

State Update: Government of West Bengal

West Bengal is fast emerging as one of the faster growing state economies of the country. The state has registered healthy growth to the tune of 7.6% in 2012-13, higher than the 6.6% growth of the previous year and the national average growth of 5%. West Bengal has been registering an average growth of over 7.28% since 2004-05, closer to the 8% national growth rate during the same period. Nevertheless, the state's per capita gross state domestic product (GSDP) continues to be lower than that of the country as a whole. West Bengal's per capita income (current prices) was seen to be Rs. 69,424 in FY13, lower than the Rs.82,339 of the country.

West Bengal is the 6th largest state economy of the country with a GSDP of Rs. 3,65,919 crs as of 2012-13 (constant prices) and contributes nearly 7% to the economy of the nation. In terms of land area, the state covers 88,75,000 sq.km, making it the 13th largest state in India in terms of area.

West Bengal's economy is services driven, with nearly 65% of the state's economy being accounted for by the services sector. Agriculture accounts for 13% and industry 19% of the state's economy.

This note here takes a close look chiefly at the economic performance of West Bengal in recent years and analyzes the state's budget for 2013-14 along with its budget management practices.

Demographics

West Bengal's population stands at 91.28 million as of 2011. It is the 4th largest state of the country in terms of population and accounts for 7.5% of India's population, as per the 2011 census. Majority (68%) of the state population is based in rural areas. In terms of gender distribution, males comprise 51% of the population while female for the balance 49%.

The state's literacy rate at 76% is higher than the national average of 73% in 2011. The literacy rate has increased 7% during 2001-11.

West Bengal is amongst the most densely populated state's of the country, next only to Bihar, with 1,028 people per sq.km as per the 2011 census.

State's Economy

The state has been recording strong growth rates in recent years. West Bengal grew at a CAGR of 7.4% during FY06 to FY13, with growth touching a peak 9.2% in FY11.

The share of agriculture and industry in West Bengal's economy has been seeing a progressive decline since 2009-10. Agriculture's contribution to the GSDP (at constant prices) has fallen from 15.6% in 2009-10 to 12.9% in 2012-13, while the share of industry has declined to 18.7% from 20% in the same period. The share of industry in GSDP is amongst the lowest for West Bengal and agriculture is the chief occupation of a large section of the population. The decline in agriculture and industry is seen to be accounted for by the increase in the share of the service sector that has grown from 60% to 65% of GSDP during the last 4 years.

In terms of sectoral growth in FY13, industry recorded the highest jump in growth to 6.2% from 2.9% in the previous year. On the other hand both, agriculture and services recorded only marginal increase in growth rates. Agriculture grew by 2.6% from 1.6% in FY12, while the service sector saw a growth of 9.5% in FY13 from 9.1% in the previous fiscal.

A look at the sector wise growth trend for a longer time frame i.e. 2005-06 to 2012-13, shows that

- Growth in case of agriculture has fluctuated between (-)3.5% to 8.3%. On the whole, the sector has grown at compounded annualised growth rate (CAGR) of 2.2% during the last 8 years.
- In case of industry, average growth has been 5.5% during the period. Growth has fluctuated between (-)1.7% to 9.7% and the CAGR for the 8 year period for the sector has been 5.7%.
- The service sector has been registering robust growth close to 10% on an average in the above mentioned period. The CAGR for this sector too has been close to 10%.

Table 1: Sector Composition of GSDP and Growth Rates

Composition of GSDP (% share)				Sectoral Growth Rates (%)			
	Agriculture	Industry	Services		Agriculture	Industry	Services
2005-06	18	21	56	2005-06	1.8	3.3	9.3
2006-07	17	21	57	2006-07	1.0	8.7	9.8
2007-08	17	21	57	2007-08	6.1	6.9	8.7
2008-09	16	20	60	2008-09	-3.5	-1.7	10.0
2009-10	16	20	60	2009-10	8.3	9.7	7.9
2010-11	14	20	62	2010-11	-0.4	7.6	13.0
2011-12	14	19	64	2011-12	1.6	2.9	9.1
2012-13	13	19	65	2012-13	2.6	6.2	9.5

*Source: CMIE

State Finance: Budget 2013-14

In terms of the state's fiscal health, West Bengal has a historical high debt burden, which weighs on the state finances. The state's finances are mainly used for servicing its high debt burden (over Rs. 2 lakh crs), leaving lesser amounts for investments. The interest burden as a part of its revenue receipts is amongst the highest for West Bengal.

The state budget which is the annual financial statement of the government gives an account of revenue and expenditure of the government. The budget for 2013-14 along with providing the budget estimates (BE) for revenue and expenditure for the fiscal year 2013-14, gives the revised estimates (RE) of expenditure incurred and revenue generated for fiscal year 2012-13 and the actual values of these for 2011-12.

The budget comprises of revenue budget and capital budget. Presented here is the brief profile of the revenue and capital account.

Revenue Account

West Bengal continues to suffer from a revenue shortfall/deficit. There has however been a progressive decline in the revenue deficit in recent years. It has declined from Rs. 21,578 crs in FY10 to Rs.13,308 crs in FY13 (RE) and is projected to decline considerably to Rs.3,488 crs in this fiscal as per the budget estimates.

The state has been conducting various tax reforms and owing to the increased transparent and e-driven reforms, it has witnessed improvements in revenue collection efficiency and thereby in overall revenues.

Table 1: Revenue Account

	2011-12(A)	2012-13 (RE)	2013-14 (BE)
Revenue Receipts	58,755	72,054	88,403
Tax and non-tax revenue of the state	26,278	34,004	41,540
Contributions from the central govt - tax and grants	32,477	38,051	46,863
Revenue Expenditure	73,326	85,362	91,892
Development Expenditure	40,533	49,873	53,487
Non Development Expenditure	32,793	35,489	38,405
Revenue Deficit	-14,571	-13,308	-3,488

Source: Budget document 2013-14, GoWB

- There has been a 23% increase in revenue receipts in 2012-13(RE) and it has been growing at an average 26% in the 3 year period FY11-13.
- The state's tax collections have been on the rise. Its tax collections recorded a 30% increase to Rs. 32,405 crs in 2012-13(RE). The state's own taxes account for 45% of its revenue receipts and its non-tax revenue brings in 2% of the revenue.
- West Bengal has high dependence on the central government for its revenues. 53% of the revenue receipts are accounted for from this source, of this 29% is West Bengal's share in central taxes and 23% is by way of grants from the centre.

- Revenue expenditure grew by 16% in FY13(RE) and the same is expected to grow at a lower pace of 8% in FY14(BE). The average growth rate under this head has been 13% since FY10.
- Development expenditure accounts for the major share of revenue expenditure i.e.58% in FY13 (56% since FY10). Development expenditure, comprising of education, sports, arts, health & family welfare, water supply, rural development, agriculture, irrigation, power etc, grew from 14% in FY12 to 23% FY13 (RE). The same is projected to grow an additional 7% in 2013-14(BE).
- In the non-development expenditure (41% share in revenue expenditure in FY13), interest expenditure makes up around 50% of the expenditure. The historical high debt burden of the state has resulted in the interest expenditure being high. The growth in this segment is however seen to be moderating from an average 16% during FY10-12 to 8% in FY13(RE) and FY14(BE). Interest payment in FY13(RE) were to the tune of Rs. 17,809 crs.

Capital Account

Unlike the revenue account, the state's capital account has been maintaining a surplus. This surplus is largely due to high borrowings, which is being used for loan repayments. This effectively makes available lower funds for incurring capital investments.

Table 2: Capital Account

	2011-12(A)	2012-13 (RE)	2013-14 (BE)
Capital Receipts	24721	29235	22396
Internal debt (market loans)	22191	20500	25838
Loans from central govt & other sources	2964	4415	3007
Loan Recoveries	78	148	161
Other Receipts	-512	4172	-6610
Capital Expenditure	10505	15137	18914
Capital Outlay (Development & Non-Development Expenditure)	2764	6435	9319
Repayment of loans	7293	7386	8827
Loans & Advances	448	1316	768
Capital a/c surplus	14217	14098	3482

Source: Budget document 2013-14, GoWB

- Capital receipts grew 25% in FY13(RE). They are however expected to see a 23% decline in FY14(BE).
- Market loans are the chief contributor to capital receipts. It accounted for 70% of the capital receipts in FY13(RE).
- Capital expenditure grew 44% in FY13(RE), largely accounted for by the 60% increase in development expenditure that includes both economic and social services.

Budget management & fiscal prudence

West Bengal, along with Kerala and Punjab, all of whom are regarded as being debt stressed have been given special concessions by the 13th Finance Commission for achieving the fiscal correction targets. They are required to eliminate revenue deficit and achieve the fiscal deficit to GSDP ratio of 3% by 2014-15, as opposed to the other states who were required to achieve these targets by 2011-12. Even though the fiscal consolidation roadmap of the Thirteen Finance Commission for West Bengal stipulates low levels of revenue deficits, the state has been recording a considerable high deficit, over and above the mandated level.

Table 3: Fiscal Indicators

	2011-12(A)	2012-13 (RE)	2013-14 (BE)	ThFC Target for West Bengal	
				Level	Year
Revenue Deficit/GSDP	2.7	2.1	0.5*	1.1	2012-13
Fiscal deficit/GSDP (%)	3.3	3.3	3*	3.5	2012-13
Public debt/GSDP (%)	38.2	35.9	35.9*	37.7	2012-13 #

Source: Budget document 2013-14, GoWB and* MTFP statement, Mar'12 and Thirteen Finance Commission #FRBM target

- As per the Thirteen Finance Commission recommendations (ThFC), the target level for West Bengal's revenue deficit as a percentage of GSDP for 2012-13 was 1.1%. The state's revenue deficit/GSDP ratio however was much higher at 2.1%. The revenue deficit in FY14(BE) is projected to decline considerably from Rs.13,308 crs of FY13(RE) to Rs.3,488 crs.
- The state has been successful in adhering to the target levels of fiscal deficit/GSDP ratio. The ratio for FY13(RE) was 3.3%, lower than the ThFC mandated 3.5%.
- West Bengal has the highest debt-GDP ratio among the debt stressed states (includes Kerala and Punjab). The outstanding debt stood at Rs. 2,26,193 crs in FY13(BE), 9% more than that in FY12. It is expected to grow 9% in FY14(BE) to Rs. 2,47,423 crs.

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