the previous year with growth rate of -0.30%. However, 2009-10 onwards the growth rate of interest payments fluctuated between 17% to 23.3% till 2016-17. In the later years the yearly growth rate has declined but it has stayed more than the rate of growth of revenue receipts (RR). The interest payments increased by 47% over a period of five years from 2006-2011. During the next five years i.e 2011- 2016 the interest payments increased by 114%. Thereafter during 2016-2022, the interest payment increased by 90%. In terms of annual average growth rate, the interest payments grew at the rate of 14%. During the study period, the revenue receipts showed an average annual growth rate of 12.4%. The year-to-year growth rate of revenue receipts was lesser than that of interest payments especially after 2011-12. The higher rate of growth of IP than RR points out that the government's interest obligations are increasing at a faster rate than RR thus increasing the interest burden. During this period, the outstanding debt liabilities grew at an average annual growth rate of 16%.



Table - 1

Year	Interest Payments (Rs.Crore)
2005-06	2100
2006-07	2265
2007-08	2346
2008-09	2339
2009-10	2737
2010-11	3319
2011-12	4001
2012-13	4744
2013-14	5850
2014-15	6928
2015-16	8547
2016-17	10542
2017-18	11961
2018-19	13551
2019-20	15588
2020-21	17115
2021-22	19990

Source: Audit report, CAG, State finances of Haryana, various years

Figure - 1

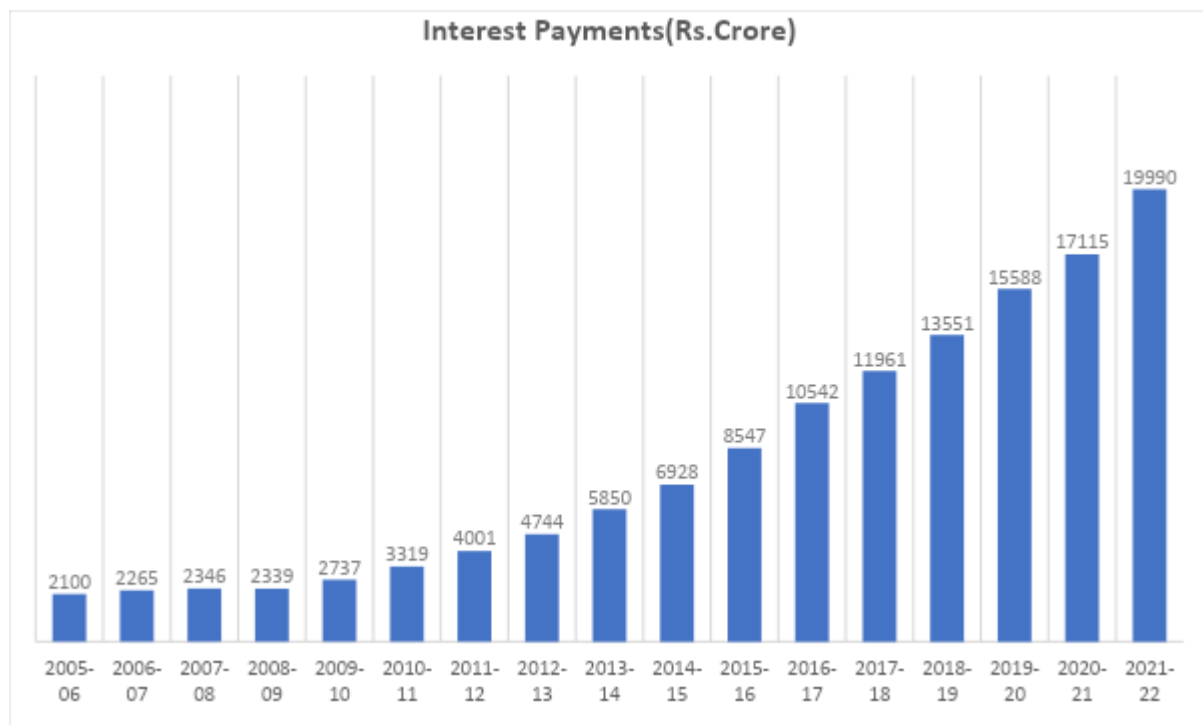




Table – 2

Year	RoGIP	RoGRR
2005-06	-6.04	24.25
2006-07	7.86	29.58
2007-08	3.58	10.02
2008-09	-0.30	-6.58
2009-10	17.02	13.77
2010-11	21.26	21.77
2011-12	20.55	19.54
2012-13	18.57	10.07
2013-14	23.31	13.02
2014-15	18.43	7.33
2015-16	23.36	16.56
2016-17	23.35	10.39
2017-18	13.46	19.43
2018-19	13.29	5.09
2019-20	15.03	2.99
2020-21	9.79	-0.44
2021-22	16.80	15.59
AAGR	14.07	12.5

Source: calculated

Figure - 2

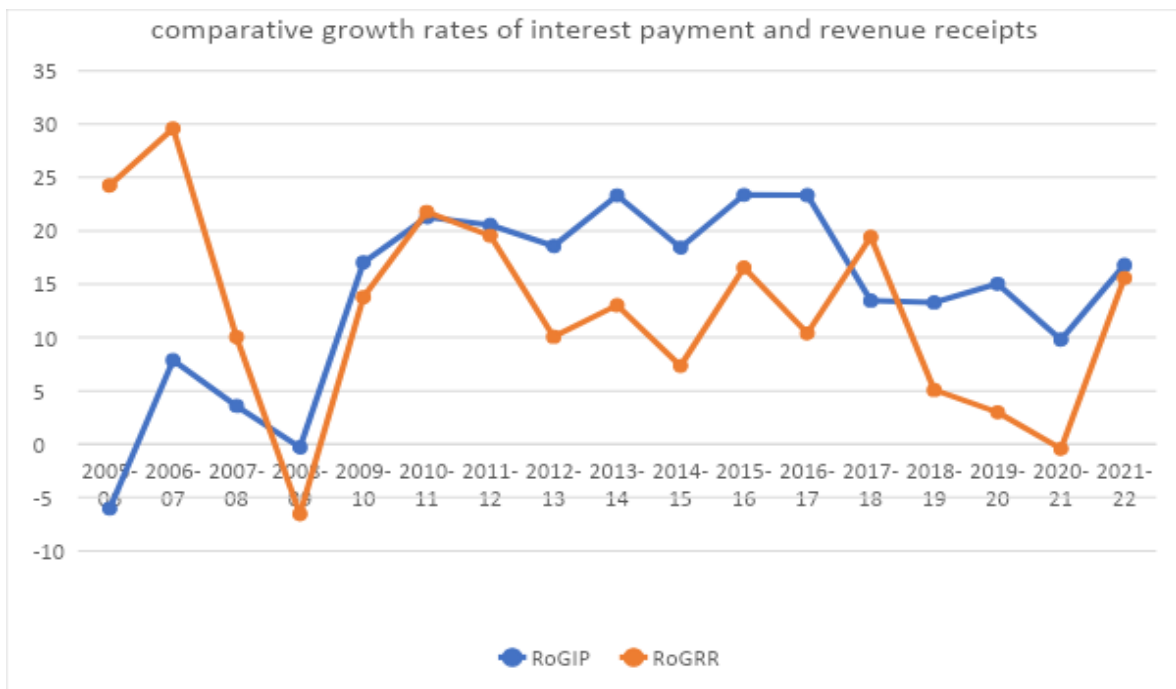


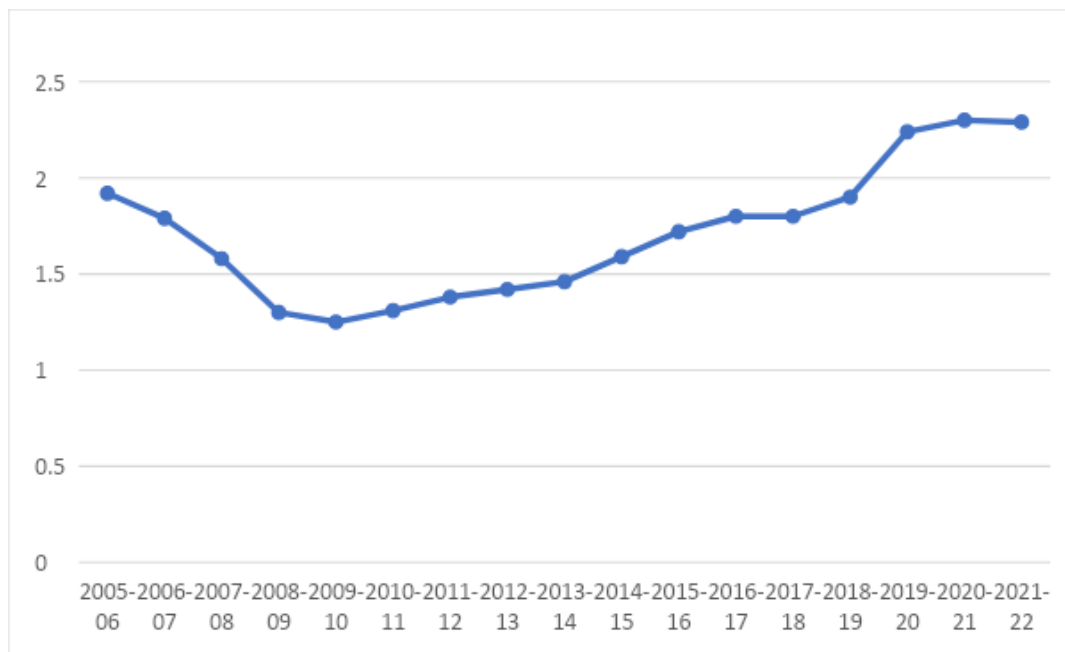


Table - 3

Year	Interest payment/GSDP in percent
2005-06	1.92
2006-07	1.79
2007-08	1.58
2008-09	1.3
2009-10	1.25
2010-11	1.31
2011-12	1.38
2012-13	1.42
2013-14	1.46
2014-15	1.59
2015-16	1.72
2016-17	1.8
2017-18	1.8
2018-19	1.9
2019-20	2.24
2020-21	2.3
2021-22	2.29

Source: Audit report, CAG, State finances of Haryana, various years

Figure - 3



In terms of the indicator Interest payment to GSDP in percent, the ratio decreased in the post FRBM period till 2009-10. In the successive years, it increased continuously. In 2021-22, the interest payment to GSDP percent was 2.29 which is higher by 1.05 points than the percent in 2009-10.

To get a complete and comprehensive picture of the state of affairs, the study also took in to consideration the ratio of IP to RR, Own Tax Revenue (SOTR) and total revenue expenditure (TRE) in percent. Narayan (2017) observed that indicators pertaining to Haryana depict the state to be one of the high debt states in India with a very high interest payment to RR ratio (less than only that of West Bengal and Punjab). In terms of interest payment as percent of RR, the value stayed below 15% till 2012-13 and thereafter increased till the highest value of 25.3% in 2020-21. In 2020-21 and 2021-22, the interest payments were equivalent to the one – fourth of RR. RBI (2019) had made observation that if the IP is 10% of the RR, then the debt can be considered sustainable. The level of interest payments to revenue receipts in Haryana was already higher than the recommended 10% and further increased both on account of higher interest payments due to borrowing under UDAY scheme and decreased growth rate of revenue receipts due to economic slowdown of 2019-20 and covid impact thereafter. When the interest payments were taken in ratio to state own tax revenue, the proportion was much higher. In 2016-17, this proportion crossed 30% i.e is to say that the interest payments were more than one fourth of the SOTR. In 2020-21, interest payments were of the value of 41% of SOTR.

Figure - 4

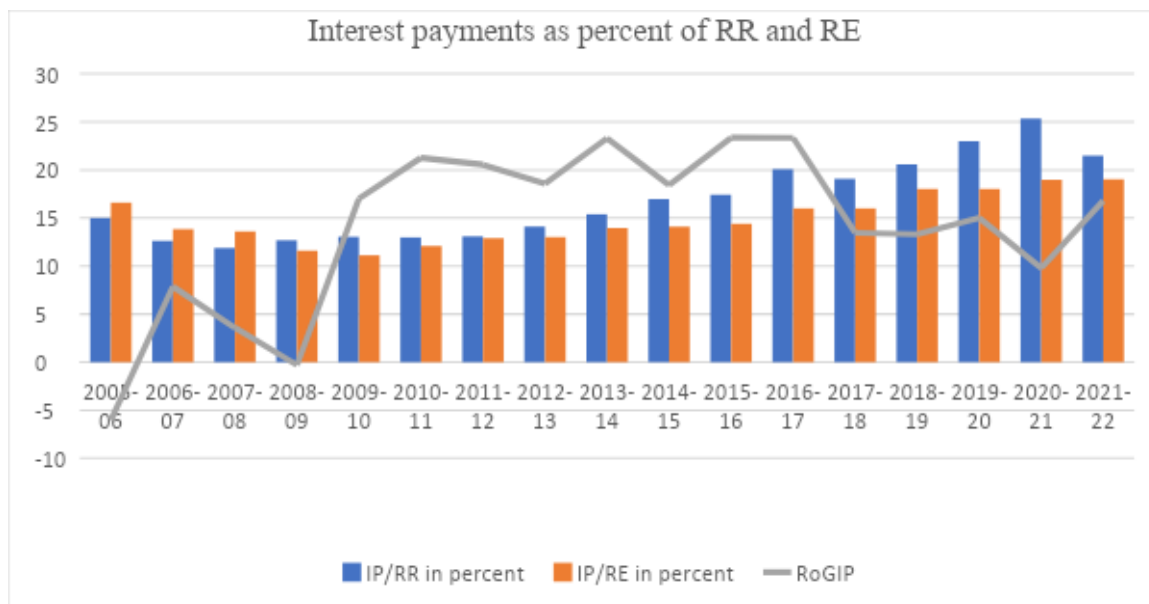




Table – 4

Burden of Interest Payment

Year	IP/RR in percent	IP/SOTR in percent	IP/Non debt receipts in percent	IP/RE in percent
2005-06	15	23.13	14.85	16.6
2006-07	12.62	20.73	11.24	13.84
2007-08	11.88	20.19	11.74	13.6
2008-09	12.68	20.07	12.43	11.6
2009-10	13.04	20.7	12.90	11.12
2010-11	12.98	19.77	12.86	12.09
2011-12	13.09	19.61	12.96	12.9
2012-13	14.11	20.14	13.96	13.01
2013-14	15.39	22.88	15.28	13.96
2014-15	16.98	25.07	16.86	14.1
2015-16	17.42	27.63	17.84	14.4
2016-17	20.08	30.98	19.71	16
2017-18	19.08	29.1	17.32	16
2018-19	20.57	31.83	19.00	18
2019-20	22.97	36.4	21.26	18
2020-21	25.33	40.83	24.86	19
2021-22	25.5	37.45	25.40	19.02

Source: calculated

In proportion to revenue expenditure, the interest payments were less than 15% till 2015-16 but have increased to 19% by 2021-22. The proportion of interest payments to RE decreased in the beginning of the post FRBMA period till 2009-10. The proportion of interest payments to RR, RE, SOTR and non-debt receipts has increased over the years. In addition to these indicators, if we look at public debt liabilities, revenue deficit and proportion of expenditure on revenue account and capital expenditure, the accounts reveal a situation of rising debt and revenue deficit, much higher proportion of revenue expenditure as compared to capital expenditure, lesser growth in revenue than interest payments and a rising burden of interest payments.



Table - 5

Year	Outstanding debt (Rs. Crore)	Rate of increase of debt over previous year
2005-06	27023	-
2006-07	27514	1.8
2007-08	28649	4.1
2008-09	31817	11.1
2009-10	39332	23.6
2010-11	46282	17.7
2011-12	54540	17.8
2012-13	64818	18.8
2013-14	76263	17.7
2014-15	88446	16.0
2015-16	120718	36.5
2016-17	146371	21.3
2017-18	164076	12.1
2018-19	184216	12.3
2019-20	215562	17.0
2020-21	238708	10.7
2021-22	276252	15.7
	AAGR	15.9

Source: Source: Audit report, CAG, State finances of Haryana, various years

Table - 6

Year	RE TO TE in percent	CE TO TE in percent
2005-06	87.6	11.17
2006-07	86.23	12.8
2007-08	82.52	16.13
2008-09	80.94	17.7
2009-10	80.68	16.6
2010-11	85.62	12.19
2011-12	84.22	14.13
2012-13	85.83	12.99
2013-14	89.89	8.44
2014-15	91.51	6.92
2015-16	74.61	8.79
2016-17	85.74	8.6
2017-18	83.07	15.35
2018-19	82.77	16.42
2019-20	81.72	17.02
2020-21	92.97	6.07
2021-22	89.12	10

Source: Audit report, CAG, State finances of Haryana, various years



The proportion of revenue expenditure to total expenditure gives a view into one of the major sources of rising debt obligations and hence the rising burden of debt. In the entire period, the RE in proportion to TE is higher than 80% and reaching as high as 93% during the covid year. The capital expenditure is mostly less than 15% of TE and here too the quality of capital expenditure is questionable especially in time period 2017-20. The data on capital expenditure and audit reports of Haryana on state finances for these years shows that the capital expenditure during this time was predominantly due to conversion of loans to DISCOMS in to equity. A loan of the amount of approx. Rs. 17300 crore was raised by the government in 2015-16 for DISCOMs and converted to equity during 2017-20. It led to imbalances in deficit parameters and also added to the future burden of interest payments. Chakraborty et.al (2017) observed that amongst the medium-term fiscal challenges being faced by states, the taking over of DISCOM liabilities under UDAY is the most important as it has resulted in increase in deficit of the states and its implications on debt liabilities and interest outgo requires a clear understanding.

Table - 7

Year	Revenue Deficit as percent of GDP
2005-06	1.11
2006-07	-1.24
2007-08	-1.47
2008-09	1.14
2009-10	1.91
2010-11	1.04
2011-12	0.49
2012-13	1.28
2013-14	0.97
2014-15	1.9
2015-16	2.41
2016-17	2.92
2017-18	1.69
2018-19	1.6
2019-20	2.04
2020-21	2.95
2021-22	2.27

Source: Audit report, CAG, State finances of Haryana, various years

In the post FRBMA period, the government is expected to take appropriate measures to earn adequate returns on its investments apart from recovering the cost of borrowed funds. This is important for not only for creating a source of revenue for government but also to contain the rising debt obligations and interest payments. If we make a broad analysis of investments and other capital expenditure, the reasons for rising borrowing of the government become more apparent. Audit reports of various years show persistent presence of incomplete projects



which lead to non – derivation of benefits expected. Funds borrowed for such projects lead to burden of interest liabilities and servicing of debt. Delayed completion also adds to the cost of project initially projected.

In reference to investment portfolio, the average return of the government on investments made in statutory corporations, rural banks, joint stock companies and cooperatives is much less than the average rate of interest paid by the government on its borrowings. The government paid interest at an average rate of 9.22 to 9.86 percent on its borrowings during 2010-15, whereas the percentage of returns from investment ranged between 0.02 and 0.10 during the same period (audit report on state finances, Haryana, March 2015). In the next five-year period 2015-20, the average return on these investments was 0.135 percent as against the average interest of 8.73 on borrowings (audit report on state finances, Haryana, March 2020).

Table – 8

Return on Investment

Year	Avg. Interest rate on Govt borrowings(percent)			Return on investment(percent)		Difference between interest rate and return(percent)
2005-06		8.95	0.09		8.86	
2006-07		9.2	0.18		9.02	
2007-08		7.43	0.15		7.28	
2008-09		7.82	0.16		7.66	
2009-10		9.29	0.17		9.12	
2010-11		9.22	0.04		9.18	
2011-12		9.73	0.02		9.71	
2012-13		9.86	0.1		9.76	
2013-14		9.83	0.09		9.74	
2014-15		9.33	0.08		9.25	
2015-16		8.64	0.17		8.47	
2016-17		8	0.05		7.95	
2017-18		8.1	0.04		8.06	
2018-19		8.81	0.18		8.63	
2019-20		8.31	0.24		8.07	
2020-21		6.5	0.43		6.07	
2021-22		7.05	2.06		4.99	

Source: Audit report, CAG, State finances of Haryana, various years

Another important component to be mentioned here is the loans and advances made by the government to many institutions and organisations. Many of these loans stay outstanding and the interest rate on these loans is much lesser than the interest paid by the government on the borrowing.



Capital expenditure in the companies, corporation or other institutions which are making losses is also negatively impacting the interest and debt burden. Eleven government companies with an aggregate investment of Rs. 31636.63 crore were incurring losses and their accumulated losses amounted to Rs. 29639.06 crore up

to 2019-20 as per accounts furnished by these companies (audit report on state finances, Haryana, March 2020).

Table – 7 represents the revenue deficit (RD) of state of Haryana. The RD is either 1 or more than 1 in all years except 2006-08 and 2010-11. Though the FRBMA recommendations are to attain zero revenue deficit (revised to in 14th Finance commission), Haryana has not been able to achieve it after 2007-08. The high level of revenue expenditure and persistent revenue deficit over the years clearly reveals that the government is not able to meet its revenue account obligations through its revenue receipts which is leading to borrowing to meet the current expenses rather than on capital projects. The data from 2015- 20 reveals that 19% to 44% of the borrowed funds were used to meet the revenue expenditure. The questionable quality of capital expenditure and high revenue deficit is creating a circle of rising debt obligations and interest payments.

Conclusion and Policy Implications:

The analytical study of interest payments in the state of Haryana over the time period 2005-2022 i.e after the FRBMA, 2005 has revealed that the except for the initial four years, the interest payments grew at a high rate of 13% to 23%. After the year 2008-09, the rate of growth of IP was always higher than RR. The ratio of IP to RR in percentage terms has been more than the recommended 10%(RBI) for all years and equal to or more than 20% (one – fifth) after 2015-16. The ratio of IP to RE has been between 11% to 19%. The overall rising debt obligations, quality issues in the capital expenditure and rising debt obligations point towards imbalances in the fiscal environment of the state in the future unless some stringent measures are enacted at the earliest. The government needs to improve its pattern on developmental expenditure both on revenue and capital account. The RR collection through state own resources need to be improved. The quality of capital expenditure needs some serious and war – footing measures rather than soft constraints. The state needs an exclusive policy to recognise and analyse the investment projects which can not only create a source of revenue in the future but also create a fiscal environment which is conducive to growth of private sector investments. The investment portfolio of the government and situation of loss-making PSUs needs an urgent attention. The restructuring and revival or closure of loss-making PSUs will help in containing the rise in debt liabilities and interest payments.



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