

The following Act of the Gujarat Legislature, having been assented to by the Governor on the 21st March, 2005 is hereby published for general information.

S.S. PARMAR,
Secretary to the Government of Gujarat,
Legislative and Parliamentary Affairs Department.

GUJARAT ACT NO. 11 OF 2005.

(First published, after having received the assent of the Governor in the "*Gujarat Government Gazette*", on the 21st March, 2005).

AN ACT

to provide for the responsibility of the State Government to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term fiscal framework and for matters connected therewith or incidental thereto.

It is hereby enacted in the Fifty-sixth Year of the Republic of India as follows:-

1. (1) This Act may be called the Gujarat Fiscal Responsibility Act, 2005. **Short title and commencement.**

(2) It shall come into force on such date as the State Government may, by notification in the *Official Gazette*, appoint.

- Definitions.** 2. In this Act, unless the context otherwise requires,--
- (a) “budget” means the annual financial statement to be laid before the State Legislature under Clause (1) of article 202 of the Constitution of India;
 - (b) “current year” means the year preceding the year for which budget is being presented;
 - (c) “fiscal deficit” means the excess of total disbursements from the Consolidated Fund of the State (excluding repayment of debt) over total receipt into the Fund (excluding the debt receipts), during a financial year;
 - (d) “fiscal indicators” means the measures such as numerical ceilings and proportions to gross State domestic product, as may be prescribed, for evaluation of the fiscal position of the State Government;
 - (e) “prescribed” means prescribed by rules made under this Act;
 - (f) “previous year” means the year preceding the current year;
 - (g) “revenue deficit” means difference between revenue expenditure and revenue receipts which indicates increase in liability of the State Government without corresponding increase in assets of the Government;
 - (h) “State Government” means the State Government of Gujarat;
 - (i) “total liabilities” means the liabilities under the Consolidated Fund of the State of Gujarat and the public account of the State;
 - (j) “triggers” means intra-year benchmark on deficit.

Fiscal Policy Statements . 3. (1) The State Government shall lay, in every financial year, before State Legislature, the Medium Term Fiscal Policy Statement and the Fiscal Policy Strategy Statement alongwith the budget.

(2) The Medium Term Fiscal Policy Statement and the Fiscal Policy Strategy Statement shall set forth the fiscal objectives, strategic priorities of the State Government and a three years rolling target for fiscal management laid down in section 5 with enunciation of underlying assumptions.

(3) In particular, and without prejudice to the provisions contained in sub-section (2), the medium term fiscal policy statement shall include assessment of sustainability relating to,-

- (a) the balance between revenue receipt and the revenue expenditure;

- (b) the use of capital receipts including open market borrowings for generating productive assets; and
 - (c) the estimated yearly pension liabilities worked out on actuarial basis, for the next ten years, within such period as the State Government may, by order, specify.
- (4) The Fiscal Policy Strategy Statement shall, *inter-alia*, contain -
- (i) The policies of the State Government for the ensuing financial year relating to taxation, expenditure, borrowings (including the borrowings by Public Sector Undertakings and special purpose vehicles and other equivalent instruments where liability for repayment is on the State Government, with ceiling fixed for each agency) and other liabilities, lending and investments, pricing of administered goods and services and description of other activities such as guarantees and the activities of the public sector undertakings which have potential budgetary implications and the key fiscal measures and targets pertaining to each of these;
 - (ii) the strategic priorities of the State Government in the fiscal areas for the ensuing financial year;
 - (iii) key fiscal measures and their rationale for any major deviation in fiscal measures pertaining to taxation, subsidy, expenditure, administered pricing and borrowings;
 - (iv) evaluation as to how the current policies of the State Government are in conformity with the fiscal management principles as set out in section 4 and the objectives set out in Medium Term Fiscal Policy Statement;
 - (v) evaluation of the performance of the fiscal indicators presented in the previous year vis-à-vis the targets set out earlier and the likely performance in the current year.

(5) The Medium Term Fiscal Policy Statement and the Fiscal Policy Strategy Statement referred to in sub-section (1) shall be in such form as may be prescribed.

4. (1) The State Government shall take appropriate measures to reduce the revenue deficit and contain the fiscal deficit and thereby build up an adequate revenue surplus by following the principles laid down in sub-section (3).

Fiscal management principles.

(2) The revenue surplus as aforesaid may be utilised for discharging liabilities of the State.

(3) The State Government shall be guided by the following fiscal management principles, namely:-

- (i) transparency in setting the fiscal policy objectives, the implementation of public policy and in the publication of public accounts;
- (ii) stability in fiscal policy making process;
- (iii) responsibility in the management of public finances;
- (iv) fairness in policy decisions of the State Government having due regard to the financial implications on future generation;
- (v) efficiency in design and implementation of the fiscal policy and managing the public sector;
- (vi) to maintain Government debt at prudent level;
- (vii) to manage guarantees and other contingent liabilities prudently, with particular reference to the quality and level of such liabilities;
- (viii) to maintain the integrity of the tax system by minimizing special incentives, concessions and exemptions;
- (ix) to pursue non-tax revenue policies with due regard to cost recovery and equity;
- (x) to pursue expenditure policies that would provide impetus to economic growth, poverty reduction and promotion of welfare of the people;
- (xi) to ensure that State Government uses resources in such a way that give best value for money and also ensure that public assets are put to the best possible use;
- (xii) to minimize fiscal risks associated with running of public sector undertakings and utilizes it for providing public goods and services;
- (xiii) to formulate budget to realistic and objective manner with due regard to the general economic outlook and revenue prospects and to minimize deviations during the course of the year.

**Fiscal
management
targets.**

5. In particular, and without prejudice to the generality of the foregoing provisions, the State Government shall -

- (a) reduce the revenue deficit to zero within a period of three years commencing from the 1st April, 2005 and ending on the 31st March 2008 and maintain at that level or generate revenue surplus thereafter;
- (b) reduce the revenue deficit in each of the financial year commencing from the 1st of April, 2005 in a manner so as to achieve the desired goal set out in clause (a).
- (c) reduce fiscal deficit to not more than three per cent. of the estimated Gross State Domestic Product within a period of four years commencing from the 1st April, 2005 and ending on the 31st March, 2009;

- (d) reduce the fiscal deficit in each of the financial year commencing from the 1st of April, 2005 in a manner so as to achieve the desired goal set out in clause (c).
- (e) cap within a period of three years commencing from the 1st April, 2005 and ending on the 31st March, 2008, the total public debt of the State Government at thirty percent. of the estimated Gross State Domestic Product for that year;
- Guj. XXII of 1963. (f) cap outstanding guarantees within the limit provided in the Gujarat State Guarantees Act, 1963:

Provided that the revenue deficit and the fiscal deficit may exceed the limits specified under this section on account of unforeseen circumstances or natural calamity:

Provided further that the excess expenditure on the grounds mentioned in the first proviso shall not exceed the actual fiscal cost spent to meet with the situation.

6. (1) The State Government shall take suitable measures to ensure greater transparency in its fiscal operations in the public interest and minimize, as far as practicable, secrecy in the preparation of the budget and the demands for grants:

**Measures for
fiscal
transparency.**

Provided that the State Government shall have the power to reserve any such information, which would adversely affect the interest of the State *Ex-chequer*.

(2) In particular, and without prejudice to the generality of the foregoing provisions, the State Government shall, at the time of presentation of the budget, disclose in a statement in the form as may be prescribed,-

- (i) the significant changes in the accounting standards, policies and practices affecting or likely to affect the computation of fiscal indicators;
- (ii) the contingent liabilities created by way of guarantees, actual liabilities arising out of borrowings by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments where liabilities for repayment is on the State Government having regard to the potential budgetary implications, off-budget borrowings, if any, and the committed liability in respect of major works and supply contracts;
- (iii) revenue demands raised but not realized; and
- (iv) the estimated yearly pension liabilities worked out on actual basis, for the next ten year, within such period as the State Government may, by order, specify.

Measures to enforce compliance.

7. (1) The budget presented and the policies announced at the time of the budget shall be consistent with the objectives of the Medium Term Fiscal Policy Statement and the Fiscal Policy Strategy Statement and the Fiscal Management Targets.

(2) Triggers as well as corrective actions that shall be initiated upon activation of triggers shall also be the integral part of the budget.

(3) The Finance Minister of the State shall review the trends in receipts and expenditure in relation to the budget and mentioned the remedial measures required to be taken to achieve the budget targets. The report of such review shall be placed before the State Legislature during the session immediately following the end of the second quarter of the financial year.

(4) The review report, referred in sub-section (3) shall explain,

- (i) any deviation or likely deviation in meeting the obligations cast on the State Government under this Act;
- (ii) whether such deviation is substantial and relates to the actual or the potential budgetary outcomes, and how much of the deviation can be attributed to general economic environment and to policy changes by the Government;
- (iii) the remedial measures, the State Government proposes to take;
- (iv) whenever there is a prospect of either shortfall in revenue or excess of expenditure over the budgetary provisions for a given year on account of any new policy decision of the State Government that affects either the Government or public sector undertakings, the Government, prior to taking such policy decisions, shall take measures to fully offset the fiscal impact for the current and future years by curtailing the sums authorised to be paid and applied from and out of the Consolidated Fund of the State under any Act to provide for the appropriations of such sums or by taking interim measures for revenue augmentation, or by taking up a combination of both:

Provided that nothing in this sub-section shall apply to the expenditure charged on the Consolidated Fund of the State under clause (3) of article 202 of the Constitution of India.

- (v) In case the revenue deficit and fiscal deficit exceed on account of unforeseen demands on the finances of the

Government, the Government shall identify the net fiscal cost of the calamity and such cost would provide ceiling for extent of non-compliance to the specified limits.

- (vi) Whenever, one or more supplementary estimates are presented in the State Legislature, the State Government shall also present an accompanying statement indicating the corresponding curtailment of expenditure and augmentation of revenue to fully offset the fiscal impact of the supplementary estimates in relation to the budget targets of the current year and the objectives of the Medium Term Fiscal Policy Statement, Fiscal Policy Strategy Statement and the Fiscal Management Targets for the future year.

8. (1) The State Government may, by notification in the *Official Gazette*, make rules for carrying out the purposes of this Act. **Power to make rules.**

(2) In particular, and without prejudice to the generality of the foregoing power, such rules may provide for all or any of the following matters, namely:-

- (a) the measures of evaluation of Fiscal position of the State Government;
- (b) the form of Medium Term Fiscal Policy Statement and Fiscal Policy Strategic Statement under sub-section (5) of section 3;
- (c) the form in which disclosures shall be made under sub-section (2) of section 6; and
- (d) any other matter which is required to be, or may be prescribed.

(3) All rules made under this section shall be laid for not less than thirty days before the State Legislature as soon as may be after they are made, and shall be subject to rescission by the State Legislature or to such modifications as the Legislature may make during the session in which they are so laid or the session immediately following.

(4) Any rescission or modification so made by the State Legislature shall be published in the *Official Gazette* and shall thereupon take effect.

9. No suit, prosecution or other legal proceedings shall lie against the State Government or any officer of the Government for anything which is in good faith done or intended to be done under this Act or the rules made thereunder. **Protection of action taken in good faith.**

10. The provisions of this Act shall be in addition to and not in derogation of, the provisions of any other law for the time being in force. **Application of other laws not barred.**

**Power to
remove
difficulties.**

11. (1) If any difficulty arises in giving effect to the provisions of this Act, the State Government may, by order published in the *Official Gazette*, make such provisions, not inconsistent with the provisions of this Act, as may appear to be necessary for removing the difficulty:

Provided that no such order shall be made after the expiry of a period of two years from the commencement of this Act.

(2) Every order made under this section shall be laid, as soon as may be after it is made, before the State Legislature.
