

# Appendices

## Appendix 1: Methodology adopted for the projection of state finances

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### RECEIPTS

The important taxes for Haryana in terms of gross collections are State excise, sales tax, tax on goods and passengers, stamps and registration fees and taxes on vehicles. Revenues from these taxes are projected separately and the rest of the taxes are pooled together for projections of own tax revenue. The projections are based on buoyancies over the period 1980–81 to 1996–97.<sup>1</sup> At present, revised estimates for 1997–98 are available, the projection exercise begins with the year 1998–99.

For shared taxes, the total share of States in the Central tax collections was computed using buoyancy estimates of Central taxes. The share of Haryana is obtained by applying the sharing principles as per the TFC recommendations. The details of computation of the shareable pool are given below.

The following tax categories are separately projected: income tax, corporation tax, customs, union excise duties and other central taxes. The tax base for income tax and corporation tax is non-agricultural GDP, while GDP in manufacturing is the base for union excise. For the rest of the categories, GDP at market prices is the base. Nominal growth rates assumed for GDP, non-agricultural GDP and GDP in manufacturing sector for 1998–99 to 2001–02 are taken as 14.5, 17.5 and 18.5 percent per annum respectively. For 1997–98 these rates are taken as 13.5, 16.0 and 17.5 percent, respectively.

The share of States is computed as follows: for 1997–98, the 77.5 percent of income tax receipts and 47.5 percent of Union excise duties constitute the shareable pool, while for the subsequent years the share is derived as 29 percent of the total Central tax revenues. The figures for 1998–99 include the share of States in VDIS collections (Rs. 7365 crore) and arrears (Rs. 5000 crore) on account of change-over from the main to the alternative devolution scheme as proposed by the TFC.

In non-tax revenue, gross receipts comprise of interest receipts, net receipts from State lotteries and other. The figures for interest receipts are obtained from the *Forecast of Revenue and Expenditure for the Ninth Five Year Plan* of the Government of Haryana. Frequent changes in the composition of lotteries in the last few years and the resultant fluctuations in the net receipts make historical projections of net receipts from State lotteries infeasible. The alternative adopted here is to consider the projected growth rate

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<sup>1</sup>

With the introduction of prohibition of liquor in Haryana, receipts from state excise register a sharp fall in 1996–97 and hence buoyancies are estimated using information till 1995–96 only.

budgeted in 1997–98.<sup>2</sup> The rest of non-tax revenue is projected on the basis of exponential trends estimated over 1980–81 to 1995–96.

Total grants received by the State can be divided into non-Plan grants, grants for State Plan and for centrally sponsored schemes. The figures for non-Plan grants are obtained from the TFC report, while those for State Plans are from the latest estimates of resources for the Ninth Five-Year-Plan of the Government of Haryana, approved by the Planning Commission, and updated with information from the budget documents. In the absence of any systematic behaviour of grants for centrally sponsored schemes, the level is pegged in nominal terms to the 1996–97 level. In addition, in 1997–98, there has been a significant increase in the grants on account of World Bank aided projects to the Government of Haryana. It is understood that the State expects to receive such amounts during the entire projection period. The figure for total grants therefore is enhanced by the figure for 1997–98, nominally corrected for inflation by 10 per cent annually.

These together yield revenue receipts of Haryana. To this are added figures for borrowings agreed to by the Government of Haryana and the Planning Commission and projection of receipts on Provident Fund and small saving accounts — projected as exponential historical trend projections — to obtain the total receipts. This then defines the permitted level of expenditure for the state.

## EXPENDITURE

Revenue expenditure are broken down into wages, salaries and pensions, purchase of goods and services, interest payments and others. On the basis of data for 1992–93 to 1995–96(R.E.), figures for 1996–97 are constructed. These are then used for projections. The wage bill and figures for employment till 1995 yield an average wage as well as figures for rate of growth of employment. For projecting, the average rate of growth of employment is applied to the employment levels on 31st March, 1995 to obtain employment figures for 1995–96 and 1996–97. Since the State government has advocated a freeze on employment in the subsequent years, the level of employment is kept frozen at the 1996–97 level. The average wage is adjusted by 10 percent annually to reflect 7 percent inflation as well as increases due to promotions and annual increments to salaries. These together yield the figures for wages and salaries. Pensions are projected using a historical growth rate. For the additional wage-cum-pension bill resulting from the Pay Commission recommendation, the figures for 1997–98 and 1998–99 have been obtained from the State government. These include Rs.1101 crores of arrears in

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<sup>2</sup>

This implies a decline in receipts from lotteries, which does not appear unreasonable in the light of recent Supreme court rulings which permit state governments to ban the sale of out of state lotteries

1998–99.<sup>3</sup> The annual cost of the pay rise is corrected by 10 percent as in the case of wages.

The gross purchase of goods and services is projected on the basis of a compound growth rate over 1992–93 to 1995–96. The figures for interest payments are computed, based on the interest commitment for past debt and the additional debt figures for the projection period (table A.14). In the rest of revenue expenditure containing mainly subsidies and transfers, rural electrification subsidy is pegged at the nominal level of 1997–98 (budget estimate). The remaining is pegged in real terms, implying a nominal correction of 7 percent for inflation.

The receipts net of revenue expenditure thus projected, would be the funds available for capital disbursements. Of this category, net loans and advances are projected at historically determined exponential growth rates. The residual is the amount of capital outlay feasible.

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<sup>3</sup>

Of the arrears, Rs. 920 crore are to be impounded into Provident fund, which is reflected in the projections of receipts from Provident fund accounts as a one period increase in 1998–99.

**Haryana : Baseline**

(Rs. lakh)

	1998-99	1999-2000	2000-01	2001-02
<b>A. Distribution</b>	831771	818893	918238	1031847
1. Revenue Expenditure	755671	775169	864853	1004272
a. Wages and salaries	186019	204620	225082	247591
Pay commission	160100	55000	60500	66550
b. Pension	24853	28645	33015	38052
c. Goods and services	141834	180118	228735	290475
d. Interest payment	97243	126336	145353	165000
e. Others	145623	180450	172167	196603
Electricity subsidy	88520	119350	106790	126650
Others	57103	61100	65377	69953
2. Capital Expenditure	72619	39828	49034	22725
3. Net Loans by State(net of power)	3481	3897	4352	4850
Receipts	3811	3983	4163	4351
Expenditures	7292	7880	8515	9201
<b>B. Receipts</b>	831771	818893	918238	1031847
1. Tax Revenue	426558	472642	542939	623968
a. Own tax revenue	350005	400763	459040	525968
Tax excl excise	242377	275154	312447	354885
b. Shared taxes	76553	71879	83899	98000
2. Non Tax Revenue	176915	191564	207716	227538
a. Own non tax revenue	116001	126448	138657	152506
i. Interest receipts	27646	28391	29176	30006
ii. State lotteries	1271	503	199	79
Own NT Rev excl int pay, lottery	87084	97554	109283	122421
b. Grants	60914	65116	69059	75032
3. Borrowings (Net)	106438	119328	125711	130757
a. Internal debt	45650	42499	42095	40545
i. Market borrowings	19094	19224	21831	21722
ii. Institutional loans	26556	23275	20264	18823
b. Loans from central govt.	60788	76829	83616	90212
4. Provident Fund, etc.,	121859	35359	41872	49584
<b>Revenue deficit(-)/surplus(+)</b>	-152197	-110963	-114197	-152766
<b>Fiscal deficit(-)/surplus(+)</b>	-228297	-154687	-167583	-180341
GSDP at current prices	4044687	4577530	5180569	5863052
<b>Revenue deficit(-)/surplus(+)</b>	-3.76%	-2.42%	-2.20%	-2.61%
<b>Fiscal deficit(-)/surplus(+)</b>	-5.64%	-3.38%	-3.23%	-3.08%

**Scenario 1 : Power Sector Reform**

	(Rs. lakh)			
	1998-99	1999-2000	2000-01	2001-02
<b>A. Distribution</b>	821801	808960	908352	1022017
1. Revenue Expenditure	713461	703479	802523	897622
a. Wages and salaries	186019	204620	225082	247591
Pay commission	160100	55000	60500	66550
b. Pension	24853	28645	33015	38052
c. Goods and services	141834	180118	228735	290475
d. Interest payment	97243	126336	145353	165000
e. Others	103413	108760	109837	89953
Rural electrification	46310	47660	44460	20000
Others	57103	61100	65377	69953
2. Capital Expenditure	78039	72805	98477	114145
Power	26820	28780	3000	5400
3. Net Loans by State(net of power)	3481	3897	4352	4850
Receipts	3811	3983	4163	4351
Expenditures	7292	7880	8515	9201
<b>B. Receipts</b>	821801	808960	908352	1022017
1. Tax Revenue	426558	472642	542939	623968
a. Own tax revenue	350005	400763	459040	525968
Tax excl excise	242377	275154	312447	354885
b. Shared taxes	76553	71879	83899	98000
2. Non Tax Revenue	166945	181631	197830	217708
a. Own non tax revenue	106031	116515	128771	142675
i. Interest receipts	17646	18391	19176	20006
ii. State lotteries	1271	503	199	79
Own NT Rev excl int pay, lottery	87114	97621	109396	122591
b. Grants	60914	65116	69059	75032
3. Borrowings (Net)	106438	119328	125711	130757
a. Internal debt	45650	42499	42095	40545
i. Market borrowings	19094	19224	21831	21722
ii. Institutional loans	26556	23275	20264	18823
b. Loans from central govt.	60788	76829	83616	90212
4. Provident Fund and Small Savings	121859	35359	41872	49584
<b>Revenue deficit(-)/surplus(+)</b>	-119957	-49205	-61754	-55946
<b>Fiscal deficit(-)/surplus(+)</b>	-228297	-154687	-167583	-180341
GSDP at current prices	4044687	4577530	5180569	5863052
<b>Revenue deficit(-)/surplus(+)</b>	-2.97%	-1.07%	-1.19%	-0.95%
<b>Fiscal deficit(-)/surplus(+)</b>	-5.64%	-3.38%	-3.23%	-3.08

**Scenario 2: Power Reforms + Expenditure to Cover Spending Gaps**

	(Rs. lakh)			
	1998-99	1999-2000	2000-01	2001-02
<b>A. Distribution</b>	821801	808960	908352	1022017
1. Revenue Expenditure	719835	711649	812786	910335
a. Wages and salaries	186019	204620	225082	247591
Pay commission	160100	55000	60500	66550
b. Pension	24853	28645	33015	38052
c. Goods and services	141834	180118	228735	290475
d. Interest payment	97243	126336	145353	165000
e. Others	103413	108760	109837	89953
Rural electrification	46310	47660	44460	20000
Others	57103	61100	65377	69953
f. Spending gaps	6374	8170	10264	12713
2. Capital Expenditure	71666	64635	88214	101431
Power	26820	28780	3000	5400
3. Net Loans by State(net of power)	3481	3897	4352	4850
Receipts	3811	3983	4163	4351
Expenditures	7292	7880	8515	9201
<b>B. Receipts</b>	821801	808960	908352	1022017
1. Tax Revenue	426558	472642	542939	623968
a. Own tax revenue	350005	400763	459040	525968
Tax excl excise	242377	275154	312447	354885
b. Shared taxes	76553	71879	83899	98000
2. Non Tax Revenue	166945	181631	197830	217708
a. Own non tax revenue	106031	116515	128771	142675
i. Interest receipts	17646	18391	19176	20006
ii. State lotteries	1271	503	199	79
iii. Irrigation				
Own NT Rev excl int pay, lottery	87114	97621	109396	122591
b. Grants	60914	65116	69059	75032
3. Borrowings (Net)	106438	119328	125711	130757
a. Internal debt	45650	42499	42095	40545
i. Market borrowings	19094	19224	21831	21722
ii. Institutional loans	26556	23275	20264	18823
b. Loans from central govt.	60788	76829	83616	90212
4. Provident Fund and Small Savings	121859	35359	41872	49584
<b>Revenue deficit(-)/surplus(+)</b>	-126331	-57376	-72017	-68660
<b>Fiscal deficit(-)/surplus(+)</b>	-228297	-154687	-167583	-180341
GSDP at current prices	4044687	4577530	5180569	5863052
<b>Revenue deficit(-)/surplus(+)</b>	-3.12%	-1.25%	-1.39%	-1.17%
<b>Fiscal deficit(-)/surplus(+)</b>	-5.64%	-3.38%	-3.23%	-3.08%

**Scenario 3: Scenario 2 + Resource Augmenting**

	(Rs. lakh)			
	1998-99	1999-2000	2000-01	2001-02
<b>A. Distribution</b>	865606	856853	961018	1080259
1. Revenue Expenditure	719835	711649	812786	910335
a. Wages and salaries	186019	204620	225082	247591
Pay commission	160100	55000	60500	66550
b. Pension	24853	28645	33015	38052
c. Goods and services	141834	180118	228735	290475
d. Interest payment	97243	126336	145353	165000
e. Others	103413	108760	109837	89953
Rural electrification	46310	47660	44460	20000
Others	57103	61100	65377	69953
f. Spending gaps	6374	8170	10264	12713
2. Capital Expenditure	115470	112527	140880	159674
Power	26820	28780	3000	5400
3. Net Loans by State(net of power)	3481	3897	4352	4850
Receipts	3811	3983	4163	4351
Expenditures	7292	7880	8515	9201
<b>B. Receipts</b>	865606	856853	961018	1080259
1. Tax Revenue	426558	472642	542939	623968
a. Own tax revenue	350005	400763	459040	525968
Tax excl excise	242377	275154	312447	354885
b. Shared taxes	76553	71879	83899	98000
2. Non Tax Revenue	163719	178140	194056	213635
a. Own non tax revenue	102805	113024	124997	138603
i. Interest receipts	17646	18391	19176	20006
ii. State lotteries	1271	503	199	79
iii. Irrigation				
Own NT Rev excl int pay, lottery	83888	94130	105622	118518
b. Grants	60914	65116	69059	75032
3. Additional Resource Measures	42379	45874	49916	54589
4. Borrowings (Net)	106438	119328	125711	130757
a. Internal debt	45650	42499	42095	40545
i. Market borrowings	19094	19224	21831	21722
ii. Institutional loans	26556	23275	20264	18823
b. Loans from central govt.	60788	76829	83616	90212
5. Provident Fund and Small Savings	126512	40869	48396	57311
<b>Revenue deficit(-)/surplus(+)</b>	-87179	-14993	-25875	-18143
<b>Fiscal deficit(-)/surplus(+)</b>	-232950	-160197	-174107	-188068
GSDP at current prices	4044687	4577530	5180569	5863052
<b>Revenue deficit(-)/surplus(+)</b>	-2.16%	-0.33%	-0.50%	-0.31%
<b>Fiscal deficit(-)/surplus(+)</b>	-5.76%	-3.50%	-3.36%	-3.21%

## **Appendix 2: Recommendations of State Finance Commission: implications**

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The projection exercise undertaken in this report does not take into account the recommendations of the State Finance Commission (SFC), and implied reallocation of resources between the State government and the local bodies. The Report of the SFC of Haryana is yet to be accepted by the Government. Scenario 4, discussed in this appendix, includes the implied devolution of resources. Since the recommendations of the SFC imply greater devolution of resources to the local bodies, this has the obvious result of increasing revenue deficit and reducing the resources available for capital expenditure. In all the four years of the projection exercise, capital expenditure as a ratio of GSDP reduces by 0.3 percentage points or more as compared to scenario 3. The level of capital expenditure in this scenario stays below 2.5 percent of GSDP in all of the four years. Keeping in view the long-term consequences of such as expenditure policy on the growth of the State economy, this underscores the need for the suggested reforms. However, it ought to be pointed out that instead of simply transferring funds to the local bodies, it would be much better if local bodies be encouraged to generate these themselves. The interest of both local autonomy and accountability would be served better if an enabling environment was created for the local bodies to be substantially self-financing.

**Scenario 4: Scenario 3 + SFS Recommendations**

(Rs. lakh)

	1998-99	1999-2000	2000-01	2001-02
<b>A. Distribution</b>	865606	856854	961020	1080262
1. Revenue Expenditure	737023	730868	834289	934413
a. Wages and salaries	186019	204620	225082	247591
Pay commission	160100	55000	60500	66550
b. Pension	24853	28645	33015	38052
c. Goods and services	141834	180118	228735	290475
d. Interest payment	97243	126336	145353	165000
e. Others	103359	108703	109776	89888
Rural electrification	46310	47660	44460	20000
Others	57049	61043	65316	69888
f. Spending gaps	6374	8170	10264	12713
g. State Finance Commission	17242	19276	21564	24143
2. Capital Expenditure	98282	93309	119379	135599
Power	26820	28780	3000	5400
3. Net Loans by State(net of power)	3481	3897	4352	4850
Receipts	3811	3983	4163	4351
Expenditures	7292	7880	8515	9201
<b>B. Receipts</b>	865606	856854	961020	1080262
1. Tax Revenue	426558	472642	542939	623968
a. Own tax revenue	350005	400763	459040	525968
Tax excl excise	242377	275154	312447	354885
b. Shared taxes	76553	71879	83899	98000
2. Non Tax Revenue	163719	178141	194058	213638
a. Own non tax revenue	102805	113025	124999	138606
i. Interest receipts	17646	18391	19176	20006
ii. State lotteries	1271	503	199	79
iii. Irrigation				
Own NT Rev excl int pay, lottery	83888	94131	105625	118522
b. Grants	60914	65116	69059	75032
3. Additional Resource Measures	42379	45874	49916	54589
4. Borrowings (Net)	106438	119328	125711	130757
a. Internal debt	45650	42499	42095	40545
i. Market borrowings	19094	19224	21831	21722
ii. Institutional loans	26556	23275	20264	18823
b. Loans from central govt.	60788	76829	83616	90212
5. Provident Fund and Small Savings	126512	40869	48396	57311
<b>Revenue deficit(-)/surplus(+)</b>	-104367	-34211	-47376	-42218
<b>Fiscal deficit(-)/surplus(+)</b>	-232950	-160197	-174107	-188068
GSDP at current prices	4044687	4577530	5180569	5863052
<b>Revenue deficit(-)/surplus(+)</b>	-2.58%	-0.75%	-0.91%	-0.72%
<b>Fiscal deficit(-)/surplus(+)</b>	-5.76%	-3.50%	-3.36%	-3.21%