

State Update: Government of Gujarat

With a decadal growth rate of more than 10% (2001-2011), the state of Gujarat has come to establish itself as a strong growth engine for the country. Accounting for about 5% of the country's population and 6% of land area, the state has metamorphosed into one of the fast growing state economies, overcoming its limitations in resource base and its climatic constraints. The state now contributes more than 7% to India's GDP; in particular, it for 13% of manufactured and 11% of primary sector output of the country.

Also, at the micro-level, the state records a per capita income of Rs 89,668 (as of 2011-12), well above the national average level of Rs 61,564 for the same year, indicative that benefits of growth are reaching at the individual level.

This update broadly covers the current economic scenario in the state of Gujarat along with the government's performance in terms of fiscal management; the state recently having announced its budget for 2013-14.

Demographic Factsheet

- **Population** - 6.04 crore persons (as on March 1, 2011), with decadal growth of 19.2% (2001-2011), higher than national level decadal growth rate of 17.6%. Population density of 308 persons per square kilometre, below national average of 382 persons per square kilometre. Birth rate of 21.3%, death rate of 6.7%.
- **Urbanisation** - Gujarat most urbanised state in country (43% of population stays in urban areas)
- **Literacy** - 79.3% (as per Census 2011); with urban literacy at 73.0% and rural literacy at 87.8%
- **Gender ratio** - 918 females per thousand males (Census 2011)
- **Life expectancy** - for males recorded at 64.9 years and for females at 69.0 years

Gujarat's Economy

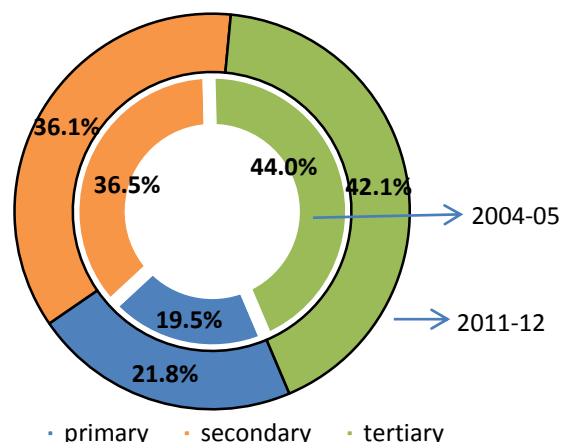
Registering an annualised growth rate of 9.1% (in constant terms, CAGR for the period 2008-11), Gujarat has achieved a growth rate well above the national level growth rate of 8.2% for the same period. In terms of current prices, GDP growth in the state has been robust, touching nearly 23.0% in FY11 and 15.3% in FY12 (against a high base of the previous year).

While, budget estimates for 2013-14 suggest lower growth rates of 14.0% in FY13 and 14.5% in FY14, it reflects the impact of slowdown in overall economic activity in India rather than a weakening of fundamentals of the Gujarat economy. In particular, Gujarat being one of the major industrial and trade hub as well as a fast-growing consumption centre, it is bound to be impacted by such macro-economic constraints.

Sectorally speaking, Gujarat has attained a balanced economic structure, with the secondary and tertiary sectors together accounting for 78.2% as of 2011-12. Both these sectors have been supported by a strong infrastructure network in the state.

It is noteworthy, that this drought-prone state has significantly improved its agri-production. Share of primary sector in GSDP has risen to 21.8% in 2011-12 (19.5% in 2004-05). The state continues to direct efforts, such as increasing reliable irrigation coverage, towards making agriculture self-sustaining.

Exhibit 1: Sectoral Composition of Gujarat GSDP



Source: Gujarat FRBM, 2013-14

Budget 2013-14

Budget 2013-14, presents actual accounts (A) for the year 2011-12 and revised estimates (RE) for accounts in 2012-13 along with budgeted estimates (BE) for the year 2013-14. We examine Budget 2013-14 for the state with respect to its revenue and capital accounts and performance thereof -

Revenue Account Profile

Gujarat in FY12, moved from a revenue deficit position (Rs 5,076 crore in FY11) to a revenue surplus of Rs 3,215 crore, in line with the Thirteenth Finance Commission (ThFC) roadmap for fiscal consolidation for state governments. Revenue surplus of the state has consistently risen and is budgeted at Rs 4,602 crore in FY14. This has been achieved with a combination of tax rationalisation measures and expenditure prudence.

Table 1: Revenue Account FY12-FY14 (Rs crore)

Revenue A/c Heads	FY12 (A)	FY13 (RE)	FY14 (BE)
Revenue Receipts	62,959	75,791	85,752
Tax revenue	52,033	61,749	70,328
Non-tax revenue	5,277	5,369	6,380
Revenue Expenditure	59,744	71,894	81,150
Development expenditure	38,707	47,390	51,830
Non-development expenditure	20,837	24,340	29,142
Of which, interest expenses	10,934	12,236	13,659
Revenue Surplus	3,215	3,897	4,602

Source: Budget 2013-14, Government of Gujarat

- On the tax front, tax relief announced in Budget 2013-14 amounts to Rs 245 crore, while proposed increase in taxes is Rs 289 crore, implying a net gain of Rs 44 crore through tax proposals. While tax rates have not been increased significantly, tax collection efficiency has improved, lending robustness to overall revenue receipts.
- Tax allocations from the centre to states have been sluggish over the years, particularly because central tax collections have moderated against a constrained economic environment. The ThFC awarded 3.04% of

shareable tax, excluding service tax and 3.09% of shareable service tax to Gujarat. This translates to a share of just 11.0% -12.0% of central tax allocations in the revenue receipts of the state.

- Non-tax revenue receipts (royalties, fees, user charges, central government compensations to state, etc.), is one component that is heavily influenced by extraneous factors. Given that its share in the revenue receipts is just about 7.0% - 8.0%, it does not critically impact budget performance, particularly when in the case of Gujarat own-revenue funds account for 76% - 78% of revenue flows.
- In terms of expenditure, most of the government expenses are developmental in nature and targeted towards funding the creation of social services (education, health, social development, etc.), which in turn helps support improve quality of human capital in the state.
- In particular, the state has been proactive in curtailing growth in its debt-service obligations and has successfully lowered the growth in interest expenses from 13.6% in FY12 to 11.6% in FY14 (BE).
- The state also has additional leg-room on the revenue-side as it completes disbursement of all instalment tranches of arrear payments on salary and pension, due on account of implementation of Sixth Pay Commission recommendations as of FY13.

Capital Account Profile

The capital account of the state remains in deficit, primarily because project capital expenditure of the state remains high. This may however, be viewed as a positive; with the state government increasing capital expenditure directed towards the creation of physical infrastructure necessary to support the manufacturing sector of the state economy.

Table 2: Capital Account FY12-FY14 (Rs crore)

Capital A/c Heads	FY12 (A)	FY13 (RE)	FY14 (BE)
Capital Receipts	17,710	22,333	26,233
<i>Internal Debt</i>	17,347	21,364	25,755
<i>Loans from Gol</i>	188	746	255
Capital Expenditure	19,692	28,847	31,537
<i>Capital Outlay</i>	14,346	22,244	25,250
<i>Repayment of Public Debt</i>	5,275	6,538	6,218
Capital A/c deficit	1,982	6,515	5,305

Source: Budget 2013-14, Government of Gujarat

- Gujarat has been self-reliant in its capital fund base, with internal debt accounting for majority share (nearly 96% of total capital receipts in FY12). Consequently, share of loans from the Government of India (Gol) in capital receipts of the state has declined, indicating lower dependence on central government borrowings.
- The credibility of the state's internal debt portfolio lies in the fact that the state has been successfully accessing the market for borrowings at competitive rates without recourse to underwriting. The average cost of debt for the state has consistently been brought down from 10.79% in 2004-05 to 8.88% in 2011-12. The same is expected to marginally increase to 8.94% in FY13, on account higher borrowing costs consequent on tight monetary regime (interest rate hikes) and increase in involuntary costly debt through the National Small Savings Fund (NSSF) route.
- Borrowings of the state are diverted through capital outlay for capacity building, a lion's share of the same being developmental in nature, particularly for social overhead capital.

Budget Management & Fiscal Prudence

Gujarat has over the years displayed commitment towards budget management and fiscal prudence. It has successfully implemented the recommendations of the Sixth Pay Commission, whilst adhering to the targets of the Thirteenth Finance Commission and the Gujarat Fiscal Responsibility Act. This has also allowed the state to avail of full benefit of interest relief (Rs 1,710 crore up to FY10) and debt waiver (Rs 2,262 crore up to FY10) under the Debt Consolidation Relief Facility of the centre. Table 3 below provides a snapshot of timeframe and targets for fiscal consolidation and achievement of the same by the state.

Table 3: Capital Account FY12-FY14 (Rs crore)

	ThFC Target		GFR Act Target		Achievement	
	Year	Level	Year	Level	Year	Level
Revenue Deficit	2011-12	0	2011-12	0	2011-12	Rs 3,215 cr
Fiscal Deficit/GSDP	2011-12	3.0%	2011-12	3.0%	2011-12	1.8%
Public Debt/GSDP	2014-15	25.0%	2011-12	27.1%	2011-12	20.2%

Source: Budget 2013-14, Government of Gujarat

- Gujarat has as per target attained revenue surplus in FY12, further budgeted at Rs 4,602 crore in FY14. Fiscal deficit for the state at 1.8% of GSDP has been well within the prudential norm of 3.0% in FY12. The same is budgeted at a higher level of 2.6%, on account of availability of fiscal space whilst being in line with the prescribed limit.
- The stock of outstanding liabilities of the state is rather high at Rs 169,255 crore in FY13, budgeted to further increase to Rs 189,047 crore in FY14. While the deployment of these borrowings may be towards infrastructure yielding potential benefits, the servicing of these debt-obligations could constrain fiscal flexibility for the state. There are hence, consistent efforts are curtailing public debt relative to GSDP, which stood at 19.9% in FY13 well within targets.
- Guarantees on debt have also been limited. Ceiling on outstanding guarantees for the state currently stands at Rs 20,000 crore, the budget provisions for Rs 16,000 crore, while actual amount stood at just Rs 7,234 crore as of January 31, 2013.
- Along with efforts at reducing growth in debt stock, the state has simultaneously managed its debt portfolio to optimise interest costs whilst improving revenue buoyancy to cover for such obligations. This has helped bring down the interest on public debt-to-revenue receipts ratio over the years, 15.6% in FY12 and further lower at 14.5% in FY13.
- The state is one of the few states in the country that as a prudential measure has set up a Debt Management Office and has both a Consolidated Sinking Fund (CSF) and Guarantee Redemption Fund (GRF). The Gujarat CSF (aimed at taking care of pay-outs during the time of maturity of market borrowings) has an accumulated balance of Rs 6,775 crore, while the GRF (to take care of payments in case of invocation of guarantees) has a corpus of Rs 1,958 crore as on December 31, 2012.
- The state also has well-managed short-term liabilities, as is evident from the fact that it has not availed of the ways and means advances (WMA) or overdraft facility of the RBI to tide over temporary liquidity constraints.

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