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 7.03 crore in 2021, recording a decadal growth of 15.25 *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 State has 33 districts and 251 talukas.

The Gross State Domestic Product (GSDP) in 2020-21 at current prices was ₹ 16,58,865 crore. The per capita GSDP of the State at ₹ 2,35,969 during 2020-21 was higher than all India average of ₹ 1,45,680 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. 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.

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)

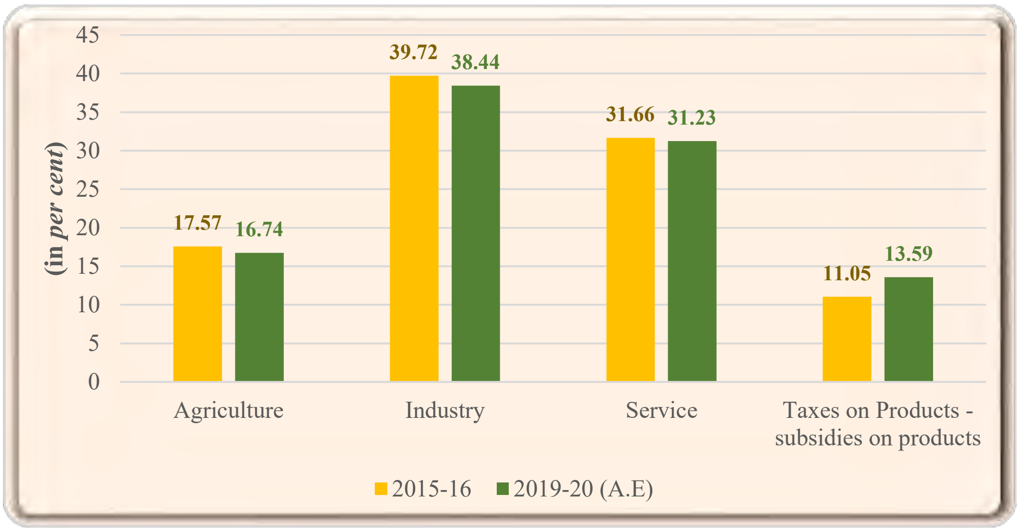
Year	2016-17	2017-18	2018-19	2019-20	2020-21
National GDP (Base year 2011-12)	1,53,91,669	1,70,90,042	1,88,86,957 (2nd RE)	2,03,51,013 (1st RE)	1,97,45,670 (P)
Growth rate of GDP over previous year at current prices (*per cent*)	11.76	11.03	10.51	7.75	(-) 2.97
State's GSDP (Base year 2011-12)	11,67,156	13,29,095	15,02,899 (P)	16,49,505 (Q)	16,58,865 (A)
Growth rate of GSDP over previous year at current prices (*per cent*)	13.43	13.87	13.08	9.75	0.57

Source: Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation Gujarat (Budget Publication 30, 2021-22)
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 2016-17 to 2020-21 compared to the National growth rate. During 2020-21, the State registered its lowest growth rate in five years whereas the Nation registered a negative growth rate.

Chart 1.1 indicates the sectoral contribution to GSDP during last five years[1] (2015-20). As may be seen, there has been a decrease in the relative share of Industry in GSDP from 39.72 *per cent* in 2015-16 to 38.44 *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

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 2021, there were 97 SPSUs[2] which included four Statutory Corporations and 93 State Government Companies. During the year, nine SPSUs came under the purview of the Comptroller and Auditor General of India under section 139(5) of the Companies Act, 2013. The brief of these nine SPSUs is given in **Table 1.2**.

[1] Directorate of Economics and Statistics, Gujarat has stated that sector wise details of 2020-21 will be available in March 2022.

[2] For more details, please refer to paragraph 2.4.3.2 and 4.13 of this Report.

Table 1.2: Details of nine new SPSUs

Sl. No.	Name of PSU	Paid up capital (₹ in lakh)	Govt. of Gujarat holding (in *per cent*)	Objective of Company as per MoA/ AoA
1.	GIFT Water Infrastructure Limited	9.75	100	To fulfil requirement of infrastructure components, domestic and commercial occupants, landscaping and horticulture etc. by recovering charges.
2.	Gift District Cooling System Limited	9.75	100	To carry on the business of designing, engineering, developing, financing, implementing, operating and maintaining district cooling systems.
3.	GIFT Collective Investment Management Company Limited	500.00	100	To design, develop, finance, construct, operate and maintain International Financial Services City/Centre/Hub, organise, operate and manage any scheme complying with SEBI (Collective Investment Schemes) Regulations 1999.
4.	GIFT Power Company Limited	9.75	100	To explore, develop, generate, accumulate, supply and distribute/ deal in energy from any source whatsoever.
5.	GIFT SEZ Limited	9.75	100	To design, develop, finance, construct, operate and maintain state of the art infrastructures in GIFT City SEZ (Non-DTA) area.
6.	GIFT Waste Management Services Limited	9.75	100	To design, engineer, construct, install, implement, operate and maintain solid waste management infrastructure in GIFT City.
7.	Gujarat International Finance Tec City Company Limited	36,541.88	100	To design, develop, finance, construct, operate and maintain state of the art infrastructures in GIFT City DTA (Non-SEZ) area.
8.	GIFT ICT Services Limited	9.75	100	To create leading edge Communication & Information Technology infrastructure, services and platforms and offer financial services enterprises to operate regionally and globally.
9.	Gujarat State Handicapped (Divyang) Finance and Development Corporation	1.00 (Paid up capital as per GoG G.R. dated 16/12/2019)	100	To carry on business to promote the social, economic and development activities benefitting handicapped (Divyang) persons in Gujarat by providing loans & advances and assisting the State level organisations in the development.

Of the 97 SPSUs, four[3] SPSUs were listed on the stock exchange(s). 97 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 (2016-21) are given in the **Table 1.3**.

[3] Gujarat Mineral Development Corporation Limited; Gujarat State Petronet Limited; Gujarat State Financial Corporation; and Gujarat Gas Limited

Table 1.3: Details of turnover of SPSUs *vis-à-vis* GSDP

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
Turnover[4] (₹ in crore)	1,11,953.31	1,25,827.15	1,48,487.47	1,54,020.09	1,51,553.74
Percentage change in turnover	0.83	12.39	18.01	3.73	(-)1.60
GSDP of Gujarat (₹ in crore)	11,67,156	13,29,095	15,02,899 (P)	16,49,505 (Q)	16,58,865 (A)
Percentage change in GSDP	13.43	13.87	13.08	9.75	0.57
Percentage of turnover to GSDP	9.59	9.47	9.88	9.34	9.14

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 2021-22).

The turnover of SPSUs has recorded continuous increase between 2016-20 and registered a decline in 2020-21. The changes in turnover ranged between (-)1.60 *per cent* and 18.01 *per cent* during the period 2016-21. Increase in GSDP ranged between 0.57 *per cent* and 13.87 *per cent* during the same period. The Compounded Annual Growth Rate (CAGR)[5] of GSDP was 10.02 *per cent* during 2016-21 against which the turnover of SPSUs recorded lower CAGR of 6.42 *per cent* during the same period. As a result, the share of turnover of SPSUs to GSDP reduced from 9.59 *per cent* in 2016-17 to 9.14 *per cent* in 2020-21. Of the total turnover of ₹ 1,51,554 crore reported by 97 SPSUs in 2020-21, ₹ 1,40,263 crore pertained to 48 active SPSUs which finalized their financial statements for the year 2020-21. Two[6] active SPSUs did not submit their first financial statement. The remaining 31 active SPSUs reported a turnover of ₹ 11,258 crore in their last finalised financial statements and 16 inactive SPSUs reported a turnover of ₹ 33 crore.

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 2021 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

4 Turnovers of SPSUs are as per the latest finalised financial statements received up to 15 December 2021 for the year 2020-21 and for the year 2016-17 to 2019-20 up to 30 September of the respective year.

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

6 Gujarat Unreserved Educational and Economic Development Corporation; and Gujarat State Handicapped (Divyang) Finance and Development Corporation

of such Accounts functioning under the control of the State Government, 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 in the report has been carried out in the context of recommendations of the Fourteenth Finance Commission (14^{th} FC), Fifteenth Finance Commission (15^{th} FC), 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*** *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.*
Chapter -2	***Finances of the State*** *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 2016-17 to 2020-21, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.*
Chapter - 3	***Budgetary Management*** *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.
Chapter - 4	***Quality of Accounts and Financial Reporting Practices*** *This chapter discusses about the quality of Accounts rendered by various authorities of the State Government and issues of 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).

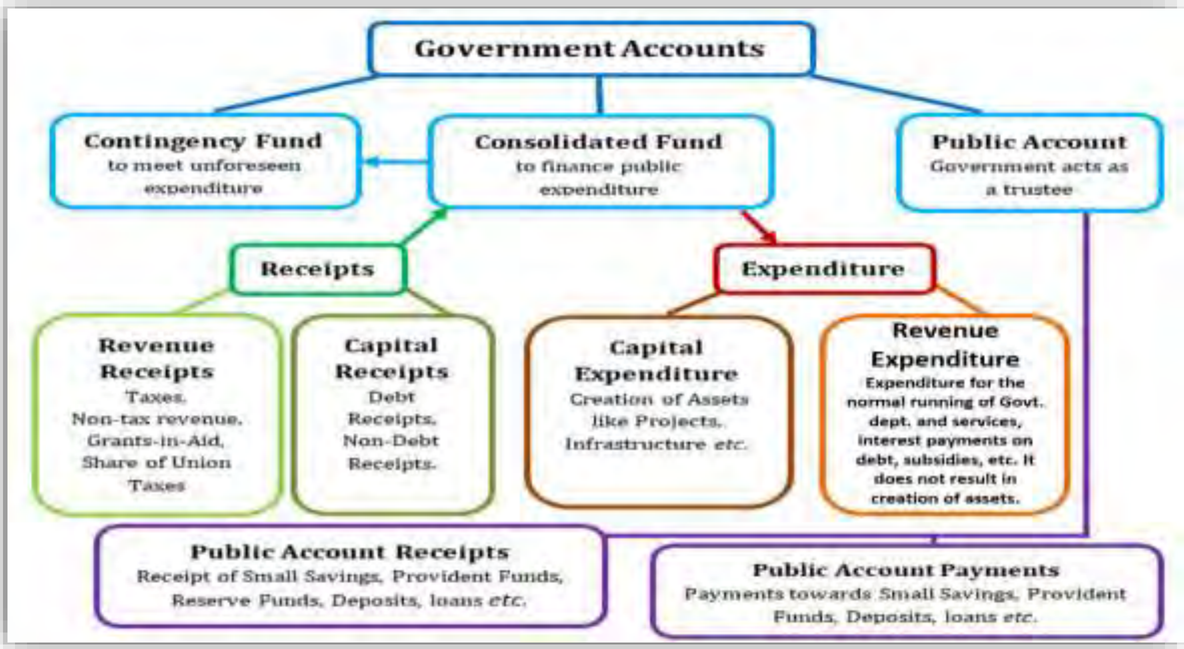
Revenue expenditure consists of all those expenditures of the Government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the Government Departments and various services, interest payments on debt incurred by the Government, 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 1.2: 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[7] by CGA	Function- Education, Health, *etc.* /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, *etc.* (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.

[7] List of Major and Minor Heads of Account of Union and States

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 2020-21 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 2020-21 closely and analyse the actual receipts and expenditure during the year with reference to the projections made in the budget.

The Gujarat Budget Manual prescribes the budget formulation process and guides the State Government in preparing its budgetary estimates and monitoring its expenditure activities. While formulating its Budget for 2020-21, 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 2019-20 were thus, not placed before the Legislature as of March 2021.

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 1.4 provides a snapshot of actual financial results for the year 2019-20 and 2020-21 *vis-à-vis* Budget Estimates (BE) for the year 2020-21.

Table 1.4: Snapshot of actual financial results *vis-à-vis* Budget Estimates

(₹ in crore)

Sr. No.	Components	2019-20 Actuals	2020-21 Actuals	2020-21 BE	Percentage of Actuals to BE 2020-21	Percentage of Actual to GSDP
1	Tax Revenue	79,007.50	70,266.18	1,05,093.60	66.86	4.24
2	Non-Tax Revenue	18,104.15	10,492.66	14,600.00	71.87	0.63
3	Share of Union taxes/duties	20,232.09	20,218.53	26,659.86	75.84	1.22
4	Grants-in-aid and Contributions	25,500.02	27,178.29	16,094.00	168.87	1.64
5	**Revenue Receipts (1+2+3+4)**	**1,42,843.76**	**1,28,155.66**	**1,62,447.46**	**78.89**	**7.73**
6	Recovery of Loans and Advances	329.67	155.31	265.00	58.72	0.01
7	Other Receipts	106.36	9,967.85	0.00	-	0.60
8	Borrowings and other Liabilities[8]	24,581.46	40,438.30	33,535.87	120.58	1.88[9]
9	**Capital Receipts (6+7+8)**	**25,017.49**	**50,561.46**	**33,800.87**	**149.59**	**3.05**
10	**Total Receipts (5+9)**	**1,67,861.25**	**1,78,717.12**	**1,96,248.33**	**91.07**	**10.77**
11	**Revenue Expenditure, of which**	**1,40,898.91**	**1,50,703.58**	**1,61,658.07**	**93.22**	**9.08**
12	Interest payments	22,448.66	24,203.19	23,871.12	101.39	1.46
13	**Capital Expenditure, of which**	**26,962.33**	**28,013.89**	**34,590.27**	**80.99**	**1.69**
14	Capital outlay	25,650.61	26,780.46	33,371.43	80.25	1.61
15	Loan and advances	1,311.72	1,233.43	1,218.84	101.20	0.07
16	**Total Expenditure (11+13)**	**1,67,861.24**	**1,78,717.47**	**1,96,248**	**91.07**	**10.77**
17	**Revenue Deficit (-)/Surplus (+) (5-11)**	**(+)1,944.85**	**(-)22,547.92**	**(+)789.39**	**(-)2,856.37**	**(-)1.36**
18	**Fiscal Deficit {(5+6+7)-16}**	**(-)24,581.45**	**(-)40,438.65**	**(-)33,535.88**	**(-)120.58**	**(-)2.44**
19	**Primary Deficit (18-12)**	**(-)2,132.79**	**(-)16,235.46**	**(-)9,664.76**	**(-)167.99**	**(-)0.98**

Source: Finance Accounts of respective years.

GST Compensation is the revenue of the State Government under GST (Compensation to States) Act, 2017. However, in addition to receiving the GST compensation of ₹ 11,334.51 crore as revenue receipts, due to inadequate balance in GST compensation fund during the year 2020-21 Gujarat also received back-to-back loan of ₹ 9,222 crore under public debt receipts of the State Government, with no repayment liability for the State. Due to this arrangement, the revenue deficit of ₹ 22,547.92 crore and fiscal deficit of ₹ 40,438.65 crore during the year 2020-21 may be read in conjunction with debt receipt of ₹ 9,222 crore in lieu of GST compensation.

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

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8 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.

9 As per Department of Expenditure, GoI, the borrowings under the special window will not be treated as debt of the State for any norms which may be prescribed by the Finance Commission, etc. Hence the back to back loans in lieu of shortfall of GST compensation of ₹ 9,222 crore has not been considered as public debt and outstanding liabilities here.

loans and advances given by the State Government and cash balances. **Table 1.5** gives summarised position of assets and liabilities of the Government.

Table 1.5: Summarised position of assets and liabilities

(₹ in crore)

Liabilities						Assets					
		2019-20	2020-21	*Per cent* increase			2019-20	2020-21	*Per cent* increase		
Consolidated Fund											
A	Internal Debt	2,59,661.04	2,90,031.07	11.70	a	Gross Capital Outlay	2,89,222.37	3,06,034.98	5.81		
B	Loans and Advances from GoI	7,433.06	17,998.92	142.15	b	Loans and Advances	10,485.21	11,563.04	10.28		
Contingency Fund											
Contingency Fund		200.00	200.00	0.00	Contingency Fund		0.00	0.00	0.00		
Public Account											
A	Small Savings, Provident Funds, *etc*.	10,601.21	10,445.80	(-)1.47	a	Advances	0.71	0.70	(-)1.41		
B	Deposits	34,599.05	36,955.05	6.81	b	Suspense and Miscellaneous	1,865.70	3,026.80	62.23		
C	Reserve Funds	16,832.75	7,984.32	(-)52.57	**Cash balance (including investment in Earmarked Fund)**		**24,035.80**	**16,852.64**	(-)29.88		
D	Remittances	736.92	866.65	17.60							
					Total		**3,25,609.79**	**3,37,478.16**	**3.64**		
					Cumulative excess of expenditure over receipts[10]		**4,454.24**	**27,003.65**	506.25		
Total		**3,30,064.03**	**3,64,481.81**	**10.43**	**Total**		**3,30,064.03**	**3,64,481.81**	**10.43**		

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.

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 2020-21.

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

Revenue Deficit/ Surplus	*Refers to the gap between Revenue Expenditure and Revenue Receipts.*
Fiscal Deficit/ Surplus	*This is the difference between the Revenue Receipts plus Non-debt Capital Receipts (NDCR) and the Total Expenditure.*

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

	Fiscal Deficit is reflective of the total borrowing requirements of Government.
Primary Deficit/ Surplus	*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.*

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 (GFR Act) 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 GFR Act was amended in 2009, 2011 and 2021. In 2011, it was amended to include the recommendations of the 13th Finance Commission (FC). The 14th FC recommended that the targeted limit of fiscal deficit to GSDP of three *per cent* could be increased to 3.5 *per cent* on meeting certain criteria. However, as the State Government was well within the limits of three *per cent*, it did not make any amendments in GFR Act of 2011. In 2021, the targets for Fiscal deficit to GSDP was revised to five *per cent* for 2020-21 but continues to follow the remaining targets set in GFR Act, 2011.

FRBM Review Committee

The Government of India in 2016 felt a need to review the FRBM Act attributing it to substantial changes in global backdrop including slowdown, developments in China and Eurozone, protectionism, low inflation and unconventional monetary policies, etc. It felt that due to increased financial integration with the world economy, domestic policy changes to cope with challenging, uncertain and volatile exogenous environment were needed.

It was also argued that changes and flexibility in fiscal rules in several countries allow fiscal space to absorb exogenous shocks. Presence of independent fiscal council, escape clauses and automatic correction to impart transparency, flexibility and credibility to the framework in the fiscal rules also necessitated alignment of rules in India in the same parlance.

With these objectives in mind, Government constituted the FRBM review committee in May 2016 under the chairmanship of Shri N.K. Singh, former Revenue and Expenditure Secretary, to comprehensively review the working of FRBM Act over last 12 years and to suggest way forward. Terms of reference of the Committee particularly included exploring the feasibility of having fiscal deficit range as the target instead of fixed numbers in order to give necessary policy space to the Government to manage dynamic situations and aligning the fiscal expansion or contraction with credit contraction or expansion respectively in the economy.

The Committee submitted its report on 23 January 2017. The State Government has not taken any action on the recommendations of the committee so far (November 2021).

The actual achievements for the year 2020-21 compared to targets for major fiscal variables set out in Medium-term Fiscal Policy Statement (MTFPS)[11] and Gujarat Fiscal Responsibility Act are depicted in **Table 1.6**.

Table 1.6: Major fiscal variables- targets and achievements for 2020-21

Fiscal variables	Targets proposed in MTFPS	Targets set in Gujarat Fiscal Responsibility Act	Actual achievement (2020-21)
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	(+)789	'Zero' by 2007-08	(-)22,547.92
Fiscal Deficit/GSDP (in *per cent*)	1.78	3% by 2008-09	2.44
Ratio of total outstanding liabilities to GSDP[12] (in *per cent*)	No target set	No target set	21.02
Ratio of Public debt to GSDP[12] (in *per cent*)	15.72	27.10% by 2011-12	18.01
Outstanding Government Guarantees (₹ in crore)	Below 16,000	Below 16,000 by 2007-08	3,656
Interest Payment on Public Debt/Revenue Receipts (in *per cent*)	13.43	No target set	17.22

Source: Budget Estimates and Finance Accounts for the year 2020-21

The State achieved 'zero' revenue deficit targets in 2011-12 and reported a revenue surplus thereafter till 2019-20. The State turned revenue deficit for the first time in 2020-21 with deficit of ₹ 22,548 crore against the target of revenue surplus of ₹ 789 crore proposed in MTFPS.

At the end of 2020-21, fiscal deficit as a percentage of GSDP stood at 2.44 *per cent*, which was within the limit of three *per cent* target set in Gujarat Fiscal Responsibility Act by State Government. The ratio of public debt to GSDP stood at 18.01 *per cent* as against 15.72 *per cent* set in MTFPS.

Thus, during 2020-21, the State was able to achieve only one of the five targets set under MTFPS with regard to the key fiscal parameters namely, Outstanding Government Guarantees. The State had a fiscal deficit of ₹ 40,438 crore during 2020-21, representing 2.44 *per cent* of the GSDP and constituting 22.63 *per cent* of total expenditure. Interest payments on public debt as a proportion to revenue receipts (which is an indicator of debt servicing capacity) stood at 17.22 *per cent* as against MTFPS target of 13.43 *per cent*.

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11 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.

12 As per Department of Expenditure, GoI, the borrowings under the special window will not be treated as debt of the State for any norms which may be prescribed by the Finance Commission, etc. Hence the back to back loans in lieu of shortfall of GST compensation of ₹ 9,222 crore has not been considered as public debt here.

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 2020-21 with actuals, and the extent of variation is shown in **Table 1.7**.

Table 1.7: Actuals *vis-à-vis* projections made in MTFPS during 2020-21

(₹ in crore)

Sr. No.	Fiscal Variables	Projection as per MTFPS	Actuals (2020-21)	Variation (in *per cent*)
1	Tax Revenue	1,05,093.60	70,266.18	(-)33.14
2	Non-Tax Revenue	14,600.00	10,492.66	(-)28.13
3	Share of Central Taxes	26,659.86	20,218.53	(-)24.16
4	Grants-in-Aid from GoI	16,094.00	27,178.29	68.87
5	Revenue Receipts (1+2+3+4)	1,62,447.46	1,28,155.66	(-)21.11
6	Capital Receipts[13]	46,766.00	68,980.29	47.50
7	Revenue Expenditure	1,61,658.07	1,50,703.58	(-)6.78
8	Revenue Deficit (-)/ Surplus (+) (5-7)	(+)789.39	(-)22,547.92	(-)2,956.37
9	Fiscal Deficit (-)/ Surplus (+)	(-)33,535.88	(-)40,438.65	(-)20.58
10	Primary Deficit (-)/Surplus (+)	(-)9,664.76	(-)16,235.46	(-)67.99
11	Public debt-GSDP ratio (*per cent*)	15.72	18.01*	14.57
12	GSDP growth rate at current prices (*per cent*)	10.78	0.57	(-)10.21

Source: Budget Publication No. 30 for 2020-21 and Finance Accounts

** Arrived at after exclusion of GST compensation of ₹ 9,222 crore received as back to back loan under debt receipts from the total outstanding liabilities.*

As may be seen from the table above, only grants-in-aid from GoI and Capital receipts improved significantly during 2020-21 *vis-à-vis* the projections made in MTFPS. The targets for tax revenue, non-tax revenue, share of Central taxes, revenue surplus and growth rate of GSDP were not met in 2020-21.

1.5.3 Trends analysis of achievements against fiscal targets

As per Gujarat Fiscal Responsibility Act, 2005, the State Government was required 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. This was increased to five *per cent* in January 2021 for the fiscal year 2020-21. 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 thereafter. 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 (2016-21) is given in **Table 1.8**.

[13] Capital Receipts = Public Debt Receipts + Miscellaneous Capital Receipts + Recovery of Loans and Advances

Table 1.8: Trend analysis of key fiscal targets prescribed in the Act during 2016-21

Fiscal Parameters	Fiscal targets set in the Act	Achievement (₹ in crore)				
		2016-17	2017-18	2018-19	2019-20	2020-21
Revenue Deficit (-) / Surplus (+) (₹ in crore)	Revenue Surplus	5,946.98	5,231.61	3,211.97	1,944.85	(-)22,547.92
		✓	✓	✓	✓	X
Fiscal Deficit (-)/ Surplus (+) (as *percentage of GSDP*)	Three *per cent*[14]	(-)16,480.17 (-1.41)	(-)21,366.43 (-1.61)	(-)26,365.03 (-1.75)	(-)24,581.45 (-1.49)	(-)40,438.65 (-2.44)
		✓	✓	✓	✓	✓
Ratio of total Public Debt to GSDP (*per cent*)	27.10 *per cent*	17.08	16.00	15.99	16.19	18.01[15]
		✓	✓	✓	✓	✓
Outstanding Guarantees	Below ₹ 16,000 crore	4,804	4,834	4,699	4,462	3,656
		✓	✓	✓	✓	✓

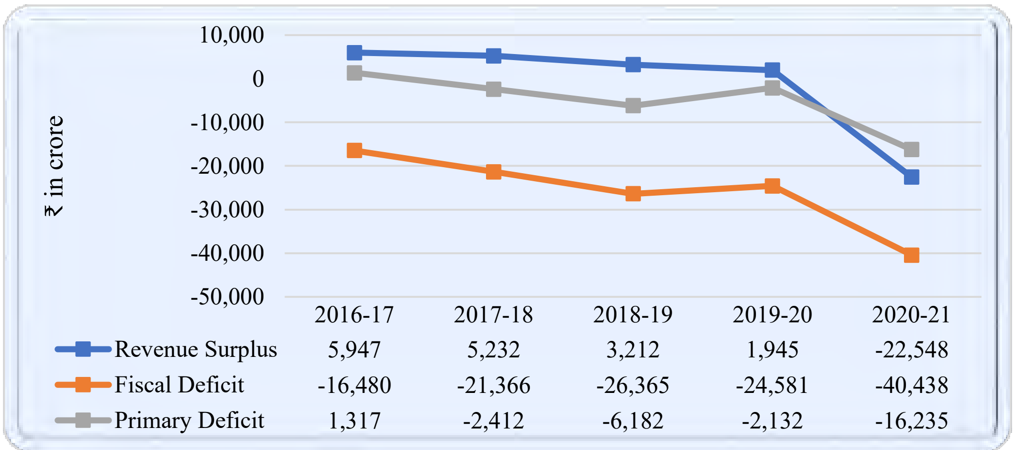
Source: Budget Publication and Finance Accounts of respective years.

As can be seen above, the State Government successfully achieved all the four key fiscal parameters envisaged in Gujarat Fiscal Responsibility Act during the last five years, except Revenue Surplus during 2020-21.

The ratio of total public debt to GSDP as per the Finance Accounts is 18.57 *per cent*. However, the effective debt to GSDP ratio (18.01 *per cent*) has been arrived at after excluding GST compensation of ₹ 9,222 crore received as back to back loan under debt receipts from the total public debt as the Department of Expenditure, GoI has decided that it will not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

The trends in surplus/deficits over the five-year period (2016-21) are depicted in **Chart 1.3**; trends in surplus/deficit relative to GSDP are given in **Chart 1.4**; and trends of fiscal liabilities and GSDP are given in **Chart 1.5**.

Chart 1.3: Trends in Surplus/ Deficit



14 Five *per cent* for 2020-21

15 As per Department of Expenditure, GoI, the borrowings under the special window will not be treated as debt of the State for any norms which may be prescribed by the Finance Commission, etc. Hence the back to back loans in lieu of shortfall of GST compensation of ₹ 9,222 crore has not been considered as public debt here.

Chart 1.4: Trends in Surplus/Deficit relative to GSDP

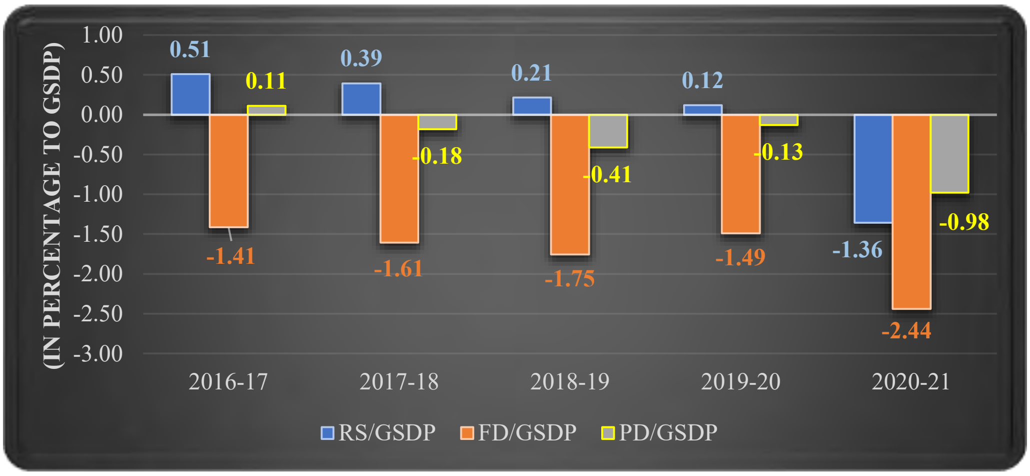
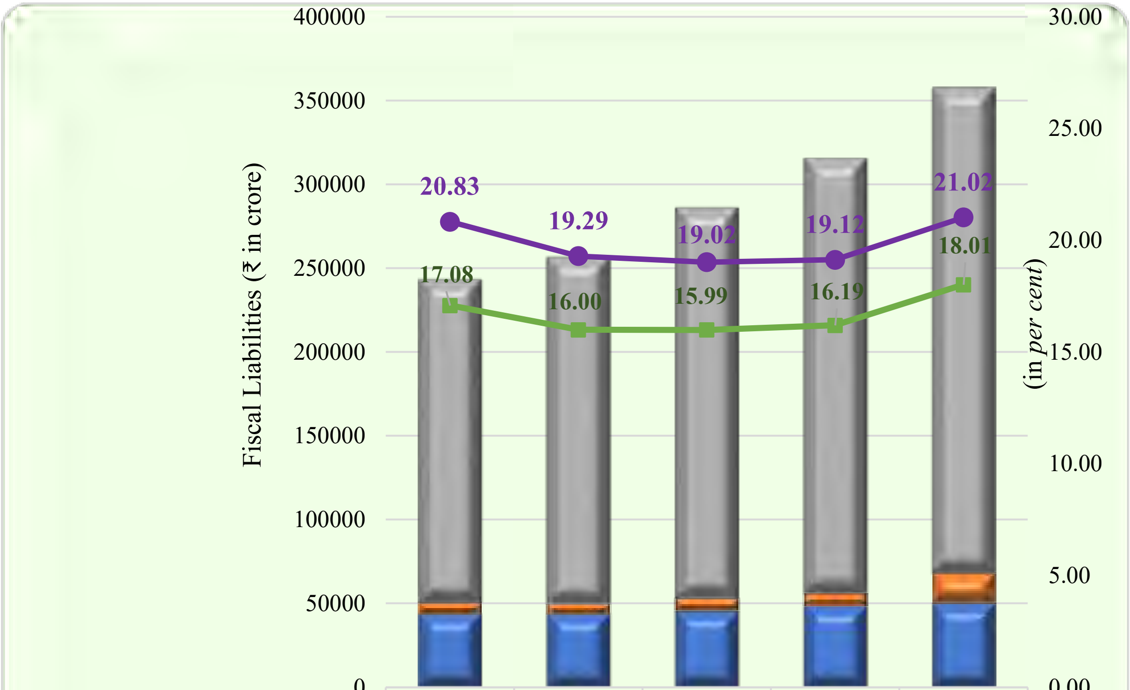


Chart 1.5: Trends in fiscal liabilities and GSDP



	2016-17	2017-18	2018-19	2019-20	2020-21 #
Internal Debt of the Government	192772	206643	232875	259663	290031
Loans from GoI	6566	5947	7430	7433	17999
Public Account Liabilities	43808	43776	45539	48361	49863
Total Outstanding Liabilities to GSDP ratio	20.83	19.29	19.02	19.12	21.02
Public debt/ GSDP	17.08	16.00	15.99	16.19	18.01

As per Department of Expenditure, GoI, the borrowings under the special window will not be treated as debt of the State for any norms which may be prescribed by the Finance Commission, etc. Hence the back to back loans in lieu of shortfall of GST compensation of ₹ 9,222 crore has not been considered as public debt and outstanding liabilities here.

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 impact the revenue and fiscal deficit figures. In order to arrive at actual deficit figures, the impact of such irregularities need to be reversed.

Table 1.9 assesses actual surplus/deficit after taking into account short/non-contribution to funds and incorrect classifications/booking by the State Government during 2020-21.

Table 1.9: Actual Revenue and Fiscal Deficit

Particulars	Impact on Revenue Surplus [Understated(-)/ Overstated(+)] (₹ in crore)	Impact on Fiscal Deficit (Understated) (₹ in crore)
Subsidy booked under Capital Section instead of Revenue	(+)36.38	-
Non-discharge of Interest liabilities	(+) 137.74	(+) 137.74
Shortfall in State Government contribution to Consolidated Sinking Fund[16]	(+) 10,433.73	(+) 10,433.73
Non-transfer of Labour Cess	(+) 337.08	(+) 337.08
Misclassification of Capital Expenditure as Revenue Expenditure in Grant 9	(-) 230.68	-
Improper classification of Object head 6000 "Other Capital Expenditure" under Capital Section in Grant 9	(+) 263.68	-
Total	**(+) 10,977.93**	**10,908.55**

Source: Finance Account for the year 2020-21

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[17] of ₹ 36.38 crore relating to subsidies under the capital section instead of the revenue section.

As may be seen from the table above, there was an understatement of revenue deficit by ₹ 10,977.93 crore during the year. Also, fiscal deficit was understated by ₹ 10,908.55 crore in 2020-21. Thus, the State's actual revenue deficit[18] would stand at ₹ 33,525.85 crore during 2020-21, if the items of non-contribution/short-contribution, non-discharge of liabilities and incorrect classification are factored in.

16 ₹ 10,433.73 crore = ₹ 15,772.80 crore (5% of State Liabilities for the year 2019-20) [-] ₹ 5,339.07 crore closing Balance of Consolidated Sinking Fund

17 Refer paragraph 3.3.6; Chapter 3

18 (-)₹ 22,547.92 crore *plus* (-) ₹ 10,977.93 crore

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);
- 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.

It was observed that Gujarat State Investments Limited (GSIL) has taken over listed Non-Convertible Debentures (NCDs) of Gujarat State Petroleum Corporation Limited (GSPC) amounting to ₹ 6,000 crore as per the directions (July 2018) of the State Government. Further the State Government has resolved to support GSIL for payment towards interest and principal repayment on these NCDs. Accordingly, during 2019-20 and 2020-21, an expenditure of ₹ 564.69 crore and ₹ 533.55 crore, respectively, was booked by Energy and Petrochemicals Department for payment towards interest on these NCDs. Thus payment of annual interest on these NCDs has increased the committed revenue expenditure 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" in cases 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.