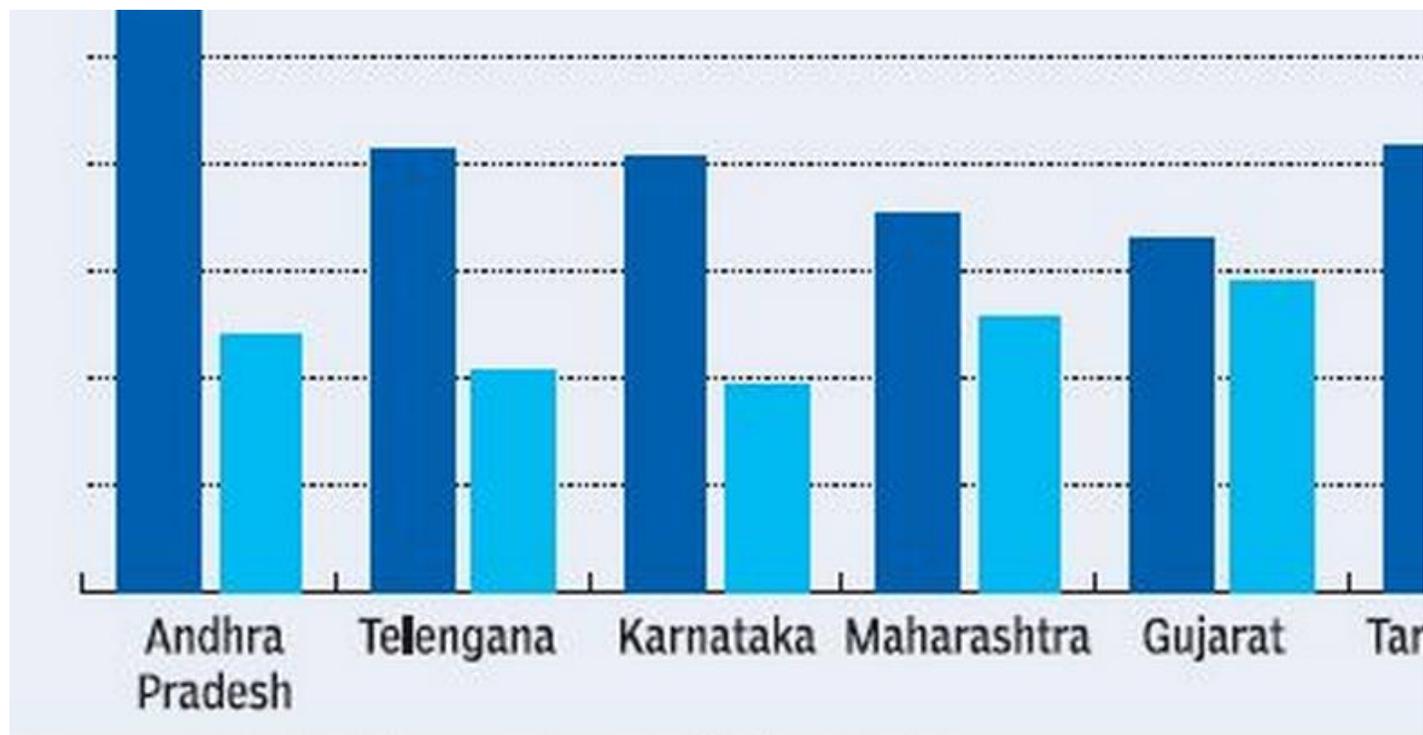


The lopsided Gujarat development model

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While doing well in attaining fiscal stability and attracting investment, it lags most other States in social sector spending

Gujarat's macroeconomic profile appears to be robust in the first instance. According to the Gujarat Socio-Economic Review 2017-18, the State accounts for 5 per cent of India's population and 6 per cent of land mass and yet contributes to 7.6 per cent of GDP. Gujarat's 2016-17 per capita income (PCI) at current prices of ₹1,56,691 is 51 per cent higher than India's PCI of ₹1,03,870.

The State, although a distant second to Karnataka, is a preferred destination for private sector investments in India. Karnataka's share of industrial entrepreneur memoranda (IEM) filed was a whopping ₹1,52,118 crores (38 per cent share) in 2017. Gujarat's share of IEMs filed was ₹79,068 crore (20 per cent of total IEMs) in 2017 and ₹56,156 crore (14 per cent) in 2016.

That Gujarat secured a 41 per cent increase in IEMs filed in 2017, a year when India reported 4.5 per cent decline in IEMs, is testimony to the State's business-friendly environment. In the World Bank's 'ease of doing' business ranking of 17 Indian cities, Ahmedabad is ranked 5th. Ludhiana, Hyderabad and

Bhubaneshwar are the top three.

In 2016, the Department of Industrial Policy & Promotion (DIPP) assessed the implementation of business reforms in States, which were categorised as 'leaders', 'aspiring leaders', 'acceleration required' and 'jump start required' based on their success in reform implementation.

	Revenue receipts (₹ crore)	Own tax revenues/ RR (%)	Revenue (surplus) Deficit/ GSDP (%)	Gross fiscal (Deficit)/ GSDP (%)	Interest payments/ RR (%)	Outstanding liabilities/ GSDP (%)	Capital expenditure/ GSDP (%)
2009-10	41,672	64.2	1.6	3.5	20.60	28.60	2.70
2010-11	52,364	69.4	1.0	2.9	18.40	27.40	2.70
2011-12	62,959	70.3	-0.5	1.8	17.40	24.60	3.20
2012-13	75,229	71.6	-0.8	2.3	16.20	23.40	4.00
2013-14	79,976	70.5	-0.6	2.3	16.70	23.30	3.60
2014-15	91,978	67.5	-0.7	2.0	16.20	22.00	3.30
2015-16	97,483	64.9	0.2	2.2	17.20	21.80	3.00
2016-17	1,09,842	58.7	0.5	1.4	16.20	17.20	2.80
2017-18 (RE)	1,31,551	59.3	0.5	1.7	14.50	16.00	3.20
2018-19 (BE)	1,40,631	63.1	0.4	1.7	14.30	16.00	3.20

Source: <http://niti.gov.in/state-statistics>, Reserve Bank of India State Finances: A Study of Budgets 2012 to 2017, Annual Financial Statement of the Government of Gujarat 2017-18 & author's calculations; Revenue deficit = Revenue Receipts Less Revenue expenditure; Gross fiscal deficit = Aggregate disbursements (net of debt repayments) Less Revenue Receipts, Non-debt Capital Receipts and Recovery of Loans & Advances

Gujarat was categorised as a leader and ranked second among the States and scored 100 per cent or close to 100 per cent in eight out of 10 parameters — access to information, establishing an online single window system, construction permits, environmental registration enablers, labour registration, obtaining utility connection, tax registration and compliances, and carrying out inspections.

DIPP identified land and property registration (90 per cent) and enforcing contracts (77.78 per cent) as parameters requiring improvement.

Revenue surplus

Gujarat has outperformed Karnataka, which is among the fiscally strongest Indian States, in balancing its revenue budget. Gujarat, like Karnataka and unlike Maharashtra, Tamil Nadu and Telangana, has restricted its wages and pension expenditures to 31.7 per cent of revenue receipts in 2016-17.

The State has been generating a revenue surplus, albeit at a modest less than 1 per cent level, since 2015-16; a trend that is likely to be sustained in 2018-19. Fiscal deficit has correspondingly halved to 1.7 per cent of GSDP in 2017-18 (RE) from a decennial peak of 3.5 per cent in 2009-10. Outstanding liabilities have also declined to 16 per cent of GSDP in 2017-18 (RE) from 28.6 per cent in 2009-10.

Notwithstanding, the overall improvement in Gujarat's fiscal profile during the last decade, weaknesses persist. Gujarat's ratio of capital expenditure to GSDP at 2.8 per cent in 2017-18 (RE) trails those of Andhra Pradesh (4.1 per cent), Telangana (4.3 per cent), and compares favourably with Maharashtra (1.3 per cent), Tamil Nadu (1.8 per cent) and Karnataka (2.2 per cent).

Gujarat's interest expenses at 14.5 per cent of revenue receipts in 2017-18 (RE) is higher than the 10 per cent ceiling stipulated by the Fourteenth Finance Commission (FFC).

The puzzling aspect of Gujarat's interest expenses is that it is high in relation to the quantum of its outstanding liabilities. Gujarat's liabilities in 2017-18 (RE) were ₹2,11,264 crore; 6 per cent and 13 per cent lower than those of Andhra Pradesh and Karnataka, respectively. Yet the State's interest expenses were 29 per cent and 35 per cent higher than those of Andhra Pradesh and Karnataka, respectively.

The average tenor of Gujarat's outstanding liabilities is broadly in line with that of the aggregate of Indian States. Hence, the argument that the State's borrowing costs are higher on account of the longer tenor of outstanding liabilities is not valid.

Indian States need to improve their debt and interest expense related disclosures. Gujarat, in particular, needs to review how it can bring its interest expenses in line with that of other States and channelise the resultant savings towards the much needed social and capital expenditures.

Social development

Gujarat lags Karnataka and Tamil Nadu in social development, though it is on a par with the all-India average for most social development indicators. The State's sex ratio (854 females per 1,000 males) and school enrolment ratios lag the all-India averages. India's sex ratio is 900 females per 1,000 males. Yet, Gujarat's social spending in key sectors lags the average social spending of 19 States .

According to PRS Legislative Research's 'Gujarat Budget Analysis 2018-19', the State government spent 14.1 per cent of its total budget on education; 200 basis points (bps) below the 19-State average of 16.1 per cent.

Similarly, the State allocated 4 per cent to health (80 bps below the 19-State average of 4.8 per cent), 3.9 per cent to agriculture (250 bps below the 6.4 per cent average), and 3 per cent on rural development (220 bps below the 5.6 per cent average).

Like Maharashtra, Gujarat has prioritised attaining a certain degree of fiscal stability at the expense of social development. In the process it lags Karnataka in fiscal stability and peer States like Andhra Pradesh, Karnataka, Tamil Nadu and Telengana in social development.

The State's much-vaunted success in transforming itself into a preferred business destination and attaining fiscal stability is not sustainable if social development continues to lag economic development.

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Published on May 30, 2018

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