FISCAL CRISIS: A CASE STUDY OF GOVERNMENT OF PUNJAB

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Abstract

Punjab has remained one of the fastest-growing and richest states of India in the past. It was at the heart of the green revolution which, starting in the mid-1960s, ended Indian starvation and heavy dependence on food aid. However, since the 1980s, the state has lost its economic leadership among states, and steadily slipped behind other states. Present study is an attempt to analyse the economic performance of Punjab This report covers a whole range of issues pertaining to Punjab State finance: the revenue receipts and expenditures, gross fiscal receipts and expenditures, gross fiscal deficit, revenue deficit debt and liquidity position in form of WMA and overdrafts availed. It finds that since 1990s Punjab's GDP growth has been lower than the national average. In terms of per capita income, the growth rate of Punjab, initially one of the top-ranked states in terms of per capita income level, has been below the national average in the last two decades. It is slipping down in rank below other faster-growing states. A major weakness has been a high fiscal deficit. State's liquidity situation became worrisome in 2011-12 and it is now using RBI's advances facility almost every day. Once considered as the richest state of India, it is caught in a chronic liquidity crisis as it is emerging as one of the largest borrowers of the Reserve Bank of India's temporary lending facility.

Objectives of the study:

1. To comment on overall economic position of State of Punjab.
2. To critically analyse the financial health of the State of Punjab.

Data Sources: Data related to annual economic growth and per capita net state domestic product growth of Punjab Vs India was taken from Planning Commission of India. Data on the outstanding state wise loans has been obtained from the Ministry of Finance, Government of

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India. This is supplemented by information received from the respective state governments and GSDP estimates used in the budget documents of the state governments like supplementary information regarding State-wise expenditure on ‘wages and salaries’ , ‘pensions’ ‘interest’ and data on major fiscal indicators like Gross Fiscal receipts and expenditure and Revenue receipts and expenditure was sourced from budget documents of Punjab State Government. Besides, several items of data including availment of ways and means advances (WMA)/overdraft (OD) have been taken from the Reserve Bank records. The state wise Gross State Domestic Product (GSDP) is at factor cost (current prices) and have been sourced from the Central Statistics Office (CSO). World Bank ranking and borrowing cost information has been gained from DIPP.

Facts about State of Punjab:

➢ Location: Punjab is one of the northernmost states of India. It is bordered by the Pakistani province of Punjab to its west, Jammu & Kashmir in the north, Himachal Pradesh in the northeast, Haryana in the south and southeast, and Rajasthan in the southwest.

➢ Demographic Factsheet:

▪ Population of the Punjab is 2.77 crore persons (as on March 1, 2011), with decadal growth of 13.7% (2001-2011) which is well below the national level decadal growth rate of 17.6%.

▪ Population density of Punjab state is 550 persons per square kilometre which is considerably higher than the national average of 382 persons per square kilometre.

▪ It has birth rate of 16.6 per thousand.

▪ It has death rate of 7.0 per thousand.

➢ Urbanisation –State of Punjab is amongst the top 10 most urbanised states in country. 37.5% of population of Punjab stays in urban areas.

➢ Literacy–76.7% (as per Census 2011); with male literacy at 81.5% and female literacy at 71.3%

➢ Gender ratio-893 females per thousand males(Census 2011)

➢ Agriculture: The confluence of five rivers makes Punjab’s agricultural land rich and productive. Approximately 82 per cent of the state’s land is under cultivation compared with the national average of 40 per cent.Punjab's fertile and productive soil has accorded it the status of 'Granary of India' and the 'Bread basket of India'. Occupying only 1.5 per cent of India's geographical area, the state accounts for about 17 per cent of the country's wheat production and 11 per cent of rice production(2013 data). This makes it suitable for agro-based industries, dairy farming and products, and other food processing industries. During FY 2014-15, Punjab accounted for 60 per cent share of wheat and about 35 per cent share of rice procured by the Indian government for food security.Agriculture sector is the largest contributor to the gross state domestic product (GSDP) of Punjab. According to 2013-14 data, the contribution of agriculture and allied industries in GSDP at factor cost is 28.13%.

- Infrastructure:Punjab has been ranked first in India in terms of infrastructure facilities offered. Punjab's road, rail and air transport network, connectivity, construction of bridges and infrastructure facilities are rated among the best. As of January 2016, Punjab had a total installed power generation capacity of 11,255.4 megawatt (MW).

- Investment Climate: Punjab has easiest procedures to set up a business, according to a study by the World Bank and KPMG. Punjab had set up a Bureau of Investment Promotion (BIP) in December 2013 for one-stop clearance of investment roposals.BIP has powers to give approvals related to pollution control, excise and taxation, labour issues, factory licences, boiler registrations, town and country planning, land and power-related issues.Punjab has emerged as a key hub for textile-based industries including yarn, readymade garments and hosiery. With the development of apparel parks, favourable textile policy and other incentives for the creation of textile infrastructure, the state offers opportunities for investment. (PUNJAB State Report, 2015)

- Average Per Capita Income: In terms of average per capita income ranking of states over the 1980s, 1990s and 2000s, the top three states are Haryana, Punjab and Maharashtra. In terms of improving their relative ranking over the span of three decades, the top performers are Maharashtra, Gujarat, Kerala and Tamil Nadu. Interestingly, the rise in the ranks of these four states has been accompanied by the relative decline of one state, namely Punjab, which went from being the very top state in the 1980s and 1990s, to number 7 in 2010. (Ghatak & Roy, 2014)

Figure I: Income Per Capita State Rankings

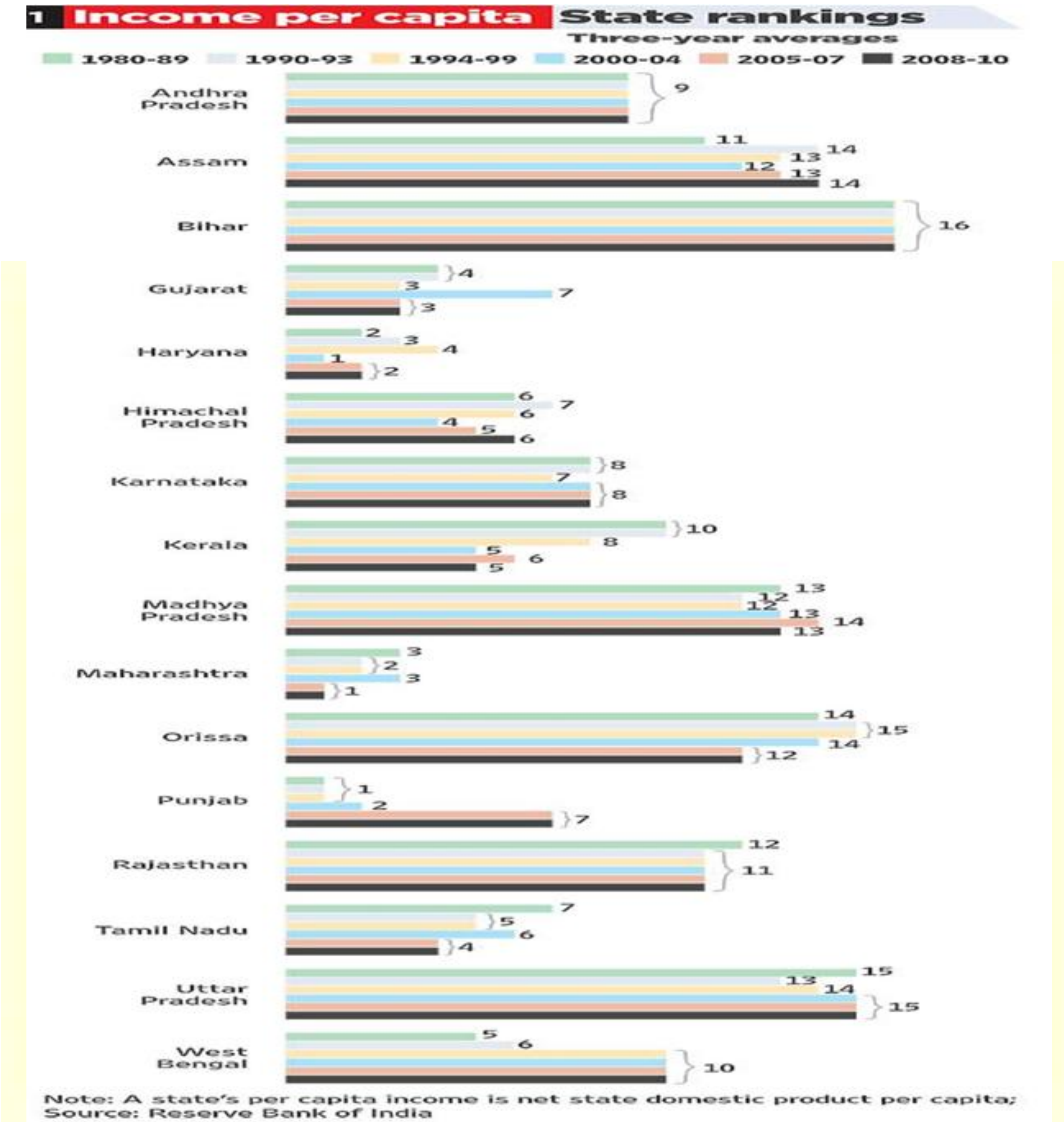

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Table 1. Rank of states in terms of per capita income, three-year averages

States	1980-89	1990-93	1994-99	2000-04	2005-07	2008-10
ANDHRA PRADESH	9	9	9	9	9	9
ASSAM	11	14	13	12	13	14
BIHAR	16	16	16	16	16	16
GUJARAT	4	4	3	7	3	3
HARYANA	2	3	4	1	2	2
HIMACHAL PRADESH	6	7	6	4	5	6
KARNATAKA	8	8	7	8	8	8
KERALA	10	10	8	5	6	5
MADHYA PRADESH	13	12	12	13	14	13
MAHARASHTRA	3	2	2	3	1	1
ORISSA	14	15	15	14	12	12
PUNJAB	1	1	1	2	7	7
RAJASTHAN	12	11	11	11	11	11
TAMIL NADU	7	5	5	6	4	4
UTTAR PRADESH	15	13	14	15	15	15
WEST BENGAL	5	6	10	10	10	10

Source: http://ideasforindia.in/Images/ArticleImg/modi%20table1.png

➢ Annual average growth rates of per capita income:

In Table 2, shows annual average growth rates of the major states for each of the past three decades. The highlighted boxes show states that are performing better than the national average in each decade. Only three states have had above average growth performance in all three decades – Gujarat, Tamil Nadu and Maharashtra. In the 2000s, the other top performers were Andhra Pradesh (AP), Bihar, Haryana and Kerala.

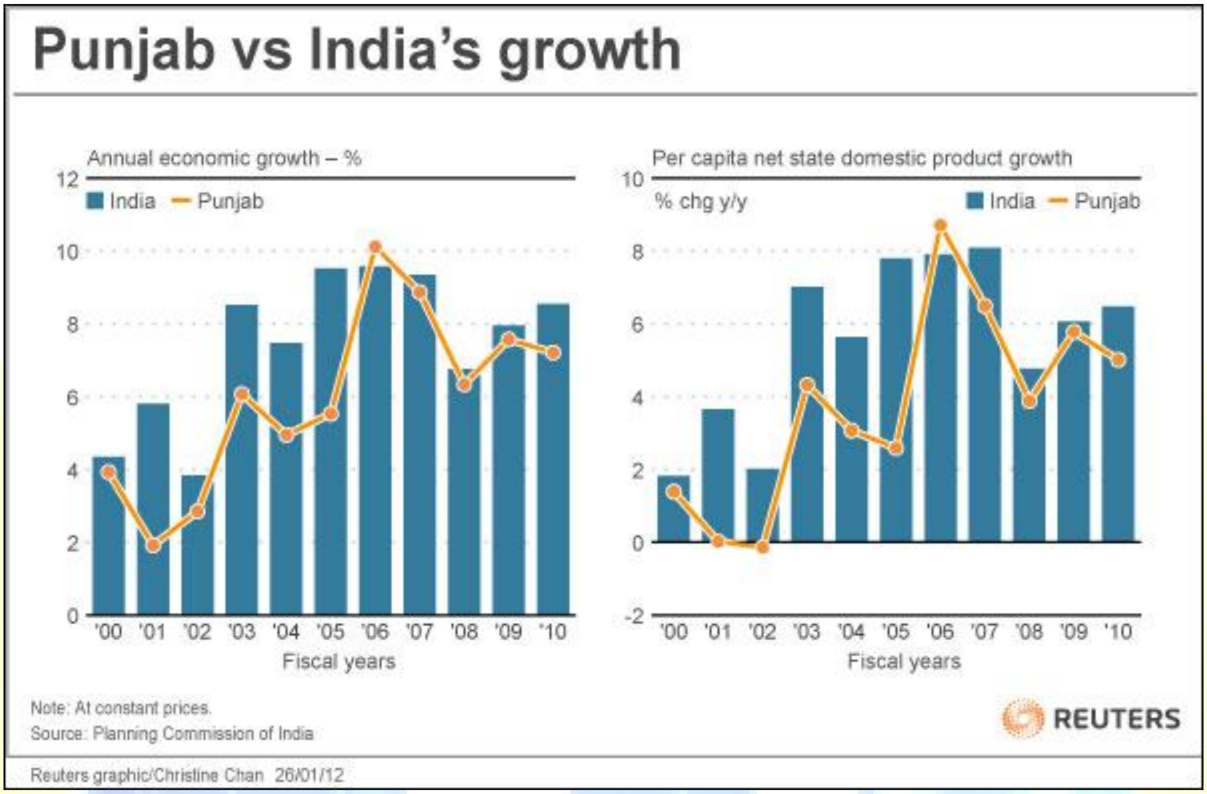
Table 2. Average annual growth rate of per capita income, by decade

States	1980-1989	1990-1999	2000-2010
ANDHRA PRADESH	4.5	3.6	6.8
ASSAM	1.9	0.6	3.4
BIHAR	2.4	1.0	6.9
GUJARAT	4.4	4.8	6.9
HARYANA	3.9	2.7	6.8
HIMACHAL PRADESH	3.3	3.8	5.4
KARNATAKA	3.5	5.1	4.8
KERALA	1.5	4.9	6.6
MADHYA PRADESH	1.4	2.9	3.4
MAHARASHTRA	3.9	4.5	6.7
ORISSA	3.3	1.0	5.7
PUNJAB	3.8	2.3	3.6
RAJASTHAN	4.8	4.0	4.6
TAMIL NADU	3.9	5.2	6.8
UTTAR PRADESH	2.5	1.0	3.3
WEST BENGAL	1.9	4.8	5.2
All INDIA	**3.2**	**3.7**	**5.6**

Source:http://ideasforindia.in/Images/ArticleImg/modi%20table1.png

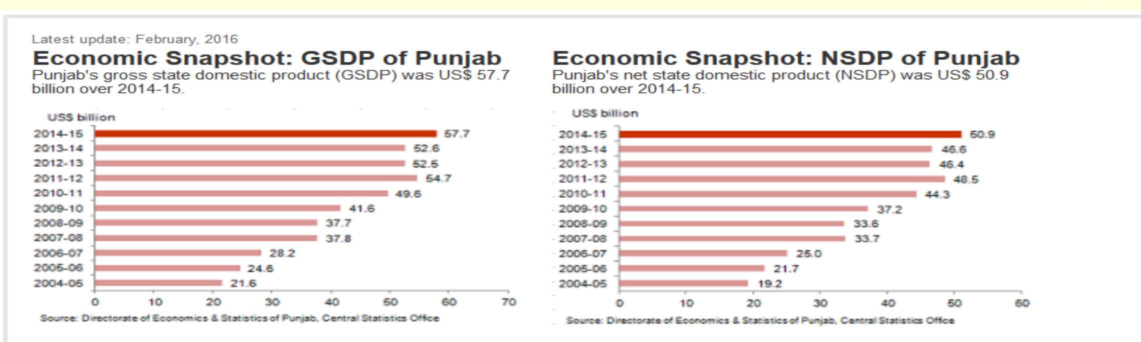
Interestingly, the growth rate of Punjab, initially one of the top ranked states in terms of per capita income level, has been below the national average in the last two decades. Thus, it is not surprising that Punjab is slipping down in rank below other faster-growing states.

Figure 2



- Punjab's gross state domestic product (GSDP) was US$ 57.7 billion at current prices in 2014-15 as against US$ 21.6 billion in 2004-05. The average gross state domestic product (GSDP) growth rate for the state of Punjab was about 10.32 per cent between 2004-05 and 2014-15. Punjab's net state domestic product (NSDP) at current prices was US$ 50.9 billion in 2014-15 as against US$ 19.2 billion in 2004-05. Between 2004-05 and 2014-15, NSDP increased at a compound annual growth rate (CAGR) of 10.28 per cent. The average gross state domestic product (GSDP) growth rate for the state of Punjab was about 10.32 per cent between 2004-05 and 2014-15. (IBEF, 2016)

Figure 3 Industrial Development and Economic Growth in Punjab



Fiscal Health:

Punjab's total outstanding liabilities have more than doubled since FY09, and is the second highest among non-special states as a percentage of gross state domestic product at 31.4% (FY16 budget estimate).

Figure 4:Punjab State's Outstanding Liabilities

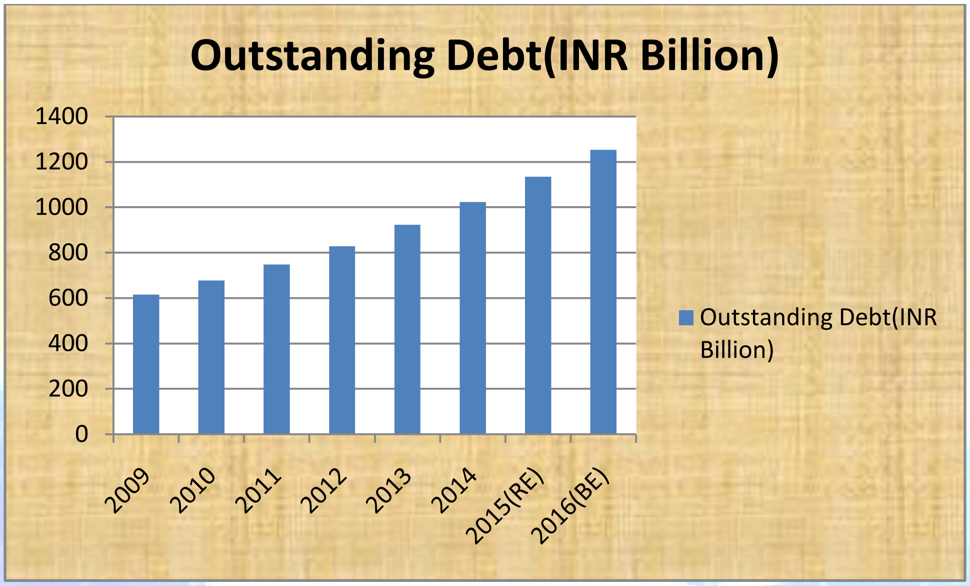


Table 3:Outstanding Liabilities of Government of Punjab

Year	Outstanding Debt(INR Billion)
2009	615.3
2010	677.8
2011	747.8
2012	828.6
2013	922.8
2014	1023
2015(RE)	1134.8
2016(BE)	1253.2

Table 4: Outstanding Liabilities as % of GSDP

Outstanding Liabilities (Public Debt) - State Govts. as % GSDP from 1997-98 to 2013-14

Sl. No.	STATES	9th Plan Period			10th Plan Period					11th Plan					12th Plan	
		1997-98	1998-99	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 (Pre Actual)	2012-13 (Pre. Actual)	2013-14 (BE)
1	Andhra Pradesh	24.34	24.62	31.04	33.53	39.66	42.68	43.05	32.62	22.61	21.93	22.65	20.86	20.28	20.04	20.60
2	Arunachal Prades	35.68	37.36	37.55	46.64	73.31	72.52	82.66	69.47	57.25	51.55	42.06	36.83	33.13	30.78	29.66
3	Assam	28.37	26.47	31.29	30.18	33.16	32.44	31.83	30.25	27.68	27.33	24.83	22.62	20.61	18.78	20.82
4	Bihar	70.06	69.45	59.20	58.88	60.45	58.63	59.57	50.06	39.12	34.34	32.38	27.93	24.89	22.63	22.90
5	Chhattisgarh	NA	NA	27.49	29.52	27.90	27.84	25.86	21.70	15.09	15.24	16.04	13.98	11.84	12.60	13.81
6	Delhi									16.04	13.39	12.20	11.92	9.97	8.40	6.90
7	Goa	31.86	31.87	52.78	43.25	41.77	38.47	38.65	38.31	25.94	22.13	20.87	28.45	24.14	27.14	24.71
8	Gujarat	22.39	23.81	38.78	38.98	37.07	37.72	36.59	34.62	26.87	28.72	27.62	27.42	26.59	26.34	23.85
9	Haryana	20.98	23.48	27.06	27.50	27.09	26.61	25.36	22.50	18.90	17.43	17.54	17.82	16.96	19.96	19.62
10	Himachal Pradesh	48.64	59.68	58.64	64.68	69.39	71.46	67.70	63.45	62.54	55.81	48.07	43.45	40.79	38.95	37.72
11	Jammu and Kashmi	55.77	56.32	53.35	51.80	66.36	65.43	69.44	67.77	39.91	40.73	53.24	53.85	535.68	51.88	50.40
12	Jharkhand	NA	NA	28.46	31.31	23.64	25.51	30.84	30.13	25.75	27.43	27.00	22.51	22.61	22.99	22.53
13	Karnataka	20.12	19.87	27.77	29.80	30.51	28.39	26.98	28.22	22.22	23.06	24.73	22.39	23.35	20.47	23.35
14	Kerala	29.24	30.84	37.90	39.49	40.49	39.63	38.13	36.08	31.64	31.20	30.59	29.83	29.04	28.96	28.52
15	Madhya Pradesh	29.93	31.72	30.02	34.41	36.92	41.74	42.23	39.63	37.71	32.52	31.45	29.80	27.19	24.20	23.44
16	Maharashtra	18.98	21.11	28.75	30.04	31.37	32.24	33.33	31.06	20.79	21.31	21.20	19.36	19.26	19.12	19.92
17	Manipur	48.19	54.65	55.51	53.91	63.76	73.66	85.20	77.46	66.75	65.87	66.86	67.75	58.48	53.38	49.13
18	Meghalaya	26.35	29.33	34.12	38.21	40.21	41.52	40.50	38.46	32.25	30.74	29.91	28.02	29.59	27.12	26.69
19	Mizoram	68.66	67.58	87.98	90.81	112.09	119.02	115.91	109.64	80.25	71.22	60.15	57.99	55.00	48.21	47.04
20	Nagaland	37.69	44.57	47.43	53.39	49.65	51.33	54.75	53.95	48.10	48.45	48.82	49.87	48.78	46.51	41.20
21	Orissa	42.30	45.76	60.23	62.09	55.48	51.60	51.91	45.17	33.77	30.01	24.92	21.36	19.79	16.79	16.93
22	Puducherry									31.60	27.92	27.10	30.86	31.86	29.89	26.45
23	Punjab	36.76	39.15	44.88	48.78	47.53	48.70	47.07	42.08	36.77	35.54	34.42	33.06	32.41	32.36	32.26
24	Rajasthan	30.02	32.98	45.37	53.68	47.59	51.13	51.49	46.41	39.59	36.38	34.43	29.34	26.41	25.65	25.60
25	Sikkim	38.24	52.73	81.78	77.51	70.63	71.79	70.44	69.10	62.31	57.36	37.25	32.78	28.66	26.34	24.80
26	Tamil Nadu	18.84	19.62	26.25	28.12	29.51	27.66	27.19	24.76	20.26	20.85	20.67	19.09	19.05	19.85	20.40
27	Tripura	35.26	39.98	44.22	48.69	53.73	58.49	57.07	44.81	40.22	37.33	37.51	36.17	32.71	32.17	29.73
28	Uttar Pradesh	38.11	40.37	50.36	50.82	54.66	54.76	55.60	53.67	38.42	35.31	33.43	32.76	30.70	29.21	25.66
29	Uttarakhand			31.71	33.96	40.48	42.68	45.90	42.41	28.43	25.78	24.08	23.59	22.23	21.80	23.28
30	West Bengal	25.70	27.87	42.25	46.62	47.27	46.48	49.89	46.93	44.23	42.43	42.04	40.65	39.31	37.50	35.34
	All States			37.28	39.35	40.39	40.60	40.77	37.30	28.75	27.77	27.17	25.44	28.59	23.69	23.30

Note: GSDP wherever not available estimated based on last 5 years Trend Growth Rate (TGR). Source: Fiscal Indicators of the States submitted alongwith Book of Estimates for Annual Plan 2014-15 & RBI- A Study of Budgets

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- Punjab figures among the most debt-stressed states after West Bengal, Kerala and Uttar Pradesh. The state's debt is expected to touch Rs 1,253.2 billion by the end of fiscal 2015-16.

- The outstanding debt is above 30 % of the GSDP

It appears that the liquidity problem has been so acute that the state from time to time has even used mortgaged assets namely Gandhi Vanita Ashram for widows in Jalandhar and the state jails at Bathinda, Amritsar and Goindwal to raise cash from banks.

Table 5. Details of the properties mortgaged to raise loans from Banks

STRAPPED FOR CASH

PROPERTIES	Loan raised (₹) cr	Banks to which property mortgaged
Gandhi Vanita Ashram, Jalandhar; **Old DC/SSP office**, Jalandhar; **Public Works Dept**, Patiala	350	Bank of Baroda
PUDA Enclave, Jagraon; **PUDA Enclave**, Budhlad; **Rajpura Colony**, Patiala	750	Canara Bank
Green Park Enclave, Ludhiana; **Jail site**, Jalandhar; **Mental hospital**, Amritsar	400	Punjab and Sind Bank
Old district courts, Ludhiana; **Canal Colony**, Ludhiana	500	Bank of India
Ranjit Avenue site	100	Andhra Bank

Source: The Economic Times

According to a report published in The Economic Times, (Nayak, Once India's richest state, Punjab now tops Raghuram Rajan's borrowers list, 2016) the debt situation is expected to worsen as the government proposes to take over Rs 15,632 crore debt from the Punjab State Power Corporation Limited under Ujwal Discom Assurance Yojana. Recently 30 banks led by the State Bank of India decided to freeze lending to Punjab following reports that stock of food grains worth Rs 20,000 crore against which banks had lent to state government agencies went missing from godowns in Punjab. The state has claimed to have procured these food grains after taking loans from these banks.

In fact, Punjab has suffered on two counts. Neither it got the grant-in-aid as a highly revenue deficit state nor will it get any relief on account of high percentage of outstanding debt from the 14th Finance Commission as per report" Debt to cross Rs 1.2 lakh cr by fiscal-end dated, March 19,2015,The Tribune.

Table 6:Composition of Outstanding Liabilities (Amount in ₹ billion)

Liabilities	Amount
SDLs	503.2
Power Bonds	1.6
Com pensation and other bonds	-
NSSF	213.8

WMA from RBI	5.9
Loans from banks and FIs	29.2
Loans from Centre	33.3
Provident Fund	165.3
Reserve Fund	35.9
Deposit and Advances	34.5
Contingency Fund	0.3
Total Outstanding Liabilities	1,023.0

Source : RBI press release April07,2016

Punjab has been borrowing money from market(SDL), besides taking loans against small savings and from other sources such as commercial banks and NABARD. The state had presented its case before the 14th Finance Commission, but it did not address the same as state's market borrowing and loan against small savings was high.

Market borrowings and bonds are to the tune of Rs 504.8 billions and loan against small savings stands at Rs213.8 billions. Loans from other sources are relatively small. In such a scenario, the commission did not touch this issue, it is learnt.

As a result, RBI had asked the banks to make provision for losses on food grain-related loans issued to the state.

Cost of borrowing:

Cost of borrowing i.e. the interest rate across states depends on there factors mainly:

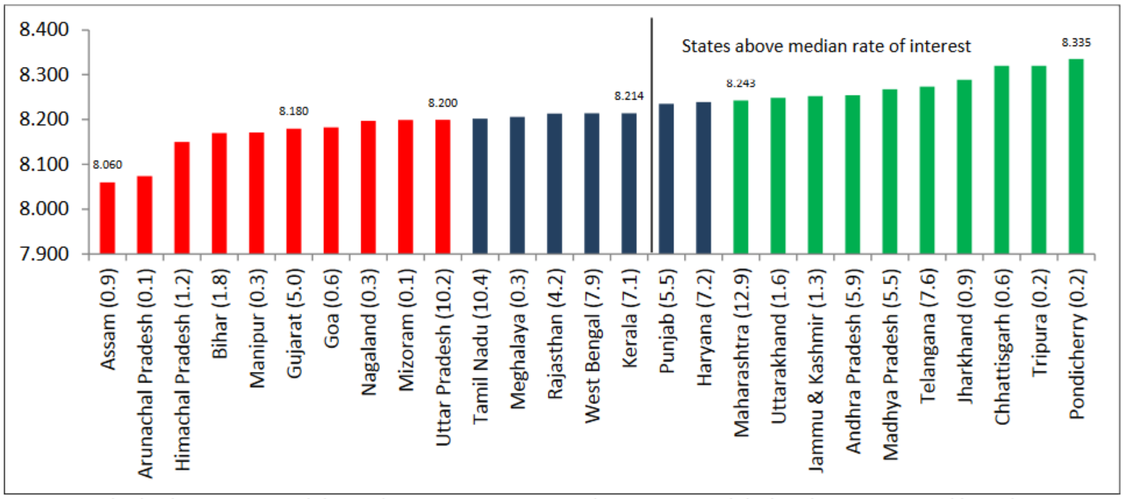
-Timing of the borrowing, which is linked to the interest rate regime in the market.

-Quantity borrowed would be aligned to investors' requirements, and,

-Risk Perception of the 'State' in the market

The chart below shows the average interest rates for various states.

Figure5. Interest Rates across States (from lowest to highest)(%)



*Source: RBI, *red indicates states with lowest borrowing rates, green indicates states with highest borrowing rates, blue indicates states with medium borrowing rates, ()indicate share in total borrowing*

Source: Care Ratings, November 5,2015

Punjab has 5.5% share in total borrowings and falls in the category of those states which have medium cost of borrowings. Assam had the lowest cost of borrowing at 8.06%, followed by Arunachal Pradesh and Himachal Pradesh at 8.074% and 8.15% respectively.

The table below presents the ranking of the state alongside the borrowing cost. The idea here is to see if a better ranked state also enjoys lower cost of borrowing. Here, only states with a share of more than 1% in the total borrowing are taken into consideration.

Table 7: World Bank Ranking & Borrowing Cost

	Share (%)	Rank	Score (%)	Borrowing cost (%)
Gujarat	4.99	1	71.14	8.180
Andhra Pradesh	5.92	2	70.12	8.254
Madhya Pradesh	5.55	5	62.00	8.268
Rajasthan	4.16	6	61.04	8.213
Maharashtra	12.94	8	49.43	8.243
Uttar Pradesh	10.17	10	47.37	8.200
West Bengal	7.86	11	46.90	8.214
Tamil Nadu	10.35	12	44.58	8.202
Telangana	7.58	13	42.45	8.273
Haryana	7.21	14	40.66	8.239
Punjab	5.45	16	36.73	8.235
Himachal Pradesh	1.25	17	23.95	8.150
Kerala	7.12	18	22.87	8.214
Bihar	1.85	21	16.41	8.170
Uttarakhand	1.62	23	13.36	8.249
Jammu & Kashmir	1.34	29	5.93	8.252

Source: DIPP, RBI

Maharashtra, Uttar Pradesh, West Bengal, Tamil Nadu, Telangana, Haryana & Punjab are the states where more needs to be done in order to improve the overall environment. With relatively high cost of borrowing, these states would experience pressures in terms of debt servicing. Adhering to the FRBM rules would pose as a challenge with increased borrowing costs.

Table 8. : Fiscal Indicators (Amount Rs. In Billion)

Year	Gross Fiscal Deficit(GFD) details			Revenue Deficit(RD)Details			Average monthly Deficit	
	Receipts	Expenditure	Deficit	Revenue receipts	Revenue expenditure	Revenue Deficit	Gross Fiscal	Revenue
2013-14	3510	4389	879	3510	4164	654	73.3	54.5
2014-15 (RE)	4274	5314	1040	4274	4898	624	86.7	52.0
2015-16 (BE)	4623	5812	1190	4623	5262	639	99.1	53.2

Note :

1. GFD Receipts includes revenue receipts and miscellaneous capital receipts.
2. GFD Expenditure includes revenue expenditure, capital outlay and loans and advances net of recoveries.

Source: Budget documents of the state governments.

Above table shows rising GFD year from year. On an average, the state spends almost Rs 50-Rs 60 billion per month extra than what it earns.

Table 9: Major Components of Revenue Expenditure (Rs. In Billion)

	2013-14	2014-15(RE)	2015-16(BE)
Revenue Expenditure	4164.1	4898.3	5262.3
Revenue receipts	3510.4	4274.2	4622.9
Interest	782.0	888.3	990.0

Salaries	177.6	205.2	217.3
Pension	627.7	677.0	718.2
Total of Salaries,Pension and Interest	1587.3	1770.2	1925.5
Interest as a % of Expenditure	23	21	21.4
Salareies,Pension and Interest as % of Revenue Receipts	45	41	42
Tax Revenue	2407.91	2856.05	2935.19

Routine expenditure

- The financial position of Punjab is so bad that it is not able to meet its routine expenditure and it is mostly depending upon borrowings and ways and means after exhausting all other resources.
- This has led to creation of a committed interest liability of Rs 9,90 billion in 2015-16.
- About 21% of the revenue receipts is spent on interest payments alone.
- The 12th Finance Commission had declared when the interest payments in proportion to revenue receipts are more than 20 %, the state should be considered as debt stressed.
- Growing debt, salary, pension and interest bill is a serious problem for the government to handle and it is a tough task lying ahead for the Finance Minister to deal with it given the low growth in revenue receipts. As per business estimate of 2015-16, 42% of revenue receipts will be spent on salaries, wages, pension and interest payments. However it is projected that over 80 per cent of State's total revenue receipts of Rs 4623 billion will be consumed by salary, wages, pension and interest payment on borrowings.(Source: Debt burden a big challenge for Punjab Finance Minister, March 14,2016, The Hindu)
- Significantly, the State is also unlikely to achieve its tax revenue collection target of Rs 29,35.1 billion for 2015-16, with State government blaming the low revenue mobilisation in the

wake of economic slowdown, lower VAT collection from fuel and lesser mobilisation from property registration. (PTI, 2016)

Ways and means advances (WMA):

According to the Report of the Advisory Committee on Ways and Means Advances to State Governments dated 29 Jan, 2016 the Reserve Bank of India (RBI) is the debt manager for 29 State Governments and the Union Territory of Puducherry as also the banker to the State Governments except Government of Sikkim, in terms of their agreement with RBI under Section 21 A of the Reserve Bank of India Act 1934. Under this Section, the Reserve Bank shall undertake all money, remittance, exchange and banking transactions in India, including in particular, the deposit, free of interest, of all its cash balances with the Bank; and the management of the public debt of, and the issue of any new loans by, that State. Towards this endeavour, the Reserve Bank makes advances to State Governments to tide over mismatches in the cash flows of their receipts and payments. Such advances are termed as Ways and Means Advances (WMA). Section 17(5) of RBI Act allows RBI to make WMA both to the Central and State Govt. Objective – to bridge the interval between expenditure and receipts. They have to be periodically adjusted to enable use of such financing for future mismatches. These are repayable in each case not later than three months from the date of making that advance. They are not a source of finance but are meant to provide support, for purely temporary difficulties that arise on account of mismatch/shortfall in revenue or other receipts for meeting the govt. liabilities. The Reserve Bank has been extending such advances to State Governments since 1937 under this provision. The maximum amount of WMA by the Reserve Bank and the interest charged thereon are regulated by agreements with the State Governments as also based on the recommendations of various Committees/ Groups constituted. WMA facility is intended to provide a cushion to the States to carry on their essential activities and normal financial operations. In addition to WMA, SDF (nomenclature changed from Special WMA in 2014) has also been in operation since April 1953. When the advances to the State Governments exceed their SDF and WMA limits, Overdraft (OD) facility is being provided.

There are two types of WMA – normal and special.

Special WMA are secured advances provided against the pledge of government of India dated securities. The operative limit for special WMA for a state is subject to its holdings of central government dated securities up to a maximum of limit sanctioned.

Normal WMA: are clean advances. After the exhaustion of the special WMA limit, the State Government is provided a normal WMA. The normal WMA limits are based on three-year average of actual revenue and capital expenditure of the state.

In addition, the RBI has determined limits for normal and special WMA for each state as multiples of the prescribed minimum balance required to be maintained with the RBI by that state. These limits have been revised periodically.

The rate of interest on WMA is linked to the Repo Rate. The interest will be charged for all the days of outstanding of SDF/WMA.

The minimum balance required to be maintained by Govt. on Fridays and at the close of the Govt.'s or RBI's financial year shouldn't be less than Rs.100 cr and on any other working day not less than Rs.10 cr. Further when 75% of WMA is utilised, the RBI may consider fresh flotation of market loans depending on the market conditions.
(Source:https://en.wikipedia.org/wiki/Ways_and_means_advances)

Overdrafts

The withdrawal above the WMA limit is considered an overdraft. These are temporary advances (overdrafts) extended by RBI to the govt. As per press release " RBI Revises the Ways and Means Advances (WMA) Scheme for the State Governments" dated Jan 29,2016 by RBI:

i. A State can be in overdraft for 14 consecutive working days. In case the overdraft continues in the State's account beyond 14 consecutive working days, the RBI and its agencies shall stop payments in respect of the concerned State Government.

ii. If the overdraft exceeds 100 percent of the WMA limit for five consecutive working days for the first time in a financial year, the RBI will advise the State to bring down the overdraft level within the 100 per cent of WMA limit. If, however, such irregularity occurs on a second or subsequent occasion in the financial year, the RBI will stop payments notwithstanding clause (i) above, which permits the State overdraft upto 14 consecutive working days.

iii. No State Government will be allowed to be in overdraft for more than 36 working days in a quarter. If this is not adhered to, payments will be stopped, irrespective of clauses (i) and (ii) above.

iv. The rate of interest on overdraft will be as under: (a) Overdraft up to 100 per cent of WMA limit - two per cent above the Repo rate, and (b) Overdraft exceeding 100 per cent of the WMA limit - five per cent above the Repo rate.

WMA and Overdraft position of Government of Punjab:

Table highlights that GoP has been the highest user of RBI's ways and means advances (WMA) to tide over temporary mismatches in the states cash flow. The liquidity situation has become worrisome since FY12. In FY17 (budget estimate), Punjab proposes to use INR195bn from WMA facility of RBI, up from INR170bn in FY16 (revised estimate) and INR192.68bn in FY15. (Source:Ind-Ra: Fiscal Woes in the State of Punjab, April 22, 2016 ,Business Standard)

Table 10 highlights that GoP has also been the highest utiliser of the RBI overdraft facility among non-special category states in India. Punjab is facing "economic disaster" as the government has been going for excessive overdraft from RBI almost every month. The state had been exhausting both the limits of Ordinary and Special Ways and Means Advances and was forced to go for overdraft almost every month. The Punjab government has been paying "heavy" interest on overdraft from RBI. Between 2008 and 2013, the government had paid an interest of over Rs 59 crore as it took overdraft every year. (Bajwa, 2014)

Table 10: Availment of WMA and Overdrafts from the Reserve Bank of India

State	Normal WMA			Overdraft					
	2012-13	2013-14	2014-15 #	2012-13		2013-14		2014-15#	
	Number of Days	Number of Days	Number of Days	Number of Occasions*	Number of Days	Number of Occasions*	Number of Days	Number of Occasions*	Number of Days
1	2	3	4	5	6	7	8	9	10
I. Non-Special Category									
1. Andhra Pradesh	–	–	21	–	–	–	–	2	6
2. Bihar	–	–	–	–	–	–	–	–	–
3. Chhattisgarh	–	–	–	–	–	–	–	–	–
4. Goa	–	11	121	–	–	–	–	3	10
5. Gujarat	–	–	–	–	–	–	–	–	–
6. Haryana	12	3	–	1	5	–	–	–	–
7. Jharkhand	14	8	–	–	–	–	–	–	–
8. Karnataka	–	–	–	–	–	–	–	–	–
9. Kerala	–	1	26	–	–	–	–	1	7
10. Madhya Pradesh	–	–	–	–	–	–	–	–	–
11. Maharashtra	–	–	–	–	–	–	–	–	–
12. Odisha	–	–	–	–	–	–	–	–	–
13. Punjab	232	243	315	14	139	11	94	21	138
14. Rajasthan	–	–	–	–	–	–	–	–	–
15. Tamil Nadu	–	–	–	–	–	–	–	–	–
16. Telangana	–	–	–	–	–	–	–	–	–
17. Uttar Pradesh	–	–	–	–	–	–	–	1	–
18. West Bengal	48	31	29	5	13	4	10	–	–

Source:RBI

Table 11: Overdraft by Govt. Of Punjab from RBI

Year	Amount(Rs. In crores)
2008-09	453.39
2009-10	309
2010-11	398
2011-12	601
2012-13	1149
2013-14	1300

Source: RBI

- The Ways and Means Advances limit for the State of Punjab has been increased by the Reserve Bank of India (RBI), from the present Rs540 crore to Rs925 crore. This 71 per cent increase in the state's WMA limit will provide a relief to cash-strapped Punjab government to meet its "development agenda". The new limit for availing this credit is effective from February 1, 2016.

Table 11: Revised WMA Limits

(₹ Crore)

Sl. No.	States	Existing Limit	Recommended Limit	% Increase
1	Andhra Pradesh	770.00	1,510.00	96.1
2	Arunachal Pradesh	97.50	195.00	100.0
3	Assam	450.00	940.00	108.9
4	Bihar	637.50	1,420.00	122.7
5	Chhattisgarh	285.00	660.00	131.6
6	Goa	97.50	170.00	74.4
7	Gujarat	945.00	1,915.00	102.6
8	Haryana	442.50	915.00	106.8
9	Himachal Pradesh	285.00	550.00	93.0
10	Jammu and Kashmir	472.50	880.00	86.2
11	Jharkhand	420.00	720.00	71.4
12	Karnataka	937.50	1,985.00	111.7
13	Kerala	525.00	1,215.00	131.4
14	Madhya Pradesh	690.00	1,600.00	131.9
15	Maharashtra	1,740.00	3,385.00	94.5
16	Manipur	90.00	195.00	116.7
17	Meghalaya	90.00	175.00	94.4
18	Mizoram	82.50	160.00	93.9
19	Nagaland	120.00	205.00	70.8
20	Odisha	450.00	985.00	118.9
21	Punjab	540.00	925.00	71.3
22	Rajasthan	757.50	1,630.00	115.2
23	Tamil Nadu	1,095.00	2,475.00	126.0
24	Telangana	550.00	1,080.00	96.4
25	Tripura	150.00	255.00	70.0
26	Uttar Pradesh	1,530.00	3,550.00	132.0
27	Uttarakhand	217.50	505.00	132.2
28	West Bengal	817.50	1,895.00	131.8
29	Puducherry	75.00	130.00	73.3
Total (All States)		15,360.00	32,225.00	103.7

Source RBI Press Release: 2015-2016/1793

Conclusion: The present study is an assessment of the fiscal health of the State of Punjab .It is found in this study that the growth rate of Punjab has been below the national average in the last two decades. A perusal of the fiscal scenario of the State of Punjab indicates continuous fiscal imbalance due to large revenue and fiscal deficit year after year. The state has been heavily relying upon debt as it is not able to meet its routine expenditure even. The high and growing reliance on debt has resulted in increasing cost of servicing the debt. Interest payment, is a committed liability, accounts for a large part of the use of government receipts.

The severity of the fiscal stress is can be seen from the number of days that Punjab was availing of WMA and was in overdraft with the RBI. Increasing dependence on the RBI and the continuous application of borrowed funds for debt servicing and even for routine expenditures indicates unsustainability and reflects vulnerability of the state finances. An increase in the ratio of outstanding liabilities to GSDP together with a large revenue deficit indicates that the state is gradually getting into a debt trap. Revenue deficit of the state has been increasing implying lower availability of funds for developmental/capital works. There is need to pursue fiscal reform programme to achieve fiscal balance in the State.

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