RESEARCH REVIEW International Journal of Multidisciplinary 2021; 6(6):73-82
ISSN: 2455-3085 (Online)
https://doi.org/10.31305/rrijm.2021.v06.i06.014
Research Paper
Double Blind Peer Reviewed/Refereed Journal
https://www.rrjournals.com/

Outstanding Debt of Punjab: Its Extent and Sustainability Dynamics

*Navjit Kaur

Associate Professor, Post-Graduate Department of Economics, Mata Gujri College, Fatehgarh Sahib (Punjab)

ABSTRACT

Punjab, at present, passing through a severe fiscal crisis – reflected in the rising amount of revenue deficit, fiscal deficit and outstanding debt. The study unrivalled the dynamics of rising public debt and its sustainability during the last one decade, i.e., 2011-12 to 2020-21. Its own revenue receipts are not enough to finance its committed expenditure – leading to an extraordinary situation of rising deficits and debt of the state. The statistical facts clearly established that Punjab is a debt stressed state and likely to fall into a debt trap, if no corrective measures are undertaken immediately. For this, state must adhere to the hard budget options – mobilizing additional revenues, improving tax buoyancy, rationalizing power subsidy and other freebees, enhancing administrative efficiency, reforming PSUs; expanding capital outlays, compressing non-productive expenditure, etc. to restore the fiscal health of Punjab.

Keywords: *Punjab Fiscal crisis, Revenue deficit, Fiscal deficit, Debt, Debt trap, budget options*

Article Publication

Published Online: 15-Jun-2021

***Author's Correspondence**

Navjit Kaur

Associate Professor, Post-Graduate Department of Economics, Mata Gujri College, Fatehgarh Sahib (Punjab)

sukhwindersohi57[at]gmail.com

1. Introduction

In the developing countries, like India, public debt has become a significant source of funds to finance government's ever-rising needs of expenditure (Sen, 1994; 2016). Public debt represents the accumulation of all previous borrowings from the institutions, foreign governments and other parts of the government or its agencies. Public debt build-ups are, generally, accompanied by an extension of public expenditure used for creating development works, economic infrastructure and social welfare activities.

In the economic literature, public debt is considered to be a double-edge weapon (Sawhney, 2012; 2016). For instance, if the public expenditure, financed through borrowings, is used for the non-productive purposes, it exerts a negative pressure not only on the GDP growth, but also on the repaying capability and borrowing credibility of the state. In such a situation, accumulation of public debt may lead to many detrimental effects on the economic growth, capital expenditure, and efficacy of the State's fiscal policies in restoring macro-economic stability (Tanzi and Schuknecht, 1997; Reinhart and Rogoff, 2010).

Punjab, at present, passing through a severe fiscal crisis. On the one hand, its revenue receipts are not enough to meet its revenue expenditure needs; leading to exorbitantly high rise in the revenue and fiscal deficits. The first sign of fiscal stress in Punjab's finances, in fact, was observed in 1984-85, when, for the first time, the state clocked in a revenue deficit (GoP, 2017), largely due to the shifting of its public expenditure toward the maintenance of public peace and order during the 1980s and to the mid-1990s. In the subsequent years, state, instead of increasing revenue receipts of the state, resort to heavy public borrowings to finance ever-rising revenue expenditures (GoP, 2019).

The yawning revenue-expenditure gap has been reflected in the accumulation of deficits and public debt, which is associated with cost of borrowings or the interest burden (Lahiri and Kannan, 2001). And, rising interest payments aggravated the problem further. This leads to very low capital expenditure in the state, which, in turn, have very delirious impacts on its economy such as slowdown in the economic growth (Domar, 1944), pushing the state into agrarian distress, shrinking of economic opportunities and leading to outward migration of youth to the foreign lands. Consequently, state's economic growth and per capita income started slipping downward as compared to similarly bracketed Indian states (Singh, 2016).

So far as the extent and sustainability of public debt is concerned, it is argued that the states may have large debts, still the debt may be sustainable if these states have a high income velocity. Conversely, when the GSDP is not growing or growing at a slow rate, such GSDP is not enough to support the further accumulation of debt, raising additional funds through the borrowings becomes infeasible and debt may become unsustainable. In such a situation, the state governments are required to increase debt viability through necessary fiscal-monetary adjustments. Since, the state governments in India have a little control over the monetary policies, fiscal adjustments are the only key variable before them (Singh, 2016).

Keeping these facts in view, this paper examined the dynamics of outstanding debt and its sustainability in Punjab during the last decade starting from 2011-12 to 2020-21. The data have been taken from the Budgetary Documents of the state issued by the Department of Finance. The analysis is largely descriptive and analytical in nature and used simple statistical tools such as percentages, ratios, trend growth rates, etc. to examine the problem in hand.

The paper has been divided into six parts. Part-I, besides introducing the problem, discusses the significance of public debt as source of financing expenditure. Part-II examines extent and growth of outstanding debt vis-a-via GSDP in Punjab. Composition of outstanding debt and cost of borrowings are examined in the Part-III. Part-IV deals with the rising debt-servicing liabilities and its implications for the Punjab. Part-V discusses the debt dynamics and its sustainability issues from alternate perspectives. And, main conclusions and public policy issues emerged from the study are set-forth in the Part-VI.

2. Extent and Growth of Outstanding Debt

A perusal of the outstanding debt of Punjab in the past indicates that public debt is not a new phenomenon as Punjab's outstanding debt was Rs. 1,009 crore in 1980-81, Rs. 7,102 crore in 1990-91, Rs. 29,099 crore in 2000-01 and Rs. 74,777 crore in 2010-11; showing annual trend growth rate of 21.55 percent during 1980-81 to 1990-91; 15.15 percent during 1990-91 to 2000-01; 9.90 percent during 2000-01 to 2010-11 (GoP, 2019). The data in Table 1 showed that, between 2011-12 and 2020-21, outstanding debt of Punjab increased from Rs. Rs. 83,099 crore in 2011-12 to Rs. 261,239 crore in 2020-21, and projected at Rs. 2,82,062 crore in 2021-22 (BE); showing annual TGR of 14.63 percent during 2011-12 to 2020-21 (RE) against the TGR of 9.88 percent per annum in nominal GSDP during the same period.

Though the state was able to contain yearly growth in the outstanding debt in 2014-15 (3.06 percent), however, with the issuance of UDAY Bonds and conversion of CCL gap on account of procuring food grains into a Long-Term Loan (**Annexure-A**), the yearly growth rate rose to 22.86 percent in 2015-16 and 40.80 percent in 2016-17. Since 2016-17, the yearly growth rate in the outstanding debt was 7.24 percent, 8.41 percent and 8.26 percent during 2017-18, 2018-19 and 2019-20, respectively (**Table 1)**. However, yearly growth rate during 2020-21 rose to 13.88 percent, largely due to heavy borrowings by the state to finance Covid-19 pandemic induced public expenditure. Similarly, yearly growth rates in the GSDP and TGR during 2011-12 to 2020-21 showed a dismal picture. In fact, mismatch between the state's revenue receipts and its proliferated expenditure commitments and other exigencies (power subsidy, farm loan waiver, Covid-19, etc.) have kept the state's debt stock at exceedingly high.

Table 1: Outstanding Debt (including Reserves and Deposits) of Punjab

Year	Outstanding Debt (Rs. Crore)	% Change	GSDP (Rs. Crore)	% Change
2011-12	83,099	11.13	256,374	13.34
2012-13	92,281	11.05	297,734	16.13
2013-14	1,02,235	10.79	332,147	11.56
2014-15	1,05,366	3.06	355,102	6.91
2015-16	1,29,441*	22.85	392,411	10.51
2016-17	1,82,257**	40.80	433,660	10.51
2017-18	1,95,458	7.24	470,137	8.41
2018-19	2,11,896	8.41	521,861	11.00
2019-20	2,29,390	8.26	574,760	10.14
2020-21RE	2,61,239	13.88	606,530	5.53
2021-22 BE	282,062	7.97	-	-
Per Year Change (%)	**21.44**		**13.66**	
TGR (2011-12 to 2020-21)	14.63		9.88	

*Uday Scheme. **This abnormal increase was due to the Conversion of CCL Gap of Rs. 30,584.11 crore into a long-term debt.
Source: Punjab Budgets, Department of Finance, Punjab (Various Years).

3. Composition of Outstanding Debt and Cost of Borrowings

An analysis of composition of Punjab's outstanding debt over the years revealed few interesting trends (**Table 2**). First, the internal debt and public account liabilities together constituted a large proportion of the outstanding debt as on March 31, 2021. Interestingly, share of internal debt, which was nearly one-third (33.03 percent) of outstanding debt in 2000-01, went up to 73.29 percent in 2011-12 and more than 82 percent since 2016-17 onwards. Second, on the other side, the share of loans and advances from the Centre declined very sharply from 40.7 percent in 2000-01 to 3.92 percent in 2011-12 to nearly 2.0 percent since 2016-17 onwards. This change was happened largely in pursuance of the recommendations of the 13th UFC and 14th UFC. Third, the remaining share (nearly 16 percent) was cornered by the other liabilities consisting of provident fund of the employees, and reserve funds & deposits with the Reserve Bank of India – a statutory requirement.

Further, among the different components of internal debt during 2000-01, the share of NSSF was 13.89 percent, followed by market loans (8.92 percent), and loans from SBI/other banks (6.67 percent), compensation & other bonds (2.45 percent) and NABARD loan (1.10 percent). Contrary to this, during 2020-21, market loans constituted 59.16 percent share of outstanding debt, followed by the loans from SBI/other banks (14.86 percent), compensation & other bonds (6.31 percent), NSSF loans (6.00 percent) and NABARD loan (0.74 percent). It means that over the years, market loans and loans from the SBI/other banks have gained tremendous prominence over other types of debt, which, in turn, has direct bearing on the State's borrowing autonomy.

All these compositional changes have a direct impact on the cost of borrowing funds, which will ultimately determine the State's total debt-servicing liabilities. Interestingly, the data reveals that the NSSF loans are the costliest loans (ARI = 9.50 percent) as compared to other types of loans (**Table 3**). Similarly, even other types of loans such as the market loans, loans from the SBI/other Banks, provident fund, etc. were also negotiated at high interest rates than that of the prevalent rate against bonds. Although the loans from NABARD are available at lower interest rate, but its share in the total outstanding debt is too small. It means that most of loans negotiated in the state bore high interest rates (ARI varied between 8.0 percent and 9.0 percent during 2011-12 to 2020-21).

These high-cost loans not only put an unavoidable burden on the debt-servicing, but also restrict the state's available fiscal space to finance productive and developmental expenditures. It is interesting to note that Punjab had continuously expressed in the past its intention to have a debt swap and replace the high cost NSSF loans with newer low-cost market loans. However, despite its best efforts, the Government of India has consistently refused the repayment and swapping of NSSF loans.

Table 2: Composition of Outstanding Debt of Punjab by March end of Each Year (Rs. Crore)

Year	Internal Debt					Public Debt		Other Liabilities		Total Outstanding Debt (7+8+9+10)
	Market Loans	Loans from NABARD	Compensation & Other Bonds (UDAY)	Loans from SBI & Other Banks	NSSF	Total Internal Debt (2+3+4+5+6)	Loans and Advances from Centre	Provident Funds	Reserve Funds & Deposits	
1	2	3	4	5	6	7	8	9	10	11
2000-01	2,596	320	713	1,941	4,042	9,612	13,008	5,210	1,269	29,099
%	8.92	1.10	2.45	6.67	13.89	33.03	44.70	17.90	4.36	100.00
2011-12	34,504	2,095	736	1,343	22,222	60902	3,259	12,997	5,940	83,099
%	41.52	2.52	0.89	1.62	26.74	73.29	3.92	15.64	7.15	100.00
2012-13	43,063	1,925	688	606	21,719	68001	3,210	14,563	6,507	92,281
%	41.52	2.52	0.89	1.62	26.74	73.29	3.92	15.64	7.15	100.00
2013-14	50,318	2,018	816	606	21,380	75138	3,332	16,527	7,039	1,02,235
%	49.22	1.97	0.80	0.59	20.91	73.50	3.26	16.17	6.88	100.00
2014-15	51,003	1,976	314	606	22,305	76203	3,615	18,262	7,286	105366
%	48.41	1.88	0.30	0.57	21.17	72.32	3.43	17.33	6.91	100.00
2015-16	67,202	2,142	5796	606	23,884	99629	3,566	19,371	6,875	129441
%	51.92	1.65	4.48	0.47	18.45	76.97	2.75	14.97	5.31	100.00
2016-17	79,346	2,496	15772	29,920	22,079	149612	3,893	20,604	8,149	1,82,258
%	43.53	1.37	8.65	16.42	12.11	82.09	2.14	11.30	4.47	100.00
2017-18	92,694	2223	15718	29,119	20,337	160091	4,018	21,730	8,620	195458
%	47.42	1.14	8.04	14.90	10.40	81.91	2.06	11.12	4.41	100.00
2018-19	1,09,748	1985	15647	28,235	18,535	174151	4,959	22,994	9,793	2,11,896
%	51.79	0.94	7.38	13.32	8.75	82.19	2.34	10.85	4.62	100.00
2019-20	1,28,218	1808	15651	27,304	16,694	189674	4,671	22,995	12,050	2,29,390
%	55.90	0.79	6.82	11.90	7.28	82.69	2.04	10.02	5.25	100.00
2020-21 (BE)	1,46,454	1837	15628	26,278	14,852	205049	5,209	24,135	13,171	2,47,563
%	59.16	0.74	6.31	10.61	6.00	82.83	2.10	9.75	5.32	100.00
TGR (%)										
2011-12	17.43	-0.73	59.35	70.62	-3.88	16.32	5.76	6.90	8.73	14.29

to 2020-21										

Note: Minor Variations due to rounding-off. Source:
Punjab Budgets, Department of Finance, Punjab (Various Years).

Table 3: Cost of Borrowings in Punjab by Source of Loans

Year	Market Loans	Loans from NABARD	Compensation and Other Bonds (UDAY)	Loans from SBI and Other Banks	NSSF	**Total Internal Debt**	Loans and Advances from Centre	Provident Fund	Reserve Fund & Deposits	**Total Outstanding Debt**
	ARI*	ARI*	ARI*	ARI*	ARI*	**WRI****	ARI*	ARI*	ARI*	**WRI****
2011-12	8.48	6.61	8.50	6.50	9.50	**8.74**	10.50	8.30	na	8.74
2012-13	8.70	7.08	8.50	6.50	9.50	**8.89**	10.50	8.70		8.92
2013-14	8.99	7.02	8.50	6.50	9.49	**9.05**	10.50	8.70		9.05
2014-15	8.97	6.98	8.50	6.50	9.14	**8.95**	10.83	8.70		8.93
2015-16	8.84	6.86	8.51	6.50	9.50	**8.92**	10.83	8.70		8.91
2016-17	8.10	6.45	8.36	8.25	9.50	**8.34**	9.08	8.05		8.29
2017-18	7.74	6.25	8.36	8.25	9.50	**8.10**	9.08	7.78		8.05
2018-19	7.78	5.99	8.36	8.25	9.50	**8.07**	9.08	7.80		8.04
2019-20	7.28	5.88	8.36	8.25	9.50	**7.69**	9.08	7.80		7.71
2020-21 BE	6.80	5.35	8.36	8.25	9.50	**7.29**	8.06	7.80		7.33

***Average Rate of Interest. **Weighted Rate of Interest. #Weighted Rate of Interest without considering the ARI on Reserve Funds & Deposits.
Source: Punjab Budgets, Department of Finance, Punjab (Various Years).

4. Rising Debt-Servicing Liability

Further, the rising debt at high interest rates has not only raised its debt- servicing liability, but also ate away a major share of state's revenue receipts. This situation leaves very little amount of borrowings with the state for any credible developmental efforts. An analysis of data on debt-servicing in Punjab during 2011-12 to 2020-21 supported this conclusion. The data shows (**Table 4)** that, out of the gross borrowings during a particular year, net availability of borrowed funds is very low; which highlighted an unmanageable debt burden of the state. For instance, net availability of borrowed funds from 2011-12 onwards found to be very low. Punjab has been resorting to more borrowings for paying the interest payments as well as the repayment of principal amount, therefore, left with low borrowings for catering the needs of economic development. In nutshell, an assessment of gross borrowings, debt-servicing and net availability of borrowings indicates that the state is tending towards a worse debt scenario, wherein, the state's debt-servicing obligations will be more than its gross borrowings.

Table 4: Debt Servicing in Punjab (Rs. Crore)

Year	**Gross Borrowings**	**Interest Payment**	**Repayment of Principal#**	**Debt-Servicing (Col. 3+Col. 4)**	**Net Availability of Borrowings (Col. 2-Col. 5)**
1	2	3	4	5	6
2011-12	11966	5013	2675	7688	4277
%	100.00	41.89	22.36	64.25	35.74
2012-13	13879	5584	3674	9258	4621
%	100.00	40.23	26.47	66.71	33.29
2013-14	18449	6101	3550	9650	8798
%	100.00	33.07	19.24	52.31	47.69
2014-15	20756	6831	3214	10045	10711
%	100.00	32.91	15.48	48.40	51.60
2015-16	29932*	7632	3830	11462	18469
%	100.00	25.50	12.80	38.29	61.70
2016-17	65629**	9621	4715	14335	51294
%	100.00	14.66	7.18	21.84	78.16
2017-18	25446	12996	7487	20483	4964
%	100.00	51.07	29.42	80.50	19.51

2018-19	32699	13992	8606	22598	10101
%	100.00	42.79	26.32	69.11	30.89
2019-20	36243	15148	12091	27239	9004
%	100.00	41.80	33.36	75.16	24.84
2020-21 RE	32258	19075	12928	32003	255
%	100.00	59.13	40.08	99.21	0.79
TGR (%)					
2011-12 to 2020-21	12.82	16.59	19.71	17.78	-12.11

#Excludes repayment of Ways & Means Advances. *Including borrowing on account of Uday Schemes (Rs. 5,597.07 crore).**Including borrowing on account of Uday Scheme (Rs. 10,031.19 crore) and CCL Gap Loan (Rs. 30,584.11 crore).
Source: Punjab Budgets, Department of Finance, Punjab (Various Years).

Further, Punjab's debt profile indicates a very huge repayment liabilities during the next 30 years (2020-21 to 2050-51), even if (by assuming) no new loans will be raised by the State Government after March 31, 2020. The data in **Table 5 and Table 6** presented a consolidated debt maturity profile, ignoring the provident fund amount (Rs. 24,135 crore); and deposits and deserve funds (Rs. 13,171 crore) as on March 31, 2020. A casual look at the data clearly shows a tremendous burden on the state exchequer during the future years. For instance, for the first year (2020-21), repayment of debt will be Rs. 12,809 crore, followed by Rs 34,236 crore during the next two years (2021-22 to 2022-23), Rs. 27,723 crore during the 4-5 years (2023-24 to 2024-25), Rs. 26,915 during the 6-7 years (2025-26 to 2026-27), Rs. 56,314 crore during 8-10 years (2027-28 to 2029-30), Rs. 30,128 crore during 11-15 years (3030-31 to 2034-35), and just Rs. 4,152 crore during the next 16 years (2025-26 to 2050-51).

Table 5: Maturity Profile of Outstanding Debt of Punjab, March 31, 2020 by Time Period (Rs. Crore)

Time Period (Year)	Market Loans	NABARD	Compensation and Other Bonds	Loans from SBI and Other Banks	National Small Savings Loan (NSSF)	Loans from Centre	Loans from Other Institutions	Total
Up to 1	9128.00	467.63	0.00	1025.65	1841.47	311.63	34.79	12809.17
2-3	22500.00	779.53	4279.24	2322.48	3682.95	622.64	48.70	34235.54
4-5	15951.50	442.49	4279.24	2737.62	3682.95	608.59	20.87	27723.26
6-7	17400.00	212.47	3125.53	3226.89	2688.09	261.82	0.00	26914.80
8-10	44401.35	26.39	2957.73	5953.23	2769.38	205.87	0.00	56313.95
11-15	15188.82	0.00	986.56	12037.77	1712.54	202.70	0.00	30128.39
Above 15	3648.00	0.00	0.00	0.00	316.53	303.48	0.00	4152.02
Percentage Shares								
Up to 1	7.12	24.25	0.00	3.76	11.03	12.38	33.34	6.66
2-3	17.55	40.42	27.38	8.51	22.06	24.74	46.67	17.79
4-5	12.44	22.94	27.38	10.03	22.06	24.18	20.00	14.41
6-7	13.57	11.02	20.00	11.82	16.10	10.40	0.00	13.99
8-10	34.63	1.37	18.93	21.80	16.59	8.18	0.00	29.27
11-15	11.85	0.00	6.31	44.09	10.26	8.05	0.00	15.66
Above 15	2.85	0.00	0.00	0.00	1.90	12.06	0.00	2.22
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: Punjab Budgets, Department of Finance, Punjab (Various Years).

A year-wise maturity profile of outstanding debt clearly states that for the next 10 years (2020-21 to 2029-30), repayment of debt will be between Rs. 10,619 crore and Rs. 21,618 crore. The year-wise burden will be Rs. 12,809 crore in 2020-21, Rs. 18,642 crore in 2021-22, Rs. 15,593 crore in 2022-23, Rs. 16,134 crore in 2023-24, Rs. 11,559 crore in 2024-25, Rs. 16,296 crore in 2025-26, Rs. 10,619 crore in 2026-27, Rs. 21,618 crore in 2027-28, Rs. 17,626 crore in 2028-29 and Rs. 17,070 crore in 2029-30. After that, debt burden will progressively reduce from Rs. 8000 crore in 2030-31 to Rs. 3,685 crore in 2039-40.

Table 6: Maturity Profile of Outstanding Debt, March 31, 2020 Payable till March 31, 2051 (Rs. Crore)									
		Loans from							
S. No.	Year	Market Loans	NABARD	Compensation and Other Bonds	SBI and Other Banks	NSSF	Centre	Other Institutions	Total
1	2020-21	9128.00	467.63	0	1025.65	1841.47	311.63	34.79	12809.17
2	2021-22	12800.00	408.32	2139.62	1113.53	1841.47	311.49	27.83	18642.26
3	2022-23	9700.00	371.21	2139.62	1208.95	1841.47	311.15	20.87	15593.27
4	2023-24	10229.00	288.10	2139.62	1312.57	1841.47	309.67	13.91	16134.34
5	2024-25	5722.50	154.39	2139.62	1425.05	1841.47	298.92	6.96	11588.91
6	2025-26	10800.00	126.08	2139.62	1547.16	1551.38	131.98	0.00	16296.22
7	2026-27	6600.00	86.39	985.91	1679.73	1136.71	129.84		10618.58
8	2027-28	17645.00	26.39	985.91	1823.69	1066.97	69.88		21617.84
9	2028-29	13656.35	0.0	985.91	1979.94	935.61	68.36		17626.17
10	2029-30	13100.00		985.91	2149.6	766.80	67.63		17069.94
11	2030-31	4054.32		986.56	2333.83	584.75	40.54		8000.00
12	2031-32	2900.00		0.00	2533.82	414.66	40.54		5889.02
13	2032-33	0.00			2750.94	265.17	40.54		3056.65
14	2033-34	4300.00			2986.68	228.73	40.54		7555.95
15	2034-35	3934.50			1432.5	219.23	40.54		5626.77
16	2035-36	0.00			0.00	140.42	38.85		179.27
17	2036-37	0.00				68.06	37.16		105.22
18	2037-38	0.00				68.06	37.16		105.22
19	2038-39	0.00				40.00	37.16		77.16
20	2039-40	3648.00				0.00	37.16		3685.16
21	2040-41	0.00					37.16		37.16
22	2041-42	0.00					37.16		37.16
23	2042-43	0.00					4.63		4.63
24	2043-44	0.00					4.63		4.63
25	2044-45	0.00					4.63		4.63
26	2045-46	0.00					4.63		4.63
27	2046-47	0.00					4.63		4.63
28	2047-48	0.00					4.63		4.63
29	2048-49	0.00					4.63		4.63
30	2049-50	0.00					4.63		4.63
31	2050-51	0.00					4.63		4.63

Source: Punjab Budgets, Department of Finance, Punjab (Various Years).

5. Debt Dynamics and its Sustainability

No doubt, this high as well as mounting debt burden in Punjab raises a serious question about the debt sustainability and how to ensure its solvency. As far as the debt sustainability is concerned, it is generally argued that the state government may have a large debt, but the debt is still sustainable, if the borrowings are invested to raise the capital resources, its productivity and income generating activities. Conversely, when the borrowings are used for the consumption purposes and not for generating more incomes to payback the accumulated debt, then the debt ultimately will become infeasible/unsustainable. A World Bank's study done by Rangarajan and Prasad (2012), classified a highly debt-stressed state, if the Debt-GSDP ratio and interest payments-revenue receipts ratio fall between 30-50 percent and 15-25 percent, respectively. The 12th UFC also defined a debt stressed state, as and when, its interest payments-revenue receipts ratio is higher than 20 percent (Finance Commission, 2009; 2013).

On both counts (Table 7) and some other conventional indicators (Table 8), Punjab, at present, is undoubtedly a debt stressed state and has a very weak fiscal position. The data in Table 7 show two interesting trends:

(i) Punjab has the decades-long history of growing debt stock. Its debt stock significantly rose in 2016-17, when the state was arm-twisted (March 2017) to accept a forced burden of CCL legacy gap. Consequently, the debt-GSDP ratio jumped to 42.09 percent in 2016-17, and this single loan increased the debt-servicing liability of the state by Rs. 3,240 crore per annum. In

2017-18, 2018-19 and 2019-20, debt-GSDP ratio in Punjab marginally declined to 41.51 percent, 40.61percent and 39.90 percent, respectively. The debt-GSDP ratio went up to 43.07 percent in 2020-21 (RE) and projected at 46.42 percent in 2021-22 (BE).

(ii) Outstanding debt-revenue receipts ratio in the state is also very high. The data pointed out that, for the entire period of study, this ratio was more than 300 percent and 400 percent higher than the State's total revenue receipts. In nutshell, one can safely state, Punjab could not show any credible achievements in debt reduction even by using various flexible parameters as recommended by the 14th UFC (2015-16 to 2019-20) and 15the UFC (2020-21).

Table 7: OD-GSDP Ratio and OD-Revenue Receipts Ratio in Punjab

Year	Outstanding Debt/GSDP Ratio (%)	Outstanding Debt/Revenue Receipts Ratio (%)	Outstanding Debt/Own Tax Receipts Ratio (%)
2011-12	31.17	316.8	441.1
2012-13	30.99	287.9	408.5
2013-14	30.78	291.2	424.6
2014-15	31.64	270.0	412.1
2015-16	32.83	311.7	485.0
2016-17	42.09	379.8	656.9
2017-18	41.51	368.7	642.5
2018-19	40.61	340.3	671.1
2019-20	39.90	372.5	764.8
2020-21 RE	43.07	362.6	859.1
2021-22 BE	46.42	296.1	753.5

Source: Punjab Budgets, Department of Finance, Punjab (Various Years).

Similarly, other parameters (ratios) also show a dismal picture of Punjab's fiscal position (**Table 8**). For instance, own tax receipts-GSDP ratio, which rose from 7.07 percent in 2011-12 to 7.59 percent in 2012-12, continuously went down to 5.22 percent in 2019-20 and 5.56 percent in 2020-21. Own non-tax receipts-GSDP ratio did not show any appreciable rise. Interest payments-own tax receipts ratio, which was 33.33 percent in 2011-12, rose to 58.57 percent in 2019-20 and settled around 53.25 percent in 2020-21. These facts, along with debt-GSDP ratio, indicated a high interest burden that have put a mounting pressure on the state's debt-servicing.

More interesting aspect comes from the committed expenditure (wages/salaries, interest payments, pension & retirement benefits and power subsidy) as a ratio of own revenue receipts, which was more than 125 percent for the most of years; went up to more than 150 percent since 2017-18. Committed expenditure as a proportion of total revenue receipts were also nearly 100 percent for most of the years. Power subsidy alone ate away a significant share of the own tax receipts of the State. Consequently, capital outlay and capital expenditure as proportion of GSDP did not show any significant increase, instead, presented a dismal picture over the period of study.

Moreover, fiscal deficit-GSDP ratio in Punjab was found to be more than the prescribed limits of 3 percent under the FRMB Act for the most of years; and during 2015-16 and 2016-17, this ratio jumped to 4.42 percent in 2015-16 (UDAY loan) and 12.18 percent in 2016-17 (CCL loan). The primary deficit-GSDP ratio was also found to be too high. For instance, this ratio was below 1 percent since 2009-10, but rose to 1.93 percent in 2015-16, and further accelerated to 9.50 percent in 2016-17 because of higher fiscal deficit, resulting from the UDAY loan and CCL loan, respectively. Revenue deficit, which measures a gap between State's total revenue receipts and total revenue expenditures, showed a rising trend as it remained more than 2 percent for the most of years. It shows the most of needs of revenue expenditure of state are met by the borrowings and mostly used for the consumption needs.

6. Main Conclusions and Public Policy Suggestions

The study found that Punjab's outstanding debt rose exponentially from a modest Rs. 83,099 crore in 2011-12 to a whopping Rs. 261,239 crore at the end of 2020-21; clocking in annual TGR of 14.53 percent over the time period. Against this, state's nominal GSDP returned with an annual TGR 9.88 percent. Even, the composition of outstanding debt vividly favoured the market loans as its share rose from 8.12 percent in 2001-02 to 59.16 percent in 2020-21; and a sharp decline in the share of loans and advances from the Centre (from 44.70 percent to 2.10 percent) during the same period. These facts cast a long shadow of debt-hangover on the fiscal performance of the state. As most of the current outstanding debt comprises of commercial loans, provident funds, reserve funds and deposits, for which the state cannot seek debt relief or debt restructuring, even though it used to be a very prominent feature of the recommendations of Finance Commissions of India – from the 13th UFC onwards.

The study found that weighted average cost of outstanding debt was too high - at 7.33 percent per annum, which works out to 22.17 percent higher than the current bond yields which is below 6 percent per annum. It makes a compelling case for a debt swap, at least, for the highly debt-stressed states such as Punjab. Moreover, the net debt inflow {gross debt - (interest & repayment)} which was in the positive territory for a long, has now become either negative or negligible in Punjab. In other words, the gross debt raised by the state every year falls short to pay even the interest and repayment of principle amount. The study found that the Debt–GDP ratio at over 40%, which is very high, but this high Debt–GDP ratio does not fully reflect the gravity of the debt trap, especially in the context of states. A better data point will be debt stock and debt-servicing charges as a percentage of total revenue receipts of the state. Currently, it is 362.6% and 43.81%, respectively, which is way above prudent debt management levels.

In nutshell, a closer perusal of all these facts clearly highlights that Punjab is a high debt stressed State and are likely to fall in a severe debt trap, if no corrective and enough fiscal-monetary measures are not taken immediately. For this, state must adhere to the hard budget options – mobilizing additional revenues, improving tax buoyancy, rationalizing power subsidy and other freebees, enhancing administrative efficiency, reforming PSUs; expanding capital outlays, restraining rent-seeking bureaucracy, curtailing wages/salaries bill, compressing non-productive expenditure, etc. to restore the fiscal health of Punjab.

Table 8: Debt Sustainability Indicators/Ratios in Punjab

Ratio (%)s	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 BE
OTR/GSDP	7.07	7.59	7.25	7.20	6.80	6.40	6.47	6.05	5.22	5.56
ONTR/GSDP	0.52	0.88	0.96	0.81	0.68	1.35	0.92	1.45	1.15	1.25
OTR+ONTR/GSDP	7.59	8.47	8.21	8.01	7.48	7.75	7.39	7.50	6.37	6.81
Central Taxes/ GSDP	1.33	1.36	1.33	1.32	2.04	2.21	2.26	2.30	1.80	2.18
Central Grants/GSDP	0.92	0.93	1.02	1.65	1.06	1.10	1.63	2.13	2.54	4.67
Central Taxes+ Grants/GSDP	2.25	2.30	2.36	2.98	3.10	3.31	3.89	4.43	4.34	6.85
TRR/GSDP	9.84	10.77	10.57	10.99	10.58	11.07	11.28	11.93	10.71	13.66
RD/FD	80.21	79.25	74.37	70.01	49.25	13.84	75.68	81.79	84.78	40.96
Committed Exp./TRR	103.69	98.54	95.17	95.29	96.25	99.50	104.38	95.58	96.87	67.73
Committed Exp./OTR	134.40	125.25	122.51	130.71	136.21	142.06	159.26	151.99	162.91	135.86
Interest Payments/OTR	33.33	30.24	32.48	35.04	36.65	41.96	50.40	51.64	58.57	53.25
Power Subsidy/OTR	16.98	22.40	20.00	18.15	18.16	20.19	21.62	27.85	34.34	34.19
Capital Outlay/GSDP	0.21	0.23	0.23	0.30	0.26	0.33	0.16	0.30	1.27	0.00
Capital Exp./GSDP	1.41	1.70	1.81	1.86	3.28	11.47	2.08	2.73	6.15	0.00
Revenue Deficit/GSDP	2.55	2.49	1.97	2.14	2.18	1.69	2.01	2.52	2.49	1.20
Fiscal Deficit/GSDP	3.18	3.14	2.65	3.05	4.42	12.18	2.66	3.08	2.93	2.92
Primary Deficit/GSDP	0.83	0.84	0.29	0.53	1.93	9.50	-0.60	-0.05	-0.12	-0.04
Debt/GSDP	31.17	30.99	30.78	31.64	32.83	42.09	41.51	40.61	39.83	38.53

Source: Punjab Budgets, Department of Finance, Punjab (Various Years) and RBI.

State's Outstanding Debt and Burden of UDAY and CCL Gap Loans

An analysis of Punjab's outstanding debt had shown that during 2015-16 and 2016-17, two loans - one under the UDAY Scheme and another CCL loan – have burdened the debt kitty of the state. Both these loans need an elaboration and causes behind these developments.

ODAY Loan for Reducing Interest Burden of PSPCL

A Memorandum of Understanding (MOU) was signed on March 4, 2016 between the Ministry of Power, Government of India; Government of Punjab; and Punjab State Power Corporation Limited (PSPCL) with an objective to improve the operational and financial efficiency of the State DISCOM. As per MOU, the total outstanding debt of PSPCL on September 30, 2015 was Rs. 20,838 crore; of which Rs. 5,209 crore in 2015-16 and Rs. 15,628 crore in 2016-17 ultimately were taken over by the State at reduced interest rates (about 3.0-3.5 percent lower interest rate that was paid by the PSPCL on its debt). The expected savings on account of reduced interest till 2019-20 was expected to be around Rs. 600 crore per annum.

However, from the year 2020-21, the saving on account of interest to the PSPCL shall be more because the entire loan of Rs. 15,628 crore be converted into grants-in-aid and equity. On account UDAY loan of Rs. 15,628 crore, the State will have to incur interest payments of more than Rs. 10,000 crore, for an average residual maturity of 7.67 years (from March 31, 2018 onwards). The burden of repayment of this loan commences from 2021-22, extending till 2030-31. Furthermore, it is evident that with beginning of 2022-23 till 2026-27, the State will be burdened with an annual repayment of Rs. 2,140 crore and from 2027-28 to 2030-31 of Rs. 986 crore on these loans, in addition to the recurring interest payments on the same.

CCL Gap Loan – An Awesome Burden

Converting the Cash Credit Limit (CCL) gap of Rs. 30,584.11 crore to Long Term Loan is major blow to Punjab's debt stock. It needs a brief explanation. Punjab is a major contributor of food grains to the central pool. The GoI undertakes procurement of food grains in Punjab under the Centralized Procurement Scheme (CPS), which is undertaken by the State through its State Procurement Agencies (SPAs) and Food Corporation of India (FCI). The food grains procured by the State's food agencies are delivered to the FCI for movement to the food-deficit states for distribution under various schemes of GoI, thereby, ensuring the food security of the nation.

There is clear stipulation that the CCL shall not be utilized for any other purposes, except the procurement of wheat/paddy. At any point of time, thus, the outstanding CCL should not exceed the value of stocks available with the SPAs and the receivables due against the stock transferred to the FCI. However, in actual practice, the procurement operations, due to their huge scale and in limited time period (military-like operations), have led to a yawning gap of Rs. 30,584.11 crore (March 11, 2017) between the outstanding CCL and the value of stocks of food grains. This CCL gap ultimately converted into Long term Loan, which burdened the State with an annual debt-servicing liability of Rs. 3,240 crore till September 2034, resulting in total outflow of Rs. 57,358 crore during the repayment tenure of this loan.

A deeper scrutiny of CCL gap of Rs. 30,584.11 crore indicates that against a principal amount of Rs. 12,161 crore, Rs. 18,423 crore has been levied as interest by the banks. The long term CCL debt was also forced on the State at an interest rate of 8.25 percent, whereas the average cost of market borrowings for the State was 7.38 percent in 2016-17 and 7.74 percent in 2017-18. It is also pointed out here that SBI charges 1 percent less rate of interest from the FCI than that of from the State Government. The amount of excessive interest charged by banks should be ultimately borne by the banks.

References

1. Domar, E. (1944), 'The Burden of Debt and National Income', American Economic Review, Vol. 34, pp. 798–827.
2. Finance Commission (2009), Report of the Thirteenth Finance Commission (2010- 2015), New Delhi, Government of India.
3. Finance Commission (2013), Report of the Thirteenth Finance Commission (2015- 2020), New Delhi, Government of India.
4. GoP (2017), White paper on State finances, Department of Finance, Government of Punjab, Chandigarh.
5. GoP (2019), Memorandum to 15th Finance Commission, Government of Punjab, Chandigarh.
6. Lahiri, A. and R. Kannan (2001), 'India's Fiscal Deficit and their Sustainability in Perspective', paper presented at World Bank-NIPFP Seminar held on Fiscal Policies for Growth at New Delhi.
7. Rangarajan, C. and Prasad, A. (2012), 'Managing State Debt and Ensuring Solvency: The Indian Experience', World Bank Policy Research Working Paper 6039, Poverty Reduction and Economic Management Network Economic Policy and Debt Department, April 2012.
8. Reinhart, Carmen M., and Rogoff, K.S. (2010), 'Growth in a Time of Debt', American Economic Review, Vol. 100 (2), pp. 573-78.
9. Sawhney, U. (2012) 'Subnational Reforms and Public Policy issues in Punjab', International Journal of Punjab Studies, Vol. 19 (01), pp. 49-66.
10. Sawhney, U. (2016), 'Strategy for Fiscal Stability and Revitalizing the Economy of Punjab', in Lakhwinder Singh and Nirvikar Singh (Eds.), Economic Transformation of a Developing Economy: The Experience of Punjab, India, Singapore, Springer.
11. Sen, Tapas (1994), Management of Public Finances in Punjab: Final Report, A Report Submitted to the Government of Punjab, National Institute of Public Finance and Policy, New Delhi.
12. Sen, Tapas (2016), 'Public Finances and Development: The case of Punjab' in Lakhwinder Singh and Nirvikar Singh (Eds.), Economic Transformation of a Developing Economy: The Experience of Punjab, India, Singapore, Springer.
13. Singh, Lakhwinder (2016), 'Towards an Alternative Strategy of Economic Development in Punjab', Discussion Paper No. 14, Punjabi University, Patiala.

14. Singh, Sukhwinder (2016), ‘Economic Development and Emerging Health Scenario in Punjab: A Need for State Support and Accountability’, in Lakhwinder Singh and Nirvikar Singh (Eds.), Economic Transformation of a Developing Economy: The Experience of Punjab, India, Singapore, Springer.
15. Tanzi, V. and Schuknecht, L. (1997), ‘Reconsidering the Fiscal Role of Government: The International Perspective’, American Economic Review, Vol. 87 (2), Papers and Proceedings of Hundred and Fourth Annual Meeting of the American Economic Association. Tennessee: American Economic Association.