

Punjab Budget Analysis 2020-21

The Finance Minister, Mr. Manpreet Singh Badal, presented the Budget for Punjab for financial year 2020-21 on February 28, 2020.

Budget Highlights

- § The **Gross State Domestic Product** of Punjab for 2020-21 (at current prices) is projected to be Rs 6,44,326 crore. This is 12% higher than the revised estimate for 2019-20.
- § **Total expenditure** for 2020-21 is estimated to be Rs 1,54,805 crore, a 2.0% increase over the revised estimate of 2019-20. In 2019-20, total expenditure is estimated to decrease by 4.3% (Rs 6,796 crore) from the budget estimates.
- § **Total receipts (excluding borrowings)** for 2020-21 are estimated to be Rs 88,050 crore, a decrease of 2.2% as compared to the revised estimate of 2019-20. In 2019-20, total receipts (excluding borrowings) are estimated to fall short of the budgeted estimate by Rs 4,156 crore (4.4% of the budgeted estimate).
- § **Revenue deficit** for 2020-21 is targeted at Rs 7,712 crore, or 1.2% of the Gross State Domestic Product (GSDP). **Fiscal deficit** is targeted at Rs 18,828 crore (2.9% of GSDP).
- § In 2020-21, the sectors of Rural Development (179%), Water Supply, Sanitation, Housing and Urban Development (122%), and Irrigation and Flood Control (24%) saw the highest increase in allocations over the revised estimate of previous year.

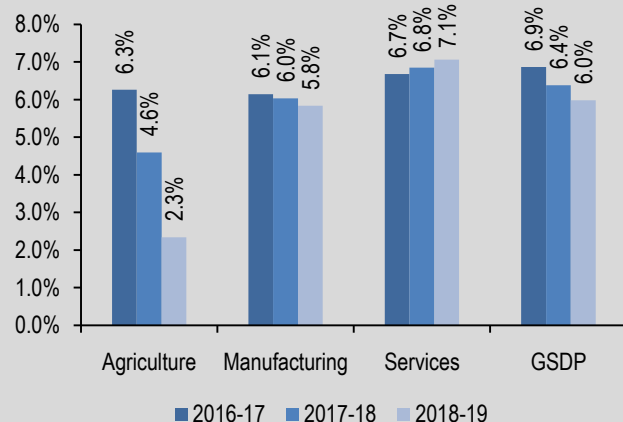
Policy Highlights

- § **Agriculture:** Crop loans of up to Rs 2 lakh taken by small and marginal farmers, as well as landless labourers will be waived. An amount of Rs 2,000 crore has been allocated for this provision of crop loan waivers. Further, Rs 8,275 crore has been allocated for providing free power to the agriculture sector.
- § **Power subsidy for other sectors:** An amount of Rs 2,267 crore has been allocated for providing subsidised power to industries. Further, Rs 1,705 crore has been announced for providing subsidised power to domestic consumers, including Scheduled Caste, Backward Class, and below-poverty line consumers.
- § **Labour welfare:** As per the budget speech, the government will provide monthly financial assistance of Rs 3,000 to all the construction workers in their old age and Rs 1,500 per month to their spouses. The scheme aims to benefit 3.5 lakh construction worker families.
- § **Free education till class 12:** At present, the government provides free education to all students till class eight and to girls till class 12. This has been extended to provide free education in government schools to all students till class 12.

Punjab's Growth

- § **GSDP:** The growth rate of Punjab's GSDP (at constant prices) has decreased from 6.4% in 2017-18 to 6.0% in 2018-19.
- § **Sectors:** In 2018-19, agriculture, manufacturing, and services contributed to 25%, 25% and 50% of the GSVA, respectively. In the same year, these sectors grew by 2.3%, 5.8% and 7.1%, respectively.
- § **Per capita income:** The per capita GSDP of Punjab in 2018-19 (at constant prices) was Rs 1,15,882. This is 5.0% higher than 2017-18.
- § **Unemployment:** According to the annual report of the Periodic Labour Force Survey (2017-18), Punjab has an unemployment rate of 7.8% which is higher than the all-India unemployment rate of 6.1%.

Figure 1: Growth in GSDP and sectors in Punjab at constant (2011-12) prices



Note: GSVA (or gross state value added) by a sector denotes the value added by that sector. These numbers are as per constant prices, which implies that the growth rate is adjusted for inflation. Sources: Statistical Abstract 2020-21; Economic Survey of Punjab 2019-20, Punjab Budget Documents; PRS.

Budget Estimates for 2020-21

§ The total expenditure in 2020-21 is targeted at Rs 1,54,805 crore. This is 2.0% higher than the revised estimates of 2019-20. This expenditure is proposed to be met through receipts (other than borrowings) of Rs 88,050 crore and borrowings of Rs 64,998 crore. Total receipts for 2020-21 (other than borrowings) are expected to be 2.7% higher than the revised estimate of 2019-20. In 2019-20, the total expenditure is estimated to decrease by Rs 6,796 crore (4.3%) from the budget estimates, whereas, receipts (other than borrowings) are estimated to fall short by Rs 4,156 crore (4.4%) from the budget estimates.

Table 1: Budget 2020-21 - Key figures (in Rs crore)

Items	2018-19 Actuals	2019-20 Budgeted	2019-20 Revised	% change from BE 2019-20 to RE 2019-20	2020-21 Budgeted	% change from RE 2019-20 to BE 2020-21
Total Expenditure	1,16,948	1,58,493	1,51,697	-4.3%	1,54,805	2.0%
A. Receipts (except borrowings)	63,118	94,195	90,039	-4.4%	88,050	-2.2%
B. Borrowings	52,098	59,975	58,947	-1.7%	64,998	10.3%
Total Receipts (A+B)	1,15,216	1,54,170	1,48,986	-3.4%	1,53,048	2.7%
Revenue Deficit	13,135	11,687	12,627	8.0%	7,712	-38.9%
As % of GSDP	2.52%	2.02%	2.20%		1.20%	
Fiscal Deficit	16,059	19,658	17,025	-13.4%	18,828	10.6%
As % of GSDP	3.08%	3.40%	2.96%		2.92%	
*Primary Deficit	-247	1,989	-600	-130.2%	-247	-58.8%
As % of GSDP	-0.05%	0.34%	-0.10%		-0.04%	

Notes: *(-) sign indicates a primary surplus; BE is Budget Estimate; RE is Revised Estimate. GSDP for 2020-21 is Rs 6,44,326 crore. GSDP for 2019-20 BE and 2019-20 RE taken to be Rs 5,77,829 crore, and Rs 5,74,760 crore respectively.

Sources: Punjab Budget Documents 2020-21; PRS.

Expenditure in 2020-21

§ **Capital expenditure** for 2020-21 is proposed to be Rs 59,089 crore, which is a decrease of 9.2% over the revised estimates of 2019-20. Capital expenditure includes expenditure affecting the assets and liabilities of the state, such as: (i) capital outlay, i.e. expenditure which leads to creation of assets (such as bridges and hospitals), and (ii) repayment and grant of loans by the state government.

§ Punjab outlay for 2020-21 is estimated to be Rs 10,280 crore, which is 47.7% lower than the revised estimate of 2019-20. In 2019-20, capital outlay of the state reduced by Rs 3,201 crore (14%) from the budget estimates. The capital outlay towards energy is estimated to decrease by Rs 15,498 crore (99%) from the revised estimates of 2019-20. This is primarily on account of the reduction in investment of Rs 15,628 crore in state electricity boards.

Grants to Local Governments

The state government provides compensation and assignments to local bodies and Panchayati Raj institutions. In 2020-21, this amount is estimated to be Rs 4,337 crore, a decrease of 33% over the revised estimates of 2019-20. In 2019-20, grants-in-aid increased by Rs 1,287 crore (25%) from the budget estimates.

§ **Revenue expenditure** for 2020-21 is proposed to be Rs 95,716 crore, which is an increase of 10.5% over revised estimates of 2019-20. In 2019-20, revenue expenditure reduced by Rs 3,595 crore from the budget estimates. This expenditure includes payment of salaries, interest payments etc.

Table 2: Expenditure budget 2020-21 (in Rs crore)

Items	2018-19 Actuals	2019-20 Budgeted	2019-20 Revised	% change from BE 2019-20 to RE 2019-20	2020-21 Budgeted	% change from RE 2019-20 to BE 2020-21
Capital Expenditure	41,544	68,296	65,095	-4.7%	59,089	-9.2%
of which Capital Outlay	2,412	22,842	19,641	-14.0%	10,280	-47.7%
Revenue Expenditure	75,404	90,197	86,602	-4.0%	95,716	10.5%
Total Expenditure	1,16,948	1,58,493	1,51,697	-4.3%	1,54,805	2.0%
A. Debt Repayment	37,771	44,640	44,633	0.0%	47,928	7.4%
B. Interest Payments	16,306	17,669	17,625	-0.2%	19,075	8.2%
Debt Servicing (A+B)	54,077	62,309	62,258	-0.1%	67,003	7.6%

Note: Capital outlay denotes expenditure which leads to creation of assets.

Sources: Punjab Budget Documents 2020-21; PRS.

Sectoral expenditure in 2020-21

The sectors listed below account for **53%** of the total budgeted expenditure of Punjab in 2020-21. A comparison of Punjab that by other states can be found in the Annexure.

Table 3: Sector-wise expenditure for Punjab Budget 2020-21 (in Rs crore)

Sector	2018-19 Actuals	2019-20 Budgeted	2019-20 Revised	2020-21 Budgeted	% change from RE 2019-20 to BE 2020-21	Budget provisions for 2020-21
Agriculture and allied activities	12,423	14,500	11,788	13,267	13%	₹ Rs 2,000 crore has been allocated for the provision of crop loan waivers. ₹ Rs 8,275 crore allocated for providing free power to the agriculture sector.
Education, Sports, Arts, and Culture	10,281	12,888	11,710	13,037	11%	₹ Rs 3,131 crore and Rs 6,174 crore has been allocated towards government primary schools and government secondary schools, respectively.
Police	5,672	6,452	6,151	6,754	10%	₹ Rs 1,343 crore and Rs 4,198 crore has been allocated towards special police forces and district police, respectively.
Social Welfare and Nutrition	3,208	3,753	4,329	4,728	9%	₹ Rs 1,087 crore has been allocated for pension under social security schemes.
Water Supply, Sanitation, Housing and Urban Development	1,712	3,394	2,070	4,593	122%	Rs 810 crore, Rs 700 crore, and Rs 249 crore have been allocated for Smart Cities, AMRUT, and PM Awas Yojana (Urban), respectively.
Health and Family Welfare	3,244	4,156	3,734	4,532	21%	₹ Rs 221 crore has been allocated for the Ayushman Bharat scheme.
Irrigation and Flood Control	1,422	2,266	2,021	2,510	24%	₹ Rs 1,071 crore has been allocated to towards the construction and upgradation of various irrigation projects.
Industry and Minerals	707	1,741	2,171	2,473	14%	₹ Rs 2,267 crore has been allocated as power subsidy to industries.
Rural Development	637	1,782	818	2,283	179%	₹ Rs 320 crore has been allocated to the Mahatma Gandhi National Rural Employment Guarantee Scheme.
Transport	1,256	1,662	1,180	1,945	65%	₹ Rs 2,276 crore allocated for the construction of roads and bridges.
% of total expenditure	52%	47%	43%	53%		

Source: Punjab Budget Documents 2020-21; PRS.

Committed expenditure: Committed expenditure of a state typically includes expenditure on payment of salaries, pensions, and interest. A larger proportion of budget allocated for committed expenditure items limits commitments. In 2020-21, Punjab is estimated to spend Rs 58,981 crore on committed expenditure, i.e. payment of salaries, pensions, and interest. This is 10.7% higher than the revised estimate of 2019-20 (Rs 53,287 crore). These committed liabilities are estimated to form 67% of the total budget. Salaries form the highest component (47%) of the committed expenditure. This expenditure on salaries is estimated to increase by 8.6% in 2020-21 over the 2019-20 revised estimate.

Table 4: Committed Expenditure for the state in 2020-21 (in Rs crore)

Item	2018-19 Actuals	2019-20 Budgeted	2019-20 Revised	% change from BE 2019-20 to RE 2019-20	2020-21 Budgeted	% change from RE 2019-20 to BE 2020-21
Salaries	24,324	26,979	25,449	-5.7%	27,639	8.6%
Pensions	10,089	10,875	10,213	-6.1%	12,267	20.1%
Interest Payments	16,306	17,669	17,625	-0.2%	19,075	8.2%
Committed Expenditure	50,719	55,523	53,287	-4.0%	58,981	10.7%

Sources: Punjab Budget Documents 2020-21; PRS.

Receipts in 2020-21

§ The **total revenue receipts** for 2020-21 are estimated to be Rs 88,004 crore, an increase of 19% over the revised estimates of 2019-20. Of this, Rs 43,870 (50% of the revenue receipts) crore will be raised by the state through its **own resources**, and Rs 44,134 crore (50% of the revenue receipts) will be in the form of **central transfers**, i.e. d grants-in-aid from the central government.

§ **Devolution:** In 2020-21, receipts over the 2019-20 revised estimate. However, in 2019-20, devolution is estimated to decrease by 22.3% to Rs 10,346 crore as compared to the budgeted estimate. This may be due to a 19% cut in the union budget for devolution to states, from Rs 8,09,133 crore at the budgeted stage to Rs 6,56,046 crore at the revised stage. Annexure 2 outlines the major recommendations of the 15th Finance Commission for the year 2020-21, particularly the revised share of Punjab and the other sta

Table 5: Break up of state government receipts (Rs crore)

Items	2018-19 Actuals	2019-20 Budgeted	2019-20 Revised	% change from BE 2019-20 to RE 2019-20	2020-21 Budgeted	% change from RE 2019-20 to BE 2020-21
State's Own Tax	31,574	37,674	33,739	-10.4%	35,824	6.2%
State's Own Non-Tax	7,582	9,477	7,962	-16.0%	8,046	1.1%
Share in Central Taxes	12,005	13,319	10,346	-22.3%	14,021	35.5%
Grants-in-aid from Centre	11,107	18,039	21,928	21.6%	30,113	37.3%
Total Revenue Receipts	62,269	78,510	73,975	-5.8%	88,004	19.0%
Borrowings	52,098	59,975	58,947	-1.7%	64,998	10.3%
Other receipts	849	15,685	16,064	2.4%	45	-99.7%
Total Capital Receipts	52,947	75,660	75,010	-0.9%	65,043	-13.3%
Total Receipts	1,15,216	1,54,170	1,48,986	-3.4%	1,53,048	2.7%

Sources: Punjab Budget Documents 2020-21; PRS.

§ **Own tax revenue:** Total own tax revenue of Punjab is estimated to be Rs 35,824 crore in 2020-21. The own tax to GSDP ratio is targeted at 5.6% in 2020-21, which is in the same range as the revised estimate of 5.8% in 2019-20. This implies that growth in collection of taxes has been slightly lower than the growth in the economy.

Table 6: U q o g " q h o w n t a x r e v e n u e (in Rs crore)

Items	2018-19 Actuals	2019-20 Budgeted	2019-20 Revised	% change from BE 19-20 to RE 19-20	2020-21 Budgeted	% change from RE 19-20 to BE 20-21	% of Revenue Receipts in 20-21
State GST	13,273	17,110	13,443	-21.4%	15,859	18.0%	18.0%
State Excise Duty	5,072	6,201	5,676	-8.5%	6,250	10.1%	7.1%
Sales Tax and VAT	6,572	6,353	5,402	-15.0%	5,575	3.2%	6.3%
Stamps Duty and Registration Fees	2,298	2,650	2,400	-9.4%	2,625	9.4%	3.0%
Taxes and Duties on Electricity	2,330	2,711	4,479	65.2%	2,915	-34.9%	3.3%
Taxes on Vehicle	1,861	2,460	2,115	-14.0%	2,370	12.1%	2.7%
Land Revenue	69	112	78	-30.4%	78	0.2%	0.1%
GST Compensation Grants	7,129	8,619	13,087	51.8%	12,975	-0.9%	14.7%

Sources: Punjab Budget Documents 2020-21; PRS.

§ State Goods and Services Tax (SGST) is the largest component of tax revenue of the state. It comprises 18% of revenue receipts budgeted for the year 2020-21. SGST is expected to generate Rs 15,859 crore in 2020-21, an increase of 18% over the revised estimates of 2019-20.

§ In 2020-21, Punjab is expected to generate Rs 6,250 crore from state excise duty. This is an increase of 10.1% from the revised estimates of 2019-20.

§ Further, in 2020-21 the state is expected to generate Rs 5,575 crore through the levy of sales tax (on items such as petroleum products) and VAT and Rs 2,625 crore from stamp duty and registration fees.

GST Compensation: The GST (Compensation to States) Act, 2017 guarantees states compensation for five years (till 2022) for any revenue loss arising due to GST implementation. The Act guarantees states a 14% annual growth on their revenue which was subsumed under GST. If the GST revenue of a state does not match the guaranteed growth, compensation grants are provided to meet the shortfall.

Punjab has estimated GST compensation grants of Rs 12,975 crore for 2020-21, which is a decrease of 0.9% over the revised estimate of 2019-20. In 2019-20, compensation grants are estimated to increase by 51.8% from Rs 8,619 crore at the budgeted stage to Rs 13,087 crore at the revised stage. An increase in the compensation requirement of the state reflects a further decrease in the GST revenue growth rate, as compared to the 14% growth proposed under the Act.

Deficits, Debts and FRBM Targets for 2020-21

The Punjab Fiscal Responsibility and Budget Management Act, 2003 provides annual targets to progressively reduce the outstanding liabilities, revenue deficit and fiscal deficit of the state government.

Revenue deficit: It is the excess of revenue expenditure over revenue receipts. A revenue deficit implies that the government needs to borrow in order to finance its expenses which do not create capital assets.

The budget estimates a revenue deficit of Rs 7,712 crore (or 1.2% of GSDP) in 2020-21, which is a decrease of 38.9% from the revised estimates of 2019-20. This implies that revenue receipts are expected to be lower than the revenue expenditure, resulting in a deficit. The 14th Finance Commission had recommended that states should eliminate revenue deficits. The 2020-21 estimates for Punjab suggest that the state will not be meeting this target of eliminating revenue deficit. As per the 15th Finance Commission recommendations, in 2020-21, Punjab will receive revenue deficit grants of Rs 7,659 crore to eliminate its revenue deficit.

Debt Servicing: In 2020-21, Punjab is expected to spend Rs 67,003 crore on servicing its debt. This is 7.6% higher than the revised estimates of 2019-20. This includes Rs 47,928 crore towards repaying loans, and Rs 19,075 crore towards interest payments.

Fiscal deficit: It is the excess of total expenditure over total receipts. This gap is filled by borrowings by the government, and leads to an increase in total liabilities. In 2020-21, fiscal deficit is estimated to be Rs 18,828 crore, which is 2.9% of the GSDP. The estimate is lower than the 3% limit as per the FRBM Act. This limit may be relaxed to a maximum of 3.5% of GSDP, if states are able to contain their debt and interest payments to certain specified levels.

Outstanding Liabilities: Outstanding liabilities is the accumulation of borrowings over the years. In 2020-21, the outstanding liabilities are expected to be 38.5% of the GSDP.

Table 7: Budget targets for deficits for Punjab in 2020-21 (% of GSDP)

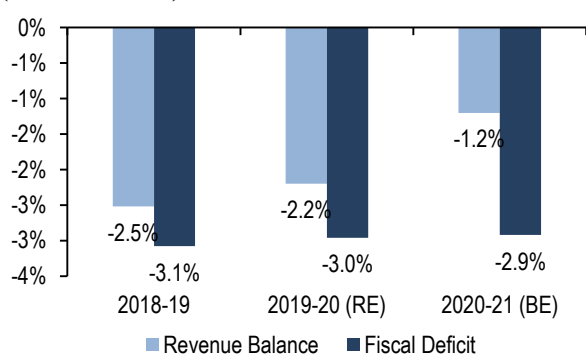
Year	Revenue	Fiscal	Outstanding Liabilities
	Deficit (-)/Surplus (+)	Deficit (-)/Surplus (+)	
2018-19 (actuals)	-2.5%	-3.1%	40.6%
2019-20 (RE)	-2.2%	-3.0%	39.8%
2020-21	-1.2%	-2.9%	38.5%
2021-22	-2.7%	-4.1%	39.0%
2022-23	-3.9%	-5.3%	38.5%

Note: RE indicates revised estimate.

Sources: Punjab Budget Documents 2020-21; PRS.

Figures 2 and 3 show the trend in deficits and outstanding liabilities targets from 2018-19 to 2022-23.

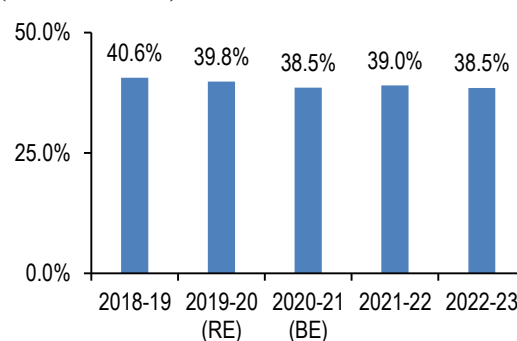
Figure 2: Revenue and Fiscal Deficit/Surplus (as % of GSDP)



Note: Numbers for 2018-19, 2019-20 and 2020-21 are actuals, revised estimates, and budget estimates respectively.

Sources: Punjab Budget Documents; PRS.

Figure 3: Outstanding liabilities targets (as % of GSDP)



Note: Numbers for 2018-19, 2019-20 and 2020-21 are actuals, revised estimates, and budget estimates respectively.

Sources: Punjab Budget Documents; PRS.

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Annexure

The graphs below compare Punjab six key sectors as a proportion of its total budget, with the average of 29 states.¹

- § **Education:** Punjab has allocated 12.3% of its expenditure on education in 2020-21. This is marginally lower than the average budget allocation for education by 29 states (using 2019-20 BE).
- § **Health:** Punjab has allocated 4.3% of its total expenditure on health, which is lower than the average expenditure of 29 states.
- § **Agriculture and allied activities:** The state has allocated 12.5% of its total budget towards agriculture and allied activities. This is higher than the allocations of 29 states (7.1%).
- § **Rural development:** Punjab has allocated 2.2% of its expenditure on rural development. This is significantly lower than the average (6.2%) of the 29 states.
- § **Police:** Punjab has allocated 6.4% of its total expenditure on police, which is higher than the average expenditure of 29 states (4.1%).
- § **Roads and bridges:** Punjab has allocated 1.5% of its total expenditure on roads and bridges, which is significantly lower than the average expenditure of 29 states (4.2%).

Note: 2018-19, 2019-20 (BE), 2019-20 (RE), and 2020-21

