

Chapter-I

Overview

Chapter-I

Overview

1.1 Profile of the State

Punjab is predominantly an agrarian State. The State is located in the north-western corner of India. It spreads over a geographical area of 50,362 sq. km. and ranks 20th among States in terms of area. It has been organised into 23 districts. The districts have further been divided into 97 sub-divisions, 153 blocks and 12,581 inhabited villages.

As per Population Projections by National Commission on Population, Ministry of Health & Family Welfare, the State's population was 3.05 crore which accounts for 2.22 *per cent* of the country's population and ranks 16th among States in terms of population. The population density of the State at 606.31 persons per sq. km. was higher than the national average of 418.43 persons per sq. km. The Gross State Domestic Product (GSDP) in 2021-22 at current prices was ₹ 5,84,042 crore. The State's literacy rate is 75.80 *per cent* (as per 2011 Census) (*Appendix 1.1*). The per capita income of the State for the year 2021-22 was ₹ 1,62,112.

1.1.1 Gross State Domestic Product of the State

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time.

Changes in sectoral contribution to the GSDP is also important to understand the changing structure of economy. The economic activity is generally divided into Primary, Secondary and Tertiary sectors, which correspond to the Agriculture, Industry and Service sectors.

Trends in GSDP compared to GDP are shown in **Table 1.1**; and sectoral contribution and sectoral growth in GSDP during the period 2017-2018 to 2021-22 are depicted in **Chart 1.1** and **Chart 1.2** respectively.

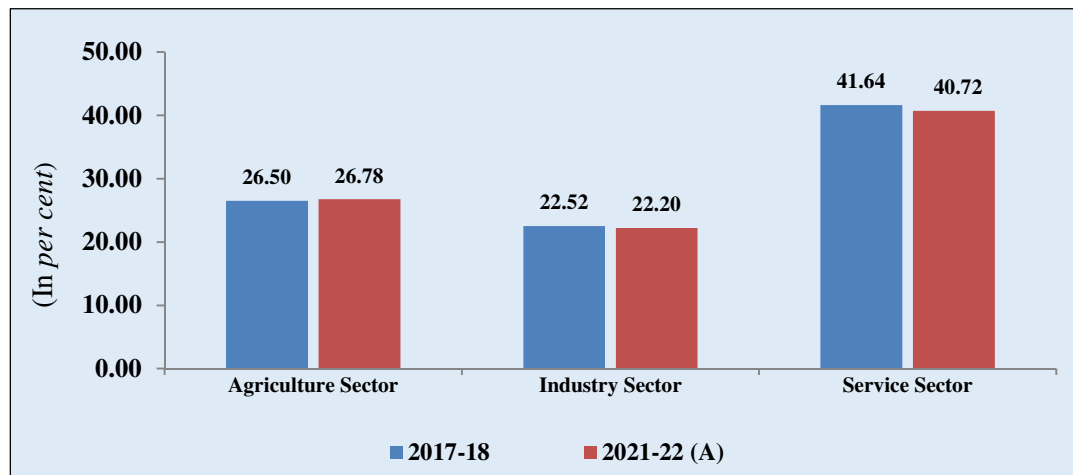
**Table 1.1: Trends in GSDP compared to the GDP
(at current prices)**

Year	2017-18	2018-19	2019-20	2020-21	2021-22
GDP (2011-12 Series)	1,70,90,042	1,88,99,668 3 rd RE	2,00,74,856 2 nd RE	1,98,00,914 1 st RE	2,36,64,637 PE
Growth rate of GDP over previous year (in per cent)	16.60	10.59	6.22	(-1.36)	19.51
GSDP (2011-12 Series)	4,71,014	5,12,510	5,37,031	5,32,555 (Q)	5,84,042 (A)
Growth rate of GSDP over previous year (in per cent)	10.31	8.81	4.78	(-)0.83	9.67

Source: Economic and Statistical Organisation (ESO), Government of Punjab and National Statistics Office, Ministry of Statistics and Programme Implementation, GoI.

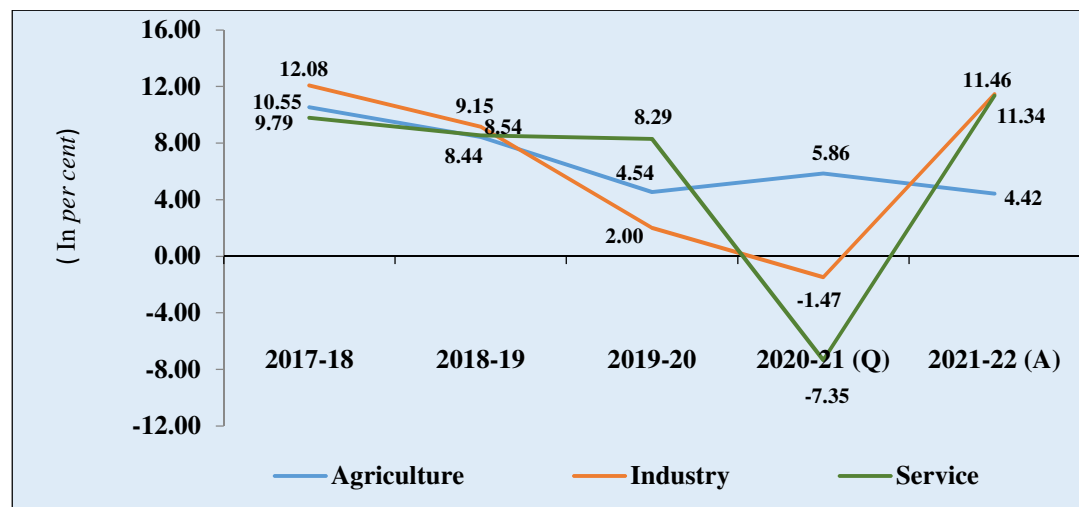
RE- Revised Estimates, PE- Provisional Estimates, Q-Quick Estimates and A-Advance Estimates

Chart 1.1: Change in sectoral contribution to GDP (2017-18 to 2021-22)



Source: Economic and Statistical Organisation, Government of Punjab

Chart 1.2: Sectoral growth in GSDP



Source: Economic and Statistical Organisation, Government of Punjab

Chart 1.2 shows that, during 2021-22, there was significant growth in two sectors contributing to GSDP viz. industry and service, which was attributed to recovery of economic activity post COVID-19 pandemic. Almost all the indicators show that impact of the second wave of the pandemic was low as compared to full lockdown phase during 2020-21. The industry sector went through a sharp rebound owing to rise in manufacturing, construction and mining sub-sectors. In service sector, there was wide dispersion in performance of different sub-sectors. While finance, real estate and public administration were well above pre COVID-19 level, segments like travel, trade and hotels were yet to recover fully.

1.2 Basis and Approach to State Finances Audit Report

In terms of Article 151(2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) is prepared and submitted under the Article *ibid* of the Constitution of India.

Accountant General (Accounts and Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts functioning under the control of the State Government, and the statements received from the Reserve Bank of India. These accounts are audited independently by the Principal Accountant General (Audit), and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State constitute the core data for this report. Other sources include the following:

- Budget of the State: for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- Results of audit carried out by the office of the Principal Accountant General (Audit);
- Other data with departmental authorities and treasuries (accounting as well as MIS);
- GSDP data and other State related statistics; and
- Various audit reports of the CAG of India.

The analysis has also been carried out in the context of recommendations of the Fourteenth Finance Commission (14th FC), Fifteenth Finance Commission

(15th FC), State Fiscal Responsibility and Budget Management (FRBM) Act, 2003, best practices and guidelines of the Government of India (GoI).

The audit analysis/findings of Chapters I to V of the Report were discussed in a meeting held (December 2022) with the Principal Secretary, Department of Finance, Punjab. Replies furnished in the meeting and those received from the State Government in December 2022 have been suitably incorporated in the Report.

1.3 Report Structure

The SFAR is structured into the following five chapters:

Chapter-I	<p>Overview</p> <p>This chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of Government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/surplus.</p>
Chapter-II	<p>Finances of the State</p> <p>This chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2017-18 to 2021-22, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.</p>
Chapter-III	<p>Budgetary Management</p> <p>This chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.</p>
Chapter-IV	<p>Quality of Accounts and Financial Reporting Practices</p> <p>This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.</p>
Chapter-V	<p>State Public Sector Enterprises</p> <p>This chapter discusses financial performance of Government Companies, Statutory Corporations and Government Controlled Other Companies as revealed from their latest accounts.</p>

1.4 Overview of Government Account Structure and Budgetary Processes

The Accounts of the State Government are kept in three parts:

I. Consolidated Fund of the State (Article 266(1) of the Constitution of India)

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from financial institutions, special securities issued to National Small Savings Fund, etc.), Ways and Means Advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with the law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (e.g. salaries of Constitutional authorities, loan repayments, etc.) constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

II. Contingency Fund of the State (Article 267(2) of the Constitution of India)

This Fund is in the nature of an imprest which is established by the State Legislature by law, and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. The fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State.

III. Public Account of the State (Article 266(2) of the Constitution of India)

Apart from above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes repayables like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

Budget Document

There is a constitutional requirement in India (Article 202) to present before the House or Houses of the Legislature of the State, a statement of estimated

receipts and expenditures of the Government in respect of every financial year. This 'Annual Financial Statement' constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

Revenue receipts consists of tax revenue (Own Tax revenue plus share of Union taxes/duties), non-tax revenue and grants from Government of India.

Revenue expenditure consists of all those expenditures of the Government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the Government departments and various services, interest payments on debt incurred by the Government, and grants given to various institutions (even though some of the grants may be meant for creation of assets).

The **capital receipts** consist of:

- **Debt receipts:** Market loans, bonds, loans from financial institutions, net transaction under Ways and Means Advances, loans and advances from Central Government, etc.; and
- **Non-debt receipts:** Proceeds from disinvestment, recoveries of loans and advances, etc.

Capital expenditure includes expenditure on the acquisition of land, building, machinery, equipment and investment by the Government in shares of Public Sector Undertakings (PSU).

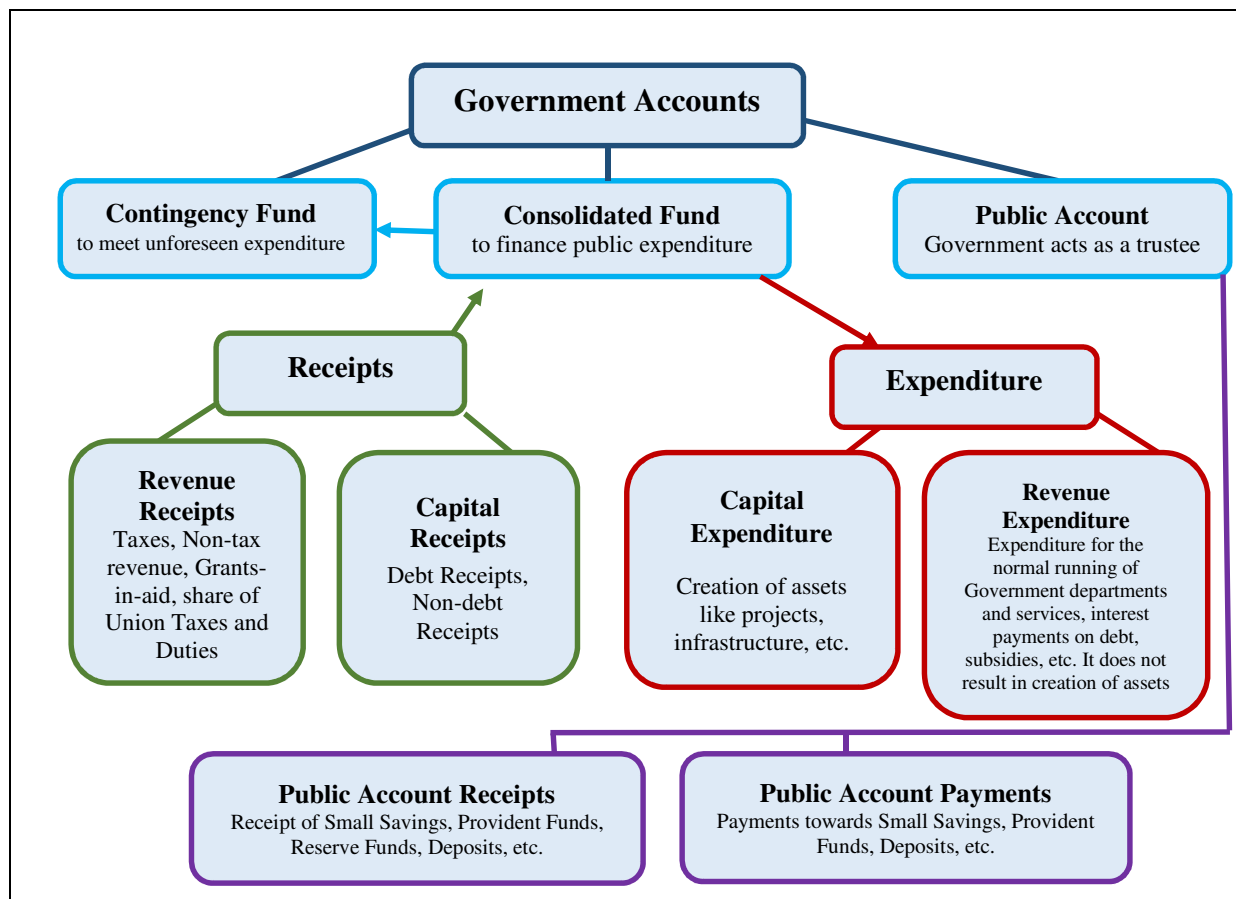
At present, we have an accounting classification system in Government that is both functional and economic.

	Attribute of transaction	Classification
Standardised in List of Major and Minor Heads by CGA	Function - Education, Health, etc. /Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major Head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub-scheme	Detailed Head (2-digit)
	Economic nature/ Activity	Object Head-Salary, Minor Works, etc. (2-digit)

The functional classification lets us know the department, function, scheme or programme, and object of the expenditure. Economic classification helps organise these payments as revenue, capital, debt, etc. Economic classification

is achieved by the numbering logic embedded in the first digit of 4-digit Major Heads. For instance, 0 and 1 is for revenue receipts, 2 and 3 for revenue expenditure, etc. Economic classification is also achieved by an inherent definition and distribution of some object heads. For instance, generally “Salary” object head is revenue expenditure, “Construction” object head is capital expenditure. Object head is the primary unit of appropriation in the budget documents.

Chart 1.3: Structure of Government Accounts



Source: Finance Accounts

Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of State causes to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State, in the form of an Annual Financial Statement. In terms of Article 203, the statement is submitted to the State Legislature in the form of Demands for Grants/Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund.

The State Budget Manual details the budget formulation process and guides the State Government in preparing its budgetary estimates and monitoring its

expenditure activities. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in Chapter-III of this Report.

1.4.1 Snapshot of Finances

Table 1.2 shows the details of actual financial results for the years 2020-21 and 2021-22 *vis-à-vis* Budget Estimates (BE) and GSDP for the year 2021-22.

Table 1.2: Snapshot of Finances

(₹ in crore)

Sl. No.	Components	2020-21 (Actuals)	2021-22 (BE)	2021-22 (Actuals)	Percentage of Actuals to BE	Percentage of Actuals to GSDP
1.	Tax Revenue	40,691.04	49,460.75	52,615.65	106.38	9.01
	Own Tax Revenue	30,052.83	37,434.04	37,326.86	99.71	6.39
	Share of Union taxes/duties	10,638.21	12,026.71	15,288.79	127.12	2.62
2.	Non-Tax Revenue	4,152.13	7,758.48	4,783.77	61.66	0.82
3.	Grants-in-aid and Contributions	24,205.01	38,038.37	20,768.89	54.60	3.56
4.	Revenue Receipts (1+2+3)	69,048.18	95,257.60	78,168.31	82.06	13.38
5.	Recovery of Loans and Advances	50.37	5.00	206.73	4,134.60	0.04
6.	Other Receipts	0.02	0.00	0.00	0.00	0.00
7.	Borrowings and other liabilities*	22,584.16 [^]	24,239.68	27,847.26 ^{\$}	114.88	4.77
8.	Capital Receipts (5+6+7)	22,634.55	24,244.68	28,053.99	115.71	4.80
9.	Total Receipts (4+8)	91,682.73	1,19,502.28	1,06,222.30	88.89	18.19
10.	Revenue Expenditure	86,344.62	1,03,879.91	96,636.51	93.03	16.55
11.	Interest payments [#]	18,152.50	21,240.52	19,063.51	89.75	3.26
12.	Capital Expenditure	4,382.32	14,134.27	8,009.98	56.67	1.37
13.	Loans and advances	955.79	1,488.10	1,575.81	105.89	0.27
14.	Total Expenditure (10+12+13)	91,682.73	1,19,502.28	1,06,222.30	88.89	18.19
15.	Revenue Deficit (4-10)	(-)17,296.44	(-)8,622.31	(-)18,468.20	214.19	(-)3.16
16.	Fiscal Deficit {(4+5+6)-14}	(-)22,584.16	(-)24,239.68	(-)27,847.26	114.88	(-)4.77
17.	Primary Deficit(-)/ Surplus(+) (16-11)	(-)4,431.66	(-)2,999.16	(-)8,783.75	292.87	(-)1.50

Source: Finance Accounts

* Borrowings and other liabilities: Net (Receipts - Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts - Disbursements) of Public Account + Net of Opening and Closing Cash Balance.

[^] Includes ₹ 8,359 crore as back-to-back loans from GoI in lieu of GST Compensation shortfall.

^{\$} Includes ₹ 12,132.41 crore as back-to-back loans from GoI in lieu of GST Compensation shortfall.

[#] Included in the Revenue Expenditure shown at Sr. No. 10.

During the year 2021-22, the revenue receipts of the State though increased by 13 per cent over the previous year, these fell short by 18 per cent than the budget estimates. During the current year, there was excess of revenue expenditure (₹ 96,636 crore) over revenue receipts (₹ 78,168 crore), thereby resulting into revenue deficit of ₹ 18,468 crore.

The Goods and Services Tax (GST) Compensation is the revenue of the State Government under GST (Compensation to States) Act, 2017. However, in addition to receiving the GST compensation of ₹ 4,442 crore as revenue

receipts, due to inadequate balance in GST compensation fund during the year 2021-22, GoP also received back-to-back loans of ₹ 12,132 crore under debt receipts of the State Government, with no repayment liability for the State.

1.4.2 Snapshot of Assets and Liabilities of the Government

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix 1.2* gives an abstract of such liabilities and assets as on 31 March 2022, compared with the corresponding position of previous year. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from public account and reserve funds, and the assets comprise mainly the capital expenditure and loans and advances given by the State Government and cash balances. Summarised position of assets and liabilities is depicted in **Table 1.3**.

Table 1.3: Summarised position of Assets and Liabilities

(₹ in crore)

Liabilities					Assets				
		2020-21	2021-22	Per cent increase/decrease		2020-21	2021-22	Per cent increase/decrease	
Consolidated Fund									
A	Internal Debt	2,10,393.75	2,20,196.34	4.66	a	Gross Capital Expenditure	70,457.79	78,467.77	11.37
B	Loans and Advances from GoI*	12,999.91	25,094.25	93.03	b	Loans and Advances	36,300.59	37,669.67	3.77
Contingency Fund		25.00	25.00	0.00					
Public Account									
A	Small Savings, Provident Funds, etc.	22,149.54	22,187.70	0.17	a	Advances with Departmental officers	0.42	0.42	0.00
B	Deposits	3,904.66	4,785.10	22.55	b	Remittances	83.90	75.45	(-) 10.07
C	Reserve Funds	9,794.91	12,636.52	29.01	c	Suspense and Miscellaneous	0.66	130.37	19,653.03
D	Remittances	--	--	0.00		Cash balance (including investment in Earmarked Funds)	9,247.83	6,871.64	(-) 25.69
E	Suspense and Miscellaneous	157.65	92.86	(-)41.10		Total	1,16,091.19	1,23,215.32	6.14
						Difference on account of rounding-off	--	0.02	
						Deficit in Revenue Account	1,43,334.23	1,61,802.43	12.88
Total		2,59,425.42	2,85,017.77	9.87			2,59,425.42	2,85,017.77	9.87

Source: Finance Accounts

* During the year 2020-21 and 2021-22, it includes back-to-back loans of ₹ 8,359 and ₹ 20,491.41 crore (₹ 8,359 crore + ₹ 12,132.41 crore) respectively, in lieu of GST Compensation shortfall received from GoI.

1.5 Fiscal Balance: Achievement of deficit and total debt targets

When a Government spends more than it collects by way of revenue, it incurs a deficit. There are various measures that capture Government deficit.

Deficits are financed by borrowing giving rise to Government debt. The concepts of deficits and debt are closely related. Deficits can be thought of as a flow which add to the stock of debt. If the Government continues to borrow year after year, it leads to the accumulation of debt and the Government has to pay more and more by way of interest. These interest payments themselves contribute to the debt.

By borrowing, the Government entails the burden of reduced consumption on future generations. This is because it borrows by issuing bonds to the people living at present but may decide to pay off the bonds some twenty years later by raising taxes or reducing expenditure. Also, Government borrowing from the people reduces the savings available to the private sector. To the extent that this reduces capital formation and growth, debt acts as a 'burden' on future generations.

However, if Government deficits succeed in their goal of raising production, there will be more income and, therefore, more saving. In this case, both Government and industry can borrow more. Also, if the Government invests in infrastructure, future generations may be better off, provided the return on such investments is greater than the rate of interest. The actual debt could be paid off by the growth in output. The debt should not then be considered burdensome. The growth in debt will have to be judged by the growth of the economy (State GDP) as a whole.

Government deficit can be reduced by an increase in taxes or reduction in expenditure. However, the major thrust has been towards reduction in Government expenditure. This could be achieved through making Government activities more efficient through better planning of programmes and better administration.

The Central and individual State Governments have passed Fiscal Responsibility and Budget Management (FRBM) Act with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit and overall/outstanding debt to acceptable level, establishing improved debt management and improving transparency in a medium term framework. In this context, the Act provides quantitative targets to be adhered by the State with regard to deficit measures and debt level.

In May 2003, the State Government enacted the Punjab FRBM Act, 2003 to ensure long-term financial stability by achieving revenue surplus, containing fiscal deficit and prudent debt management. Subsequently, in March 2011, the State Government amended the FRBM Act on the recommendations of the Thirteenth Finance Commission (TFC) and enacted FRBM (Amendment) Act, 2011, on the basis of which fiscal targets up to the year 2014-15 were fixed.

The Fourteenth Finance Commission (14th FC) recommended that the State Government may amend its FRBM Act to provide for statutory flexible limits

on fiscal deficit and also to provide a statutory ceiling on the sanction of new capital works to an appropriate multiple of the annual budget provision for ensuring that liabilities of incomplete and ongoing capital projects do not accumulate.

The 14th FC also recommended to the State Government to adopt a template for collating, analysing and annually reporting the total extended public debt in the budget, as a supplement to the budget, to assess the debt position of the State in the context of risks arising from guarantees, off-budget borrowings and accumulated losses from financially weak public sector enterprises. In order to accord greater sanctity and legitimacy to fiscal management legislation, the State Government was recommended to replace the existing FRBM Act with a Debt Ceiling and Fiscal Responsibility Legislation, specifically invoking Article 293(1) of the Constitution of India.

The State Government amended its FRBM Act as per recommendations of the 14th FC in March 2020. The statutory flexible limit on fiscal deficit had been fixed at three *per cent* of the GSDP, besides an additional ₹ 928 crore in the financial year 2019-20.

As per the Fifteenth Finance Commission (15th FC), the State Government further amended its FRBM Act in March 2021. The statutory flexible limit on fiscal deficit had been fixed at four *per cent* of GSDP and an additional one *per cent* in the financial year 2020-2021, subject to reforms as laid therein, and maintain thereafter at three *per cent* or as allowed by Government of India, from time to time. The additional one *per cent* in the financial year 2020-2021 would be conditional to the following reforms:

- (i) Implementation of One Nation One Ration Card System;
- (ii) Ease of doing business reforms;
- (iii) Urban Local body/utility reforms; and
- (iv) Power Sector reforms.

The weightage of each reform was 0.25 *per cent* of GSDP totalling to one *per cent*.

The State Government further amended its FRBM Act in January 2022. The statutory flexible limit on fiscal deficit had been fixed at 3.50 *per cent* of GSDP and additional 0.50 *per cent* of GSDP on the basis of capital expenditure incurred by the State, in the year 2021-22, and maintain thereafter at three *per cent* or as allowed by Government of India, from time to time. Additional ceiling of 0.50 *per cent* of the projected GSDP was to be allowed if the State Government had spent at least 70 *per cent* of the targeted capital outlay of ₹ 5,421 crore fixed by the GoI for the year 2021-22, by December 2021. The State Government spent ₹ 6,039.61 crore on capital outlay by December 2021 and hence was eligible for additional ceiling of 0.50 *per cent* of the projected

GSDP. Accordingly, statutory flexible limit for the fiscal deficit for the year 2021-22 works out to ₹ 23,362 crore (four per cent of GSDP ₹ 5,84,042 crore).

Further, the Fiscal Consolidation Roadmap (FCR) under FRBM Act for the period 2015-20 was prepared and implemented from the year 2017-18¹. The targets under FCR for the years 2021-22 to 2023-24 were envisaged in the Annual Financial Statement (AFS) for the year 2021-22. Compliance with the targets fixed in the FCR during the period 2017-18 to 2021-22 is shown in **Table 1.4 (a)**.

Table 1.4(a): Compliance with provisions of State FCR under FRBM Act

Fiscal Parameters		Achievement vis-à-vis targets set in the FCR				
		2017-18	2018-19	2019-20	2020-21	2021-22
Revenue Deficit (-) / Surplus (+) (₹ in crore)	T	(-14,310)	(-11,919)	(-11,687)	(-7,712)	(-8,622)
	A	(-9,455) ✓	(-13,135) ✗	(-14,285) ✗	(-17,296) ✗	(-18,468) ✗
Fiscal Deficit (-) / Surplus (+) (₹ in crore)	T	(-20,821)	(-17,650)	(-18,171)	(-21,188)	(-23,362)
	A	(-12,494) ✓	(-16,059) ✓	(-16,826) ✓	(-22,584) ✗	(-27,847) ✗
Ratio of total outstanding debt to GSDP (in per cent)	T	41.04	40.96	39.74	38.53	45.05
	A*	41.43 ✗	41.35 ✗	42.71 ✗	46.88 ✗	44.74 ✓

Source: Annual Financial Statements for the years 2017-18 to 2021-22

T: Target; A: Achievement

* During the year 2020-21 and 2021-22, it excludes back-to-back loans of ₹ 8,359 and ₹ 20,491.41 crore (₹ 8,359 crore + ₹ 12,132.41 crore) respectively, in lieu of GST Compensation shortfall received from GoI which were not to be treated as debt of the State for any norms, as per the guidelines (August 2020).

The targets set by 15th FC and those projected in the State budget vis-à-vis achievements in respect of major fiscal aggregates with reference to GSDP during 2021-22 are given in **Table 1.4(b)**.

Table 1.4(b): Targets vis-à-vis achievements in respect of major fiscal aggregates for the year 2021-22

Fiscal Variables	Targets as prescribed by 15 th FC	Targets in the Budget	Actuals*	Percentage variation of actuals over	
				Targets of 15 th FC	Targets in Budget
Revenue Deficit/GSDP (per cent)	(-1.66)	(-1.42)	(-3.16)	(-1.50)	(-1.74)
Fiscal Deficit/GSDP (per cent)	(-4.00)	(-3.99)	(-4.77)	(-0.77)	(-0.78)
Total outstanding debt/GSDP (per cent)	45.20	45.05	44.74 [§]	(-0.46)	(-0.31)

Source: Recommendations of 15th FC, Annual Financial Statement and Finance Accounts

Note : Deficit figures have been shown in minus.

* Calculated on the basis of GSDP figures of ₹ 5,84,042 crore published by ESO, GoP.

§ Excluding back-to-back loans of ₹ 20,491.41 crore received from GoI in lieu of GST Compensation shortfall during 2020-22.

During the year 2021-22, the Government was unable to contain the revenue deficit-GSDP and fiscal deficit-GSDP ratios within the levels fixed by 15th FC and those projected in the budget estimates but total outstanding debt-GSDP ratio remained within the levels fixed.

¹ FCR for the year 2017-18 also contained targets for the year 2016-17.

As per Punjab FRBM Act, 2003, Medium-term Fiscal Policy (MTFP) Statement shall set forth a three-year rolling target for prescribed fiscal indicators with specification of underlying assumptions. Actuals *vis-à-vis* projections made in Medium Term Fiscal Policy (MTFP) are shown in **Table 1.5**.

Table 1.5: Actuals *vis-à-vis* projections in Medium Term Fiscal Policy for the year 2021-22

(₹ in crore)

Sr. No.	Fiscal Variables	Projection as per MTFP	Actuals (2021-22)	Variation (in per cent)
1.	Own Tax Revenue	37,434	37,327	(-0.29)
2.	Non-Tax Revenue	7,759	4,783	(-38.36)
3.	Share of Central Taxes and Duties	12,027	15,289	(+27.12)
4.	Grants-in-aid from GoI	38,038	20,769*	(-45.40)
5.	Revenue Receipts (1+2+3+4)	95,258	78,168	(-17.94)
6.	Revenue Expenditure	1,03,880	96,636	(-6.97)
7.	Revenue Deficit (-)/ Surplus (+) (5-6)	(-8,622)	(-18,468)	(-114.20)
8.	Fiscal Deficit (-)/ Surplus (+)	(-24,240)	(-27,847)	(-14.88)
9.	Debt-GSDP ratio (per cent)	45.05	44.74[#]	(-0.31)
10.	GSDP growth rate at current prices (per cent)	0.18	9.67	(+9.49)

Source: Finance Accounts

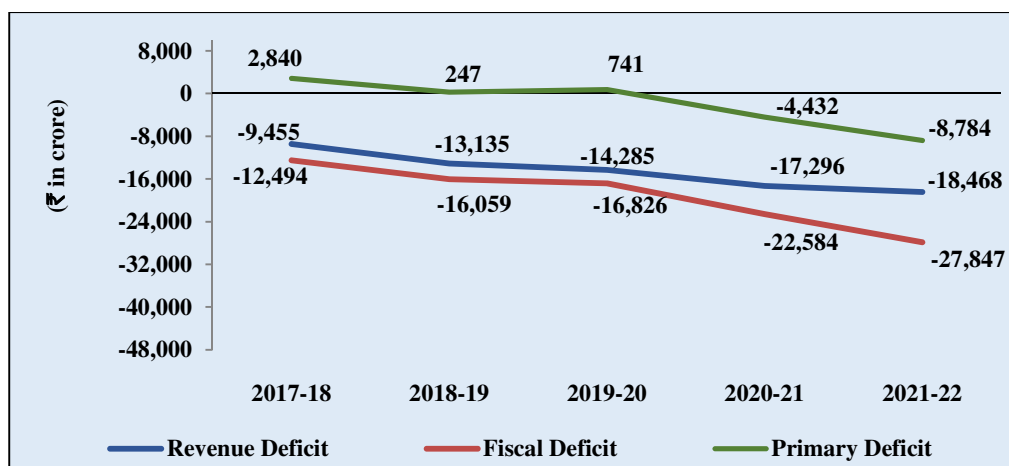
* Includes post devolution revenue deficit grant of ₹ 10,081 crore recommended by 15th FC for the year 2021-22.

Excluding back-to-back loans of ₹ 20,491 crore received from GoI in lieu of GST Compensation shortfall during 2020-22, which were not to be treated as debt of the State for any norms, as per the guidelines (August 2020).

During the year 2021-22, the Government was unable to contain the revenue deficit within the level projected in the MTFP due to shortfall ranging between 0.29 per cent and 45.40 per cent in all the components of revenue receipts except in Share of Central Taxes and Duties which registered increase of 27.12 per cent. Consequently, the fiscal deficit also exceeded the target projected in the MTFP.

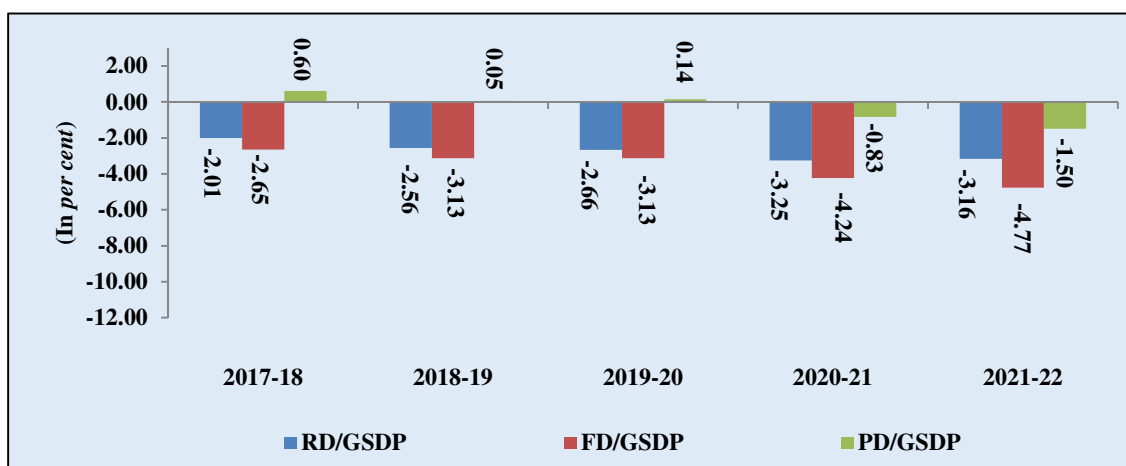
Chart 1.4 and **Chart 1.5** present the trends in deficit parameters and trends relative to GSDP respectively over the period 2017-22.

Chart 1.4: Trends in deficit parameters



Source: Finance Accounts

Chart 1.5: Trends in Deficit/Surplus relative to GSDP



Source: Finance Accounts

Revenue deficit indicates excess of revenue expenditure over revenue receipts, which was to be brought down to zero by 2008-09 in terms of FRBM Act, 2003, increased to ₹ 18,468 crore (3.16 per cent of GSDP) in 2021-22 from ₹ 9,455 crore (2.01 per cent of GSDP) in 2017-18. The revenue deficit as percentage of GSDP decreased marginally in 2021-22 (3.16 per cent) as compared to previous year (3.25 per cent).

Fiscal deficit, which represents total borrowings of the State i.e. its total resource gap, increased substantially to ₹ 27,847 crore (4.77 per cent of GSDP) in 2021-22 from ₹ 22,584 crore (4.24 per cent of GSDP) in 2020-21.

Primary deficit, which indicates the excess of primary expenditure (total expenditure net of interest payments) over non-debt receipts, was ₹ 4,432 crore (0.83 per cent of GSDP) in 2020-21 and ₹ 8,784 crore (1.50 per cent of GSDP) in 2021-22. In 2017-18, 2018-19 and 2019-20, there was primary surplus of ₹ 2,840 crore (0.60 per cent of GSDP), ₹ 247 crore (0.05 per cent of GSDP) and ₹ 741 crore (0.14 per cent of GSDP) respectively. This indicated excess of non-debt receipts over primary expenditure.

The State Government stated (December 2022) that the revenue growth was adversely effected by the COVID-19 pandemic on one hand and on the other hand, the State Government incurred huge spending to bring relief to the common man, which was the prime reason for increase in the deficits. Efforts should be made by the State Government to comply with the FRBM guidelines.

1.5.1 Performance of the State Government with respect to borrowings according to the limits fixed by Government of India

Article 293 (3) of the Constitution of India, *inter alia*, provides that a State may not raise any loan without the consent of Government of India (GoI) if any part of a loan, which has been made to the State by GoI, is still outstanding.

The GoI, Ministry of Finance, Department of Expenditure fixed (March 2021) the net borrowing ceiling of the State Government for the financial year

2021-22 as ₹ 22,951 crore² and instructed the State Government to ensure that its incremental borrowings from all sources remained within this ceiling. Borrowing Ceiling of ₹ 22,951 crore included additional ceiling of ₹ 2,869 crore (0.50 per cent of the projected GSDP) which was to be allowed if the State Government had spent at least 70 per cent of the targeted capital outlay of ₹ 5,421 crore fixed by the GoI for the year 2021-22, by December 2021. The State Government spent ₹ 6,040 crore on capital outlay by December 2021. Hence, the State Government was eligible for the additional ceiling of 0.50 per cent of the projected GSDP.

As per Statement 6 of the Finance Accounts viz. statement of borrowings and other liabilities, incremental borrowings and other liabilities of the State Government were ₹ 11,608 crore³ during the financial year 2021-22 which remained within the borrowing ceiling of ₹ 23,362 crore (four per cent of revised GSDP of ₹ 5,84,042 crore).

1.6 Deficits post examination by Audit

Misclassification of revenue expenditure as capital and off-budget fiscal operations impacts deficit figures. Besides, deferment of clear-cut liabilities, not depositing cess/royalty to Consolidated Fund, short contribution to New Pension Scheme, Sinking Fund and Guarantee Redemption Fund, etc. also impacts the revenue and fiscal deficit figures. In order to arrive at actual deficit figures, the impact of such irregularities needs to be reversed. Analysis of deficits after examination in audit are given in Table 1.6.

Table 1.6: Revenue deficit and fiscal deficit, post examination by Audit

Particulars	Impact on Revenue Deficit (Understated (+) / overstated(-)) (₹ in crore)	Impact on Fiscal Deficit (Understated (+) / overstated(-)) (₹ in crore)	Paragraph Reference
Short contribution to National Securities Depository Limited (NSDL)	(+)20.39	(+)20.39	2.4.1.2 (i)
Inadmissible expenditure met from SDRF (MH-2245)	(+)455.04	(+)455.04	2.5.2.2
Non-transfer of Guarantee fee to Guarantee Redemption Fund	(+)38.24	(+)38.24	2.5.2.3
Non-deposit of State levies in the Consolidated Fund of the State	(-)17.89	(-)17.89	4.1
Non-transfer of Labour Cess to the Punjab Building and Other Construction Workers Welfare Board	(+)15.96	(+)15.96	4.1.5
Non-discharge of liability in respect of interest towards interest bearing Deposits/Reserve Funds	(+)82.13	(+)82.13	4.3
Total	(+)593.87	(+)593.87	

Source: Finance Accounts

² Four per cent of GSDP (₹ 5,73,763 crore) of the year 2021-22, calculated by GoI based on the GSDP estimated as per the methodology prescribed by the 15th FC, however, the GSDP for the year 2021-22 was revised to ₹ 5,84,042 crore as on 22 July 2022, as per Economic and Statistical Organisation, Government of Punjab.

³ Excluding GoI back-to-back loans of ₹ 12,132 crore in lieu of GST Compensation shortfall which were not to be treated as debt of the State for any norms, as per the guidelines (August 2020).

During 2021-22, the revenue deficit and fiscal deficit was ₹ 18,468 crore (3.16 per cent of GSDP) and ₹ 27,847 crore (4.77 per cent of GSDP) respectively, as shown in Charts 1.4 and 1.5. If the above transactions were taken into account, the actual revenue deficit and fiscal deficit would work out to ₹ 19,062 crore (3.26 per cent of GSDP) and ₹ 28,441 crore (4.87 per cent of GSDP) respectively and the actual revenue deficit and fiscal deficit would have exceeded the Fiscal Consolidation Roadmap (FCR) targets by ₹ 10,440 crore (121.08 per cent) and ₹ 5,079 crore (21.74 per cent) respectively. This also resulted in understatement of the revenue deficit by 3.22 per cent and fiscal deficit by 2.13 per cent.

1.7 Post Audit – Total Outstanding Debt

As per the Punjab Fiscal Responsibility and Budget Management Act, 2003, total liabilities means the liabilities under the Consolidated Fund and the Public Account of the State referred to in Article 266 of the Constitution of India. The outstanding debt/liabilities can be split into various components as given in Table 1.7.

Table 1.7: Components of outstanding debt/liabilities as on 31 March 2022

(₹ in crore)	
Borrowings and other liabilities as per Finance Accounts	Amount
Internal Debt (A)	2,20,196.34
Market Loans bearing interest	1,65,099.00
Market Loans not bearing interest	0.03
Compensation and other Bonds	1,4642.35
Loans from other Institutions, etc.	27,440.47
Special Securities issued to the National Small Savings Fund of the Central Government	13,014.49
Loans and Advances from Central Government (B)	25,094.25
Non-plan Loans	12.24
Loans for State Plan Schemes	1,782.21
Others	23,299.80*
Liabilities upon Public Accounts (C)	36,369.10
Small Savings, Provident Funds, etc.	22,187.70
Deposits	4,785.10
Reserve Funds	9,509.26
Suspense and Miscellaneous Balances	(-37.51)
Remittances	(-75.45)
Total (A+B+C)	2,81,659.69

Source: Finance Accounts

* Includes back-to-back loans of ₹ 20,491 crore (₹ 8,359 crore in 2020-21 and ₹ 12,132 crore in 2021-22) from GoI in lieu of GST Compensation shortfall.

At the end of the year 2021-22, the overall outstanding debt/liabilities of the State were overstated by ₹ 112.96 crore by not accounting for the Suspense, Miscellaneous and Remittance balances, thereby overstating the same with respect to GSDP by 0.02 per cent. Liabilities to GSDP were lesser at 44.72 per cent⁴ against the normative assessment of 45.05 per cent under MTFP Statement during the current year.

⁴ Excluding back-to-back loans of ₹ 20,491.41 crore received from GoI during 2020-22 in lieu of GST Compensation shortfall, which were not to be treated as debt of the State for any norms, as per the guidelines (August 2020).