

REVIEW OF FISCAL HEALTH OF HIMACHAL PRADESH AND MEASURES TO BOOST THE ECONOMY

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Abstract

Located in North India, Himachal Pradesh is a small mountainous State bordering Punjab, Haryana, Uttarakhand, Jammu and Kashmir and China. With a geographical area of 55,673 sq. Kms and population of 6.6 million, HP accounts for 1.6% of the national geographical area and about 0.6% of India's population. HP is a unique State due to diversity of its topography, climate and flora and fauna, scattered habitats in the hills, low population density, rich heritage of arts and crafts, extensive forest coverage with abundant water resources and low availability of land for cultivation. This, in turn, determines its specific development perspective and the resources required for its realization. This is the fundamental challenge of fiscal and financial management of Himachal. In this background, this article makes an attempt to assess the status of fiscal health of Himachal Pradesh and suggests various measures to boost its economy.

Introduction

The State of Himachal is becoming a vibrant economy of the country due to the steady efforts of the simple and hardworking people of the State and progressive policies of the Central Government. Today Himachal could become the most prosperous and fastest growing economy in the country. The economy of the State is expected to achieve a growth rate 6.3 percent in the current financial year.

The State Gross Domestic Product (GSDP) at factor cost at current prices, is estimated at Rs 1, 24,236 crore in 2016-17 as against Rs. 1,13,355 crore in 2015-16 showing an increase of 9.6 percent during the year. At constant (2011-12) prices in 2016-17 is estimated at Rs. 1,02,954 crore as against Rs

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96,274 crore in 2015-16 registering a growth of 6.9 percent during the year as against the growth rate of 8.1 percent during the previous year.

A leading Indian state in terms of human development, HP has some of the best indicators in terms of gender equality and access to services. Moreover, in recent years, HP has achieved economic success in the form of higher growth rate than the rest of the country. The growth has been powered by rapid expansion of the secondary and tertiary sectors, which collectively account for more than 80% of the Gross State Domestic Product (GSDP). HP now has a per capita income of 1,03,870 in 2016-17 at current prices which is higher than the national average.

But the state is not devoid of problems. The most acute problem ticking like a time bomb on Himachal is the state's fiscal deficit. State's fiscal deficit has spiralled out of control and hanging around Rs. 4500 crores in 2015! The net debt is somewhere around Rs. 45,000 crores. That is a big revenue headache for a small state like Himachal. A government deficit is the amount of money in the set budget by which the government expenditure exceeds government income amount. A fiscal deficit is a gap by which government's total expenditures exceed the total generated revenue. This, however, does not include the government borrowings.

Fiscal deficit = Total expenditure- Total receipts excluding borrowings

Fiscal deficit indicates the amount of money that the government will need to borrow during the financial year. A huge disadvantage or implication of fiscal deficit is it may lead to a debt trap. Also, it may lead to unnecessary and wasteful expenditure by the government. Increased fiscal deficit leads to uncontrolled inflation. The fiscal deficit is a positive outcome if it leads to the creation of assets. It is detrimental to the economic condition of the nation if it is used to simply cover revenue deficit.

So going ahead we will review the fiscal health of Himachal Pradesh and will suggest measures to boost the economy. So that Himachal would become prosperous and developed state.

Methodology

The methodology employed to conduct the present analysis is primarily qualitative in nature. It involves the main method of document analysis. This method involves a systematic review and evaluation of documents, which may be printed or electronic material. In document analysis, similar to other analytical methods in qualitative research, the data is examined and interpreted so as to gain an understanding and develop knowledge, as well as to make sense or retrieve meaning. For the purpose of this study the document analysis involved government reports, office orders, government notifications and articles. For this study, most documents were retrieved from government websites online, from the respective document repositories of the concerned department or ministry. For this study the primary documents analysed were the Economic survey of Himachal Pradesh 2017-18 and Annual financial statement, Himachal Pradesh budget documents 2018-19. The process of analysis involved finding relevant documents and subject matters within the defined corpus of the study, selecting the relevant parts and recommendations, or government action within these documents and to arrange this data accordingly.

Fiscal Health of Himachal Pradesh

The state government mobilizes financial resources through direct and indirect taxes, non-tax revenue, share of central taxes and grants-in-aid from Central Govt. to meet the expenditure on administration and developmental activities.

Budget Estimates for 2018-19

- The total expenditure in 2018-19 is targeted at Rs 41,440 crore. This is 6.3% higher than the revised estimates of 2017-18. This expenditure is proposed to be met through receipts (other than borrowings) of Rs 31,660 crore and borrowings of Rs 6,505 crore.
- In 2017-18, revised estimates of total expenditure were 9% higher (Rs 3,212 crore) than the budget estimates.
- Total receipts for 2018-19 (other than borrowings) are expected to be 8.1% higher than the revised estimates of 2017-18.

Deficits, Debts and FRBM Targets for 2018-19

The Himachal Pradesh Fiscal Responsibility and Budget Management (FRBM) Act, 2005 provides annual targets to progressively reduce the outstanding liabilities, revenue deficit and fiscal deficit of the state government.

Revenue deficit: It is the excess of revenue expenditure over revenue receipts. A revenue deficit implies that the government needs to borrow in order to finance its expenses which do not create capital assets. The budget estimates a revenue deficit of Rs 3,168 crore (2.1% of GSDP) in 2018-19. This implies that revenue receipts are expected to be lower than the revenue expenditure, resulting in a deficit. The 14th Finance Commission had recommended that states should eliminate revenue deficits. The estimates in the Himachal Pradesh Budget 2018-19 suggest that the state is not expected to meet this target of eliminating revenue deficit.

Fiscal deficit: It is the excess of total expenditure over total receipts. This gap is filled by borrowings by the government, and leads to an increase in total liabilities. In 2018-19, fiscal deficit is estimated to be Rs 7,855 crore, which is 5.2% of the GSDP. The estimate exceeds the 3% limit prescribed by the 14th Finance Commission. While setting the 3% target, the Finance Commission has recommended that this limit may be relaxed to a maximum of 3.5%, if states are able to contain their debt and interest payments to certain specified levels.

The factors, which have adversely affected the state's financial scenario over the last ten years, are:

- High salaries and wages bill, mounting debt burden, heavily subsidised social and economic services. Slow growth of revenue and lost making public sector undertakings
- The tax base in HP continues to be narrow and tax compliance is poor
- The ratio of own tax percentage to the GDP is consistently lower than that of the neighbouring states of Punjab and Haryana and six fast growing states
- High revenue expenditure with low resource mobilisation indicates the need for improving the tax ratio to the GDP

The C.A.G report 2016-17

A report by the Comptroller and Auditor General of India has warned that Himachal Pradesh could fall into a “debt trap”, as the state’s public debt rose to Rs 27,910 crore in the previous financial year. The report, tabled in the Himachal Pradesh assembly during 2016-17, revealed that the state was required to pay 62% of this debt within 7 years. The report has revealed that the overall fiscal liabilities of Himachal Pradesh increased by Rs 12,969 crore (46%) in four financial years, from Rs 28,228 crore in 2011-12 to Rs 41,197 crore in 2015-16. It said interest payments increased by 48% in the same period, from Rs 2,130 crore in 2011-12 to Rs 3,155 crore in 2015-16, and by Rs 306 crore (11%) over the previous year. Public debt increased from Rs 19,511 crore in 2011-12 to Rs 27,910 crore in 2015-16, registering an annual average growth rate of 8.42%. It said share of market borrowings in total public debt went up from 52% in 2011-12 to 60% in 2015-16.

In this fiscal, the total public debt increased by 8.48% over the previous year. The maturity profile of the state debt indicates that 8%, or Rs 2,268 crore, of public debt is payable in the next year, while 38%, or Rs 10,567 crore, of it is payable in the next one to five years. The remaining 54% (Rs 15,075 crore) of public debt is required to be paid in more than five years. According to the report, almost 15-16% revenue receipts of the state were used for Interest payments from 2011-12 to 2015-16. In 2015-16, interest payments accounted for 13.46% of revenue receipts. Per capita debt increased from Rs 40,904 in 2011-12 to Rs 57,642 during the 2015-16 fiscal, an increase of 41%. Also CAG expresses concern over poor fiscal health of Himachal in its latest report for 2016-17 and has warned that the mounting debt, which has shot up by 50 percent from Rs. 43,726 crore to Rs 65,444 crore in the last five years, could land Himachal in a grave financial crisis. The CAG report for 2016-17 was laid in the Vidhan Sabha. “The fiscal liabilities at the end of 2016-17 were Rs 47,244 crore which is an increase of 15 percent over the previous year and stands at 38 percent of the Gross State Domestic Product and 180 percent of the revenue receipt”, mentions the CAG report on the alarming financial health of the state.

The report points out that the expenditure on salary and wages of government employees has increased from Rs 1,508 crore (18 percent) over the previous year due to grant of DA and other benefits. Also Chairman of 15th Finance Commission stated that the debt to Gross State Domestic Product (GSDP) ratio of 38 percent in Himachal Pradesh is unacceptable and unsustainable. The Budget analysis and CAG report tell the whole story of fiscal health of the State.

Measures to improve fiscal health and boost the economy of Himachal Pradesh

The per person debt in Himachal Pradesh has increased by Rs. 21,728 in the past five years and the total debt on an individual in the hill state is now Rs. 65444/-. Immediate attention needs to be paid to correct the revenue/fiscal deficits and substantially reduce the public debt. Structural fiscal measures to achieve these goals are required to be taken without delay. For this we have to take some tough measures. First of all state has to obey the recommendations of CAG report 2016. Following are the recommendations of CAG.

- Efforts should be made by the State Government to improve collection of tax and non-tax revenue and to control the revenue expenditure to avoid recurrence of revenue deficit and fiscal deficit in near future. A system has to be put in place to ensure proper accounting of funds without routing through treasuries and the updated information should be validated by the State Government to ensure its effective utilization.
- The State Government should formulate guidelines for quick completion of incomplete projects and strictly monitor reasons for time and cost overrun with a view to take corrective action. The State Government should review the working of States Public Sector Undertakings incurring huge losses and take appropriate action. Also to reduce government deficit we should take following measures
- The HP Fiscal Responsibility and Financial Management Act should be enacted to ensure long-term financial stability with caps on state borrowing, state guarantees and deficits.
- Sinking Fund and Contingency Fund to cover loans and guarantees

- Revision of 'user charges' for services like transport, drinking water, technical, medical, higher education and secondary and tertiary health care to improve the quality of services
- Increased emphasis on tax-based revenues and appropriate measures to reduce tax evasion.
- Strict enforcement of tax laws for higher yield from sales tax, excise duty, registration and stamp duty and motor vehicle tax,.
- A broadened tax base may also help in reducing the government deficit.
- Compression of non-plan and non-tax expenditure.
- Reduction in unmerited subsidies by the government will also help reduce the deficit.
- Enhancing the quality of public expenditure and governance.
- Disinvestment should be done where assets are not being used effectively.
- Smart borrowing from domestic sources and external sources.
- Accessing the capital market for infrastructure development for tapping non-budgetary resources through bankable schemes.
- Government should also take various austerity measures like reduction in Government Employees, New Pension Scheme, and Closure of Non Performing PSUs to reduce state liabilities but there is also a need to induce economic growth through structural changes by improving our agriculture, Horticulture, Industries and Tourism sectors etc, which are discussed in detail as follows:

1. Agriculture and allied services

Agriculture in Himachal Pradesh is a way of life for agrarian population. It is the back bone of state economy and the main stay of the livelihood of people in the state. Himachal Pradesh is the only state in the country whose 89.96% population lives in rural area. Therefore dependency on agriculture/horticulture is dominant as it provides direct employment to about 62% total workers of the state.

The modern policy makers need to address the issues pertaining to agriculture and draw a comprehensive agriculture policy for the future. Policies may encourage some land uses rather than others in the interest

of protecting environment. For instance subsidies may be given for particular farming methods, forestation and clearance and pollution abatement. Organic Farming, Zero budgets Natural farming needs to be stepped up. To promote Industrial agriculture is widely considered to impose social costs through pesticide pollution and nitrate pollution. The policy measures to strengthen agricultural sector should focus on the shift from “Self-sufficiency in food grains to maximization of farm income through cash crops (Fruits and vegetables) which are highly remunerative and the state has comparative advantages for it due to climatic and other factors.”

a. Vegetable production

Himachal Pradesh provides ample condition for production of wide variety of vegetable production. The vegetable produced during summers have an off-season nature/advantage over the competing areas of neighbouring states, as production is not economically viable and only can be produced in green houses in controlled conditions in the plains. So we should promote vegetable production in our state to boost our economy. Also we should promote latest technologies in this field like poly houses, exotic varieties etc.

b. Livestock & Poultry

The livestock sector in the state of Himachal Pradesh contributes around 28-30 per cent of the total value of agricultural produce. The sector has registered higher growth in the gross value contribution as compared to the overall agriculture sector. To meet the infrastructural requirements of the sector, there has been an impressive increase in the number of veterinary institutions in the state. Appropriate remedial measure should be undertaken to strengthen animal health and veterinary services in the state for developing a strong livestock economy in Himachal Pradesh.

Also Poultry development provides employment and nutritive food to the consumers in the form of meat, eggs and manure for use in the field. So it should also be promoted in the state.

c. Fisheries

Himachal Pradesh has approximately 3000 kms of riverine length and four reservoirs namely Gobind Sagar, Maharana Partap Sagar, Pandoh and Chamara constructed on Satluj, Beas, and Ravi rivers respectively. The upper zones of riverine inhabit indigenous Schizothoracids, and exotic salmonids (trout) while the zones interspersing the semi-plain and plain areas are the abodes of Himalayan tiger-the mighty mahseer, Indian Major Carps and the much sought after catfishes such as Singhara Malhee and Soal. So we should promote fisheries in the state vigorously.

d. Forestry

Himachal Pradesh has geographical area of 55,673 sqkms and nearly 66% of its geographical areas is designated as forest area with nearly 15% falling within the Protected Area (PA) network. Since forest produce a range of ecosystem services, they need to be managed for multiple benefits, not just for timber, but to maximize economic benefits for different stakeholders while managing these forests sustainably. In order to do this, Government of Himachal Pradesh is developing the Himachal Pradesh Forest for Prosperity Project”, with Department of Forests the main implementing agency. So we should make this project successful, also we can claim carbon credit and other benefits by maintaining our forests through clean development mechanism schemes from United Nation etc.

e. Horticulture

The rich diversity of agro climatic conditions, topographical variations and altitudinal differences coupled with fertile, deep and well drained soils favour the cultivation of temperate to sub-tropical fruits in Himachal. The region is also suitable for cultivation of ancillary horticultural produce like flowers, mushroom, honey and hops etc. This particular suitability of Himachal has resulted in shifting of land use pattern from agriculture to fruit crops in the past few decades. The area under fruits, which was 792 hectares in 1950-51 with total production of 1,200 tonnes increased to 2,29,202 hectares and total production of 6.12 lakh tonnes in 2016-17. Apple is so far the most important fruit crop of Himachal Pradesh, which constitutes about 49 percent of the total area under fruit crops and about

85 per cent of the total fruit production. Area under apple has increased from 400 hectares in 1950-51 to 1,11,896 hectares in 2016-17. The area under temperate fruits other than apple has increased from 900 hectares in 1960-61 to 28,163 hectares in 2016-17. Nuts and dry fruits exhibit area increase from 231 hectares in 1960-61 to 10,364 hectares in 2016-17, Citrus and other sub tropical fruits have increased from 1,225 hectares and 623 hectares in 1960-61 to 24,475 hectares and 54,304 hectares in 2016-17 respectively. But this pace of development is being jeopardized due to the erratic apple production, owing to weather vagaries and market fluctuations. The advent of WTO, GATT and liberalisation of economy is further imposing many challenges on the dominance of apple in fruit industry of Himachal Pradesh. The fluctuations in the production of apple during last few years have attracted the attention of the Government. It is necessary to explore and harness the vast horticulture potential of the hill State through diversified horticulture production in varied agro-ecological zones.

Future Strategies for Horticulture:-

- Enhancing the Production of the existing plantations.
- Conforming to the internationally accepted standards of the produce.
- Branching and shooting out of the horticulture industry.
- Stress on strengthening of the R& D set up at nursery level for production of resistant varieties.
- Introduction of good quality varieties of fruits and vegetables from advanced countries and their propagation for sully to the target farmers.
- Ensuring price stabilization through relevant regulations.
- Establishing of value addition and processing industry.
- Diversification of horticulture activities like floriculture, apiculture, sericulture and mushroom cultivation etc.

2. Industrialization in Himachal Pradesh

Himachal Pradesh has made significant achievements in the field of industrialization in the past few years. Recently many initiatives have been taken by Government to facilitate investment in the State.

- **Status of Industrialization**

As on 31.12.2017, there were 45,597 units working in the State. Out of these 138 Industrial Units are Large and 484 are Medium Scale Units. The State and the Central Governments have released number of incentives in order to initiate the process of growth, provide income generating and gainful employment creating opportunities to the local people. In Himachal Pradesh, during the preceding two to three decades, the State level financial institutions have released huge amount of loans for setting up industrial units in the State, so a detailed study about the contribution of these incentives on the promotion of industries in general and on the growth and performance of the small and medium scale industrial units in particular should be conducted in the State by taking into account their cost structure, profitability, investment pattern, capital-output ratios, capital-employment ratios, employment pattern and the contribution of different factors of production in total production.

Also there is vast scope for setting up of small scale industries in Himachal Pradesh. Out of which we should focus on some thrust industries like fruit processing/preservation, Ayurvedic Medicines, woollen hosiery, dairy products and mushroom growing & canning etc. which are relevant to our state and need promotion. There is a need to established new industries in the State so that ample employment could be generated for the youth but priority should be given for environment friendly industries.

Also Himachal Govt. Should woo investors, including from overseas in the industries and should hold investors summits at regular intervals to assures them of all basic facilities, various incentives and clearances within a shortest possible time. Further significant labour reforms to facilitate industrial units complying with various statutes and laws have to be put in place.

3. Tourism

Tourism sector in Himachal Pradesh has been recognized as one of the most important sectors of the economy as it is being realized as a major engine of growth for future and as such contribution of the tourism sector

to the State GDP is 6.6 percent approximately which is quite significant. The State is endowed with all the basic resources necessary for thriving tourism activity like geographical and cultural diversity, clean and peaceful environment and beautiful streams, sacred shrines, historic monuments and the friendly and hospitable people. Tourism Industry in Himachal Pradesh has been given very high priority and the Government has developed appropriate infrastructure for its development which includes public utility services, roads, communication network, airports, transport facilities, water supply and civic amenities etc. At present about 2,907 hotels having bed capacity of about 81,514 are registered with the Department. In addition, there are about 1,220 Home Stay units registered in the State having about 7,044 beds.

Tourism is the main industry which can boost the economy of State. Eco-Tourism, Sustainable Tourism and Rural Tourism is the key of development in hill State. We have become obsessed with “tourism”, but forgotten the “tourist”. There is an immediate need to focus on the tourist, find out what he needs, and make arrangements to provide it. Some suggestions to boost tourism are as follows:-

- Amend Himachal Pradesh land laws to bring in entrepreneurship, technology, and capital.
- Himachal Pradesh Government to move out of tourism as a business activity, and shift to become a facilitator.
- Set up Himachal Pradesh Tourist Authority to oversee policy, accreditation, standardisation, and certification procedures.
- More tourist destinations and circuits should be identified and developed as soon as possible. There are many unexplored potential tourist spots available in Himachal eg. Bhaba valley in Kinnaur, Jhatingri in Mandi district etc.
- Winter tourism like winter sports especially snow skiing, snow scooter ride, ice climbing, and snow leopard expeditions etc. should be promoted vigorously in the state so that tourism becomes round the years business.
- Adventure tourism like water sports especially river rafting, kayaking, swimming etc., paragliding, rock-climbing, trekking etc. should be given top priority.

- Cultural tourism based on religious monuments, heritage sites, various cultures of different district and unique tribal cultures should be promoted as well.
- Capacity building of various stakeholders in tourism industry like youths, hoteliers, locals etc. is the need of the hour.
- We can promote health tourism in the state as Himachal has got seven medical colleges and our environment is serene and less polluted. Also we can promote Ayurvedic treatment in the state.
- We can also promote Himachal as education hub as various famous boarding schools are situated here eg. Sanawar School at Kasauli etc. Also we have various universities and technical colleges which are well equipped and situated in the lap of nature.

4. Hydropower

Hydro power development is the key engine to the economic growth of the State of Himachal Pradesh, as it makes a direct and significant contribution to economy in terms of revenue generation, employment opportunities and enhancing the quality of life. The Hydro Power Sector in Himachal Pradesh strongly emphasizes the economic dimensions by way of environmentally and socially sustainable Hydropower Development in the State. The State of Himachal Pradesh has an estimated Hydro Potential of 27,436 MW out of which 24,000 MW has been assessed as harnessable while the Government of Himachal Pradesh has decided to forgo balance potential in lieu of safe guarding the environment and to maintain ecological as well as protect various social concerns. Out of the total harnessable potential of about 24,000 MW, a potential to the tune of 20,912 MW already stands allotted under various sectors. The State has been accelerating the pace of Hydropower development through the active involvement of both the public and private sectors. A potential of about 10,519 MW has already been harnessed so far under various sectors. Proper utilization of hydropower can boost the economy of State.

5. Solar power

There is immense potential of solar power in Himachal. The state of Himachal Pradesh being a hilly state, has generally a clear sky and the

average solar radiation level in the entire physiographic zones of the state receives insolation between 4-5.25 kWh/m²/day with around 300 clear sunny days in a year, favouring commercial as well as domestic applications of solar energy. So we should promote generation of this green and clean solar power energy through off grid & decentralized solar applications, roof top & other small solar power plants and new grid connected solar.

6. Infrastructure and human resource development

The development of infrastructure & institutional support is a pre-requisite for economic development of an area. To boost Industrialization and Tourism we need to improve our transportation facilities like international airport facility, railways, roads, waterways and simultaneously telecommunication facilities also. Infrastructure spending as an economic catalyst increases productivity by enabling businesses to operate as efficiently as possible. We should also focus on development of human resources for which we have to strengthen our health, education and skill development sectors. Also we should promote rural development, financial inclusion of all section of society and empower Panchayati Raj Institutions, local CBO's, NGO's and Civil Societies etc. So that basic pillars of our economy get strengthened.

Conclusion

The fiscal situation of Himachal Pradesh, which had improved during the middle of the last decade, is exhibiting signs of some stress once again. Beside these the economic slowdown may be partly due to lower levels of shared taxes, following the economic slowdown. It is also expected that the recommendations of the thirteenth Finance Commission may result in a slowdown if not an actual fall in the grants from the central government. However, by means of adopting financial discipline, improving collection of tax and non-tax revenues, deregulation, disinvestments of ailing public undertakings, reduction in subsidies and adopting various other austerity measures we can reduce our fiscal deficit and by promoting various developmental opportunities like agriculture and its allied services, tourism, horticulture, industrial development especially MSME,

hydropower and solar power development etc. We can increase our productivity, which grows the economy and we can change the present grim economic scenario of state to brighter one. To summarize, the government should take effective steps to reduce unproductive expenditure, generate new resources, impose financial discipline, and accelerate development through promotion of tourism and horticulture etc. and enhance the income of the state through sale of hydropower. Moreover, by adopting various measures suggested in this article the government of Himachal Pradesh can boost its economy at very high pace ultimately leading to improvement of its fiscal health which will promote strong and sustainable growth and reduce poverty.

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128 Review of Fiscal Health of HP..... Dr. Vikram Singh Negi