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TRENDS IN REVENUE AND EXPENDITURE OF THE GOVERNMENT OF GUJARAT

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ABSTRACT

The finances of the Government of Gujarat changed markedly between 2000-01 and 2015-16. The state began the period with a large revenue deficit, high borrowing and a heavy interest burden. It ended it with a revenue surplus in most years, a fiscal deficit kept within the ceiling set by its fiscal responsibility law and a falling debt-to-GSDP ratio. This paper examines the trends in revenue receipts and public expenditure over the period, using budget documents, reports of the Comptroller and Auditor General (CAG), Reserve Bank of India state finance studies and Finance Commission reports. It finds that the improvement rested on buoyant own tax revenue after the introduction of value added tax (VAT) in 2006, rising central transfers and restraint on revenue expenditure, while capital outlay and social spending grew unevenly. The paper concludes that consolidation was real but depended heavily on a small number of tax sources and left some priority sectors under-funded.

KEYWORDS: State Finances, Gujarat, Revenue Receipts, Public Expenditure, Fiscal Consolidation and VAT

1. INTRODUCTION

State governments in India account for a large share of public spending on health, education, irrigation, agriculture and roads, yet their finances are constrained by limited tax powers and dependence on transfers from the Union government. Until the early 2000s, many states, Gujarat included, accumulated persistent revenue deficits and rising debt. Interest payments absorbed a growing share of receipts, leaving little room for development spending.

The period from 2000-01 to 2015-16 is analytically useful for three reasons. First, it spans the fiscal stress of the early 2000s and the subsequent consolidation encouraged by the Twelfth Finance Commission and the Gujarat Fiscal Responsibility Act of 2005. Second, it includes the shift to VAT in April 2006, a major reform in indirect taxation. Third, it covers the Global Financial Crisis of 2008-09 and the change in the transfer system brought by the Fourteenth Finance Commission, whose recommendations took effect in 2015-16.

Theories of public expenditure give a frame of reference. Wagner's law suggests public spending rises more than proportionately with income, while Peacock and Wiseman (1961) argued that spending expands in steps during crises and then settles at a higher level. Musgrave (1959) distinguished the allocation, distribution and stabilisation functions of government, which in India's federal setting are divided between the Union and states. Rao and Singh (2005) document the vertical imbalance in India, where states have heavy expenditure responsibilities but narrower revenue bases.

2. OBJECTIVES OF THE STUDY

1. To analyse the trends in the size and composition of revenue receipts of the Government of Gujarat from 2000-01 to 2015-16.
2. To examine the pattern of revenue and capital expenditure, including sectoral allocation.
3. To assess movements in key fiscal indicators: revenue deficit, fiscal deficit, debt and interest burden.
4. To identify the policy and institutional factors behind these trends.
5. To draw lessons and suggest measures for sustaining fiscal health.

3. DATA AND METHODOLOGY

The study uses secondary data from the Gujarat budget documents and Finance Department publications, CAG audit reports on state finances, the Reserve Bank of India's annual study *State Finances: A Study of Budgets*, and the reports of the Twelfth, Thirteenth and Fourteenth Finance Commissions. Trends are described through ratios to Gross State Domestic Product (GSDP), shares in total receipts or expenditure, and sub-period comparisons. The period is divided into three phases: stress and adjustment (2000-01 to 2004-05), consolidation (2005-06 to 2009-10) and post-crisis stabilisation (2010-11 to 2015-16).

4. TRENDS IN REVENUE RECEIPTS

Revenue receipts consist of the state's own tax revenue, its non-tax revenue and transfers from the Centre, the latter comprising a share in central taxes and grants-in-aid.

4.1 Own tax revenue

Own tax revenue is the largest source and within it sales tax, later VAT, dominates. Other significant components are stamp duty and registration fees, state excise, electricity duty and taxes on vehicles. Gujarat's prohibition policy keeps liquor excise low compared with other states, so the state relies more heavily on commodity taxes and on tax on petroleum products. The introduction of VAT in 2006 simplified the tax structure

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and removed cascading and collections grew strongly in the following years. Buoyancy was high in the boom years before 2008, dipped in 2008-09 and recovered with industrial growth.

4.2 Non tax revenue and central transfers

Non-tax revenue, including royalties on minerals, particularly petroleum and natural gas, interest receipts and receipts from irrigation and other services, contributed a modest and fluctuating share. Central transfers rose in absolute terms with each Finance Commission award. The Fourteenth Finance Commission raised the share of states in the divisible pool of central taxes to 42 per cent from 32 per cent, which strengthened untied transfers from 2015-16 while reducing some tied grants and centrally sponsored schemes.

Table 1: Composition of Revenue Receipts of Gujarat

Component	2000-01	2007-08	2015-16
State's own tax revenue	60-65	65-70	65-70
Non-tax revenue	10-15	8-12	8-12
Share in central taxes	12-15	12-15	15-20
Grants-in-aid from the Centre	8-12	8-10	6-10

Sources: *Government of Gujarat budget documents; RBI, State Finances: A Study of Budgets (various years). Indicative values. Note: Data mentioned in above table are approximate percentage shares.*

The table shows that Gujarat's revenue profile is relatively self-reliant. Own resources contributed roughly two-thirds of revenue receipts, in contrast to special-category states that depend heavily on grants. The flip side is exposure to the business cycle: sales tax and VAT depend on industrial output and trade.

5. TRENDS IN PUBLIC EXPENDITURE

5.1 Revenue and capital expenditure

Total expenditure grew several-fold in nominal terms across the period. Revenue expenditure, covering salaries, pensions, interest, subsidies and maintenance, accounted for the larger share, while capital expenditure, covering irrigation projects such as the Sardar Sarovar canal network, roads, bridges and power, grew in spurts. Capital outlay as a share of total expenditure rose after the mid-2000s as the state increased investment in infrastructure, then fluctuated with revenue conditions.

Committed expenditure, namely interest payments, salaries and pensions, takes up a large part of revenue receipts. The interest burden fell relative to revenue as debt was restructured under central debt-swap schemes and as lower-cost borrowing replaced older high-interest loans. Pension liabilities, however, rose, even after the switch to a contributory pension scheme for new recruits from 2005.

5.2 Sectoral allocation

Social services (education, health, water supply and welfare) and economic services (agriculture, irrigation, energy, industry and transport) account for most development expenditure. The share of general services, including interest, pensions and administration, declined modestly as consolidation progressed.

Table 2: Sectoral Composition of Total Expenditure

Sector	2000-01	2008-09	2015-16
General services (incl. interest, pensions)	35-40	30-35	28-33
Social services	30-35	33-38	35-40
Economic services	25-30	28-32	28-33
Grants and others	Small	Small	Small

Sources: *Government of Gujarat budget documents; CAG, State Finances Audit Report (various years). Indicative values. Note: Data mentioned in above table are approximate percentage shares.*

Social sector spending increased in nominal terms, but analysts have noted that Gujarat's per capita spending on education and health remained below that of several comparable states, consistent with the lag of social outcomes behind income (Hirway and Mahadevia, 2004). Spending on power subsidies and irrigation rose with the commitment to rural electrification and water security.

6. FISCAL INDICATORS: DEFICITS AND DEBT

Gujarat entered the period with a revenue deficit and a fiscal deficit well above the fiscal target. The adoption of the Gujarat Fiscal Responsibility Act in 2005, along with the Twelfth Finance Commission's incentive of debt relief tied to deficit reduction, changed the trajectory. The revenue account moved into surplus from the mid-2000s and remained there in most later years, and the fiscal deficit fell within the three per cent of GSDP ceiling in most years after 2005-06. The global crisis of 2008-09 and the stimulus measures that followed caused a temporary widening, after which the state returned to its limits.

Table 3: Key Fiscal Indicators of Gujarat

Indicator	2000-01 to 2004-05	2005-06 to 2009-10	2010-11 to 2015-16
Revenue balance	Deficit 2-4	Small deficit to surplus	Small surplus in most years
Gross fiscal deficit	4-6	2-3	2-3
Outstanding debt	30-35	27-30	Falling 22-25
Interest payments (% of revenue receipts)	20-25	15-20	11-15

Sources: *RBI, State Finances: A Study of Budgets; CAG, Finances of the State; Government of Gujarat. Indicative values. Note: Data mentioned in above table are approximate per cent of GSDP unless stated*

The fall in debt relative to GSDP reflected both fiscal discipline and rapid nominal output growth, which reduces the debt ratio even at a constant level of borrowing. The reduced interest burden created space for capital and social spending.

7. FACTORS BEHIND THE TRENDS

Institutional reform. The fiscal responsibility legislation, medium-term fiscal planning and the debt-swap and relief schemes of the Twelfth Finance Commission set rules and

incentives for consolidation.

Tax reform and economic growth. High GSDP growth, industrial expansion in manufacturing and petrochemicals and the move to VAT widened the tax base and improved collections.

Central transfers. Successive Finance Commission awards raised devolution and the 2015 increase to 42 per cent expanded the state's untied resources.

Expenditure restraint. Control on establishment costs and the new contributory pension arrangements slowed the growth of committed spending, though not enough to remove future pension risks.

Off-budget financing. Use of public sector undertakings, such as the Sardar Sarovar Narmada Nigam and the Gujarat State Petroleum Corporation, for large infrastructure and energy projects raised questions about contingent liabilities, which CAG reports have highlighted.

8. CONCERNS AND POLICY SUGGESTIONS

Although the headline indicators improved, several concerns remain: heavy reliance on VAT and commodity taxes, vulnerability to a slowdown, rising pension and subsidy commitments, contingent liabilities arising from guarantees and public enterprises and relatively low per capita spending in health and education. The following suggestions follow from the analysis:

- Broaden the tax base through improved compliance, property tax reform and better use of technology, reducing reliance on a few commodities.
- Protect and raise social-sector allocations, linking spending to outcomes in health, learning and nutrition.
- Manage contingent liabilities by improving the transparency of guarantees and public enterprise finances.
- Prepare for rising pension obligations through a sound funding framework.
- Maintain capital expenditure as a countercyclical tool during downturns.

9. CONCLUSION

Between 2000-01 and 2015-16 the Government of Gujarat moved from fiscal stress to relative fiscal health. Own tax buoyancy, higher central devolution, interest relief and expenditure control helped eliminate the revenue deficit in most years and reduce the debt ratio. The consolidation was not without limits, however, since social spending remained modest per head and contingent liabilities and pension obligations grew in the background. Continued reform in revenue mobilisation and expenditure quality will determine whether the gains can be sustained.

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