

CHAPTER 1

Overview

1.1 Profile of the State

Gujarat is situated on the west coast of India, bounded by the Arabian Sea in the west and the States of Rajasthan in the north, Madhya Pradesh in the east and Maharashtra in the south. The State also shares an international border with Pakistan on the north-western fringe. It has a coastline of about 1,600 km., which is one third of India's mainland coastline. It is the seventh largest State in terms of geographical area (1,96,024 sq. km.) and the ninth largest by population. The State's population increased from 6.10 crore in 2011 to 6.94 crore in 2020, recording a decadal growth of 13.77 *per cent*. The percentage of population below poverty line was 16.6 *per cent* in 2011-12 as compared to the all-India average of 21.9 *per cent*. The Gross State Domestic Product (GSDP) in 2019-20 at current prices was ₹ 16,63,362 crore. The per capita GSDP of the State at ₹ 2,54,789 during 2019-20 was higher than all India average of ₹ 1,51,677 during the same period. The State's literacy rate was 78 *per cent* (as per 2011 census). The profile of the State is shown in **Appendix 1.1**.

1.1.1 Gross State Domestic Product of Gujarat

GSDP is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time.

Trends in annual growth of Gujarat's GSDP (nominal) *vis-à-vis* that of the Nation are given in **Table 1.1**.

Table 1.1: Trends in growth of GDP and GSDP

	(₹ in crore)				
Year	2015-16	2016-17	2017-18	2018-19	2019-20
National GDP (Base year 2011-12)	1,37,71,874	1,53,91,669	1,70,98,304 (2 nd RE)	1,89,71,237 (1 st RE)	2,03,39,849 (P)
Growth rate of GDP over previous year at current prices (<i>per cent</i>)	10.46	11.76	11.09	10.95	7.21
State's GSDP (Base year 2011-12)	10,29,010	11,67,156	13,28,068 (P)	15,01,944 (Q)	16,63,362 (A)
Growth rate of GSDP over previous year at current prices (<i>per cent</i>)	11.63	13.43	13.79	13.09	10.75

Source: Ministry of Statistics and Programme Implementation (MoSPI), Press release of 29 May 2020 of MoSPI and Directorate of Economics and Statistics, Gujarat
RE: Revised Estimates; (P): Provisional Estimates; (Q): Quick Estimates; (A): Advance Estimates

As can be seen from the details tabulated above, GSDP of Gujarat grew at a higher rate during the period 2015-16 to 2019-20 compared to the National growth rate. During 2019-20, the State as well as the Nation registered their lowest growth rate in five years.

Chart 1.1 indicates the sectoral contribution to GSDP during the last five years (2015-20). As may be seen, there had been a significant decrease in the relative share of Industry in GSDP from 39.72 *per cent* in 2015-16 to 38.18 *per cent* in 2019-20. Similarly, decrease was seen in Agriculture and Services sectors too. However, the relative share of Taxes on products (minus subsidies) in GSDP increased during the same period.

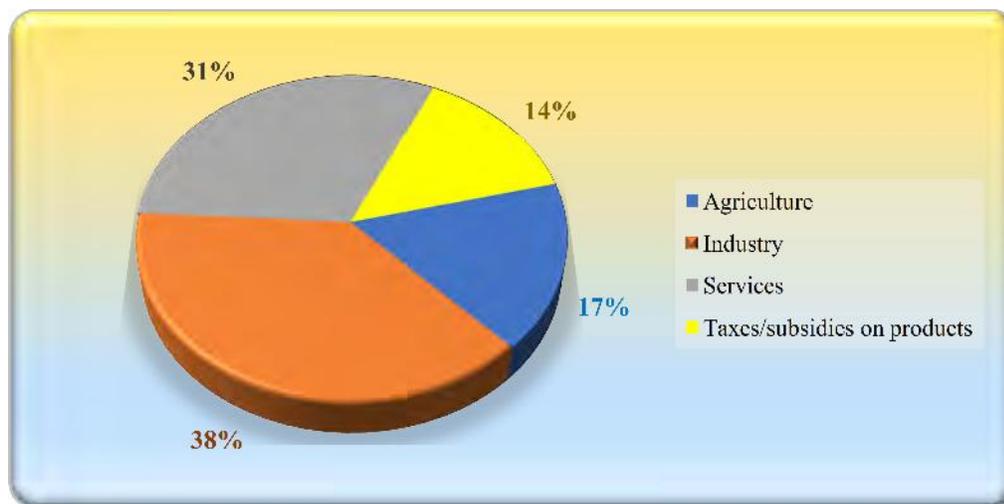
Chart 1.1: Change in sectoral contribution to GSDP (2015-16 to 2019-20)



Source of data: Directorate of Economics and Statistics, Gujarat

The sectoral contribution to GSDP of the State during 2019-20 is given in **Chart 1.2**.

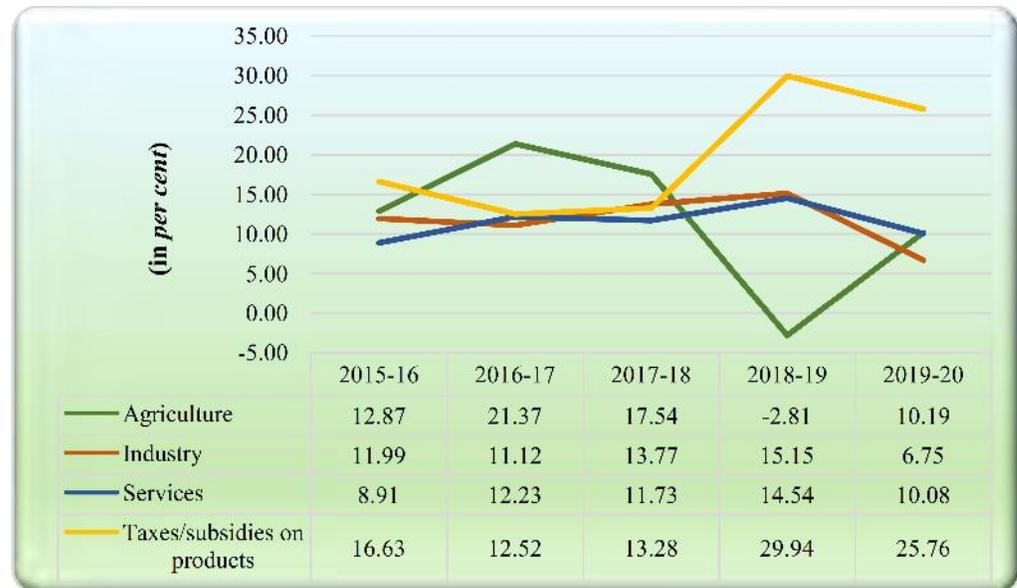
Chart 1.2: Sectoral Contribution to GSDP during 2019-20



Source of data: Directorate of Economics and Statistics, Gujarat

During 2019-20, while the sectoral growth rate of Industry, Services and Taxes on products decreased compared to the previous year, there was an increase in the growth rate of Agriculture sector in 2019-20 over 2018-19, as shown in **Chart 1.3**.

Chart 1.3: Sectoral growth rate during 2015-20



Source of data: Directorate of Economics and Statistics, Gujarat

1.1.1.1 Contribution of State Public Sector Undertakings to economy of the State

The State Public Sector Undertakings (SPSUs) play a vital role in the economy of the State. As on 31 March 2020, there were 88 SPSUs¹ which included four Statutory Corporations and 84 State Government Companies. Of the 88 SPSUs, four² SPSUs were listed on the stock exchange(s). 88 SPSUs include 16 inactive SPSUs. Apart from providing critical infrastructure for development of State's economy, the SPSUs also add significantly to the GSDP. The ratio of turnover of SPSUs to GSDP is indicative of the scale of SPSU activities in the economy of the State. The details of SPSUs' turnover *vis-à-vis* State's GSDP for the last five years (2015-20) are given in the **Table 1.2**.

¹ For more details, please refer to paragraph 2.4.3.2 and 4.15 of this Report.

² Gujarat Mineral Development Corporation Limited; Gujarat State Petronet Limited; Gujarat State Financial Corporation; and Gujarat Gas Limited

Table 1.2: Details of turnover of SPSUs vis-à-vis GSDP

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
Turnover ³ (₹ in crore)	1,11,036.50	1,11,953.31	1,25,827.15	1,48,487.47	1,54,020.09
Percentage change in turnover	4.21	0.83	12.39	18.01	3.73
GSDP of Gujarat (₹ in crore)	10,29,010	11,67,156	13,28,068 (P)	15,01,944 (Q)	16,63,362 (A)
Percentage change in GSDP	11.63	13.43	13.79	13.09	10.75
Percentage of turnover to GSDP	10.79	9.59	9.47	9.89	9.26

Source: Compiled based on turnover reported by SPSUs in the financial statements finalised in respective years and Statement under Gujarat Fiscal Responsibility Act, 2005 (Budget Publication No. 30 of 2019-20).

The turnover of SPSUs has recorded continuous increase over previous years. The increase in turnover ranged between 0.83 *per cent* and 18.01 *per cent* during the period 2015-20, whereas increase in GSDP ranged between 10.75 *per cent* and 13.79 *per cent* during the same period. The Compounded Annual Growth Rate (CAGR)⁴ of GSDP was 12.53 *per cent* during last five years against which the turnover of SPSUs recorded lower CAGR of 7.65 *per cent* during the same period. As a result, the share of turnover of SPSUs to GSDP reduced from 10.79 *per cent* in 2015-16 to 9.26 *per cent* in 2019-20. Of the total turnover of ₹ 1,54,020.09 crore reported by 88 SPSUs in 2019-20, ₹ 50,660.75 crore pertained to 20 active SPSUs which finalized their financial statements for the year 2019-20. Two⁵ active SPSUs did not submit their first Accounts. The remaining 50 active SPSUs reported a turnover of ₹ 1,03,325.64 crore in their last finalized financial statements.

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) of Gujarat for the year ending 31 March 2020 has been prepared by the CAG for submission to the Governor of Gujarat under Article 151 (2) of the Constitution of India.

Principal Accountant General (Accounts & Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually. The Accounts are prepared from the vouchers, challans and initial and subsidiary Accounts rendered by the Treasuries, Offices and Departments responsible for keeping of such Accounts functioning under the control of the State Government,

³ Turnovers of SPSUs are as per the latest finalised financial statements received up to 30 September of the respective year.

⁴ CAGR is a useful method to measure growth rate over multiple time-period.

⁵ Gujarat Unreserved Educational and Economic Development Corporation; and Gujarat Student Startup and Innovation Hub

and the Statements received from the Reserve Bank of India (RBI). These Accounts are audited independently by the Principal Accountant General (Audit-II), Gujarat 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 forms an important source of data – both 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 Offices of the Principal Accountant General (Audit-I) and Principal Accountant General (Audit-II), Gujarat at the State Secretariat as well as at the field level during the year;
- Other data with Departmental Authorities and Treasuries (accounting as well as MIS);
- GSDP data and other State related statistics from the Directorate of Economics and Statistics, Gujarat; and
- Various Audit Reports of the CAG.

The analysis has been carried out in the context of recommendations of the Fourteenth Finance Commission (14thFC), Gujarat Fiscal Responsibility Act, 2005, best practices and guidelines of the Government of India. Replies of the Government, where received, have been incorporated in this Report at appropriate places.

1.3 Report Structure

The SFAR is structured into the following four Chapters:

Chapter - 1	Overview <i>This Chapter describes the basis and approach to the Report, and the underlying data, provides an overview of structure of Government Accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/surplus.</i>
Chapter -2	Finances of the State <i>This chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2015-16 to 2019-20, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.</i>
Chapter - 3	Budgetary Management <i>This chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.</i>
Chapter - 4	Quality of Accounts and Financial Reporting Practices <i>This chapter discusses about the quality of Accounts rendered by various authorities of the State Government and issues of</i>

non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.

1.4 Overview of Government Account Structure and Budgetary Processes

The Accounts of the State Government are kept in three parts:

1. 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 RBI and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with 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.

2. 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 authorization of such expenditure by the State Legislature. The fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State.

3. Public Accounts of the State (Article 266(2) of the Constitution)

Apart from 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 repayables 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.

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 consist of tax revenue, non-tax revenue, share of Union Taxes/Duties, and grants from Government of India (GoI).

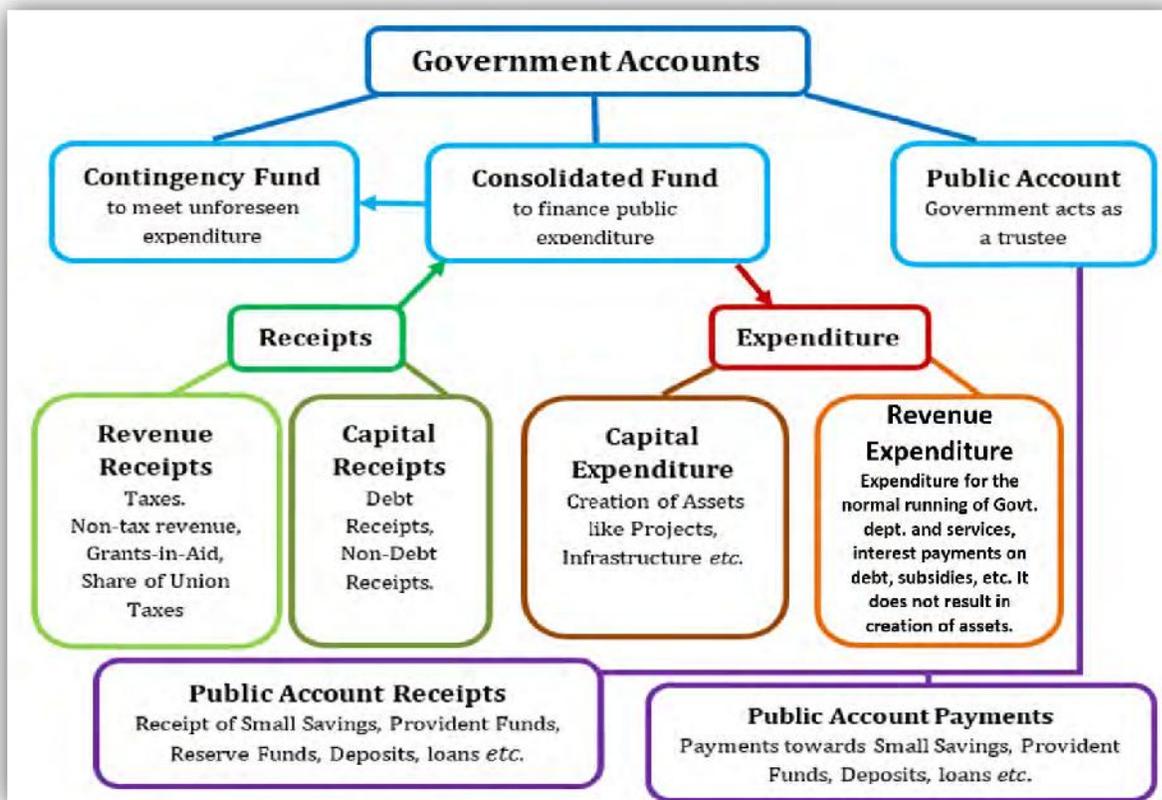
Revenue expenditure consists of all those expenditures of the Government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the Government Departments and various services, interest payments on debt incurred by the Government, and grants given to various institutions (even though some of the grants may be meant for creation of assets).

The **Capital Receipts** consist of:

- **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.

Capital Expenditure includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the Government to the Public Sector Undertakings (PSUs) and other parties.

Chart 1.4: Structure of Government Accounts



Functional classification involves arranging the receipts and expenditure by economic categories, distinguishing the Government transactions into Sections like Revenue and Capital (including Public Debt, Loans and Advances), Sectors like Tax Revenue from other revenue and Grants-in-Aid, Sub-sectors like Taxes on Income and Expenditure, fiscal services, *etc.* On the expenditure side also, the transactions are classified into Sectors *viz.*, General Services, Economic Services, Social Services and Grants-in-Aid and contributions and sub-divided into Major Heads of account below these Sectors.

Major Heads of account falling within the Consolidated Fund generally correspond to 'Functions' of Government, such as 'Health', while Minor Heads subordinate to them identify the 'Programme' undertaken to achieve the objectives of the function represented by the Major Head. A programme may consist of a number of schemes or activities and these generally, correspond to 'Sub-heads' below the Minor head. 'Detailed head' below the Sub-head, is primarily meant for itemised control over expenditure and indicates the object or nature of expenditure on a scheme or activity in terms of inputs such as 'Salaries', 'Office Expenses', 'Grants-in-Aid', *etc.*

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

	Attribute of transaction	Classification
Standardized in LMMH ⁶ by CGA	Function- Education, Health, <i>etc.</i> /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, <i>etc.</i> (2-digit)

The functional classification lets us know the Department, function, scheme or programme, and object of the expenditure. Economic classification helps organize 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, while “salary” object head is revenue expenditure, “construction” object head is capital expenditure. Object head is the primary unit of appropriation in the budget documents.

Fund-based Government accounting coupled with functional and economic classification of transactions facilitates an in-depth analysis of Government activities/transactions and enables Legislative oversight over public finances.

Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of the State causes to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State for the financial year, in the form of an **Annual Financial Statement** (referred to as Budget).

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.

As mentioned in Paragraph 1.2, Finance Accounts and Appropriation Accounts encompass the core data for preparation of the SFAR. These Accounts are based on actual receipts and expenditure of the State during the year 2019-20 including various inter-governmental and other adjustments carried out by the RBI. Considering that these receipts and expenditure are estimated in the budget and the expenditure has been approved by the State Legislature, it is important to study the budget of the State for 2019-20 closely and analyse the actual receipts and expenditure during the year with reference to the projections made in the budget.

⁶ List of Major and Minor Heads of Account of Union and States

The Gujarat Budget Manual details the budget formulation process and guides the State Government in preparing its budgetary estimates and monitoring its expenditure activities. While formulating its Budget for 2019-20, the State Government continued the focus on identifying budgetary interventions in priority areas with an emphasis on ‘Outcome budget’ (aligned to sustainable development goals set by the UN) and ‘Gender budget’.

Although the State has been preparing an ‘Outcome budget’ since 2014-15, it is yet to map the actual outcomes of various budgetary interventions with the corresponding projections made in the relevant budget. The achievement of actual outcomes as against those projected in Budget 2018-19 were thus, not placed before the Legislature as of March 2020.

Results of audit scrutiny of the budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter 3** of this Report.

1.4.1 Snapshot of Finances

Table 1.3 provides a snapshot of actual financial results for the year 2018-19 and 2019-20 *vis-à-vis* Budget Estimates (BE) for the year 2019-20.

Table 1.3: Snapshot of actual financial results *vis-à-vis* Budget Estimates

(₹ in crore)

Sr. No.	Components	2018-19	2019-20	2019-20	Percentage of Actuals to BE	Percentage of Actual to GSDP
		Actuals	Actuals	BE	2019-20	
1	Tax Revenue	80,102.74	79,007.50	99,062.99	79.75	4.75
2	Non-Tax Revenue	13,416.99	18,104.15	13,979.73	129.50	1.09
3	Share of Union taxes/duties	23,489.33	20,232.09	26,047.64	77.67	1.22
4	Grants-in-aid and Contributions	18,992.48	25,500.02	15,641.60	163.03	1.53
5	Revenue Receipts (1+2+3+4)	1,36,001.54	1,42,843.76	1,54,731.96	92.32	8.59
6	Recovery of Loans and Advances	151.37	329.67	286.00	115.27	0.02
7	Other Receipts	65.00	106.36	-	-	0.01
8	Borrowings and other Liabilities ⁷	26,365.02	24,581.46	31,252.93	78.65	1.48
9	Capital Receipts (6+7+8)	26,581.39	25,017.49	31,538.93	79.32	1.50
10	Total Receipts (5+9)	1,62,582.93	1,67,861.25	1,86,270.89	90.12	10.09
11	Revenue Expenditure, of which	1,32,789.57	1,40,898.91	1,51,857.99	92.78	8.47
12	Interest payments	20,183.36	22,448.66	21,509.18	104.37	1.35
13	Capital Expenditure, of which	29,793.37	26,962.33	34,412.91	78.35	1.62
14	Capital outlay	28,061.90	25,650.61	32,806.57	78.19	1.54
15	Loan and advances	1,731.47	1,311.72	1,606.34	81.66	0.08
16	Total Expenditure (11+13)	1,62,582.94	1,67,861.24	1,86,270.90	90.12	10.09
17	Revenue Deficit (-)/Surplus (+) (5-11)	(+)3,211.97	(+)1,944.85	(+)2,873.97	67.67	0.12
18	Fiscal Deficit {(5+6+7)-16}	(-)26,365.03	(-) 24,581.46	(-)31,252.94	78.65	(-)1.48
19	Primary Deficit (18-12)	(-)6,181.67	(-)2,132.80	(-)9,743.76	21.89	(-)0.13

Source: Finance Accounts of respective years.

⁷ 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.

1.4.2 Snapshots 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. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from public account and reserve funds. The assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. **Table 1.4** gives summarised position of assets and liabilities of the Government.

Table 1.4: Summarised position of assets and liabilities

(₹ in crore)

Liabilities					Assets				
		2018-19	2019-20	Per cent increase		2018-19	2019-20	Per cent increase	
Consolidated Fund									
A	Internal Debt	2,32,874.70	2,59,661.04	11.50	a	Gross Capital Outlay	2,63,678.12	2,89,222.37	9.69
B	Loans and Advances from GoI	7,429.82	7,433.07	0.04	b	Loans and Advances	9,503.15	10,485.21	10.33
Contingency Fund									
	Contingency Fund	199.75	200	0.13		Contingency Fund	0.00	0.00	0.00
Public Account									
A	Small Savings, Provident Funds, etc.	10,608.63	10,601.21	-0.07	a	Advances	0.73	0.71	(-2.74)
B	Deposits	32,132.18	34,599.05	7.68	b	Suspense and Miscellaneous	202.94	1,865.70	819.34
C	Reserve Funds	15,503.27	16,832.75	8.58	Cash balance (including investment in Earmarked Fund)		19,600.53	24,035.80	22.63
D	Remittances	636.21	736.92	15.83					
Total							2,92,985.47	3,25,609.79	11.14
Cumulative excess of expenditure over receipts⁸							6,399.09	4,454.24	(-30.39)
Total		2,99,384.56	3,30,064.03	10.25	Total		2,99,384.56	3,30,064.03	10.25

Source: Finance Accounts of respective years.

1.5 Fiscal Balance: Achievement of deficit and total debt targets

When Government spends more than it collects by way of revenue, it incurs a deficit. Deficit is an indicator of prudent fiscal management of the Government. Further, the ways in which the deficit is financed, and the resources raised are applied, are important pointers to its fiscal health.

⁸ Cumulative excess of expenditure over receipts = Cumulative excess of expenditure over receipts of previous year + Adjustment to clear old outstanding balances – Revenue surplus

This Section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under Gujarat Fiscal Responsibility Act/ Rules for the financial year 2019-20.

There are various measures that capture Government deficit, as indicated below:

Revenue Deficit/ Surplus	<i>Refers to the gap between Revenue Expenditure and Revenue Receipts.</i>
Fiscal Deficit/ Surplus	<i>This is the difference between the Revenue Receipts plus Non-debt Capital Receipts (NDCR) and the Total Expenditure. Fiscal Deficit is reflective of the total borrowing requirements of Government.</i>
Primary Deficit/ Surplus	<i>Refers to the Fiscal Deficit less Interest Payments. It tells how much of the Government's borrowings are going towards meeting expenses other than interest payments.</i>

Source: Budget at a Glance, Government of India 2018-19

1.5.1 Achievements *vis-a-vis* fiscal targets prescribed in State FRBM Act for the current year

State Government enacted the Gujarat Fiscal Responsibility Act, 2005 in line with the Union Fiscal Responsibility and Budget Management Act, 2003 (FRBM Act) to ensure fiscal stability and sustainability, improve efficiency and transparency in management of public finances, enhance the availability of resources by achieving sufficient revenue surplus, reduce fiscal deficit and remove the impediments to effective conduct of fiscal policy and prudent debt management.

The Act was subsequently amended in 2009 and 2011. In 2011, it was amended to include the recommendations of the 13th Finance Commission.

The 14th FC for the period 2015-20 recommended a fiscal roadmap to consolidate the finances of the State Government from the financial year 2015-16 onwards. The targets for major fiscal variables set out by the 14th FC, Medium-term Fiscal Policy Statement (MTFPS)⁹ and Gujarat Fiscal Responsibility Act for the year 2019-20 compared to actual achievement are depicted in **Table 1.5**.

⁹ MTFPS, mandated by Gujarat Fiscal Responsibility Act, 2005, is presented as part of the general budget to the State Legislature every financial year. The Statement sets out three-year rolling targets for four specific fiscal indicators in relation to GSDP namely, (i) Revenue Deficit, (ii) Fiscal Deficit, (iii) Tax to GSDP ratio, and (iv) Total outstanding Debt at the end of the year.

Table 1.5: Major fiscal variables- targets and achievements for 2019-20

Fiscal variables	14 th FC targets for the State	Targets proposed in MTFPS	Targets set in Gujarat Fiscal Responsibility Act	Actual achievement (2019-20)
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	30,100	2,874	‘Zero’ by 2007-08	1,945
Fiscal Deficit/GSDP (in <i>per cent</i>)	3.00	1.84	3% by 2008-09	1.48
Ratio of total outstanding liabilities to GSDP (in <i>per cent</i>)	25.76	No target set	No target set	18.96
Ratio of Public debt to GSDP (in <i>per cent</i>)	No target set	15.69	27.10% by 2011-12	16.06
Outstanding Government Guarantees (₹ in crore)	No target set	Below 16,000	Below 16,000 by 2007-08	4,462.17
Interest Payment/Revenue Receipts (IP/RR)	12.80	13.90	No target set	15.72

Source: 14thFC Report, Budget Estimates and Finance Accounts for the year 2019-20

The State achieved ‘zero’ revenue deficit targets in 2011-12 and reported a revenue surplus thereafter. The revenue surplus stood at ₹ 1,945 crore in 2019-20 which was lower than the projections made in 14th FC.

At the end of 2019-20, fiscal deficit as a percentage of GSDP stood at 1.48 *per cent*, which was within the limit of three *per cent* recommended by the 14thFC as well as target set in Gujarat Fiscal Responsibility Act by State Government. The ratio of total outstanding liabilities to GSDP stood at 18.96 *per cent* was also within the limit of 25.76 *per cent* set by the 14thFC. The ratio of public debt to GSDP stood at 16.06 *per cent* and was well within the limit of 27.10 *per cent* set in GFRA.

Thus, the State was well within the targets specified by the 14thFC during 2019-20 with regard to the key fiscal parameters namely, fiscal deficit to GSDP ratio and ratio of total outstanding liabilities to GSDP. The State had a fiscal deficit of ₹ 24,581 crore during 2019-20, representing 1.48 *per cent* of the GSDP and constituting 14.64 *per cent* of total expenditure. Interest payments as a proportion to revenue receipts (which is an indicator of debt servicing capacity) stood at 15.72 *per cent* as against 14thFC target of 12.80 *per cent* and MTFPS target of 13.90 *per cent*.

1.5.2 Comparison of targets of fiscal parameters projected in MTFPS with actuals for the current year

Comparison of targets of fiscal parameters projected in MTFPS presented to the State Legislature in 2019-20 with actuals, and the extent of variation is shown in **Table 1.6**.

Table 1.6: Actuals *vis-à-vis* projections made in MTFPS during 2019-20

(₹ in crore)				
Sr. No.	Fiscal Variables	Projection as per MTFPS	Actuals (2019-20)	Variation (in <i>per cent</i>)
1	Own Tax Revenue	99,062.99	79,007.50	(-)20.25
2	Non-Tax Revenue	13,979.73	18,104.15	29.50
3	Share of Central Taxes	26,047.64	20,232.09	(-)22.33
4	Grants-in-Aid from GoI	15,641.60	25,500.02	63.03
5	Revenue Receipts (1+2+3+4)	1,54,731.96	1,42,843.76	(-)7.68
6	Capital Receipts ¹⁰	43,215.01	43,927.35	1.65
7	Revenue Expenditure	1,51,857.99	1,40,898.91	(-)7.22
8	Revenue Deficit (-)/ Surplus (+) (5-6)	(+)2,873.97	(+)1,944.85	(-)32.36
9	Fiscal Deficit (-)/ Surplus (+)	(-)31,252.94	(-)24,581.46	(-)21.35
10	Primary Deficit (-)/Surplus (+)	(-)3,072.28	(-)2,132.80	(-)30.58
11	GSDP growth rate at current prices (<i>per cent</i>)	13.29	10.75	-

Source: Budget Publication No. 30 for 2019-20 and Finance Accounts

As may be seen from the table above, the actual non-tax revenue and fiscal deficit improved significantly during 2019-20 *vis-à-vis* the projections made in MTFPS. However, the targets projected for tax revenue, share of Central taxes, revenue surplus and growth rate of GSDP were not met during 2019-20.

1.5.3 Trends analysis of achievements against fiscal targets

As per Gujarat Fiscal Responsibility Act, 2005, the State Government was to eliminate revenue deficit by 2007-08 and maintain revenue surplus thereafter; reduce fiscal deficit to three *per cent* of the estimated GSDP by 2008-09 and maintain the same level thereafter. The Act further envisaged that the State Government would limit the ratio of public debt to GSDP to 27.10 *per cent* by 2011-12 and maintain it there after. Furthermore, the State Government was expected to limit the outstanding guarantees to ₹ 16,000 crore by 2007-08.

A trend analysis of key fiscal parameters prescribed in Gujarat Fiscal Responsibility Act *vis-à-vis* achievements during the last five year (2015-20) is given in **Table 1.7**.

¹⁰ Capital Receipts = Public Debt Receipts + Miscellaneous Capital Receipts + Recovery of Loans and Advances

Table 1.7: Trend analysis of key fiscal targets prescribed in the Act during 2015-20

Fiscal Parameters	Fiscal targets set in the Act	Achievement (₹ in crore)				
		2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Deficit (-) / Surplus (+) (₹ in crore)	Revenue Surplus	1,704	5,947	5,232	3,212	1,945
		✓	✓	✓	✓	✓
Fiscal Deficit (-)/ Surplus (+) (as percentage of GSDP)	Three per cent	(-)23,015 (-2.24)	(-)16,480 (-1.43)	(-)21,366 (-1.63)	(-)26,365 (-1.76)	(-)24,581 (-1.48)
		✓	✓	✓	✓	✓
Ratio of total Public Debt to GSDP (per cent)	27.10 per cent	17.56	17.08	16.01	16.00	16.06
		✓	✓	✓	✓	✓
Outstanding Guarantees	Below ₹ 16,000 crore	5,236	4,804	4,834	4,699	4,462
		✓	✓	✓	✓	✓

Source: Budget Publication and Finance Accounts of respective years.

As could be seen, the State Government successfully achieved all the four key fiscal parameters envisaged in Gujarat Fiscal Responsibility Act during the last five years.

The trends in surplus/deficits over the five-year period (2015-20) is depicted in **Chart 1.5**; trends in surplus/deficit relative to GSDP is given in **Chart 1.6**; and trends of fiscal liabilities and GSDP is given in **Chart 1.7**.

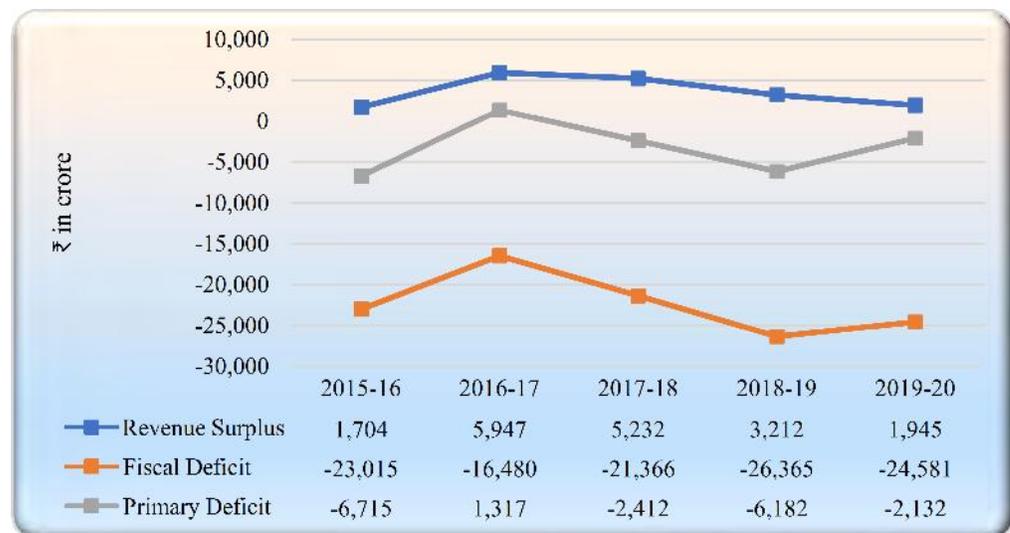
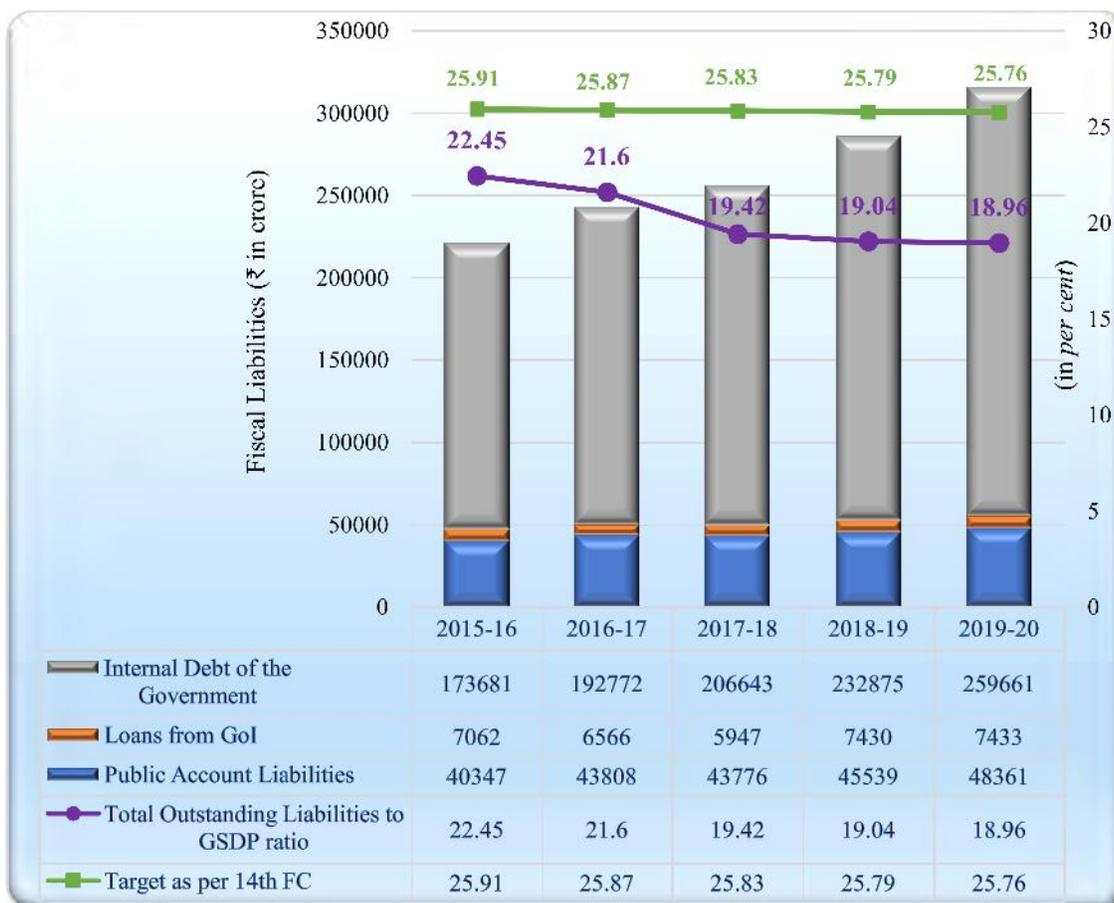
Chart 1.5: Trends in Surplus/ Deficit

Chart 1.6: Trends in Surplus/Deficit relative to GSDP



Chart 1.7: Trends in fiscal liabilities and GSDP



1.6 Deficit and Total Debt after examination in Audit

In order to present better picture of State Finances, there is a tendency to classify revenue expenditure as capital expenditure and to conduct off budget fiscal operations.

1.6.1 Post Audit – Deficits

Misclassification of revenue expenditure as capital and off budget operations impacts deficit figures. Besides, deferment of clear-cut liabilities, non-deposition of cess/royalty to Consolidated Fund, short-contribution to New Pension Scheme, sinking and redemption funds *etc.* also impacts the revenue and fiscal deficit figures. In order to arrive at actual deficit figures, the impact of such irregularities need to be reversed.

Table 1.8 assesses actual surplus/deficit after taking into account short/non-contribution to funds and incorrect classifications/booking by the State Government during 2019-20.

Table 1.8: Actual Revenue and Fiscal Deficit

Particulars	Impact on Revenue Surplus [Understated(-)/ Overstated(+)] (₹ in crore)	Impact on Fiscal Deficit (Understated) (₹in crore)
Grants-in-Aid booked under Capital Section instead of Revenue	(+) 4.83	--
Non-discharge of Interest liabilities	(+) 115.41	115.41
Shortfall in State Government contribution to Consolidated Sinking Fund	(+) 766.05	766.05
Non-transfer of Labour Cess	(+) 1,000.10	1,000.10
Total	(+) 1,886.39	1,881.56

Source: Finance Account for the year 2019-20

Indian Government Accounting Standards (IGAS)-2 prescribes that grant-in-aid should be booked under revenue expenditure. However, the State Government incorrectly budgeted and booked expenditure of ₹ 4.83 crore¹¹ relating to grants-in-aid under the capital section instead of the revenue section.

As may be seen from the table above, there was an overstatement of revenue surplus by ₹ 1,886.39 crore during the year. Also, fiscal deficit was understated by ₹ 1,881.56 crore in 2019-20. Thus, the State's actual revenue surplus would stand at ₹ 58.46 crore¹² during 2019-20, if the items of non-contribution/short-contribution, non-discharge of liabilities and incorrect classification are factored in.

1.6.2 Post Audit – Total Public Debt

Public sector debt in its broadest definition comprises debt from:

- The Government (including the Central, the State, and local Governments, social security funds, and extra-budgetary funds);
- The non-financial public enterprises; and financial public enterprises (including the Central Bank);

¹¹ Refer paragraph 3.3.6; Chapter 3

¹² ₹ 1,944.85 crore - ₹ 1,886.39 crore

- Long-term obligations of Government, such as unfunded liabilities of social security funds (when they are not explicitly recognized as part of general Government debt); and
- Known and anticipated recognition of contingent liabilities (such as, from ongoing restructurings of financial institutions or from public-private partnerships where demand or other guarantees have been or are poised to be triggered).

For assessing debt sustainability, ideally, a broad public debt coverage is important. Moreover, gross debt is the appropriate concept as it measures the burden of financing of debt service obligations for which the Government is responsible. The availability of liquid financial assets mitigates, but may not eliminate, risks to debt sustainability (such as currency or maturity mismatches, and as some minimum levels of assets are required for normal Government operations).

The State of Gujarat defines “total outstanding debt/ liabilities” to include only liabilities upon the Consolidated Fund and Public Account of the State. On the other hand, Andhra Pradesh, Karnataka and Haryana define “total liabilities” to include borrowings by the public sector undertakings and the special purpose vehicles and other equivalent instruments including guarantees where the principal and/or interest are to be serviced out of the State budgets, apart from the liabilities under the Consolidated Fund of the State and the Public Account of the State.

The State Government may consider depicting the borrowings by the public sector undertakings and the special purpose vehicles and other equivalent instruments including guarantees in “total outstanding debt/liabilities” where the principal and/or interest are to be serviced out of the State budget. This would render transparency to the Accounts and facilitate the State Government in assessing the clear liabilities in the event of default by the entities.