

## 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 is spread over a geographical area of 50,362 sq. km. and ranks 20<sup>th</sup> among States/UTs in terms of area. It has been organised into 23 districts. The districts have further been divided into 97 sub-divisions, 154 blocks and 12,581 inhabited villages.

As per Population Projections by National Commission on Population, Ministry of Health and Family Welfare, Government of India, the State's projected population was 3.09 crore as on March 2024 which accounts for 2.21 *per cent* of the country's projected population (140.07 crore) and ranks 16<sup>th</sup> among States in terms of population. The population density of the State at 614.07 persons per sq. km. was higher than the national average of 426.09 persons per sq. km. The State's literacy rate is 75.80 *per cent* (as per 2011 Census) (*Appendix 1.1*).

##### 1.1.1 Gross State Domestic Product of the State

Gross State Domestic Product (GSDP) is the value of all 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 the economy. Economic activity is generally divided into Primary, Secondary and Tertiary sectors, which primarily correspond to the Agriculture, Industry and Service sectors.

Trends in GSDP compared to GDP are shown in **Table 1.1**.

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

Year	2019-20	2020-21	2021-22	2022-23	2023-24
<i>(₹ in crore)</i>					
<b>INDIA</b>					
GDP (2011-12 Series)	2,01,03,593	1,98,54,096 3 <sup>rd</sup> RE	2,35,97,399 2 <sup>nd</sup> RE	2,69,49,646 1 <sup>st</sup> RE	2,95,35,667 PE
GVA	1,83,81,117	1,82,10,997	2,16,35,584	2,46,59,041	2,67,62,147
Growth rate of GDP over previous year (in per cent)	6.37	(-).1.24	18.85	14.21	9.60
Growth rate of GVA over previous year (in per cent)	7.02	(-).0.93	18.81	13.97	8.53
Per Capita GDP (in ₹)	1,49,915	1,46,481	1,72,420	1,94,878	2,11,725
<b>PUNJAB</b>					
GSDP (2011-12 Series)	5,37,031	5,40,853	6,27,717	6,81,251	7,44,899
GSVA	4,90,095	4,86,839	5,62,593	6,26,711	6,82,515
Growth rate of GSDP over previous year (in per cent)	4.78	0.71	16.06	8.53	9.34
Growth rate of GSVA over previous year (in per cent)	5.63	(-).0.66	15.56	11.40	8.90
Per Capita GSDP (in ₹)	1,73,119	1,72,098	1,97,156	2,11,204	2,27,950

Source: Ministry of Statistics and Programme Implementation (MoSPI), GoI.

RE: Revised Estimates; PE: Provisional Estimates;

2018-19: GVA: ₹ 1,71,75,128 crore; GDP: ₹ 1,88,99,668 crore; GSVA: ₹ 4,63,988 crore; and GSDP: ₹ 5,12,510 crore.

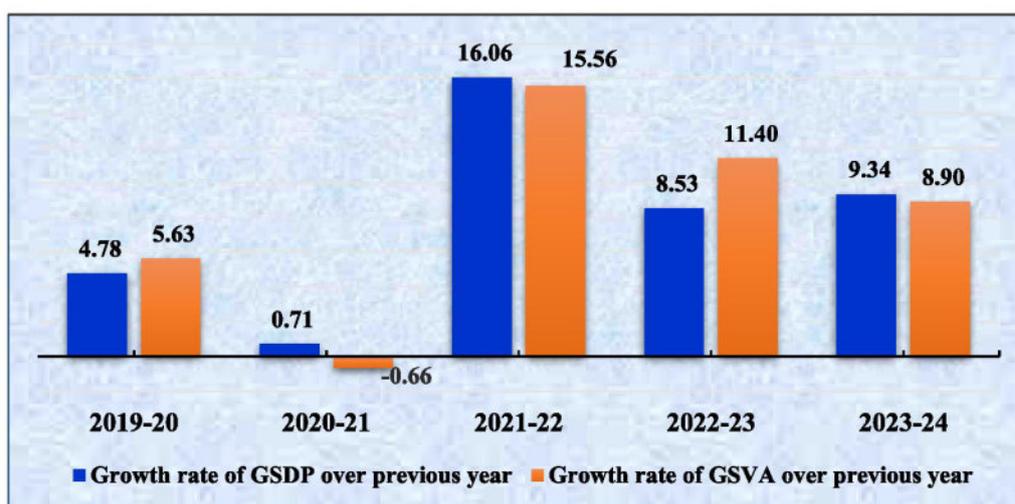
The Gross State Domestic Product (GSDP) of Punjab and the Gross Domestic Product (GDP) of India in 2023-24 were ₹ 7,44,899 crore and ₹ 2,95,35,667 crore respectively at current prices. Further, the per capita GSDP of the State for the year 2023-24 was ₹ 2,27,950 while per capita GDP of the country was ₹ 2,11,725. However, the annual growth of per capita GSDP (7.12 per cent) measured by Compound Annual Growth Rate (CAGR) during the period 2019-2024 remained lower than the annual growth in per capita GDP (9.01 per cent) during the same period. This is evidenced from the fact that the percentage of per capita GSDP of the State which was 15.48 per cent more than the per capita GDP of the country in 2019-20, decreased to 7.66 per cent of the per capita GDP as at the end of 2023-24.

Gross Value Added (GVA) is being used for economic analysis by Government of India (GoI) and international organisations like International Monetary Fund (IMF) and World Bank. GVA is considered a better indicator of economic growth compared to GDP as it ignores the impact of taxes and subsidies, while GDP can be and is also computed as the sum total of the various expenditures incurred in the economy including private consumption

spending, government consumption spending and gross fixed capital formation or investment spending, reflecting essentially on the demand conditions in the economy. Both measures have difference in treatment of net taxes as a result of which the inclusion of taxes in GDP may differ from the real output situation. From a policymaker's perspective, it is therefore vital to have a comparison of GVA and GSVA data for better analysis and making policy interventions.

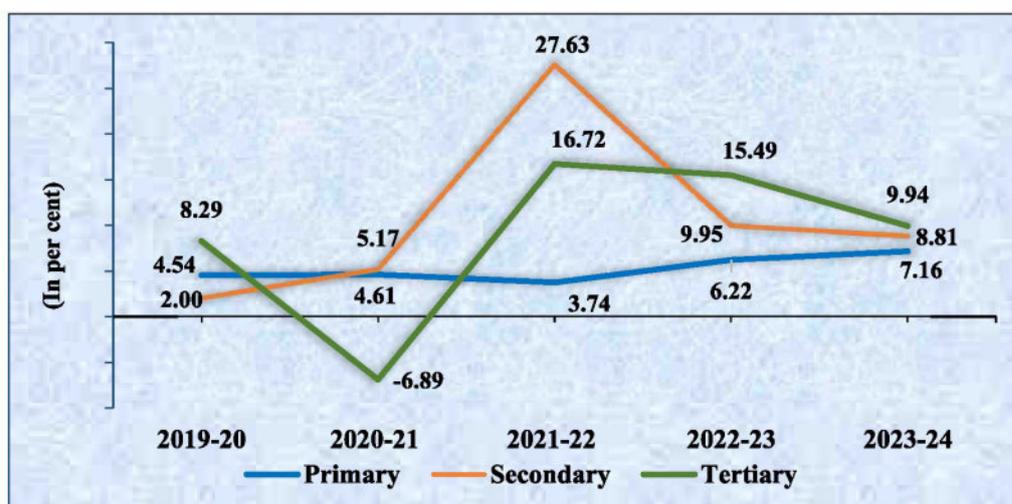
Trends in growth of GSVA compared to GSDP and sectoral growth in GSDP during the period 2019-20 to 2023-24 are depicted in **Chart 1.1** and **Chart 1.2** respectively.

**Chart 1.1: Growth rate of GSDP vs GSVA (2019-20 to 2023-24)**



Source: Ministry of Statistics and Programme Implementation, GoI.

**Chart 1.2: Sectoral growth in GSDP**



Source: Ministry of Statistics and Programme Implementation, GoI.

**Chart 1.2** shows that during 2023-24, there was decline in two sectors contributing to GSDP viz. secondary sector and tertiary sector though there was notable increase in primary sector. However, specific reasons for decrease/increase in sectoral growth were not furnished to Audit.

## 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.

The Principal 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 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 available 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 (14<sup>th</sup> FC), Fifteenth Finance Commission (15<sup>th</sup> FC), State Fiscal Responsibility and Budget Management (FRBM) Act, 2003 and best practices and guidelines of the Government of India (GoI).

The audit analysis/findings of the Report were discussed in a meeting held (December 2024) with the Principal Secretary, Department of Finance, Government of Punjab. The replies received as per discussion in the meeting have been suitably incorporated in the Report.

### **1.3 Overview of Government Accounting 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 functional major head concerned relating to the Consolidated Fund of the State.

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

Apart from the 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 repayable 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).

**Capital receipts** consist of:

- **Public 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 (PSUs).

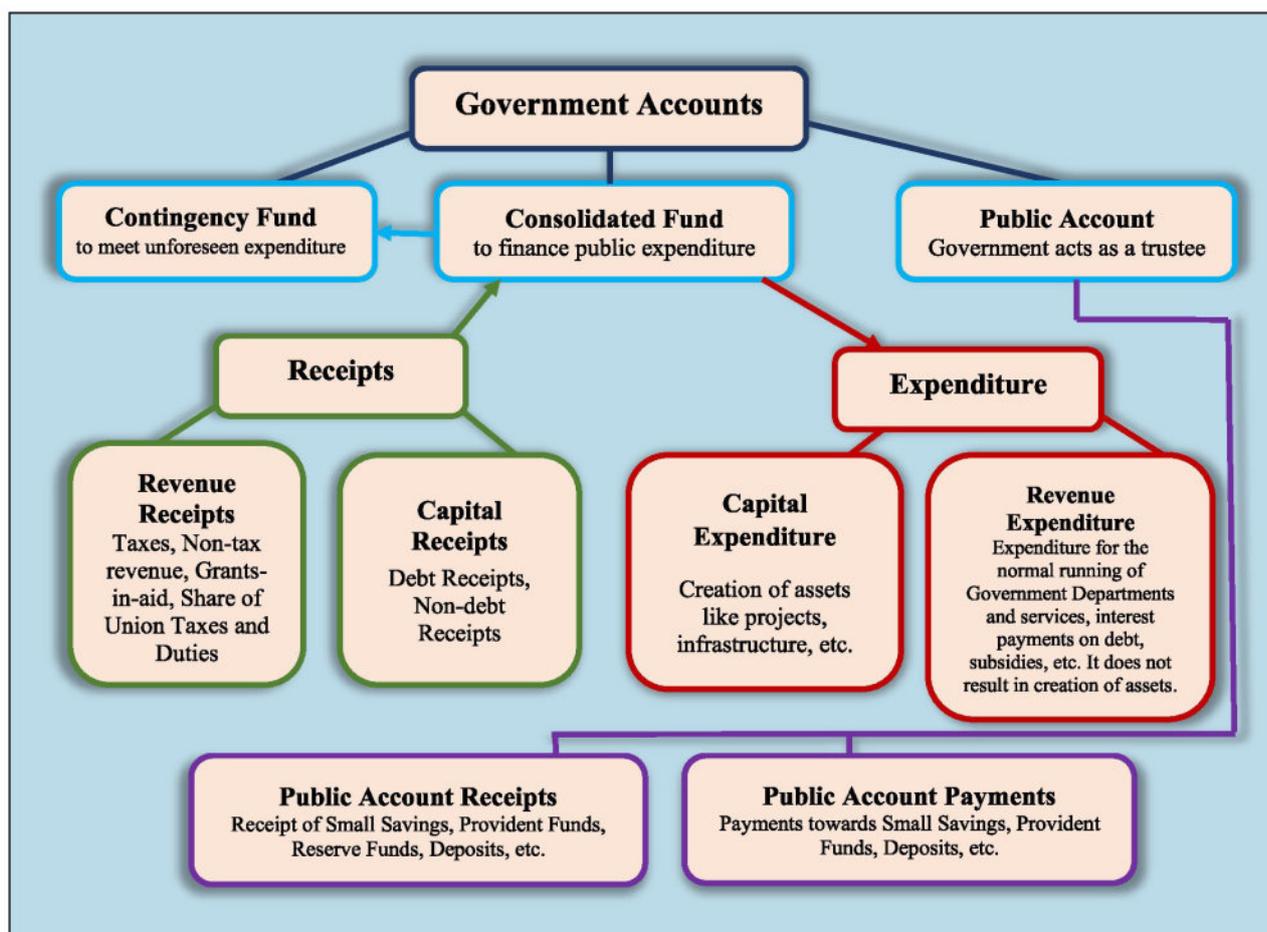
At present, there is an accounting classification system in Government that is both functional and economic.

	Attribute of transaction	Classification
Standardised 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 one 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

**Public Debt and Public Liability:** In this Report, 'Public Debt' has been taken to comprise market borrowings, institutional loans, special securities issued to National Small Savings Fund (NSSF), loans given by Central Government etc. For this purpose, the major heads 6003 and 6004 - Public Debt have been taken into consideration.

Further, the transactions relating to 'Small Savings, Provident Fund, etc.', 'Reserve Funds' and 'Deposit and Advances' under Public Account are such that the Government incurs a liability to repay the moneys received or has a claim to recover the amounts paid. The transactions relating to 'Remittances' and 'Suspense' under Public Account, include merely adjusting heads such as transactions as remittances of cash between treasuries and currency chests and transfer between different accounting circles.

In this Report, 'Public Liability' has been taken to include the transactions under major heads 8001 to 8554 relating to 'Small Savings, Provident Fund, etc.', 'Reserve Funds' and 'Deposit and Advances' along with the transactions under major heads 6003 and 6004.

## Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of a 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 the budget and implementation of other budgetary initiatives of the State Government are detailed in Chapter-III of this Report.

### 1.3.1 Snapshot of Finances

Table 1.2 shows the details of actual financial results for the years 2022-23 and 2023-24. Comparison of results for the year 2023-24 is also shown *vis-à-vis* Budget Estimates (BE) and GSDP for the year 2023-24.

Table 1.2: Snapshot of Finances

(₹ in crore)						
Sr. No.	Components	2022-23 (Actuals)	2023-24 (BE)	2023-24 (Actuals)	Percentage of Actuals to BE	Percentage of Actuals to GSDP
1.	Tax Revenue	59,406.82	70,293.06	67,662.08	96.26	9.08
	Own Tax Revenue	42,243.17	51,835.49	47,252.16	91.16	6.34
	Share of Union taxes/duties	17,163.65	18,457.57	20,409.92	110.58	2.74
2.	Non-Tax Revenue	6,231.94	7,823.99	7,233.63	92.45	0.97
3.	Grants-in-aid and Contributions	21,976.84	20,735.08	14,296.36	68.95	1.92
<b>4.</b>	<b>Revenue Receipts (1+2+3)</b>	<b>87,615.60</b>	<b>98,852.13</b>	<b>89,192.07</b>	<b>90.23</b>	<b>11.97</b>
5.	Recovery of Loans and Advances	163.67	200.00	38.77	19.39	0.01
6.	Other Receipts	0.21	1,000.00	0.00	0.00	0.00
7.	Borrowings and other liabilities*	33,930.04	34,784.15	33,115.16	95.20	4.45
<b>8.</b>	<b>Net Capital Receipts (5+6+7)</b>	<b>34,093.92</b>	<b>35,984.15</b>	<b>33,153.93</b>	<b>92.13</b>	<b>4.45</b>
<b>9.</b>	<b>Total Receipts (4+8)</b>	<b>1,21,709.52</b>	<b>1,34,836.28</b>	<b>1,22,346.00</b>	<b>90.74</b>	<b>16.42</b>
<b>10.</b>	<b>Revenue Expenditure</b>	<b>1,13,660.63</b>	<b>1,23,440.91</b>	<b>1,17,407.37</b>	<b>95.11</b>	<b>15.76</b>
11.	Interest payments#	19,905.13	22,000.00	22,551.93	102.51	3.03
12.	Capital Expenditure	6,667.21	10,354.53	4,742.81	45.80	0.64
13.	Loans and advances	1,381.68	1,040.84	195.82	18.81	0.03
<b>14.</b>	<b>Total Expenditure (10+12+13)</b>	<b>1,21,709.52</b>	<b>1,34,836.28</b>	<b>1,22,346.00</b>	<b>90.74</b>	<b>16.42</b>
<b>15.</b>	<b>Revenue Deficit (4-10)</b>	<b>(-26,045.03)</b>	<b>(-24,588.78)</b>	<b>(-28,215.30)</b>	<b>114.75</b>	<b>(-3.79)</b>
<b>16.</b>	<b>Fiscal Deficit {(4+5+6)-14}</b>	<b>(-33,930.04)</b>	<b>(-34,784.15)</b>	<b>(-33,115.16)</b>	<b>95.20</b>	<b>(-4.45)</b>
<b>17.</b>	<b>Primary Deficit(-)/ Surplus(+) (16-11)</b>	<b>(-14,024.91)</b>	<b>(-12,784.15)</b>	<b>(-10,563.23)</b>	<b>82.63</b>	<b>(-1.42)</b>

Source: Finance Accounts and Annual Financial Statement.

\* 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.

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

During the year 2023-24, though the revenue receipts of the State increased by 1.80 per cent over the previous year, these fell short by 9.77 per cent of the budget estimates. During the current year, there was excess of revenue expenditure (₹ 1,17,407 crore) over revenue receipts (₹ 89,192 crore), thereby resulting in revenue deficit of ₹ 28,215 crore.

Goods and Services Tax (GST) compensation is the revenue of the State Government under GST (Compensation to States) Act, 2017. During the current year, GoP received ₹ 3,671 crore as GST compensation.

### 1.3.2 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 2024, compared with the corresponding position of the 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 of 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					
	2022-23	2023-24	Per cent increase/decrease		2022-23	2023-24	Per cent increase/decrease		
<b>Consolidated Fund</b>									
A	Internal Debt	2,50,971.66	2,80,965.94	11.95	a	Gross Capital Expenditure	85,134.74	89,877.55	5.57
B	Loans and Advances from GoI*	25,487.39	25,075.35	(-1.62)	b	Loans and Advances	38,887.68	39,044.72	0.40
<b>Contingency Fund</b>		<b>25.00</b>	<b>25.00</b>	<b>0.00</b>					
<b>Public Account</b>									
A	Small Savings, Provident Funds, etc.	22,404.33	23,005.28	2.68	a	Advances with Departmental officers	0.42	0.42	0.00
B	Deposits	4,913.27	5,072.27	3.24	b	Remittances	44.26	23.99	(-45.80)
C	Reserve Funds	16,795.71	20,682.91	23.14	c	Suspense and Miscellaneous	0.66	0.66	0.00
D	Remittances	0	0	0.00		<b>Cash balance (including investment in Earmarked Funds)^</b>	<b>9,009.46</b>	<b>10,158.43</b>	<b>12.75</b>
E	Suspense and Miscellaneous	327.36	341.86	4.43		<b>Total</b>	<b>1,33,077.22</b>	<b>1,39,105.77</b>	<b>4.53</b>
						<b>Difference on account of rounding-off</b>	<b>0.04</b>	<b>0.08</b>	
						<b>Deficit in Revenue Account</b>	<b>1,87,847.46</b>	<b>2,16,062.76</b>	<b>15.02</b>
<b>Total</b>		<b>3,20,924.72</b>	<b>3,55,168.61</b>	<b>10.67</b>	<b>Total</b>		<b>3,20,924.72</b>	<b>3,55,168.61</b>	<b>10.67</b>

Source: Finance Accounts

\* Includes back-to-back loans of ₹ 20,491.41 crore (₹ 8,359 crore and ₹ 12,132.41 crore received from the GoI during 2020-21 and 2021-22 respectively), in lieu of GST Compensation shortfall, which are not to be repaid by the State Government from its resources.

^ Includes ₹ 6,351.61 crore and ₹ 8,616.66 crore on account of investment from Consolidated Sinking Fund during 2022-23 and 2023-24 respectively.

#### **1.4 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 borrowings, 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 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 the 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 levels, establishing improved debt management and improving transparency in a medium-term framework. In this context, the Act provides quantitative targets to be adhered to 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 (14<sup>th</sup> 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 14<sup>th</sup> 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 14<sup>th</sup> 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 (15<sup>th</sup> FC) recommendations, 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 various reforms<sup>1</sup>.

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 GoI for the year 2021-22, by December 2021.

<sup>1</sup> (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 totaling to one *per cent*.

The State Government further amended its FRBM Act in July 2022. In accordance with the Net Borrowing Ceiling (NBC) of the State fixed (March 2022) by the Ministry of Finance, Department of Expenditure, GoI:

- the statutory flexible limit on fiscal deficit for the year 2022-23 was fixed at 3.50 *per cent* of GSDP;
- an additional amount equivalent to the employer's and employee's share of contribution of its employees pertaining to the financial year 2022-23 actually deposited with the designated authority i.e. the National Securities Depository Limited (NSDL)/trustee bank as per the guidelines of the National Pension System (NPS);
- an additional amount equivalent to carried forward unutilised borrowing out of the Borrowing Ceiling allowed for the previous years; and
- an additional amount equivalent to interest free loan availed under the "Scheme for Special Assistance to States for Capital Investment for 2022-23", in the financial year 2022-23, and maintain thereafter at three *per cent* or as allowed by the Government of India from time to time.

Further, in accordance with NBC<sup>2</sup> of the State fixed (March 2023) by the Ministry of Finance, Department of Expenditure, GoI:

- the statutory flexible limit on fiscal deficit for the year 2023-24 was fixed at three *per cent* of GSDP;
- an additional amount equivalent to the employer's and employee's share of contribution of its employees pertaining to the financial year 2023-24 actually deposited with the designated authority i.e. the National Securities Depository Limited (NSDL)/trustee bank as per the guidelines of the National Pension System (NPS); and
- an additional amount equivalent to carried forward unutilised borrowing out of the Borrowing Ceiling allowed for the previous years.

Accordingly, the statutory ceiling for the Government of Punjab for the year 2023-24 worked out to ₹ 34,248 crore, as detailed below:

- (i) ₹ 22,347 crore (three *per cent* of GSDP of ₹ 7,44,899 crore<sup>3</sup>);
- (ii) additional ceiling of ₹ 3,161 crore equivalent to the employer's and employee's share of contribution of its employees pertaining to the financial year 2023-24 actually deposited with the designated

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<sup>2</sup> The State Government did not opt for availing additional borrowing ceiling 0.50 *per cent* of GSDP for the participating States on certain performance criteria in the power sector.

<sup>3</sup> As per the methodology prescribed by 15<sup>th</sup> FC, GoI fixed the projected GSDP (₹ 6,87,604 crore) for the year 2023-24. However, GSDP for the year 2023-24 was revised to ₹ 7,44,899 crore as on 1 August 2024, as per Ministry of Statistics and Programme Implementation (MoSPI), GoI.

authority i.e. the National Securities Depository Limited (NSDL)/trustee bank; and

- (iii) additional ceiling of ₹ 8,740 crore<sup>4</sup> on account of carry forward of unutilised borrowing out of the borrowing ceiling allowed for the year 2022-23.

Further, the Fiscal Consolidation Roadmap (FCR) under FRBM Act for the period 2015-2020 was prepared and implemented from the year 2017-18. The targets under FCR for the years 2020-21 to 2023-24 have been taken from the Annual Financial Statement (AFS) for the respective years. Compliance with the targets fixed in FCR during the period 2019-20 to 2023-24 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				
		2019-20	2020-21	2021-22	2022-23	2023-24
Revenue Deficit (-) / Surplus (+) (₹ in crore)	T	(-11,687)	(-7,712)	(-8,622)	(-12,554)	(-24,589)
	A	(-14,285) X	(-17,296) X	(-18,468) X	(-26,045) X	(-28,215) X
Fiscal Deficit (-) / Surplus (+) (₹ in crore)	T	(-17,039) (3.17)	(-21,634) (4.00)	(-25,109) (4.00)	(-41,589) (6.10)	(-34,248) (4.60)
	A	(-16,826) (3.13) ✓	(-22,584) (4.18) X	(-27,847) (4.44) X	(-33,930) (4.98) ✓	(-33,115) (4.45) ✓
Ratio of total outstanding liability to GSDP (in per cent)	T	39.74	38.53	45.05	45.23	46.81
	A*	42.71 X	46.16 X	41.62 ✓	43.12 ✓	43.72 ✓

Source: Annual Financial Statements and Finance Accounts for the years 2019-20 to 2023-24.

T: Target; A: Achievement

\* During the years 2020-21 and 2021-2024, it excludes back-to-back loans of ₹ 8,359 crore 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 15<sup>th</sup> FC and those projected in the State budget vis-à-vis achievements in respect of major fiscal aggregates with reference to GSDP during 2023-24 are given in Table 1.4(b).

<sup>4</sup> Allowed NBC of ₹ 41,588 crore minus utilised ceiling of ₹ 32,848 crore during 2022-23.

**Table 1.4(b): Targets vis-à-vis achievements in respect of major fiscal aggregates for the year 2023-24**

Fiscal Variables	Targets as prescribed by 15 <sup>th</sup> FC	Targets in the Budget	Actuals*	Percentage variation of actuals over	
				Targets of 15 <sup>th</sup> FC	Targets in Budget
Revenue Deficit/GSDP (per cent)	0.00 <sup>#</sup>	(-)3.52	(-)3.79	3.79	0.27
Fiscal Deficit/GSDP (per cent)	(-)3.00	(-)4.98	(-)4.45	1.45	(-)0.53
Total outstanding liability/GSDP (per cent)	44.90	46.81 <sup>§</sup>	43.72 <sup>§</sup>	(-)1.18	(-)3.09

Source: Recommendations of 15<sup>th</sup> FC (indicative deficit and debt path for award period 2021-2026), Annual Financial Statement and Finance Accounts

Note: Deficit figures have been shown in minus.

# Taking into account post-devolution revenue deficit grant of ₹ 5,618 crore received by the State during the year 2023-24 as per recommendation of 15<sup>th</sup> FC.

\* Calculated on the basis of GSDP figures of ₹ 7,44,899 crore published (as on 01.08.2024) by Ministry of Statistics and Programme Implementation, GoI.

§ Excluding back-to-back loans of ₹ 20,491.41 crore received from GoI in lieu of GST Compensation shortfall during 2020-21 (₹ 8,359 crore) and 2021-22 (₹ 12,132.41 crore).

During the year 2023-24, the Government was unable to contain the revenue deficit-GSDP and fiscal deficit-GSDP ratios within the levels fixed by 15<sup>th</sup> FC and revenue deficit-GSDP projected in the budget estimates. In addition to the liabilities shown in the accounts, the State Government also had off-budget liabilities of ₹ 4,092.78 crore as discussed in **Paragraph 2.8(A)**. If these off-budget liabilities were also taken into account, the actual total outstanding liability to GSDP ratio would have been 44.27 per cent instead of 43.72 per cent.

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 2023-24**

(₹ in crore)				
Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals (2023-24)	Variation (in per cent)
1.	Own Tax Revenue	51,835	47,252	(-)8.84
2.	Non-Tax Revenue	7,824	7,234	(-)7.54
3.	Share of Central Taxes and Duties	18,458	20,410	10.58
4.	Grants-in-aid from GoI*	20,735	14,296	(-)31.05
5.	<b>Revenue Receipts (1+2+3+4)</b>	<b>98,852</b>	<b>89,192</b>	<b>(-)9.77</b>
6.	<b>Revenue Expenditure</b>	<b>1,23,441</b>	<b>1,17,407</b>	<b>(-)4.89</b>
7.	<b>Revenue Deficit (-)/ Surplus (+) (5-6)</b>	<b>(-)24,589</b>	<b>(-)28,215</b>	<b>14.75</b>
8.	<b>Fiscal Deficit (-)/ Surplus (+)</b>	<b>(-)34,784</b>	<b>(-)33,115</b>	<b>(-)4.80</b>
9.	<b>Fiscal Deficit-GSDP ratio (per cent)</b>	<b>4.98</b>	<b>4.45</b>	<b>(-)0.53</b>
10.	<b>Debt-GSDP ratio (per cent)<sup>#</sup></b>	<b>46.81</b>	<b>43.72</b>	<b>(-)3.09</b>
11.	<b>GSDP growth rate at current prices (per cent)</b>	<b>9.50</b>	<b>9.34</b>	<b>(-)0.16</b>

Source: Finance Accounts and Annual Financial Statements

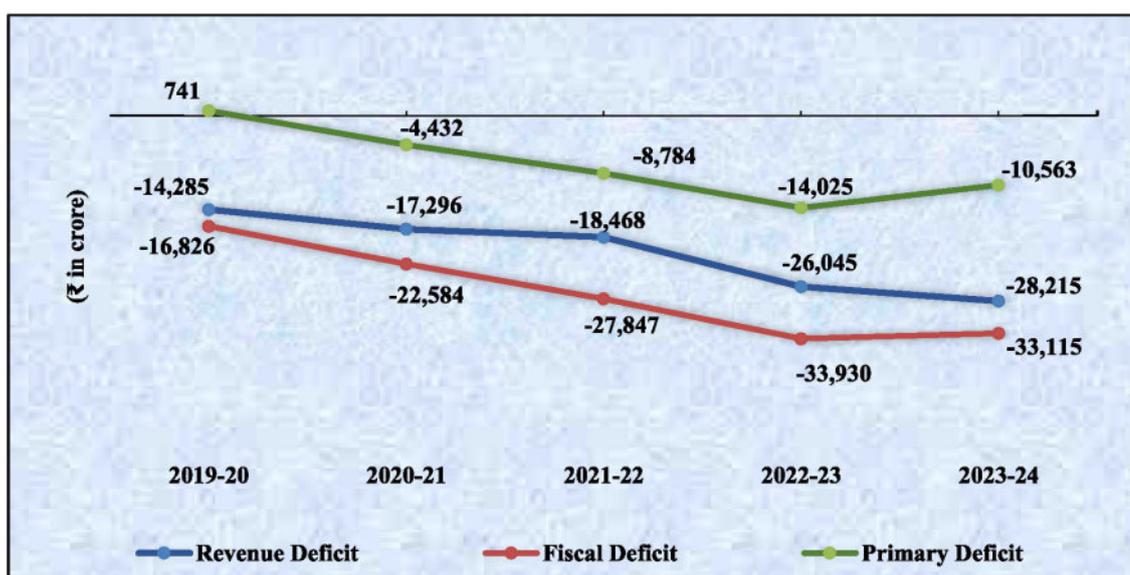
\* Includes post devolution revenue deficit grant of ₹ 5,618 crore recommended by 15<sup>th</sup> FC for the year 2023-24.

# 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 2023-24, the Government was unable to contain the revenue deficit within the level projected in the MTFP due to shortfall ranging between 7.54 per cent and 31.05 per cent in all the components of revenue receipts except in Share of Central Taxes and Duties which registered increase of 10.58 per cent. However, the fiscal deficit and the fiscal deficit-GSDP ratio remained within target.

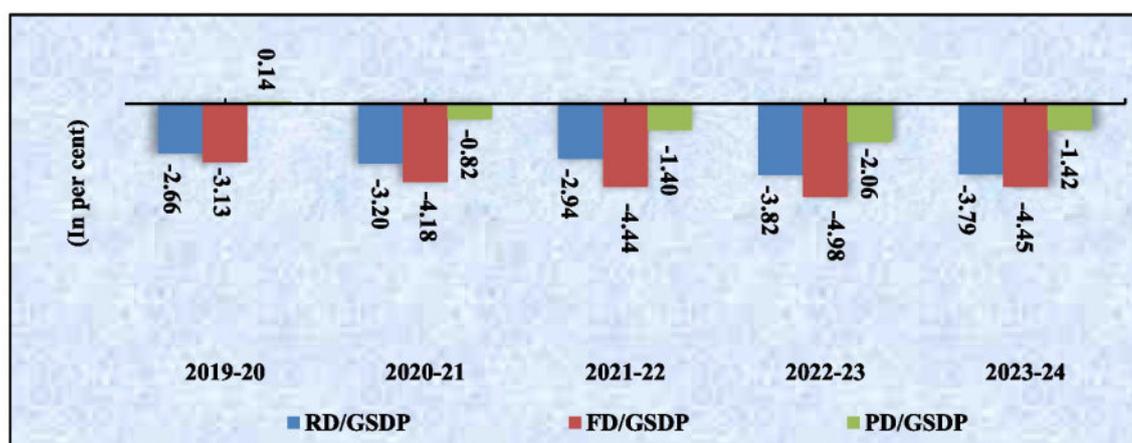
**Chart 1.4** and **Chart 1.5** present the trends in deficit parameters and trends relative to GSDP respectively over the period 2019-2024.

**Chart 1.4: Trends in deficit parameters**



Source: Finance Accounts

**Chart 1.5: Trends in Deficit/Surplus relative to GSDP**



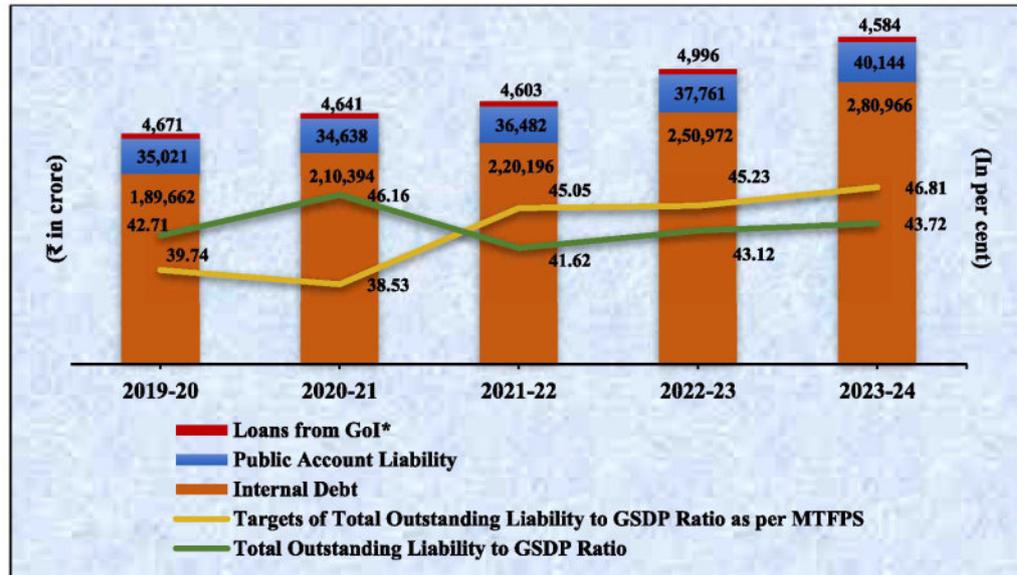
Source: Finance Accounts

**Revenue deficit** which indicates excess of revenue expenditure over revenue receipts increased to ₹ 28,215 crore (3.79 per cent of GSDP) in 2023-24 from ₹ 14,285 crore (2.66 per cent of GSDP) in 2019-20. However, as percentage to GSDP, it decreased in 2023-24 (3.79 per cent) as compared to the previous year (3.82 per cent).

**Fiscal deficit**, which represents total borrowings of the State i.e. its total resource gap, increased substantially to ₹ 33,115 crore (4.45 per cent of GSDP) in 2023-24 from ₹ 16,826 crore (3.13 per cent of GSDP) in 2019-20. However, as percentage of GSDP, it decreased from 4.98 per cent in 2022-23 to 4.45 per cent in 2023-24.

Trend in components of fiscal liabilities during the past five years is shown in **Chart 1.6**.

**Chart 1.6: Trends in Fiscal Liabilities and GSDP**



Source: Finance Accounts and Ministry of Statistics and Programme Implementation (MoSPI), GoI.

\* During the years 2020-21 and 2021-24, it excludes back-to-back loans of ₹ 8,359 crore 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).

**Chart 1.6** shows that fiscal liabilities had been on rise as it increased by 42 per cent from ₹ 2,29,354 crore in 2019-20 to ₹ 3,25,694 crore in 2023-24. The ratio of total outstanding liability to GSDP could not be contained within the FRBM targets during the period 2019-2021 though it remained within the targets during the period 2021-24.

**Primary deficit**, which indicates the excess of primary expenditure (total expenditure net of interest payments) over non-debt receipts, ranged between 0.82 per cent and 2.06 per cent of GSDP during the period 2019-24 except for the year 2019-20, when there was primary surplus of ₹ 741 crore (0.14 per cent of GSDP).

#### 1.4.1 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.

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 ₹ 31,964 crore during the financial year 2023-24. Further, if off-budget borrowings of ₹ 2,138 crore resorted to by the State Government during 2023-24 were also taken into account, the actual borrowings during the year would have been ₹ 34,102 crore, which were within the borrowing ceiling of ₹ 34,248 crore<sup>5</sup>.

### 1.5 Deficits post examination by Audit

As per the FRBM Act, the State Government must ensure compliance to the targets fixed for the fiscal indicators such as deficits, ceiling on debt and on guarantees, etc. The revenue deficit and the fiscal deficit as worked out for the State gets impacted due to various circumstances such as misclassification of revenue expenditure as capital and off-budget fiscal operations. 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 effect of misclassification of revenue expenditure/capital outlay and/or any such misclassification needs to be included and 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 transfer to National Pension System (NPS)	(+)10.18	(+)10.18	2.4.1.2 (i)
Non-transfer of guaranteed fee to Guarantee Redemption Fund	(+)57.37	(+)57.37	2.5.2.3
Non-deposit of State levies in the Consolidated Fund of the State	(-)406.98	(-)406.98	2.6
Non-transfer of Labour Cess to the Punjab Building and Other Construction Workers Welfare Board	(+)10.02	(+)10.02	2.6.5
Non-discharge of liability in respect of interest towards interest bearing Deposits/Reserve Funds	(+)42.12	(+)42.12	4.1
<b>Total</b>	<b>(-)287.29</b>	<b>(-)287.29</b>	

Source: Finance Accounts

During 2023-24, the revenue deficit and fiscal deficit was ₹ 28,215 crore (3.79 per cent of GSDP) and ₹ 33,115 crore (4.45 per cent of GSDP) respectively, as shown in **Charts 1.4** and **1.5**. If the above transactions were

<sup>5</sup> Worked out on the parameters of NBC of the State fixed (March 2023) by the Ministry of Finance, Department of Expenditure, GoI, as detailed in the preceding paragraph.

taken into account, the actual revenue deficit and fiscal deficit would work out to ₹ 27,928 crore (3.75 per cent of GSDP) and ₹ 32,828 crore (4.41 per cent of GSDP) respectively and the actual revenue deficit would have exceeded the MTFP targets by ₹ 3,339 crore (13.58 per cent) and fiscal deficit would have been lesser by ₹ 1,956 crore (5.62 per cent). This also resulted in overstatement of the revenue deficit by 1.02 per cent and fiscal deficit by 0.87 per cent.

### 1.6 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 2024**

(₹ in crore)	
Borrowings and other liabilities as per Finance Accounts	Amount
<b>Internal Debt (A)</b>	<b>2,80,965.94</b>
Market Loans bearing interest	2,32,555.58
Market Loans not bearing interest	0.02
Compensation and other Bonds	10,363.12
Ways and Means Advances/Special Drawing Facility	3,580.43
Loans from other Institutions, etc.	25,135.25
Special Securities issued to the National Small Savings Fund of the Central Government	9,331.54
<b>Loans and Advances from Central Government (B)</b>	<b>25,075.35</b>
Non-plan Loans	7.08
Loans for State Plan Schemes	130.76
Others*	24,937.51
<b>Liabilities upon Public Accounts (C)</b>	<b>40,143.78</b>
Small Savings, Provident Funds, etc.	23,005.27
Deposits	5,072.27
Reserve Funds^	12,066.24
<b>Total (A+B+C)</b>	<b>3,46,185.07</b>

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.

^ Excludes ₹ 8,616.67 crore on account of investment of Consolidated Sinking Fund.

At the end of the year 2023-24, the overall outstanding debt/liabilities of the State were understated by ₹ 4,409.99 crore by not accounting for the Suspense and Miscellaneous: ₹ 341.20 crore (credit balance), Remittances: ₹ 23.99 crore (debit balance) and off-budget liabilities: ₹ 4,092.78 crore (credit balance) thereby understating the same with respect to GSDP by 0.59 per cent. Liabilities to GSDP were more at 44.31 per cent<sup>6</sup> against the normative assessment of 46.81 per cent under MTFP statement during the current year.

<sup>6</sup> Excluding back-to-back loans of ₹ 20,491.41 crore received from GoI during 2020-2022 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).