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An Insight Into The Fiscal Crisis Of Punjab

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ABSTRACT

The dismal economic performance of Punjab economy during the past ten years or so has severely damaged its reputation at the national scenario. The change in the status of Punjab economy from a dynamic to a lagging behind state has affected its pride and prestige. It has wider consequences for the widely recognized entrepreneurial skill of the industrialists of Punjab. The crisis is multidimensional and the consequences are widespread which is a cause of worry and needs attention. The Government revenue has not kept pace with the Government expenditure, leading to ballooning Revenue and Fiscal Deficits.Persistent use of borrowed funds largely for current consumption and debt servicing indicates unsustainability and reflects vulnerability of the state finances. Government debt is growing, debt servicing is increasing which leaves insufficient resources at the disposal of the government for carrying out development programs. Growth rate of GSDP has fallen over time which is a cause of concern.The state has to pursue the fiscal reform programme towards achieving fiscal balance and development of infrastructure. In order to achieve the desired goals, administrative efficiency and fiscal reforms are necessary. However, the success of all these efforts depend upon the political will of the government,in the absence of which,it will be difficult for the government to bring the state on the right track.

KEYWORDS:capital, crisis, debt, fiscal, revenue

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Punjab, a predominantly agricultural economy, has the highest per capita income among all the major Indian states. It has the lowest poverty ratio of 6.2 percent as against an all- India average of 26.1percent.[1] This was the impression about Punjab just a few years back .But what has happened over time specially during the past few years that fiscal crisis in Punjab has gripped Punjab in its clutches. The State is finding it difficult to meet its basic obligations towards the people. The State's financial decline has now seamlessly merged into its economic decline. Punjab's economy has been in a state of precipitous decline over the last one decade.[2]

The change in the status of Punjab economy from a dynamic to a lagging behind state has affected its pride and prestige. The dismal economic performance of Punjab economy has wider consequences for the widely recognized entrepreneurial skill of the industrialists of Punjab. In fact, the crisis is multidimensional and the consequences are widespread which is a cause of worry and needs attention. The Government revenue has not kept pace with the Government expenditure, leading to ballooning Revenue and Fiscal Deficits. Government debt is growing, debt servicing is increasing which leaves insufficient resources at the disposal for carrying out development work. Growth rate of GSDP has fallen over time which is a cause of concern.

Keeping in view the above issues in mind, the present paper attempts to study the fiscal crisis in the state during the past decade specifically with the following objectives:

To study the gravity of the fiscal crisis in terms of various economic indicators

. To study the factors responsible for the present alarming fiscal condition of the State.

. To suggest policy measures to contain the problem.

With a view to meet above mentioned objectives, the present paper is divided into three sections. Section I attempts to analyze the deteriorating fiscal situation of Punjab with respect to various economic variables . Section II attempts to bring out the factors responsible for the present miserable plight of the State. Section III summarizes the conclusion and suggests policy measures to solve the problem.

DATA BASE & METHODOLOGY

Present paper attempts to study the fiscal crisis of Punjab during the past decade during which, the problem deteriorated over time. For this, data regarding various economic indicators was collected for the period 2006-07 to 2016-17 from the sources likeState Budget Documents, various issues of Statistical Abstract of Punjab, Economic Survey of Punjab,published byGovernment of Punjab, Economic Survey, published by Ministry of finance, Government of India.

Statistical tools like ratios, percentages, averages have been, Government of Punjab used to analyze the data and results are interpreted accordingly.

Section I

State governments have important responsibilities in economic activitiesin a federal country like India. The critical role of state finances in therestoration of the balance in the economy is wellrecognized. In liberalized economic environment, sub-national governments will have toplay a relatively more important role than in the past. This would essentially require the state governmentsto substantially augment their resources.[3]

An insight into the finances of the Government of Punjab showsgreater revenue and fiscal deficit each year indicating fiscal imbalances of the state.Populist policies like free power and irrigation to the farm sector compounded the problem. The states are unable to increase the tax ratio as also improve the productivity of non-tax revenue. Political compulsions do not allow the states to increase user charges.[4] Increasing dependence on the RBI funds, Persistent use of borrowed funds largely for currentconsumption and debt servicing indicates unsustainability and reflectsvulnerability of the state finances. The pattern of a number of variables over the last one decade shows how the fiscal condition of the State deteriorated over time.

Table 1: Outstanding Liabilities in 2016-17 (`Crore)

Sr. No	Description	Amount
1	Arrears of Dearness Allowance	2773
2	Arrears of Power Subsidy	2342
3	Arrears of Atta Dal Scheme	1747
4	Non-release of funds received from the Govt. ofIndia	1413
5	Non-payment of pensions	692
6	*Non release of funds to the Urban Local Bodies(ULBs) under the Central and State FinanceCommissions*	*254*
7	Non release of funds to the Panchayati Raj Institutions under the Central and State FinanceCommissions	286
8	others	3212
	total	13039

Source :White Paper on State Finance - 2017

The above Table comprises the data regarding various types of liabilities that the government had to meet in 2016-17.Table clearly shows that in 2016-17 , the outstanding liabilities of the government were to the tune of rupees 13039 cores comprising Arrears of Dearness Allowance(2773 cores), Arrears of Power Subsidy (2342 cores), Arrears of Atta Dal Scheme (1747crores), Non-release of funds received from the Govt. of India (1413crores), Non-payment of pensions (692crore), Non release of funds to the Urban Local Bodies(ULBs) under the Central and State Finance Commissions (254crores), Non release of funds to the Panchayati Raj Institutions under the Central and State Finance Commissions (286crores). New avenues of generating the funds were required to be explored to meet these expenses.

Similar picture is exhibited by the key economic indicators which infact are the mirror of the financial condition of a State. The following Table presents the comparative picture of these indicators for the years 2006-07 and 2016-17.

An overview of these figures reveals how things became worse over time. The Government revenue has not kept pace with the Government expenditure, resulting in mounting Revenue and Fiscal Deficits. A high percentage of expenditure of the Government is non-discretionary and committed, which hardly leave any possibility for the Government to spend on the capital account. Revenue Deficit at 54% of Fiscal Deficit results in most of the loans raised by the Government being used for meeting the committed expenditure or repaying the past loans.

Capital expenditure a meager 7.82% of total expenditure shows the Government is hardly investing in the future of the State. Outstanding debt at 43.81% of GSDP and Debt Service Ratio (DSR) at 31.15% is a cause of concern. An increase in committed expenditure of the government from 71% in 2006-07 to 85% in 2016-17 shows limitation of the government to develop physical assets in the State.

Table 2: Key FiscalIndicators

Items	2006-07	2016-17
Revenue Deficit (cores)	1749	6611
Fiscal Deficit (excluding UDAY) (cores)	4384	12336
Primary Deficit (Fiscal Deficit less Interest) (excluding UDAY) (cores)	232	2238
Revenue Deficit as % of Fiscal Deficit	40%	54%
Committed Expenditure as % ofRevenue Receipt	71%	85%
Capital Expenditure as % of Total Expenditure	12.24%	7.82%
States own Revenue as % of its Total Revenue	77.34%	68.5%

Source: State Budget Document and Statistical Abstract of Punjab, various issues

A similar picture is exhibited by the composition of revenue receipts shown in the following Table which shows greater dependence of the state government on the funds transferred from Central Government and its inability to raise its own resources.

Table 3: Composition of Revenue Receipts (%)

Year	State's Own Revenue	Central Transfers
2006-07	77.34	22.66
2007-08	78.77	21.24
2008-09	81.75	18.24
2009-10	79.85	20.15
2010-11	80.26	19.74
2011-12	77.15	22.85
2012-13	78.67	21.32
2013-14	77.78	22.31
2014-15	72.91	27.09
2015-16	70.66	29.34
2016-17	68.50	31.50

Source: State Budget Document and Statistical Abstract of Punjab

Table clearly shows decline of the share of State in the total revenue receipts during the period 2006 - 2017. Share of State showed little variation as the percentage increased to 81.75 in 2008-09. But it was temporary increase as the figure started declining later so as to reach to 68.5 percent in 2016-17. On the other hand, Central share in the total revenue receipts of the State increased from 22.66 percent to 31.5 percent during the same period. The increasing trend in the declining State's share is of utmost significance in the sense that it shows inability of the State to generate its own resources which is a matter of concern.

An increasing trend in the revenue deficit is shown in the following Table. A widening gap between revenue receipts and revenue expenditure over time is a cause of concern as shown in the Table. This gap shows that revenue receipts have been failed to keep pace with revenue expenditure. Revenue deficit was 1748 crore in 2006-07 which increased almost five time to reach to 8551 crore in 2015-16. However, a fall in it was experienced during 2016-17 when it came down to 6610 crore. A little variations seemed to appear in between but it never showed a declining trend.

Table 4: Revenue Receipts and Revenue Expenditure During 2006-2017 ('crores)

Year	Revenue Receipts	Revenue Expenditure	Revenue Deficit
2006-07	16796	18544	1748
2007-08	19238	23062	3824
2008-09	20713	24569	3856
2009-10	22157	27408	5251
2010-11	27608	32896	5288
2011-12	26234	33045	6811
2012-13	32051	39458	7407
2013-14	35104	41640	6536
2014-15	39023	46612	5089
2015-16	41523	50074	8551
2016-17	45408	52018	6610

Source: State Budget Document and Statistical Abstract of Punjab

The most fundamental classification of the government Expenditure is Revenue and Capital Expenditure. All Expenditure that goes towards operation & maintenance, committed salary Expenditure and does not create any assets is called Revenue Expenditure and all Expenditure that creates long-term assets is called Capital Expenditure.

Table 5:Share of Revenue and Capital Expenditure

Year	Revenue Expenditure	% of Total Expenditure	Capital Expenditure	% of Total Expenditure
2006-07	18544	87.76	2586	12.24
2007-08	23062	91.32	2192	8.68
2008-09	24569	89.58	2858	10.42
2009-10	27408	92.68	2166	7.32
2010-11	32896	93.24	2384	6.76
2011-12	33045	95.39	1598	4.61
2012-13	39458	95.37	1916	4.63
2013-14	41640	94.98	2201	5.02
2014-15	46612	93.73	3118	6.27
2015-16	50074	94.24	3059	5.76
2016-17	52018	92.18	4412	7.82

Source: State Budget Document and Statistical Abstract of Punjab

The Table gives very important information on the relative share of revenue and capital expenditure in total expenditure of State during the period 2006-17. An overview of the Table clearly shows gradually a rising trend in the revenue receipts and conversely a declining trend in capital expenditure which is a cause of concern. The purpose of Capital Expenditure is to enhance the capacity of the economy to produce goods and services through public investment in infrastructure like roads, bridges, power generation and distribution capacity, irrigation networks, transport, sewerage, water supply, education, health, sports facilities, etc. In fact, Capital outlays must increase constantly in order to meet the growing infrastructure needs of a growing State like Punjab that spur development, increase consumption and thereby lead to greater tax Revenue for the State and a better quality of living for the citizens.[5]

SECTION II

The serious fiscal condition of the State as depicted in Section I has posed a serious challenge before the policy makers and experts to look deep into the probem so as to understand reasons responsible for the problem to become severe.Present section concentrates on the factors behind the problem.

SLOW GROWTH RATE

Punjab's economy has been in a state of precipitous decline over the last one decade. During this period the rate of growth has been consistently below the national average. It is now one of the slow growing states of the country. In per-capita terms, it has slid from the top to the seventh position amongst the major states. The gap between the per capita income of Punjab and the national per capita income is closing down very quickly. It holds a clear lesson that an empty treasury and fast development do not go together for a very long time.

A Tabular depiction of the rate of growth of GSDP of the State and its comparison with All India level for the period 2006-07 to 2016-17 reveals that the growth rate of State was one of the highest i.e. 10.18% in 2006-07 and was more than the All India average of 9.57%. However, in last 10 years, the growth rate of the State remained lower than the All India average except for the year 2013-14 in which the growth was slightly higher i.e. by meagre 0.23% than the All India average. It came down as low as 4.20% against 7.50% of All India level in the year 2014-15. This clearly shows that the State has been falling behind the national average, continuously.

When one compares the Per Capita Income of the State with the other States and the national average, the picture is very discouraging. While the State continued to hold the top position in Per Capita Income across the country for a long time, it has now lost the race to the States like Haryana and Maharashtra. The State slid from the top to the seventh position amongst the major States. States like Maharashtra, Kerala, Tamil Nadu, Karnataka, Gujarat and even Himachal Pradesh are now ahead of Punjab.

Table 6: Growth Rate of Gross State Domestic Product

Year	Growth Rate of GSDP of Punjab(%)	Growth Rate of GDP of India (%)
2006-07	10.2	9.5
2007-08	9.1	9.3
2008-09	5.8	6.7
2009-10	6.3	8.6
2010-11	6.5	8.9
2011-12	6.5	6.7
2012-13	5.3	5.5
2013-14	6.6	6.4
2014-15	4.2	7.5
2015-16	5.4	8.0
2016-17	5.9	7.1

Source: Economic Survey of Punjab, various issues

RISING DEBT BURDEN

Debt Liabilities of the State consist of Internal Debt of the State, Loans and Advances from Government of India and Public Account Liabilities. As the Tax Revenues are not able to finance the State's entire Expenditure, over the years there has been a growing dependence on public debt as a major source of financing Government's Expenditure.

The rising burden of debt as shown in the Table can be a cause of concern for any state. The debt burden of Punjab increased enormously from 51155 cores to 148832 core during 2006-2017.This is pertinent to mention here that during this period although the revenue receipts increased by almost 3 times but debt also increased by the same speed rather more than that which clear from the debt as a percent of revenue receipts . The ratio increased from 305 percent in 2006-07 to 328 percent in 2016-17. Similarly, the DEBT –GSDP ratio also remained more than 30 percent throughout the period 2006-2017. Moreover if we add figures of Informal Debt, UDAY Bonds Cash Credit Limit for Food grains Procurement, government guarantees on debt etc., the debt figure increases to 208060 crores which is really a matter of concern . Such figures cannot be regarded as sustainable rather retard the growth process in the long run. Similar grave picture is exhibited by the debt service which shows that almost one – third of the revenue receipts go to service the debt creating problem for the State to meet the current expenditure.

Table 7: Key Debt Variables

Year	Outstanding Debt (in crores)	Total Revenue Receipts (in crores)	Outstanding Debt as % of TRR	Debt as %GSDP	Debt Service as % of TRR
2006-07	51155	16796	305	40.2	33.0
2007-08	55982	19238	291	36.7	32.4
2008-09	61850	20713	299	35.5	32.5
2009-10	67971	22157	307	34.4	32.9
2010-11	74777	27608	271	33.0	28.4
2011-12	83099	26234	317	31.1	35.1
2012-13	92282	32051	288	30.9	32.7
2013-14	102234	35104	291	30.7	32.6
2014-15	112366	39023	288	31.6	31.2
2015-16	129441	41523	312	33.0	32.7
2016-17	148832	45408	328	31.6	31.1

Source: White Paper on State Finances, 2017

INABILITY TO GENERATE FINANCES

Another area which draws attention is government's inability to generate resources for meeting mounting expenditure of the state.All this becomes more relevant from the table shown in which the budgeted Revenue Estimates remained behind the actual receipts. The shortfall between the actual receipts and the budgeted Revenue Receipts shows inability on the part of government to keep pace with the growing needs of the state.

Table 8: Revenue Receipts - Actual v/s Budgeted (` crore)

Year	Budget Estimates	Actual	Shortfall	% Shortfall
2007-08	23160	19238	3922	16.93
2008-09	24261	20713	3548	14.63
2009-10	26072	22157	3916	15.02
2010-11	29617	27608	2009	6.78
2011-12	32027	26234	5792	18.09
2012-13	38043	32051	5992	15.75
2013-14	42666	35104	7562	17.72
2014-15	44894	39023	5871	13.08
2015-16	46229	41523	4706	10.18
2016-17	50181	45408	4773	9.51

Source: State Budget Document

SHORTFALL IN CAPITAL EXPENDITURE

Capital expenditure is of utmost importance in a state in the sense that such expenditureraises capital assets in a state and is considered to be good for the long run development of a state as the productive capacity of the state is increased thereby increasing the GSDP and strengthening the financial condition of the state.. But data shows a gloomy picture in this front also as actual capital expenditure remained below the stipulated budgetary estimates. This shortfall reached as high as 70.5 percent in 2011-12 and revolved around this level for another two years i.e. in 2012-13 and 2013-14.

Table 9: Capital Expenditure- Actual v/s Budgeted (` crore)

Year	Budget Estimates	Actual	Shortfall	% shortfall
2006-07	2376	2586	-210	-8.83
2007-08	4174	2192	1982	47.49
2008-09	3483	2858	625	17.94
2009-10	3550	2166	1384	38.98
2010-11	3062	2384	678	22.14
2011-12	5418	1598	3820	70.51
2012-13	5815	1916	3899	67.06
2013-14	7283	2201	5082	69.78
2014-15	6066	3118	2948	48.60
2015-16	4857	3059	1797	37.01
2016-17	4804	4412	392	8.16

Source: State Budget Document

As borrowings have increased over the years, the Government is also borrowing to repay old debts as is evident from Table. In the past ten years, the Government has used borrowings as a source of funds to meet a part of its committed Expenditure, which is not a healthy sign. Borrowing by the Government is not undesirable. Borrowings must be used largely for Capital Expenditure on resource generating assets as well as on social infrastructure for the debt to be sustainable in the long term. However, the trend of borrowings to finance present consumption represented by Revenue Expenditure is unsustainable in the long term as it does not produce future streams of income and still needs to be repaid.

SUBSIDIES

State Government has been providing subsidies to various sections under different heads in the state out of which power subsidy and subsidy on Atta Dal Scheme are major as far as amount of subsidy is concerned. Under Atta Dal Scheme government provides wheat and pulses @ Rs 2/ per kg and @ Rs. 30/ per kg to the poor people in the state. The pending liabilities of the state government in 2016-17 with respect to Atta dal Scheme and power subsidy were to the tune of 1747crore and 728 crore respectively (WP, 2017) The trend of popular politics with respect to state finances did not seem come to an end as the subsidies for free power to farm sector continued even in 2018 budget as is clear from the data given by Hindustan Times on March 25, 2018 pertaining to government outlay on power subsidy. Punjab government's entire allocation to power sector, Rs 12,950 crore, will be spent on supply of free electricity. What's even more significant is that this forms 10% of the total budget expenditure of the state government of Rs 1,29,697crore.Of the power sector allocation, the expenditure for 2018-19 will be Rs 8,950 crore with arrears of Rs 4,000 crore carried over from the previous years.[6]

NON PROFITABILITY OF PSEs

There are 55 (29 Boards + 26 Corporations) Public Sector Undertakings (PSUs) of Punjab Government. In addition, there are some Co-Operative Apex Institutions and Authorities such as MARKFED, SUGARFED, MILKFED, HOUSEFED, Punjab State Co-operative Bank, Punjab State Co-operative Agriculture Development Bank, in which Punjab Government has stake in form of equity or debt. The total amount of equity in these PSUs and Cooperative Apex Institutions is `8234.30 crore.The State Government had decided that the PSUs and Apex Co-operative Institutions should give at least a modest return of 5% on the equity invested by the State Government. However, none of the PSUs except Punjab Small Industries and Export Corporation, CONWARE, Punjab State Forest Development Corporation Ltd. and Punjab State Co-operative Agricultural Development Bank have paid any return up to 31.03.2016.The Government received only a small amount of 4.01 crore during the year 2015-16 as dividend on a huge investment of 8234.30 crore in these PSUs and Co-operative Institutions.

SECTION III

Theassessment of the entire fiscal scenario in the state reflects thatthe fiscal condition of the State has not been good for the past many years and demands corrective measures on a massive scale.The State's fiscal condition shows a deep-rooted structural imbalance which requiresimmediate corrective measures otherwisefuture development of the State will be affected. Stress needs to be made on many fronts simultaneously whether it be increasing the revenue of the government, restructuring its expenditure, improvement in public sector enterprises, containing the magnitude of debt, an honest working on the amount of subsidies and so on.

There should be elimination of programmes that are no longer relevant. A measures like reduction in subsidies and charging fee for services delivered can be adopted. Unless the state's finances are given due attention on continuous basis, the problem may aggravate and it will be difficult for the state to come out of the fiscal crisis in near future.

The state has to pursue the fiscal reform programme towards achieving fiscal balance and development of infrastructure. In order toachieve the desired goals, political will, administrative efficiency andfiscal reforms are necessary.But the desired results of all the efforts will ultimately depend on how far the government is able to resist the temptation for populist measures and is willing to take harsh steps inspite of the opposition from various sections in the State. If government remains unable to take such steps and populist politics continues to act as a pressure on the government, the fiscal crisis in Punjab may further deepen.

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