

## Punjab's Fiscal Scene: Gathering Clouds of Crisis?

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### ABSTRACT

State governments play an important role in economic activities in a federal setup like India. The critical role of state finances in the realignment and restoration of the macro balance in the economy is well recognized particularly in the context of economic restructuring. Punjab a predominantly agricultural economy has the highest per capita income in the past among all the major Indian states. It seems that it is becoming increasingly difficult to maintain the pace of growth that Punjab witnessed in the seventies and the eighties. There are several reasons for the faltering performance of the Punjab Economy in the post-reform period when other states of India began to perform better than before. The fiscal crisis is a manifestation of various political, economic, and administrative failures of the government during the period of militancy when the civil administration was non-functional, ineffective and non-accountable. No effort in the post –militancy period was made by the elected governments to put the economy back on the path of economic development; attributing the deteriorating fiscal situation of the nineties to the decade of political strife in the state was considered enough. Punjab has been under fiscal stress since 1984-85, when it became a revenue deficit state. Against this background an attempt has been made in this paper to analyze the fiscal profile of Punjab. The ratio of state's own tax revenue to gross state domestic product in Punjab was 7.42 percent in 2014-15 which declined marginally to 7.27 percent in 2015-16. However, there has been a continuous increase over the last two years and the budgeted estimate for 2017-18 is estimated at 9.24 percent. The non-tax revenue of the state which was Rs 5253.97 crore in 2011-12 increased to Rs5783.91 crore in 2012-13 and there was a continuous decline till 2015-16. Further, this source of revenue was Rs 4915.88 crore in 2016-17(RE) and is budgeted at Rs. 2736.02 crore in 2017-18. The main sources of non-tax revenue in the state are Punjab Roadways, Guarantee fee, Lotteries and others. The committed expenditure accounted for more than 70 percent during the years 2011-12 to 2014-15. This percentage increased tremendously to 92.78 percent in 2015-16 .However, the Revised estimate 2016-17 and Budgeted Estimate of 2017-18 show somewhat a declining tendency. The State Government in view of its highly unbearable burden of committed expenditure requests the Fourteenth Finance Commission to make an objective and realistic assessment of State's Revenue Expenditure liability trends, especially on account of its salaries, pensions and interest burden. A look at the total outstanding debt of the state reveals that the persistence of large and continuous fiscal debt over the years has lead to accumulation of staggering debt which was Rs 52923 crore in 2011-12 and it has risen to Rs 95670 crore for (BE) 2017-18, giving an increase 80.7 percent during this period. Faced with "burgeoning" debt, Punjab government is all set to seek debt relief through loan restructuring and change in criteria for devolution of funds to states from 15th Finance Commission in order to overcome financial challenges. Debt ridden Punjab Government has all along been seeking financial assistance and cooperation from the centre as a special package to bail out from the mounting debt. The state has to pursue the fiscal reform programme towards achieving fiscal balance and consolidation and generation of quality infrastructure and competitive environment. In order to achieve the desired goals, political will, administrative competence and good governance are necessary.

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### 1. Introduction

State governments play an important role in economic activities in a federal setup like India. The critical role of state finances in the realignment and restoration of the macro balance in the economy is well recognized particularly in the context of economic restructuring. In a liberalized economic environment, sub-national governments will have to play a relatively more important role than in the past. Fiscal decentralization is necessary in the wake of empowerment of rural and urban local bodies. This would essentially require the state governments to substantially augment their resources.

Punjab a predominantly agricultural economy has the highest per capita income in the past among all the major Indian states. It seems that it is becoming increasingly difficult to maintain the pace of growth that Punjab witnessed in the seventies and the eighties. There are several reasons for the faltering performance of the Punjab Economy in the post-reform period when other states of India began to perform better than before. The fiscal crisis is a manifestation of various political, economic, and administrative failures of the government during the period of militancy when the civil administration was non-functional, ineffective and non-accountable. No effort in the post –militancy period was made by the elected governments to put

the economy back on the path of economic development; attributing the deteriorating fiscal situation of the nineties to the decade of political strife in the state was considered enough.

Punjab has been under fiscal stress since 1984-85, when it became a revenue deficit state. In 1990-91 Punjab had the dubious distinction of being amongst the states with the highest fiscal deficit. There was minor fiscal consolidation in the mid-1990s but the position in the late nineties once again deteriorated. According to the White Paper on State Finances (2002), the factors which have adversely impacted the state's fiscal situation during the 1990s are ever increasing salaries and wage bills of the employees, mounting debt burden, heavily subsidized social and economic services, slow growth of revenue and loss making public sector undertakings. All this is compounded by the lagged effect of terrorism on the growth of the state. This adversely affected the buoyancy in tax-revenue. During the prolonged spell of President's rule in the state, no additional resource mobilization measures were taken. The state had to incur a huge expenditure on combating the menace of terrorism. The government of Punjab in the later years of 1990s followed the populist path and allowed free power to the farm sector and abolished octroi, house tax, and land revenue. Vast losses incurred by the State Electricity Board, low irrigation charges, uneconomic transport fares have all combined to produce unduly low returns on decades of past investments, which in turn have adversely affected further investments in infrastructure and have also hurt the required expansion in education, health and the other social services.

## 2. Objectives of the paper

Against this background an attempt has been made in this paper to analyze the current fiscal profile of Punjab. Specifically the study would focus to analyze the recent trends of current fiscal indicators of Punjab and the recommendations of Fourteenth Finance Commission. An attempt has also been made in this paper to suggest a fiscal restructuring path to Punjab State.

## 3. Database and Research Methodology

The study has been conducted with the help of secondary sources of information as provided in the books, journals, newspapers and important websites. Economic surveys of various years have been examined in order to identify the real intention of the founding fathers of the Indian Constitution with regard to allocation of resources between the centre and the states. Apart from it, reports of Reserve Bank of India, reports of successive Finance Commissions and Public Finance Statistics of various years have been consulted in order to understand the main aspects of the study.

### An analysis of Fiscal Profile of Punjab:

Table 1: Ratio of State's own Tax Revenue to Gross State Domestic Product

Year	Ratio
2011-12	6.50
2012-13	6.41
2013-14	6.10
2014-15	7.42
2015-16	7.27

2016-17(RE)	8.22
2017-18(BE)	9.24

Source: State Finances: A Study of Budget of 2016-17, Reserve Bank of India, Mumbai

It is evident from table 1 that the ratio of state's own tax revenue to gross state domestic product in Punjab was 7.42 percent in 2014-15 which declined marginally to 7.27 percent in 2015-16. However, there has been a continuous increase over the last two years and the budgeted estimate for 2017-18 is estimated at 9.24 percent. This ratio since 2014-15 compares favorably with the all states' average.

### Non-Tax Revenue:

It is observed from Table 2 below that the non-tax revenue of the state which was Rs 5253.97 crore in 2011-12 increased to Rs5783.91 crore in 2012-13 and there was a continuous decline till 2015-16. Further, this source of revenue was Rs 4915.88 crore in 2016-17(RE) and is budgeted at Rs. 2736.02 crore in 2017-18. The main sources of non-tax revenue in the state are Punjab Roadways, Guarantee fee, Lotteries and others.

Table 2: Non-Tax Revenue in Punjab (Rs. Crore)

Year	Amount
2011-12	5253.97
2012-13	5783.91
2013-14	5652.76
2014-15	5330.17
2015-16	1398.45
2016-17(RE)	4915.88
2017-18(BE)	2736.07

Source: State Finances: A Study of Budget of 2016-17, Reserve Bank of India, Mumbai

Table 3: Committed Expenditure as percentage of Revenue Receipts in Punjab

Year	Salaries and Wages	Pensions and Retirement Benefit	Interest Payments	Total Committed expenditure as %age of revenue receipts
2011-12	33.46	12.65	23.53	69.64
2012-13	32.39	13.66	23.67	70.32
2013-14	37.12	15.15	22.62	74.89
2014-15	35.32	19.23	19.98	74.52
2015-16	47.28	21.56	22.59	92.78
2016-17 (RE)	38.66	14.91	17.79	71.36
2017-18 (BE)	36.52	12.11	17.82	66.45

Source: State Finances: A Study of Budget of 2016-17, Reserve Bank of India, Mumbai

Table 3 shows that the committed expenditure accounted for more than 70 percent during the years 2011-12 to 2014-15. This percentage increased tremendously to 92.78 percent in 2015-16. However, the Revised estimate 2016-17 and Budgeted Estimate of 2017-18 show somewhat a declining tendency. The State Government in view of its highly unbearable burden of committed expenditure requests the Fifteenth Finance Commission to make an objective and realistic assessment of

State's Revenue Expenditure liability trends, especially on account of its salaries, pensions and interest burden. The salary and pension expenditure is linked to Union Government in terms of dearness allowance, dearness pay merger and pay commission's recommendations. These are committed liabilities on which the Government of Punjab has almost no scope for expenditure compression. With regard to interest payments of

Government of Punjab, the Fifteenth Finance Commission is requested to consider sympathetically the burden of interest payments because of its high debt stress. The Fifteenth Finance Commission is earnestly requested to make an objective and realistic assessment of state's revenue and expenditure as the State has been generating its own resources earnestly.

Table 4: Revenue and Fiscal Deficit of the State (Rs. Crore)

Year	Revenue Deficit	Fiscal Deficit	Revenue deficit as percentage of fiscal deficit	Revenue deficit as percentage of gross state domestic product	Fiscal deficit as percentage of gross state domestic product
2011-12	3823.24	4603.83	83.04	2.51	3.02
2012-13	3856.20	6690.09	57.64	2.22	3.84
2013-14	5251.36	6170.09	85.11	2.66	3.12
2014-15	5288.71	7143.30	74.04	2.33	3.15
2015-16	6810.91	8490.90	80.21	2.63	3.28
2016-17(RE)	4758.46	9394.69	50.65	1.61	3.17
2017-18(BE)	1746.55	9257.61	18.87	0.57	3.00

Source: State Finances: A Study of Budget of 2016-17, Reserve Bank of India, Mumbai

Revenue deficit refers to the excess of revenue expenditure over revenue receipts. Increasing revenue deficit means fewer funds are available for development/capital works. The gap in revenue deficit is filled by high cost borrowing by the state. This leads to more expenditure on interest payments and higher debt burden. Normally, borrowed funds should be used for productive purposes and creating capital assets which generate income to service the debt. Fiscal deficit is broadly the excess of expenditure (revenue expenditure plus capital expenditure including net lending) over the government receipts. It indicates the extent to which government is overspending. Generally, Fiscal deficit is financed through borrowings or drawing on cash balances.

According to 14th Finance Commission, States that incurred zero revenue deficits or achieved revenue surplus in 2011-12 should eliminate revenue deficit by 2015-16 and maintain revenue balance or attain a revenue surplus thereafter. Other states to eliminate revenue deficit by 2017-18. The general category states that attained a zero revenue deficit or revenue surplus in 2007-08 should achieve a fiscal deficit of 3 percent of gross state domestic product by 2015-16 and maintain funds thereafter. Other general category states to achieve 3 percent fiscal deficit by 2017-18. This limit of 3 percent of gross state domestic product has been set up by the 14th Finance

Commission to attempt a fiscal correction exercise. And, the capital expenditure is not compressed to undesirable levels.

However, since 2015-16 there has been a reduction in both the revenue deficit and fiscal deficit as percentage of gross state domestic product. The revenue deficit as percent of gross state domestic product has declined from 2.63 percent in 2015-16 to 1.61 percent in 2016-17(RE) and further it is estimated to be 0.57 percent for the year 2017-18. The fiscal deficit as percentage of gross state domestic product has declined from 3.28 percent in 2015-16 to 3.17 percent in 2016-17 and is budgeted at 3.00 percent for the fiscal year 2017-18. It may be noted here that the state will further feel a squeeze of resources, with the Union Government reducing its borrowing limit from 3.5 percent of gross state domestic product to just 3 percent of GSDP. This may again become a stimulating block for achieving the targeted revenue deficit and fiscal deficit of the state.

It is hoped from the fifteenth finance commission that it would help the state which is finding itself in a quagmire of providing public services to the residents of the state at par with the other developed states in the country and shrinking sources of revenue in the state despite its best efforts.

Table 5: Outstanding Debt Relative to GSDP in Punjab (Rs. In crore)

Year (1)	Total Outstanding Debt (including GPF) (2)	Column 2 as %age of GSDP (3)	Total Outstanding Debt and Liabilities (including reserve funds and deposits) (4)	Column 4 as %age of GSDP (5)
2011-12	52923	34.76	55982	36.77
2012-13	57787	33.20	61850	35.54
2013-14	63435	33.12	67971	34.42
2014-15	69594	30.68	74777	32.96
2015-16	77158	29.77	83099	32.06
2016-17(RE)	86453	29.21	92804	31.35
2017-18(BE)	95670	30.99	102282	33.13

Source: State Finances: A Study of Budget of 2016-17, Reserve Bank of India, Mumbai

The Debt-GSDP ratio represents the final outcome of all budgetary transactions; particularly the borrowings contracted to

finance fiscal deficits over the years, and are an important indicator of fiscal corrections. It is observed from table 5 that the

Debt-GSDP was 34.76 percent in 2011-12 which has declined to 29.21 percent in 2016-17(RE). However, these have been estimated to be 30.99 percent for the fiscal 2017-18. In the same way, total outstanding debt and liabilities as percentage of GSDP which were 36.37 percent in 2011-12 have shown a continuous declining trend till 2016-17. However, these are estimated to be 33.13 percent for the year 2017-18, which are 1.78 percent higher than the previous year. A look at the total outstanding debt of the state reveals that the persistence of large and continuous fiscal debt over the years has led to accumulation of staggering debt which was Rs 52923 crore in 2011-12 and it has risen to Rs 95670 crore for (BE) 2017-18, giving an increase 80.7 percent during this period.

#### 4. Punjab State and Fifteenth Finance Commission

Faced with “burgeoning” debt, Punjab government is all set to seek debt relief through loan restructuring and change in criteria for devolution of funds to states from 15th Finance Commission in order to overcome financial challenges. The state government has also sought a special term loan and interest already paid by the state amounting to Rs 2,694 crore, besides a revenue deficit grant to the tune of Rs, 3,000 crore. Punjab outstanding debt is expected to reach whopping Rs 1.13 lakh crore by March 2019-which is 30.95 percent of Gross State Domestic Product, with state government facing “lower” revenue mobilization and “growing” expenditure.

The state government attributes its fiscal problem to outstanding debt which is the result of prolonged years of militancy in the state and constant decline in share of state in

central taxes and seeks a change in formula for devolution of funds to states to make devolution criteria “just and fair”.

Debt ridden Punjab Government has all along been seeking financial assistance and cooperation from the centre as a special package to bail out from the mounting debt. Similar demands for debt relief have also been made by the State of West Bengal, Odisha and Kerala, besides Punjab.

#### 5. Conclusion

A perusal of the finances of the Government of Punjab shows large revenue and fiscal deficit year after year indicating continued macro fiscal imbalances of the state. Increasing dependence on RBI and the continuous application of borrowed funds largely on current consumption and debt servicing indicates unstainability and reflects vulnerability of the state finances. An increase in the ratio of fiscal liabilities to GSDP together with a large revenue deficit indicates that the State is gradually getting into a debt trap. Thus the state needs to generate more revenue out of its existing assets. Only through reducing revenue/fiscal deficit by compressing non-developmental expenditure in a medium-term framework prudent debt management and transparency in fiscal operations, can long term fiscal stability be achieved. The state has to pursue the fiscal reform programmes towards achieving fiscal balance and consolidation and generation of quality infrastructure and competitive environment. In order to achieve the desired goals, political will, administrative competence and good governance are necessary.

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