



## Gujarat Economic and Fiscal Performance: A Comparative Analysis with NSC \*States

### Abstract

*In India, one important issue at state level or sub-national level is that of fiscal health. During eighties and nineties, states in India witnessed a secular deterioration in their fiscal health. All states trend shows that state is vulnerable to fiscal management because of increased in fiscal and revenue deficit. The states are increasingly being dependent on central government and market borrowing to carry their development plans.*

*A well managed and high income state like Gujarat experienced a fiscal stress due to deterioration in its fiscal situation arisen by gradual increased in resources gap between revenue and expenditures. The state of Gujarat has been incurring deficit for more than two decades. It is in this context, paper discusses an analytical review of the economic and fiscal performance of Gujarat during the period 1980-2008. The paper further examines the position of Gujarat with other non-special category states as categorized by RBI.*

**Keywords:** Gujarat, Growth, Fiscal, Finance, Deficit, Budget

### Introduction

The Constitution of India assigned a state with important responsibilities in social and economic sectors such as agriculture, infrastructure, education, family planning, irrigation and rural development. The role of state has become important as it has concurrent jurisdiction, to perform these developmental functions adequately and effectively. To perform such development functions a higher investment is needed in all sectors of the economy. During eighties and nineties, states in India witnessed a secular deterioration in their fiscal health. All states trend shows that state is vulnerable to fiscal management because of increased in fiscal and revenue deficit. The states are increasingly being dependent on central government and market borrowing to carry their development plans. The growth experience shows that Gujarat is one of the most prosperous and fast growing states in India. But during past two decades, Gujarat state witnessed a secular deterioration in their fiscal health due to gradual increased in resources gap between revenue and expenditures. The led to deficit both in capital and revenue account.

NSC\* States- Planning Commission on the basis of economic and social performance classified ten states as special category states (Arunchal Pradesh, Assam, H.P.,J&K,Manipur,Megalaya, Mizoram, Nagaland, Sikkim,Tripura,)while the remaining states are considered as non-special category states. The non-special category states are basically known as better managed state in terms of general economic environment.

Gujarat state has undertaken many various policy measures to strengthen its fiscal position. Given the size of the problem, the effectiveness of these measure remains inadequate as most policy measures are adhoc in nature. This study on Gujarat socio-economic performance assumes importance, as fiscal discipline is necessary for the growth and the structural reform process. It helps to analyze the factor that determines the future growth process of the Gujarat State in the years ahead.

The paper discusses an analytical review of the economic and fiscal performance of Gujarat state during the period 1980-2008. The paper further examines the position of Gujarat with other non-special category states as categorized by RBI. This paper is divided into two sections. Section -I discuss socio-economic situation of Gujarat state for the period under study (1980-2008). Section-II deals with the fiscal discipline and provides the general background about the constraint under which Gujarat state are required to manage their fiscal resources. **Methodology and Time period-** Various statistical and mathematical techniques have been used for the analysis of data. Like Proportions and Growth Rates, Ratio Analysis and Regression Analysis. The fiscal condition of the state in general has steadily deteriorated since 1980's. Hence, the time period considered for the study is 1980-81 to 2008-09.

**Limitation of the Study:-**Due to the implementation of FRBM ACT 2003 in the states of India by the central government, forced the state to review their budget pattern. In response to that there is a structural change in expenditure of the states. Therefore, in order to analyze, data for 1980- 2008 being considered

### Review of literature

There are well researched papers and studies on the state finances in India. These papers discuss the budgetary issues in terms of fiscal discipline. The studies by EPW (2001), Chaudari Saumitra (2000), Kochhar K (2004), Bagchi (2003) Dholakia R (2003), Easterly (2004), Rao (2002) throw light on issues in taxation (to improve productivity of the tax system, neutrality in taxation and reforms in tax), expenditure management, fiscal performance approach at centre and state level and also discusses the various initiatives taken by the state, the centre and the RBI to reform the totality of state finances.

It can be concluded from these studies that fiscal health of state finance over a period of time have been subjected to considerable stress and strain. Gujarat is facing the problem of imbalances in its fiscal resources since 1985-86 resulting in widening of revenue and fiscal deficit. Therefore, it is important to review the fiscal position of states in order to focus the financial issues pertaining to state finance in general and particularly Gujarat.

### Section -1: The Economic Performance of Gujarat

Gujarat is the most urbanized and developed state among the states in India. It was formed in May 1960 out of the then bilingual Bombay state. It has an area of 196 thousand square Km., which is about 6 percent of total area of the country. It is the seventh largest state in terms of area and now ranks 10<sup>th</sup> in population size among the states in India. During the period 1981-2001, its population increased at the rate of 32.6 percent as compared to the national rate of 33.3 percent. This only means that the state needs more resources for revenue in order to meet the demand of its growing population.

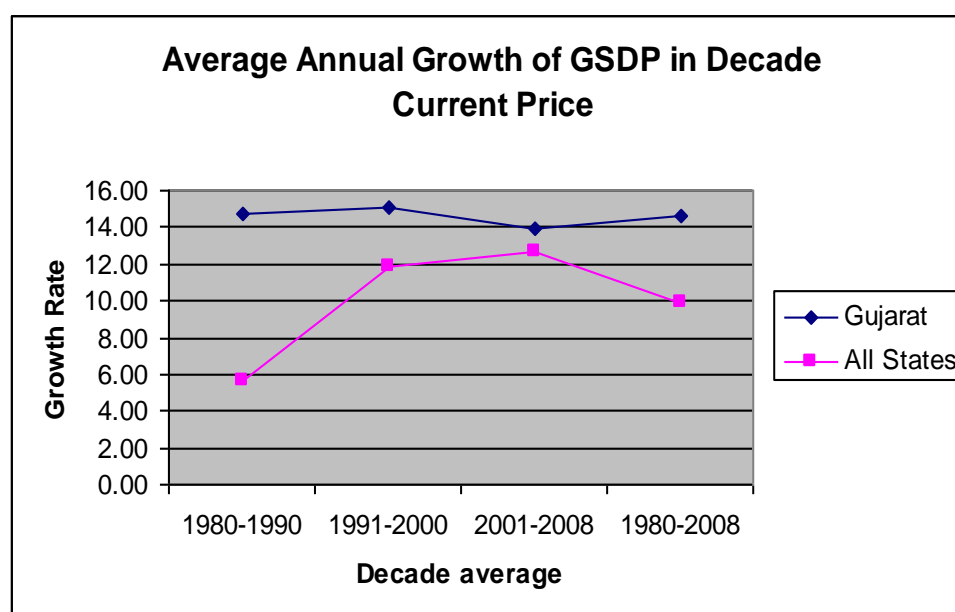
However, with the increase in population, Gujarat literacy Level has improved during the period 1980-2001. It evinces from the Table 1 that its literacy level improved from 43.70 percent (1981) to 69.14 percent (2001), where male literacy rate was 80.50 percent and female literacy was around 58.60 percent. Though, there is an increase in total literacy rate from 25.44 percent (1981-2001) compared to all India average of 21.27 percent, the per capita expenditure on education is the lowest at 0.62 (1990-91) (Kerala is taken as the base Kerala = 1%).

**Table 1 Gujarat at a Glance- Comparison with All-India (States)**

Year	1981	1991	2001	%change 1981-2001
<b>Population</b>				
Gujarat (in lakhs)	341	413	506	32.6%
All-India (in lakhs)	6852	8463	10286	33.3%
<b>Literacy rate</b>				
Gujarat	43.70	61.29	69.14	25.44
All-India	43.57	52.2	64.84	21.27
<b>Urbanization (%)</b>				
Gujarat	31.10	34.49	37.36	6.26
All-India	22.6	24.56	27.82	5.22

Source: - Socio-Economic Review of Gujarat, Various Issues.

The growth experience (Graph-I) shows that Gujarat is one of the most prosperous and fast growing states in India. Its position in comparison to all other states shows that the state's average annual growth rate at current prices is always ahead of the national average. However, the difference was narrowed during the nineties and twenties in comparison to the eighties. This means that during the period of the post economic reform, the growth rate of Gujarat slipped down in comparison to all states.

**Graph-I Average Annual Growth of GSDP 1980-2008**

Source: CSO, New Delhi and Gujarat State Domestic Product, Gandhinagar

The compound growth rate of state domestic product, Table-2 evinces that in the beginning of the eighties, the growth rate is lower as compared to the other states, mainly, due to successive drought after 1984-85. However, it is important to note that the state managed continuous three successive droughts efficiently during this period. After mid eighties, Gujarat was able to manage a high growth and it ranked second in

comparison to other states. It was observed that state managed a growth rate of 7.96 percent and stood second among the states in India in the nineties. In the twenties, state ranked first with 8.99 growth rate at constant 1993-94 prices. It ranked sixth in terms of Per Capita Income in the period 1980-2005, and fourth during the post reform period. Gujarat Per Capita SDP was Rs.22047 (2001) higher than all states average of Rs.13715.

Similarly, according to NSS-58<sup>th</sup> Round, the monthly Per Capita Consumer Expenditure both in rural and urban area was around Rs.590.20 and Rs.1229.16, which was higher than the national rate of 531.39 and 1011.97 respectively.

**Table 2 Continuous Compound Growth rate of Gross State Domestic Product by State at constant 1993-94 prices**

	<b>1980-81 To 1989-90</b>	<b>1990-91 To 1999-2000</b>	<b>2000-01 To 2004-05</b>	<b>1980-81 To 2004.05</b>	<b>1990-91 To 2004-05</b>
A.P.	5.21	5.21	5.89	5.66	5.61
Bihar	4.50	-4.32	1.84	0.15	0.25
Chhattisgarh*	-	3.17	8.06	3.83	3.83
Goa	4.68	7.98	3.09	6.88	7.21
<b>Gujarat</b>	<b>4.93</b>	<b>7.96</b>	<b>8.99</b>	<b>6.08</b>	<b>6.65</b>
Haryana	6.02	4.82	6.62	5.59	5.49
Jharkhand*	-	5.71	5.25	4.64	4.64
Karnataka	5.22	7.06	4.99	6.16	6.72
Kerala	3.11	5.68	7.64	5.18	5.72
M.P.	3.94	1.56	4.88	2.78	2.31
Maharashtra	5.49	6.88	7.26	6.30	5.80
Orissa	4.89	4.46	7.25	3.91	4.42
Punjab	5.29	4.61	4.02	4.61	4.34
Rajasthan	5.83	6.39	6.71	5.98	5.46
T.N.	5.04	6.44	3.17	5.64	5.42
U.P.	4.68	2.91	4.54	3.67	3.28
W.B.	4.59	6.60	6.94	5.81	6.68
Delhi	7.32	6.45	7.17	7.04	7.14

*Source: CSO, New Delhi and Gujarat State Domestic Product, Gandhinagar*

*Note: \* indicate data are from 1993-94 to 2004-05*

*Regression use:  $y=A.e^{bt}$*

Thus, in the case of gross SDP as well as per capita SDP, Gujarat has maintained its rank, and its position improved in the nineties as compared to eighties. In the twenties, Gujarat's growth rate was high at 8.99 percent. Ahluwalia [2000] pointed that during the post reform period the growth rate of Gujarat grew at rates normally associated with 'miracle growth'. Gujarat's superior performance was not the result of any conscious policy of limiting benefits of liberalization but it was due to the fact that the states were able to provide an environment most conducive to benefit the new policies.

The analyses on structural pattern of Gujarat economy, Table 3 suggests that like other states, Gujarat is experiencing a phase of structural transformation. The agriculture sector which accounts for 35 percent in the year 1980-81 now accounts only 15 percent of SDP in 2007-08. Similarly, the contribution of secondary sector increased marginally from 30 percent to 39 percent in total gross SDP. The share of service sector

however shows an increase of about 40 percent. It has increased from 36 percent to 47 percent in the period 1980-2008.

**Table 3 Gujarat-Sectors of the Economy**

(Percentage distribution)

Year	Primary	Secondary	Tertiary	Total SDP
1980-81	34.65	29.04	36.35	100
1990-91	31.63	32.59	35.78	100
2000-01	17.15	34.53	48.32	100
2007-08	15.2	39.00	46.80	100

Sources: - Gujarat State Domestic Product, Gandhinagar.

With the change in the composition of SDP, the distribution of workforce has also changed. In the year 2004-05, agriculture accounts for 56 percent of workforce, which is much less compared to thirty years ago (65%). This clearly indicates that the state is reducing its dependence on agriculture for income and employment generation.

Another important factor is the change in the total public investment in the economy. Agriculture accounts only 8 percent, industry 25 percent while rests are shared by the service sector during the period 1980-2008. The total gross capital formation in agriculture from 1991 to 2004 has declined from 33 percent to 26 percent at constant 1993-94 prices. Kashyap, S. P, [2000] pointed that Gujarat needs investment in agriculture infrastructure and strategies for sustainable resources which can be used to improve its productivity.

**Table 4 Continuous Compound Growth rate of Gross Domestic Product by Economic Activity of Gujarat and India (Constant 1993-94 price)**

	1980-81 To 1989-90	1990-91 To 1999- 2000	2000-01 To 2004-05	1980-81 To 2004.05	1990-91 To 2004-05
<b>Gujarat</b>					
Primary	-0.55	3.96	1.17	2.11	2.29
Agriculture	-1.16	4.01	1.35	1.89	2.27
Secondary	7.76	9.93	8.94	7.84	7.92
Tertiary	7.27	8.45	7.86	7.22	7.90
Total GSDP	4.55	7.84	8.99	5.91	6.57
<b>India</b>					
Primary	3.20	3.37	2.14	3.16	2.83
Agriculture	3.40	3.31	1.78	2.98	2.67
Secondary	5.51	6.31	6.66	5.79	5.96
Tertiary	6.53	7.40	7.82	6.89	7.47
Total GDP	5.10	5.94	6.20	5.50	5.83

Sources: - Gujarat State Domestic Product, Gandhinagar

Regression use:  $y=A.e^{bt}$

The Table 4 shows growth experience of primary sector volatility and highly fluctuating trend. This fluctuation has been largely because of the ups and downs in agricultural output, which mainly depends on the rainfall. With only 20 percent of cultivable area under irrigation, the state is vulnerable to the vagaries of monsoons. The growth rate of primary sector was negative (-0.55) followed by agricultural growth rate of -1.16 in the period 1980-90. It improved during the period 1990-2000 to 4.01 but it fell to 1.35 in the years 2001-2005. However, it has maintained the growth rate of 2.27 as compared to the national average of 2.67 during the period 1990-2005. Indira Hiraway [2000] pointed out that the deceleration of agricultural growth in the post Green Revolution era is largely because of the situation of results of the earlier strategies, lack of development of new approach and decline in the share of the Government expenditure on irrigation and agriculture.

Thus, we conclude that the agriculture growth has stagnated if not declined during the phase 1980-2000 due to the lack of development of new technology that can accelerate land productivity in agriculture. However, Gujarat's ultimate irrigation potential, the Sardar Sarovar project which is assisted by World Bank, estimated that 50 percent of the total area is put under agricultural cultivation.

On the industrial front, Gujarat was considered as one of the most industrialized states in India and produce goods like textiles, chemical products, dairy products, edible oils, leather products and cement. The state has performed well (Table 4) with the growth rate of the secondary sector maintained at 7.76 percent in the eighties, 9.93 percent in the nineties and 8.94 percent during the period 2001-2005. During the post reform period, the growth rate was around 7.92 which is quite higher than the national rate of 5.96.

The tertiary sector has shown a consistent better performance, both before and after 1990. The Gujarat growth rate (Table 4) was around 7.22 percent and 7.90 percent as compared to the national growth of 6.89 and 7.47 during 1980-2005 and 1990-2005 respectively.

The absolute levels of employment have risen marginally during the period 1980 – 2008. But there is also a marked increase in the frictional employment because of the closure of textile mills (1980) and decentralization of public sector industry.

The state has high unemployment rate among males in rural and females in urban areas. The unemployment rate amongst females is 4 percent substantially higher than the national level according to the National Sample Survey data on 50th round.

The effort gone in to the promotion of Social Sector, especially Health and Education has increased significantly. The Health infrastructure shows a marginal improvement as Health centers have increased from 2186 (1980-81) to 13844 (2000). It ranked 16<sup>th</sup> with respect to Child Birth Rate (CBR) and 14<sup>th</sup> with respect to Child Death Rate (CDR) out of the of 29 states and Union Territories. The state education programmes reveal that it is not enough to allocate resources for education, it is also necessary that education is imparted in proper school buildings, and through trained teachers.

To conclude, the Gujarat economy has responded significantly to the stimuli provided by reforms and various state programs and policies during the period 1980-2008. However, in order to achieve sustained growth rate in future, Gujarat state needs a corrective action in its fiscal performance. During the last two decades the Gujarat fiscal deficit has increased 5 percent of GDP. Larger investment is needed in all areas such as schools and health facilities, power system, irrigation and water management system, land development etc. The state has to strengthen the existing financial position in order to identify the potential and to promote growth and development.

## Section 2-Gujarat Fiscal Issues

Gujarat state, which is generally considered a well managed state, has incurred a deficit in its budget during the period of the eighties, the nineties and the twenties. The growing gap between expenditure and revenue is the main reason for the growing and persistent imbalances in the Gujarat state finances. Gujarat has reached a stage where capital receipts are being utilized to cover revenue deficit. It results into growing debt burden and serving of growing debt affecting the development expenditure.

### General Budgetary Position of Gujarat State

General budgetary position of Gujarat state is depicted in the Table 5 for the period 1981-2008. An aggregate receipt of Gujarat had increased from Rs. 1598.72 Cr. in 1981 to Rs. 48983.99 Cr. in 2008 i.e. an increase by 30.63 times. The aggregate expenditure had increased from Rs. 1687.48 Cr. to Rs. 49455.19 Cr during the period 1980 to 2008 i.e. increase by 29.31 times.

If we look at the position of aggregate receipts and expenditure between the years 1981-2008, it can be observed that during the eighties the aggregate receipts were greater than the aggregate expenditure. During nineties the trend was reversed, this evinced that the aggregate expenditure was greater than the aggregate receipts. The contingency fund and the public fund account showed a negative sign. Negative sign indicates that the resource gaps widened during the nineties as compared to the eighties. Similarly, in year twenties the same trend was observed before 2005. However, the resource gap is narrowed as compared to the nineties. Analysts argued that the reason for narrowing of the gap between receipts and expenditure was the increase in receipts due to more borrowings of the Gujarat State Government in order to finance the debt.

**Table 5 General Budgetary position of Gujarat State: 1980-2008 (Rs. Cr.)**

Year	Aggregate Receipts	Aggregate expenditure	Contingency fund (net)	Public account (net)	Overall surplus and deficit
1981	1598.72	1687.48	+12.21	+37.35	-39.2
1985	2693.58	2814.44	-26.81	+128.55	-19.12
1991	6741.95	7785.48	+1.22	1027.37	-14.94
1995	10366.95	10810.58	-18.93	+525.11	+62.55
2001	43626.08	43213.95	102.54	-902.58	-387.91
2005	37521.68	34256.77	-68.85	-3108.45	87.61
2008	48983.99	49455.19	0.00	-405	-876.20

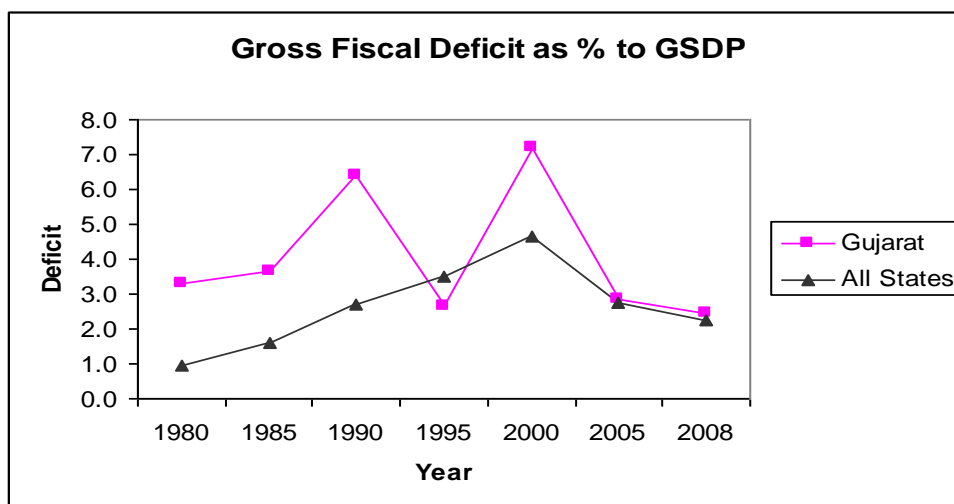
**Source: - Various Issues of Budget in Brief, Directorate of Economics and Statistics Govt. of Gujarat, Gandhinagar**

Traditionally, the gap in these accounts are filled by increase or decrease in cash balances, addition to or withdrawals from cash balances investment account and repayment of or increase in ways and means advances and overdrafts from RBI.

It can also be observed from Table 5 that inadequate funds were kept by the state on regular basis for unforeseen expenditure such as natural calamities like floods, famine and earthquake. This compels the state governments to take resort to capital loan or unauthorized overdrafts. This might be one of the important causes of fiscal indiscipline during the period 1981-2008.

The major factor attributed to fiscal imbalances of Gujarat state had a considerable increase in fiscal gap during the period 1981-2008. Gujarat budget accounted a surplus before 1984-85. Graph II shows that the state started facing the problem from late eighties i.e. from the year 1986-87. In proportion to gross SDP, if we compare the 1986-87 to the year 2000, all the deficit indicators show an upward trend. The revenue deficit increased from 1.91 to 5.17 percent, the budgetary deficit has increased from surplus of 0.65 to deficit of 0.23 and capital deficit from 2.56 to 5.44 percent. With the growing of these deficits, fiscal deficit widened. The fiscal deficit has increased from 3.6 percent to 6.4 percent and primary deficit from 4 percent to 4.4 percent.

**Graph II Gross Fiscal Deficit as percent of Gross SDP at Current Prices**



**Source: – Handbook of Statistics on State Govt. Finance, 2004, State Finance: A Study of Budget, RBI, CSO. New Delhi.**

The graph II evinces that the Gujarat fiscal deficit was always above 2 percent of GDP, except in the year 1995, from 1980 to 2008. The fiscal deficit which stood at 6.4 percent of GDP in 1992 came down to 2.1 percent in the year 1994 but started climbing once again and reached 6.1 percent in 2001. This meant that the Gujarat state was also one of the states which were far behind the target of reducing fiscal deficit to 3 percent of GDP. Sarma [1999] pointed that the fiscal deficit came down after the year 1992 essentially as a result of capital expenditure compression. But in the subsequent years the compression of capital expenditure continued while the fiscal deficit kept moving up.

Similarly, in case of All the States, the fiscal deficit which was around 3 percent of GDP until 1997-98, increased sharply to 4.2 percent in 1998-99 and further to 4.6 percent in 1999-2000. In 2001 it recorded 5.3 percent of GDP. However, in comparison to All States, the graph evinces that Gujarat situation is worse as fiscal deficit trend is always above the All States trend. Similarly, same trend is observed in case of all non special category states.

One major factor for increase in fiscal deficit is the revenue account. Revenue receipts as percent of gross GDP witnessed a near stagnation with very low buoyancy of its own tax revenue and decline in transfers from the central. The revenue receipts were 13.96 percent in 1986-87 and in 2000 it accounts 14.16 percent. The tax revenue was stagnant around 8 percent, while own tax revenue declined from 7.8 (1986-87) to 7.4 percent (2000). The Non tax revenue also shows no improvement as it accounts 4.78 (1986-87) and 4.61 (2000) percent. Central transfer in terms of grants also declined in the same years. In terms of revenue receipts and expenditure of non special category states as percent of GDP and its growth rate is depicted in the Table 6 following observations are made:-



- Gujarat State's revenue receipts in proportion to GDP were 13.34 percent. This was lower than All States average of 13.50 percent during the period 1980-2005.
- With respect to non-special category states the state Orissa had the highest revenue receipts-GDP ratio with 17.51 percent, followed by Bihar and Rajasthan. The state with lowest ratio was West Bengal (10.83).

**Table 6 Percentage of Revenue Receipts and Expenditure to Gross GDP and its Growth Rate (Average of 1980-2008)**

	RR as % of GDP(Avg.) 1980-05	RE as % of GDP (Avg.) 1980-05	Growth Rate RR (Avg.) 1980-08	Growth Rate RE (Avg.) 1980-08
A.P.	14.91	15.53	15.66	16.13
BIHAR	16.59	18.72	13.89	13.73
GUJARAT	13.34	15.52	14.12	14.60
HARYANA	12.97	12.79	15.64	16.15
KARNATAKA	15.48	15.88	15.12	15.26
KERALA	14.69	17.36	14.20	14.57
M.P.	15.58	15.85	13.40	13.48
MAHARASHTRA	12.51	13.34	14.14	14.36
ORISSA	17.51	18.32	14.23	14.61
PUNJAB	11.44	13.32	15.86	15.71
RAJASTHAN	16.29	16.62	14.73	14.99
TAMILNADU	14.85	15.69	14.26	14.96
UTTARPRADESH	14.20	15.10	14.89	14.92
WEST BENGAL	10.83	13.64	13.60	14.26
All states	13.50	15.82	14.50	14.78

*Source: – Handbook of Statistics on State Govt. Finance, 2004, State Finance: A Study of Budget RBI, CSO. New Delhi.*

- Gujarat stood at the 10<sup>th</sup> position among all the non special category states, which showed that its revenue performance was poor as compared to other states.
- In terms of growth rate, during the period 1980-2008, Gujarat's growth rate of 14.12 percent was low as compared to All States of 14.50 percent. The highest growth in revenue receipts was recorded by the state of Punjab (15.86), followed by Andhra Pradesh (15.66) and Haryana (15.64). It ranked at 10<sup>th</sup> position among the non special category states.

Thus, we conclude that Gujarat was not the most efficient state in terms of revenue receipts among the non- special category states and as compared to All States during the period 1980-2005.

Revenue expenditure which consists of Interest payment, expenses towards administrative services, wages and salaries, pensions and subsidies all led to increase in deficit. With the increase in revenue expenditure the total expenditure in percent of gross GDP increased from 20.5 (1986-87) to 24.4 (2000)

percent. The revenue expenditure has increased from 15 to 18.38 percent while the capital expenditure declined from 5.28 to 4.62 percent in the same year. In case of revenue expenditure following observations are made from Table 6.

- All states revenue expenditure as percentage of GDP accounts 15.82 percent which was more than the Gujarat's ratio of 15.52 percent during the period 1980-2005.
- In terms of ranking of states, Bihar ranked first with 18.72 percent followed by Orissa (18.32%) and Kerala (17.36%). Gujarat with 8<sup>th</sup> position was comparatively at a low position as compared to other non special category states.
- With respect to average growth rate for the period 1980 to 2008, Gujarat with 14.60 percent accounted more than the All States growth rate of 14.18 percent. Among the non special category states, the State of Haryana ranked 1<sup>st</sup> with 16.15 percent followed by Andhra Pradesh (16.13 %) and Punjab (15.71 %). Gujarat ranked at the 9<sup>th</sup> position. It is observed that in case of all non-special category states revenue expenditure was more as compared to the revenue receipts for the period 1980 to 2008 except the state of Haryana, where there was a marginal difference of 0.18 percent. In case of Gujarat, the difference was around 2.18 percent which was the cause of revenue deficit and budget deficit in Gujarat's state budget.

Over the years, large revenue deficit has led to large fiscal deficit, which resulted into steady accumulation of debt as reflected in the rise in the debt-GDP ratio. The debt dynamics turned more adverse in the nineties as public debt as percent of GDP witnessed rapid growth from 3.8 (1986-87) to 6.6 (2000) percent. The average annual growth rate of public debt has increased from 6.7 in the eighties to 41 percent in the years of two thousand. The RBI Report on State Finances [2001] pointed that 15 percent of the total expenditure of the Gujarat state in the year 2000 comprised of interest payment and debt servicing. The average annual growth rate of public debt has increased from 6.7 percent 1980-81 to 41 percent in the year 2000.

Thus, the major concern is, first, the rapidity with which public debt and its servicing is growing poses a challenge and a threat to the stability of state finances. Second, given the fact that the states face a hard borrowing constraint, any significant rise in the public debt burden may have adverse implications for resources allocation to some of the critical social sectors.

Another major fiscal health issue which has dominated during the eighties and nineties is expenditure towards subsidies which is provided to various social and economic services. It is difficult to find out the accurate amount of subsidies provided by the state through their budgets as they are both hidden and direct. The Gujarat Finance Report [1994, GOG] had carried out a desk study of the trend in subsidization of social services during the period 1980 to 1991 in Gujarat. The study analyzed that in Gujarat the average annual growth rates of subsidy is around 21 percent while its recovery rate is 13 percent per annum. However, the situation has improved recently as the growth rate assumed on general subsidies is negligible.

The deteriorating financial condition of public sector enterprises is a matter of serious concern to all the states. This is considered to be an avoidable burden on public exchequer which can be gradually reduced by resorting to privatization. However, during the years Gujarat state is able to find success with two public sector companies out of 24 undertakings and like other states the state is also finding it difficult to close down the loss making public sector units.

The existing system lacks a link between borrowing and end use of expenditures in capital investment. The whole control to preserve the fiscal health of the State is being exercised with central government. The state governments are not allowed to run deficit –financing activities and are therefore constrained from fiscal excess.

Mohan R (2000) pointed out that the overall worsening fiscal situation of state governments is due to the financing of investment expenditures. Capital outlays as a proportion of gross fiscal deficit have fallen from about 62 percent in the late 1980's to less than 50 percent in the nineties. Similarly, revenue deficit has risen as proportion of gross fiscal deficit from about 7.7 percent in the late 1980's to more than 53 percent in nineties. Consequently, borrowing by the state government is now being devoted more and more to the financing of revenue expenditure rather than capital expenditures. All this can only lead to further worsening of the fiscal situation in the coming years. The resources available for investment will decline continuously in the foreseeable future, unless, there is a change in the system.

Ahluwalia (2000) also argued that, to accelerate growth, higher levels of public investments are required in critical social and economic infrastructure sectors by state governments. However, the financial position of most states is actually forcing a continuous squeeze on the plan investment. During 1990-91 several states had a positive balance from current revenues (BCR). This balance has now turned negative for almost all states which means that state governments have to borrow to finance the negative BCR. And then borrow more to finance the plan.

The planning Commission, while stressing the need for fiscal and other reforms at the states level, observed that. '.... a joint effort by the centre, and states need to reform more and much faster, and raise substantially higher levels of their own resources to mobilize the financial resources essential for the much needed productive investments....' (Mid Term Appraisal, Xth five-year plan)

Another component responsible for deficit in Gujarat fiscal account is non debt capital receipt. These receipts are the part of the capital account. The Capital Account usually shows the capital requirement of the government and their financing patterns. If the receipts fall short of capital requirement, the gap is made by borrowing and drawing down cash balances. Capital account signifies the economic role of the government pertaining to acquisition and deposition of capital assets.

Capital receipts of the government which create liability or reduce financial assets are the principal sources of meeting the requirements through: revenue surplus, recovery of loans and advances i.e. regular flotation of loans in the domestic market, small savings and other receipts.

Capital receipts and expenditure of non special category states as percentage of gross SDP and its growth rate is depicted in the Table-7

**Table7 Percentage of Capital Receipt and Expenditure to Gross SDP and Growth Rate by Non Special Category States in India**

States	CR as % of SDP(Avg.)1980-05	CE as % of SDP(Avg.)1980-05	Growth rate CR (Avg.)1980-08	Growth rate CE (Avg.)1980-08
A.P.	4.79	4.46	19.11	18.66
BIHAR	8.25	6.83	8.87	12.25
GUJARAT	6.97	5.22	16.15	16.29
HARYANA	3.50	4.08	26.26	20.41
KARNATAKA	4.80	4.45	19.72	15.01
KERALA	5.20	3.07	19.08	15.71
M.P.	5.20	5.20	15.57	13.53
MAHARASHTRA	4.27	3.25	22.02	17.54
ORISSA	7.38	6.19	15.35	14.59
PUNJAB	5.74	3.80	24.36	21.56
RAJASTHAN	5.69	5.73	16.78	14.02
TAMILNADU	4.82	3.64	15.00	18.10
UTTARPRADESH	6.83	4.70	20.56	16.20
WEST BENGAL	6.37	3.51	17.34	25.03
All States	5.11	4.27	14.59	28.91

*Source: – Handbook of Statistics on State Govt. Finance, 2004, State Finance: A Study of Budget RBI, CSO. New Delhi.*

Capital receipts and expenditure of non special category states as percentage of gross SDP and its growth rate is depicted in the Table-7. Following observations are made from Table 7

- It is observed that capital receipts - SDP ratio was high in the case of Gujarat with 6.97 percent as compared to All States of 5.11 percent during the period 1980-2005.
- With respect to non-special category states, Bihar recorded the highest capital receipts- SDP with 8.25 percent followed by Orissa 7.38 percent and Gujarat 6.97 percent. It is important to note that most of the non special category states' proportion was higher than the All states average which was very low at 5.11 percent.
- In terms of growth rate, the state with the highest percent was Haryana (26%), followed by Punjab (24.36%) and Maharashtra (22.02%). The growth rate of Gujarat was 16.15 percent which was more as compared to All States average of 14.59 percent.
- Thus, it can be concluded that Gujarat was not a better performer with respect to capital receipts among the non special category states but its position is better in comparison to All States both in terms of receipts-SDP ratio and growth rate.

Like revenue expenditure, capital expenditure has also increased from 4 percent to 7 percent in proportion to SDP of Gujarat in the period 1980-2008. Capital expenditure met usually from borrowed funds and other resources outside the 'Revenue Account' with the objects either of increasing concrete assets of durable nature or of reducing recurring liabilities. But in case of Gujarat this increased in expenditure is more of non development and non plan nature.

Table - 7 evinces that among the non special category states Bihar had the highest capital expenditure with 6.83 percent followed by Orissa (6.19) and Rajasthan (5.73). Gujarat ranked at 5<sup>th</sup> position among the non special category states. In terms of growth rate West Bengal recorded the highest growth rate with 25.03

percent followed by Punjab (21.56) and Haryana (20.41). Gujarat ranked at 7th position with 16.29 percent. This was lower as compared to all states average of 28.91 percent.

It is observed that the growth rates of capital receipts are greater than the capital expenditure in most of the non special category states. The increase in capital receipts is the major reason attributed to increase in capital deficit and budget deficit of the States.

It is evinced from the above discussion that a non special category state which has generally been considered a well managed state was no exception to the deterioration in their fiscal condition. Most of these states were facing the condition of stagnant growth rate of aggregate receipts and growing aggregate expenditure, this resulted in increased in revenue and fiscal deficit as depicted in Table-8.

**Table 8 Deficits of Non Special Category States as % of Gross SDP**

	1980(F.D.)	1980(R.D.)	F.D.(2005)	R.D.(2005)
<b>A.P.</b>	2.71	1.26	3.52	-0.03
<b>BIHAR</b>	4.57	0.81	4.64	0.10
<b>GUJARAT</b>	3.32	1.64	2.89	-0.18
<b>HARYANA</b>	3.31	1.75	0.27	1014
<b>KARNATAKA</b>	3.64	0.94	2.16	1.35
<b>KERALA</b>	4.20	-0.63	3.51	-2.63
<b>M.P.</b>	4.33	1.51	3.93	0.03
<b>MAHARASHTRA</b>	2.79	0.73	4.08	-0.89
<b>ORISSA</b>	3.62	2.18	0.35	0.61
<b>PUNJAB</b>	3.18	0.36	2.42	-1.013
<b>RAJASTHAN</b>	4.46	1.41	4.15	-0.53
<b>TAMILNADU</b>	2.60	1.58	1.01	0.87
<b>UTTARPRADESH</b>	3.55	1.17	3.60	-0.45
<b>WEST BENGAL</b>	2.80	-0.23	4.07	-3.13
<b>All states</b>	3.03	1.21	2.75	-0.21

*Source: – Handbook of Statistics on State Govt. Finance, 2004, State Finance: A Study of Budget RBI, CSO. New Delhi.*

Table 8 shows the presence of gross fiscal deficit more than 3 percent in proportion to GDP in the year 1980 and 2005. Gujarat Situation seems to more pathetic compared to other non special category states. The state shows large fiscal deficit of more than 3 percent in both, the year 1980 and 2005.

The States' Fiscal Deficits are mainly financed by market borrowing and central loans. An important institutional constraint on state borrowing is implicit in Article 293 of the constitution requiring the consent of the Government of India for any borrowing by states already indebted to the centre. However, all the states are indebted to the centre and the state market borrowing is determined by the Ministry of Finance in consultation with the Planning Commission and the Reserve Bank of India. The States cannot borrow directly from abroad and in the case of externally aided project the sovereign liability being that of the centre as the loan are routed through the centre. The quantum of market borrowings of the states can be raised through bonds from the banks are also subject to fulfillments of their Statutory Liquidity Ratio requirements. Bonds purchased from the financial institutions like LIC and UTI and other non-government

pension and provident funds are also decided by the central government, which allocates the available amount among the states.

Small Saving Schemes are the only source of financing which are not determined exogenously and have given the states leeway in their fiscal adjustment. Economic Survey [2005] mentioned that from April 1, 2001, due to the fall in the interest rate from 11 to 8 percent, the share of NSS increased to finance fiscal deficit from 28.6 to 37.8 percent during the period 2001-2005. Another device used by the states is borrowing through public sector enterprises (PSEs) under their control, enabling them to float bonds against state government guarantees. The states can also borrow from RBI through Ways and Means Advances to mismatch the temporary cash flow for their receipts and payments.

Among all the source of financing the GFD (RBI Report of 2007-08) of states, the share of central loan is the largest, though, it is declined in twenties. While the other source relaxed the budget constraint to some extent (around 30 to 40 percent) but they have important consequences in the state allocative efficiency

## Conclusion

- i. Gujarat ranked fourth with 6.08 percent growth rate at constant 1993-94 prices among the NSC states during the period 1980-2005. Decade-wise compound growth rate [at constant 1993-94 prices] of state domestic product of Gujarat state, evinces that in the eighties, growth rate (4.93 %) is low compared to other states mainly due to successive droughts in the years of 1984-86. In the nineties, the state managed a growth rate of 7.96 percent which is highest among all the states except Goa (7.98). In the twenties (2001-05) the state stood at the first position among All States with an 8.99 percent growth rate.
- ii. The Gujarat economy, like other states, is also experiencing the phase of structural transformation. The share of agriculture sector has drastically declined while the share of service sector has increased. The share of the manufacturing sector is more or less stagnant. This indicates that the state is reducing its dependence on agriculture for income and employment. In terms of employment generation, the state has not been able to perform well, as the unemployment rates are substantially higher than the national level. Similarly, education and health also needs more attention as the education and health infrastructure show a marginal improvement as compared to other states.
- iii. Gujarat's major fiscal issues are the eroding revenue base and the mounting spending pressure. Decade-wise compound growth rate of (at constant 1993-94 prices) aggregate receipts and expenditure had increased both in absolute and relative terms but in comparisons with other non special category states, it was not a good performer State, as contribution from the centre declined in the respective year.
- iv. The states like Karnataka, Kerala and Tamilnadu and Andhra Pradesh had the receipts from their tax source which nearly accounts 9-12 percent of GDP during the period 1980-2005. In case of Gujarat it is noted that its receipts are stagnant around 9 percent.
- v. The aggregate expenditure as a ratio of gross GDP showed an increase in all the non special category states except Gujarat, Maharashtra, Haryana and West Bengal. It is noted that the increase in expenditure on most of the states was mostly on account of increase in capital outlay. Non-development expenditure has played a significant role.
- vi. It is also being observed that revenue expenditure is greater than revenue receipts while capital expenditure is greater than capital receipts in most of the years during the period 1980-2008. This evinced a negative trend in state finances as increase in revenue expenditure results into revenue deficit and further leads to fiscal deficit. Most of the non special category states are experiencing a high deficit -GDP ratio.
- vii. The deficit trend was much on higher side of Gujarat as compared to other non special category states. Besides increase in revenue expenditure, the centre has also failed to provide proper

incentives. As evinced by the transfer from the respective Finance Commission, Gujarat always ranks at 9th and 12th position among the non special category states.

- viii. It is observed that most of the non special category states are showing fiscal correction in revenue account including Gujarat after 2003.

Gujarat state has been enjoying a very high and consistent level of economic growth. An improvement in fiscal balances with its own concerted efforts is needed to uplift its position among the non special category states.

### Scope for Future Research

The present study gives an analytical review of Gujarat economic and fiscal performance for the period 1980-2008. Such studies considered as key parameter for macroeconomic policy such as growth, investment and financial system of any state. The results of this study helps for references and to do further research in restructuring the structural weakness in development programs and to formulate the strategies of Gujarat

Finally, the structure of state finance or any other federal countries suggests that transparency is needed for good fiscal management, good fiscal management is needed for a successful decentralized structure and an agency may play a vital role which can smoothen the functions and relations between the national and sub-national government.

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