

**Year
2007-08**

**Statements
under the
Gujarat Fiscal
Responsibility Act,
2005**

Laid in the Legislative
Assembly along with
the Annual Financial
Statement for the year
2007-2008

February – 2007

**Finance Department
Government of Gujarat**

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Introduction - Gujarat Fiscal Responsibility Act, 2005

Gujarat Fiscal Responsibility Act, 2005 and Gujarat Fiscal Responsibility Rules, 2005 have been framed by the Government of Gujarat to make the State Government accountable for ensuring 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 and conduct of fiscal policy in a medium term frame work.

As per section 3 of the Act, the State Government shall lay, in every financial year, before the State Legislature, the Medium Term Fiscal Policy Statement and the Fiscal Policy Strategy Statement alongwith the budget. The Medium Term Fiscal Policy Statement and the Fiscal Policy Strategy Statement set forth the fiscal objectives, strategic priorities of the State Government and a three years rolling target for fiscal management.

The salient provisions of the Act are:

- (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 1st of April, 2005 in a manner so as to achieve the desired goal set out in (a) above,
- (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 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 (c) above,
- (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;
- (f) cap outstanding guarantees within the limit provided in the Gujarat State Guarantees Act, 1963;
- (g) disclosures in the forms prescribed in the rules at the time of presentation of the budget.

The accompanying statements are as per the Rule 7(1) of the Gujarat Fiscal Responsibility Rules, 2006.

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Fiscal Position of the State Government

2. Overview of the State Economy :

2.1. The State has been allotted a target of 10.2 percent growth rate for the Tenth Five Year Plan (2002-07) as against 8 percent growth rate of the national level. Notwithstanding severe exogenous shocks to the economy, including earthquakes and floods, the State economy has recorded an annual average growth rate of 10.6 percent for the last four years (2002-03 to 2005-06).

Gross State Domestic Product (GSDP) at factor cost at constant (1999-2000) prices in 2005-06 has been estimated at Rs.169354 crore as against Rs.150979 crore in 2004-05, registering a growth of 12.17 percent during the year. At current prices, GSDP at factor cost in 2005-06 has been estimated at Rs.216651 crore as against Rs.186181 crore in 2004-05, showing an increase of 16.37 percent during the year.

2.2 The share of primary, secondary and tertiary sector has been reported to be as 20.23 percent, 38.32 percent and 41.45 percent respectively to the total GSDP in 2005-06 at constant (1999-2000) prices. The share of these sectors in the base year 1999-2000 was reported to be as 18.62 percent, 39.21 percent and 42.17 percent respectively.

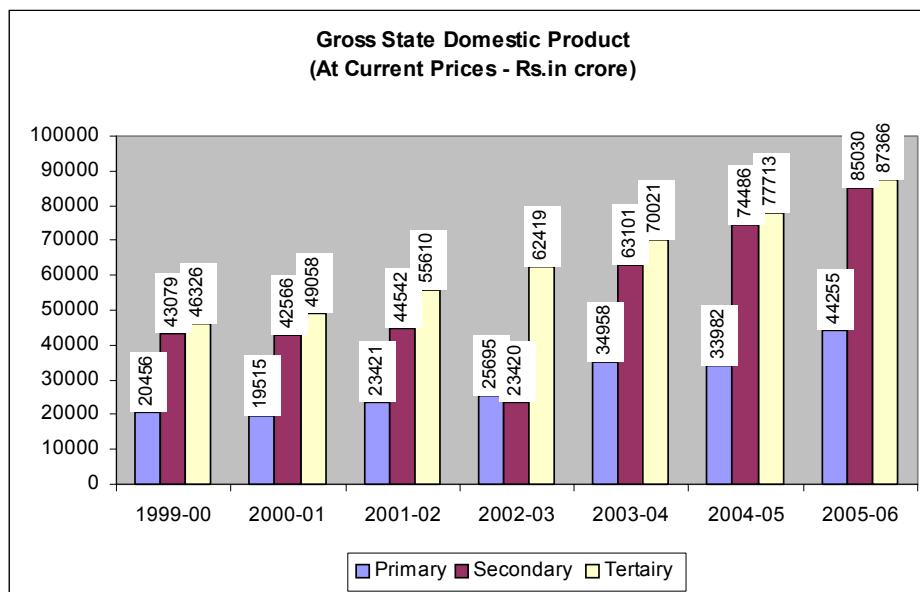
Table 2.1

Gross State Domestic Product (Rs. crore)					
Sr. No.	Year	Current prices	Constant prices	Percent growth over previous year	
				Current prices	Constant prices
1	2	3	4	5	6
1.	1999-00	109861	109861	-	-
2.	2000-01	111139	104494	1.16	(-) 4.89
3.	2001-02	123573	113277	11.19	8.41
4.	2002-03	141534	122500	14.53	8.14
5.	2003-04 (P)	168080	140598	18.76	14.77
6.	2004-05 (P)	186181	150979	10.77	7.38
7.	2005-06 (Q)	216651	169354	16.37	12.17

P = Provisional Estimate Q = Quick Estimates

Source: Bureau of Economics and Statistics, Gandhinagar

The higher growth in economy during the year 2005-06 can be mainly attributed to agriculture, manufacturing, electricity, construction, trade and communication sector which have contributed 9 to 27 percent growth during the year 2005-06, over the year 2004-05.



Source: Bureau of Economics and Statistics, Gandhinagar

Table 2.2

GSDP by broad Sectors – Sectoral Contribution (Percent)

Sr. No.	Industry	At Current Prices			At Constant Prices	
		1999-00	2004-05	2005-06	2004-05	2005-06
1	2	3	4	5	6	7
1	Primary	18.62	18.25	20.43	18.31	20.32
1.1	Agriculture	14.54	13.26	15.54	15.11	17.21
2	Secondary	39.21	40.01	39.25	38.91	38.32
2.1	Manufacturing	30.75	30.62	29.62	30.18	29.36
3	Tertiary	42.17	41.74	40.32	42.78	41.45
	Total GSDP	100.00	100.00	100.00	100.00	100.00

Source: Bureau of Economics and Statistics, Gandhinagar

2.3 Net State Domestic Product.

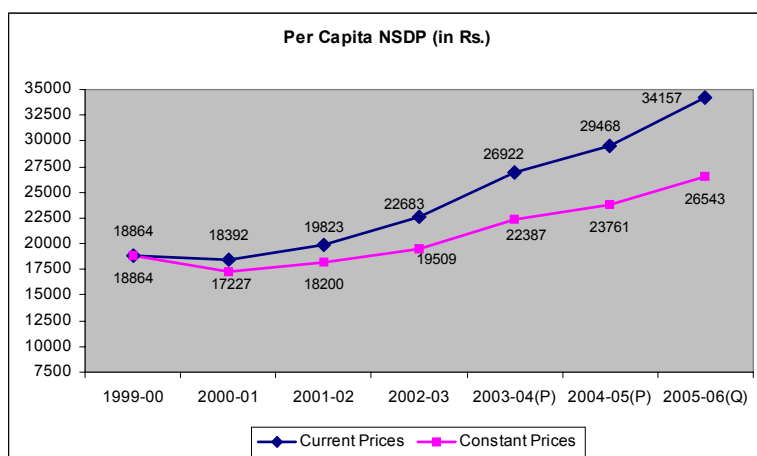
The State Income i.e. Net State Domestic Product (NSDP) at factor cost at constant (1999-00) prices in 2005-06 has been estimated at Rs.145036 crore as against Rs.127828 crore in 2004-05, showing an increase of 13.46 per cent during the year. At current prices, the NSDP in 2005-06 is estimated at Rs.186642 crore as against Rs.158531 crore in 2004-05, showing a growth of 17.37 per cent during the year.

Table 2.3

Net State Domestic Product (Rs. crore)				
Year	Current prices	Constant prices	Percent growth over previous year	
			Current prices	Constant prices
1	2	3	4	5
1999-00	92541	92541	-	-
2000-01	92274	86431	(-) 0.29	(-) 6.60
2001-02	101790	93455	10.31	8.13
2002-03	118130	101603	16.05	8.72
2003-04 (P)	142534	118525	20.66	16.66
2004-05 (P)	158531	127828	11.22	7.85
2005-06 (Q)	186642	145036	17.73	13.46

Source: Bureau of Economics and Statistics, Gandhinagar

2.4 The Per Capita Income (i.e. Per Capita NSDP at factor cost) at constant (1999-2000) prices has been estimated at Rs.26543 in 2005-06 as against Rs.23761 in 2004-05, registering a growth of 11.71 per cent during the year. The per capita income at current prices has been estimated at Rs.34157 in 2005-06 as against Rs.29468 in 2004-05, showing an increase of 15.91 per cent during the year.



Source: Bureau of Economics and Statistics, Gandhinagar

2.5 The share of Gujarat State at current prices and at constant (1999-2000) prices in Gross Domestic Product at all India level works out to 6.66 and 6.50 percent. The per capital income at constant prices has been estimated at Rs.26543 in 2005-06 higher than national average of Rs.20734 as against Rs.23761 in 2004-05 registering an increase of 11.71 per cent over the previous year, whereas the per capital income at current prices has been estimated at Rs.34157 in 2005-06 higher than the national average of Rs.25716 as against Rs.29468 in 2004-5, registering an increase of 15.91 per cent over the previous year.

3. Overview of State Government Finances :

Receipts :

- 3.1 The fiscal base of a State is related to its level of economic development. In the medium term, the fiscal base of the State, has to be improved so that the Government can increase the development expenditure. Public investment in the infrastructure would expand the productive capacity of the economy and thus, expand the revenue generating potential of the State.
- 3.2 The total receipts of the Government constitute Consolidated Fund of the State and balance from the Public Account. The Consolidated Fund of the State comprises of revenue receipts, public debt and recovery of loans. The reduction in the receipts in the consolidated fund is due to less dependency on the public debt over the years (Table 3.1).

Table 3.1
Total Receipts of the State Government

(Rs. crore)

Year	Revenue Receipts (RR)	Public Debt	Recovery of Loans	Consolidated Fund (CF) 1+2+3	Net Public (Account)	Total
2001-02	15986	25430	2210	43626	-712	42914
2002-03	17875	24401	223	42499	-523	41976
2003-04	18247	22169	200	40616	-624	39992
2004-05	20265	16401	186	36852	1157	38009
2005-06	25067	10671	1783	37521	-3108	34413
2006-07(RE)	30460	8045	836	39341	-350	38991

Source: Finance Accounts of the relevant years.

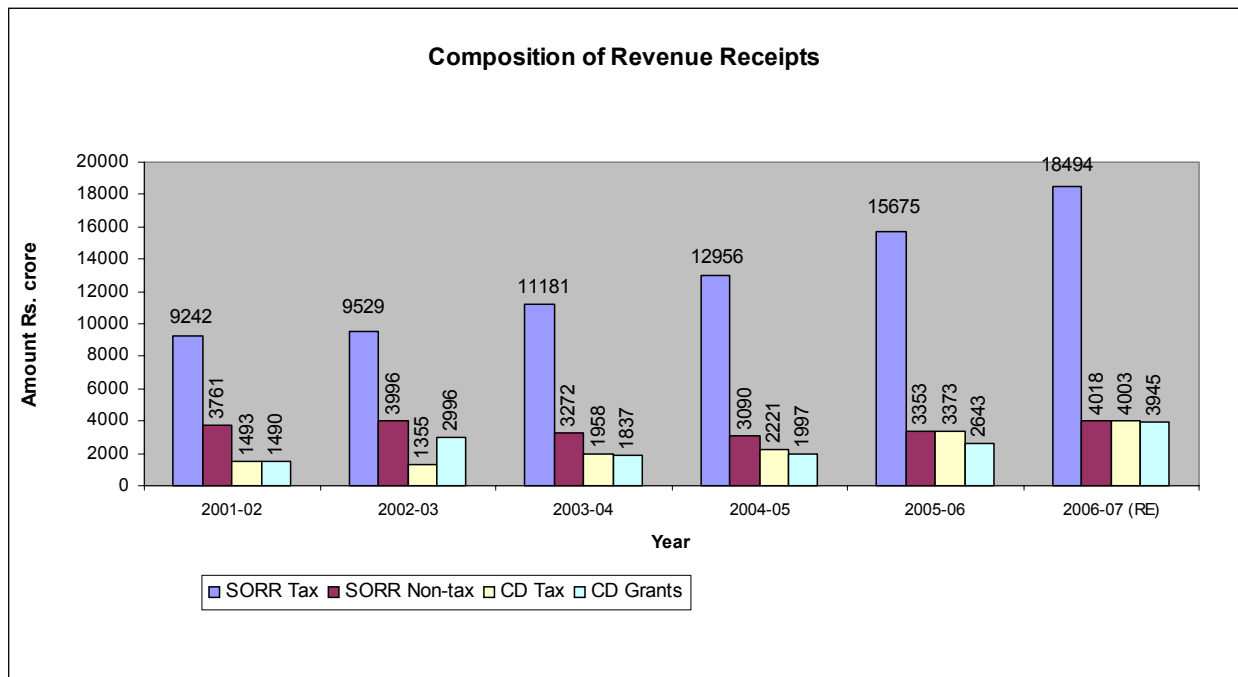
- 3.3 Revenue Receipts comprises of State's own revenue receipts and central devolution. The central tax devolution is determined by the Finance Commission award. The Twelfth Finance Commission (TFC) awarded 3.569% of sharable tax excluding service tax and 3.616% of the sharable service tax to Gujarat as against the Eleventh Finance Commission award of 2.821% and 2.858% respectively. Nearly 20-25% of the revenue receipts come from the Centre (Table 3.2).

Table 3.2
Composition of the Revenue Receipts

(Rs. crore)

Year	State's Own Revenue Receipts (SORR)				Central Devolutions				Proportion of SORR in the Total Revenue (%)
	Tax	Annualised Growth (%)	Non-Tax	Annualised Growth (%)	Central Tax	Annualised Growth (%)	Grants	Annualised Growth (%)	
2001-02	9242		3761		1493		1490		81.34
2002-03	9529	3.10	3996	6.24	1355	9.24	2996	1.07	75.66
2003-04	11181	10.00	3272	-6.72	1958	14.51	1837	11.03	79.21
2004-05	12956	11.91	3090	-6.34	2221	14.15	1997	10.25	79.18
2005-06	15698	14.16	3353	-2.82	3373	22.60	2643	15.40	76.00
2006-07(RE)	18494	14.90	4018	1.33	4003	21.80	3945	21.49	74.25

Source: Finance Accounts of the relevant years.



3.4 Tax revenues of the State have been buoyant during the current year. It has grown at an average growth rate of 15.6% till 2006-07(RE). The buoyancy of State tax revenue with respect to GSDP is 1.09% for the period 2001-2002 to 2006-2007.

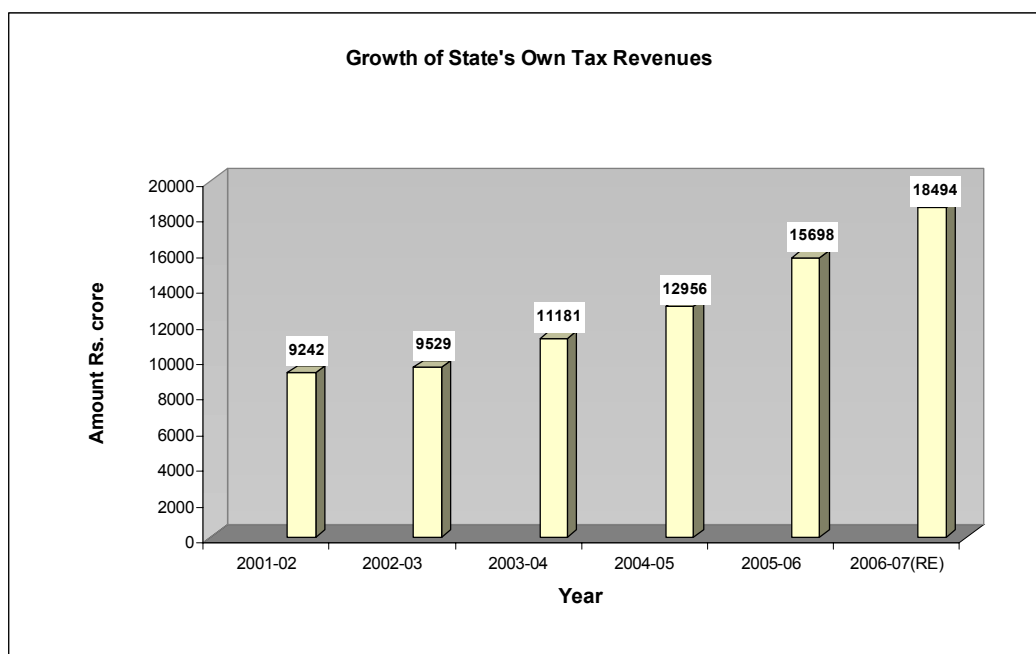
3.5 The State's own tax revenue have been growing at a healthy rate as seen in the Table 3.3 below:

Table 3.3
Growth of State's Own Tax Revenues

(Rs. crore)

Own Tax Revenues	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07(RE)	Annualised Growth Rate %
Professional Tax	93	96	99	132	119	160	11.5
Land Revenue	87	95	127	235	380	300	28.0
Stamps & Registration	539	650	825	963	1153	1300	19.3
State Excise	47	47	46	47	48	59	4.6
Sales Tax/Vat	5857	6252	7170	8309	10562	13000	17.3
M. V. Tax	677	808	936	1061	1154	1200	12.1
Taxes on goods and passengers	99	11	172	160	157	208	16.0
Electricity Duty	1657	1384	1592	1829	1900	2000	3.8
Entertainment Tax	65	40	41	51	44	66	0.3
Other Tax	121	146	173	169	181	201	10.7
Own Tax Revenues	9242	9529	11181	12956	15698	18494	14.9

Source: Finance Accounts of the relevant years.



- 3.6 Amongst the State's own tax revenue, Value Added Tax is the highest contributor at 70.29% of the total own tax revenue in 2006-07(RE). Sales Tax, now Value Added Tax has grown steadily from 2001-02 to 2006-07(RE) at an annualised growth rate of 17.3%. Land revenue has grown 3.44 times during the period 2001-02 to 2006-7(RE). Revenues from stamps & registration and motor vehicles tax have also shown good growth during the year 2001-02 to 2006-07(RE).
- 3.7 Since 2000-01, the State Government has undertaken a series of rationalization measures with respect to various taxes.

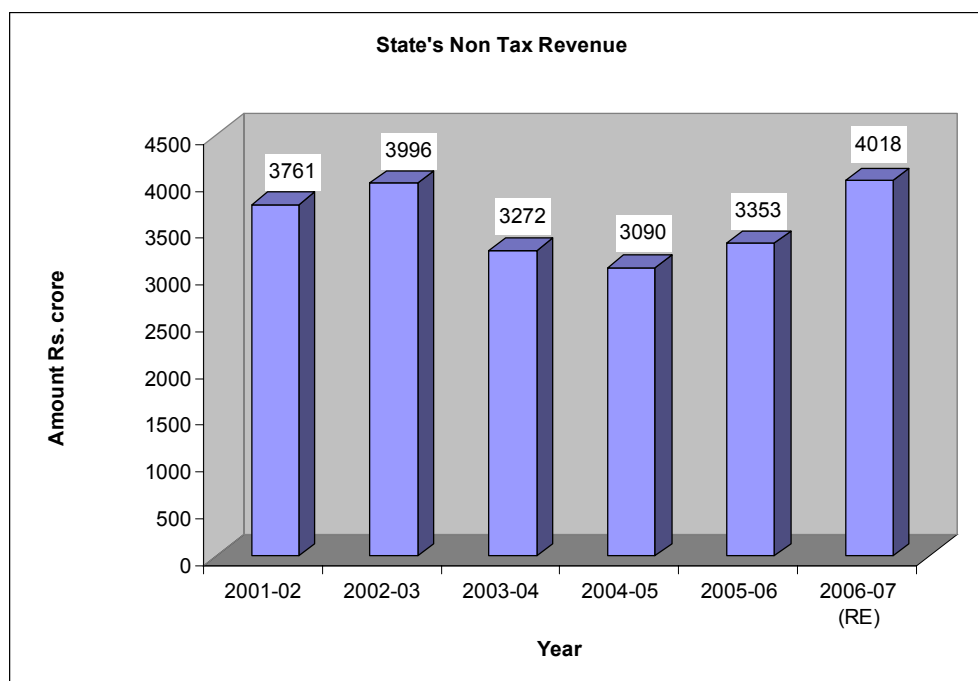
State's Non Tax Revenues :

Table 3.4
Composition of State's Non Tax Revenue

(Rs. crore)

Non Tax Revenue	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (RE)
Fiscal Services including Interest Receipts	1622	1727	927	506	271	250
General Services	796	562	298	407	406	740
Social Services	264	242	195	182	235	234
Economic Services	1079	1464	1852	1996	2441	2794
Non Tax Revenue	3761	3996	3272	3090	3353	4018

Source: Finance Accounts of the relevant years.



- 3.8 Non-tax revenues of the State has increased from Rs.3760.94 crore in the year 2001-02 to Rs.4018.13 crore in the year 2006-07(RE). This is mainly due to larger inflow of royalty from crude oil. Receipts from non-ferrous mining mainly royalty constitute the largest share in non-tax revenue which is a function of the international price of the crude.
- 3.9 To increase its non-tax revenue, the State has taken several steps to rationalize and revise the user charges.

Expenditure :

- 3.10 Public expenditure is an instrument through which the Government provides social and physical infrastructure for the development of the State. Thus, the size, composition and productivity of public expenditure are important parameters to assess the effectiveness of public expenditure in accelerating growth impulses of the economy. The basic categorization of public expenditure is plan and non-plan.
- 3.11 Plan expenditure has grown at an annualized growth of 32.25% over the period 2001-2002 to 2006-2007 as shown in Table 3.5. During the same period the Non Plan expenditure reduced by 8.98%.

Table 3.5
Plan and Non Plan Expenditure

(Rs. crore)

Year	Plan	Annualised Growth (%)	Non-Plan	Annualised Growth (%)	NBR	Total Expenditure With NBR	% of Plan to total Expenditure
2001-02	3461		39753		920	44134	7.84
2002-03	4451	28.60	37742	-5.05	920	43113	10.32
2003-04	6808	40.25	33329	-8.44	870	41007	16.60
2004-05	8421	34.50	29608	-9.35	1069	39098	21.54
2005-06	11113	33.86	23144	-12.64	1029	35286	31.49
2006-07 (RE)	14004	32.26	24835	-8.96	1029	39867	35.14

Source: Finance Accounts of the relevant years.

- 3.12 More appropriate classification of the public expenditure is capital and revenue expenditure. The level of capital expenditure indicates the level of public investment, which not only creates public assets; but also accelerate private investment, it is important to reduce the revenue expenditure and increase the capital expenditure.

Table 3.6
Revenue Expenditure

Year	Revenue Expenditure (Rs. crore)	Annualised Growth (%)
2001-02	22717	
2002-03	21440	-5.62
2003-04	21954	-1.69
2004-05	24302	2.27
2005-06	25465	2.89
2006-07(RE)	28657	4.75

Source: Finance Accounts of the relevant years.

The annualized growth in Revenue Expenditure over the period of 2001-02 to 2006-07 was 4.75% whereas in the same period, the Revenue Receipts has shown annualised growth of 13.66%.

3.13 Revenue Expenditure is the area where State Government is focusing its attention. Salaries, Pensions, interest payments and subsidies, are the major components of revenue expenditure.

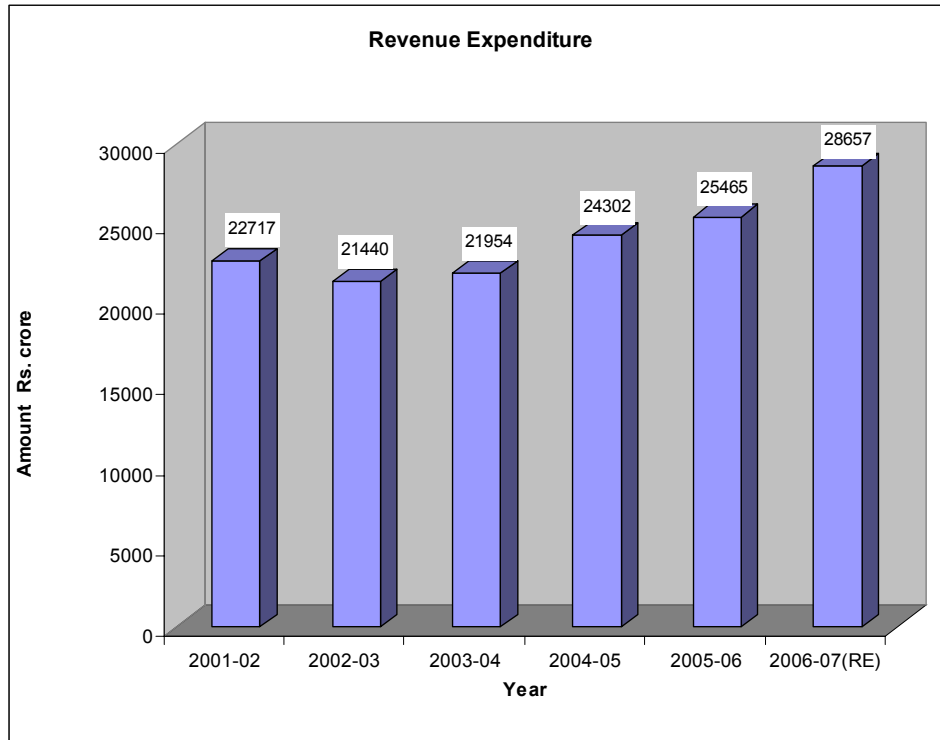
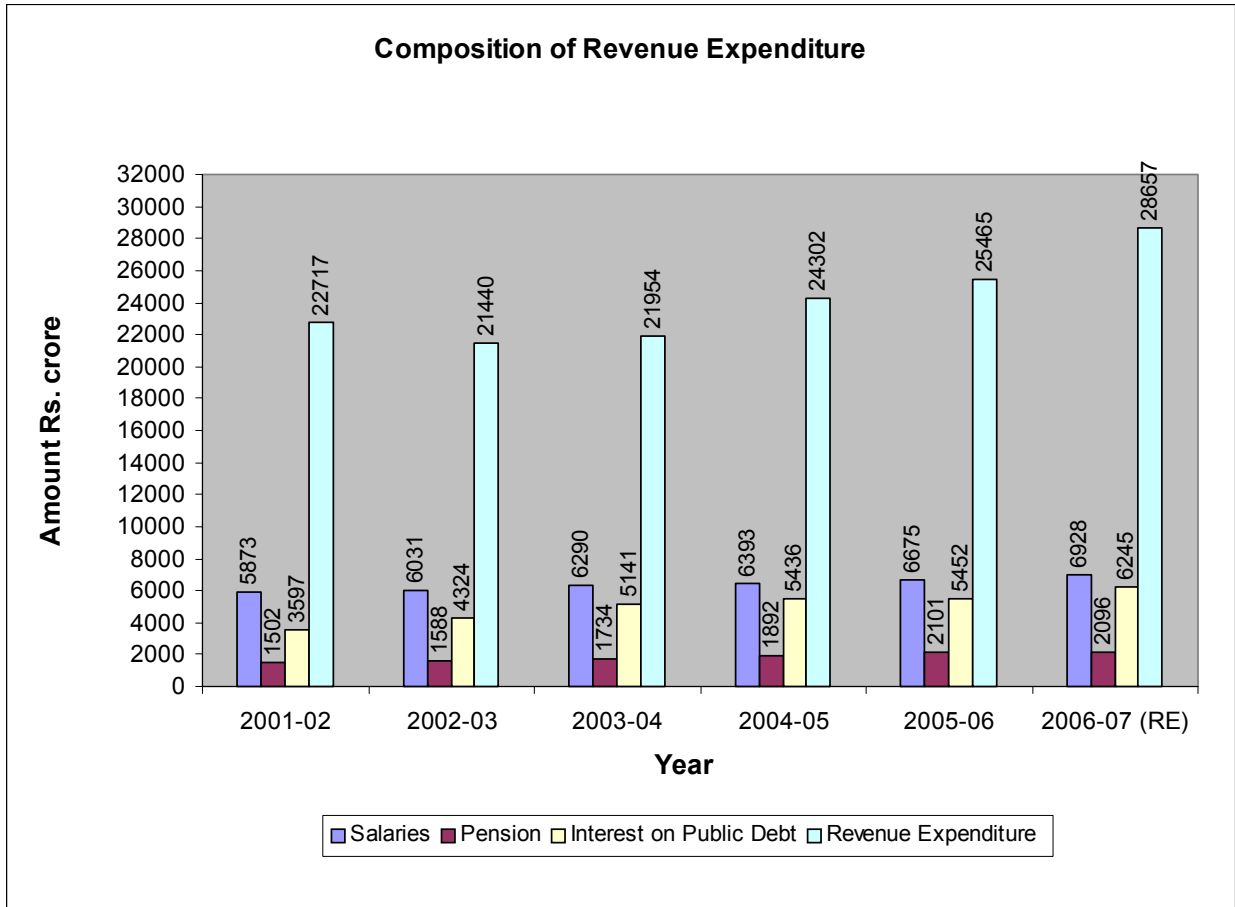


Table 3.7
Composition of Revenue Expenditure

(Rs. crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (RE)	Annualised Growth (%)
1	2	3	4	5	6	7	8
Revenue Expenditure of which	22717	21440	21954	24302	25465	28657	4.75
Salaries	5873	6031	6290	6393	6675	6928	3.36
Pension	1502	1588	1734	1892	2101	2096	6.89
Interest on Public Debt	3597	4324	5141	5436	5452	6242	11.66

Source: Finance Accounts of the relevant years.



3.14 Subsidies :

Table 3.8

(Rs. crore)

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (BE)
Subsidies of which	4155	2878	3316	3336	3222	3004
Energy	3536	2177	2461	2056	1729	1747
Transport	130	143	180	310	358	356
Agriculture & Co-operation	348	76	140	238	439	159
Food & Civil Supplies	92	107	171	193	146	125

Source: Finance Department

Public Debt :

3.15 Increasing public debt raises not only question of sustainability; but also equity. As on 31st March, 2006, the gross public debt of the State is estimated to be Rs.66925.83 crore, which comes to 30.89% of the GSDP. The composition of the gross public debt is shown in the table 3.9 below:

Table 3.9
Composition of Public Debt

(Rs. crore)

Source/Year	As on 31 st March 2004	% to Gross	As on 31 st March 2005	% to Gross	As on 31 st March 2006	% to Gross
Market Borrowing	12475	25.00	14286	24.84	14632	21.86
Centre	14223	28.51	11414	19.85	11523	17.22
Financial Institutions	1813	3.63	1648	28.66	2279	3.40
Small Savings	21375	42.85	30162	52.45	38492	57.52
Total	49886	100	57510	100	66926	100

Source: Finance Department

The Composition of the debt stock has undergone a change wherein proportion of central government loans have reduced to 17.22% of total debt stock on 31-3-2006 from 28.52% on 31-3-2004. The striking change is in ratio of Small Savings loans which has become 57.52% of total debt stock as on 31-3-2006 from 42.85% on 31-3-2004.

- 3.16 The Twelfth Finance Commission (TFC) has recommended that if the State satisfies the conditionality of fiscal performance laid down, central loans contracted till 31-03-2004 and outstanding on 31-03-2005 will be consolidated and rescheduled for a fresh term of 20 years resulting in repayments in 20 equal installments at an interest rate of 7.5%. Central Government loans contracted till 31-03-04 and outstanding on 31-03-2005 stood at 9437.33 crore. As the State has fulfilled the conditions of fiscal performance laid down by the TFC, the loan of Rs.9437.33 crore has been rescheduled by Government of India. The total savings due to reschedulement on account of debt repayment and interest payment is estimated at Rs.2208.35 crore over a period of five years (2005-2010).
- 3.17 The State enacted the Gujarat Fiscal Responsibility Act, 2005 in the month of March, 2005 and it came into force with effect from 1st March, 2005. The major milestones, inter alia, are:
- Eliminating revenue deficit by 2007-08
 - Reducing fiscal deficit to 3% of GSDP by 2008-09.
 - Capping public debt at 30% of the estimated GSDP by 2007-08.
 - Capping outstanding guarantees within the limit provided in the Gujarat State Guarantees Act, 1963.
- 3.18 In order to achieve the targets set out by the Act, a fiscal correction path has been drawn up.
- 3.19 Though the Act prescribes elimination of revenue deficit by the year 2007-08, the State may achieve the target before that. However, the fiscal deficit condition – bring down fiscal deficit as proportion of GSDP to 3% by 2008-09 – may impose a constraint in raising debt for increasing the development expenditure.
- 3.20 The average cost of debt for Gujarat which was 12.10% in 2001-02 is expected to further reduce to 9.33% in the year 2006-07.** This was achieved mainly due to various measures of debt swap undertaken by the State Government. An amount of Rs.1744.42 crore bearing interest rate at 14.5% of the Government of India loan were swapped in 2002-03. In the year 2003-04 an amount of Rs. 4116.59 crore was swapped with an interest rate in the range of 14.5% to 13.5%. Rs.3798.88 crore bearing interest in the range of 13.5% to 12.5% loan were also swapped in 2004-05.

The Debt write-off Scheme :

- 3.21 In addition to providing general debt relief by consolidating and rescheduling at reduced rates of interest, the central loans granted to States before 31-03-04 and outstanding as on 31-03-05, the DCRF provides for a scheme of debt write-off based on fiscal performance. It is linked to the reduction of revenue deficit of States. Under the scheme, the repayments due on central loan from 2005-06 to 2009-10 after consolidation and rescheduling will be eligible for write-off. The quantum of write-off of repayment will be linked to the absolute amount by which the revenue deficit is reduced in each successive year during the finance Commission's award period.
- 3.22 The scheme of write-off shall be available from the year the State is qualified for the general debt relief by enacting the fiscal responsibility legislation. The TFC has further recommended that the benefit of write-off would be available only if the fiscal deficit of the State is contained to the level of 2004-05. Gujarat may get a benefit of debt write-off of Rs.2203.37 crore over the coming five years (2005-2010) on the State achieving the fiscal targets.
- 3.23 In 2005-06 the State reduced its revenue deficit to Rs.399 crore compared to its revenue deficit of Rs.4037 crore in 2004-05. Based on the 12th Finance Commission formulae of debt waiver = $f * \text{reduction of Revenue Deficit Over the previous year}$ (whereas $f = 0.51$) (subject to maximum of annual repayment done of consolidated loan). State received a debt waiver of Rs.315.89 crore vide Government of India, MOF, letter No. 2(7)DCRF/FRU/GUJ/2005, dated 21st April, 2006. In FY 2006-07 the reduction of revenue deficit has continued and therefore the State would become eligible for debt waiver of Rs.472 crore in the FY 2006-2007.

3

Medium Term Fiscal Policy Statement

Form A -1
(See Rule 4)MEDIUM TERM FISCAL POLICY STATEMENT
A. Fiscal Indicators - Rolling Targets

Item	Previous Year Actuals		Current Year (Y-1) Budget Estimates (BE)	Current Year (Y-1) Revised Estimates (RE)	Ensuring Year (Y) Budget Estimates (BE)	Targets for next Two Years	
	Y-3	Y-2				Y + 1	Y + 2
	2004-05	2005-06	2006-07	2006-07 (RE)	2007-08	2008-09	2009-10
1	2	3	4	5	6	7	8
1 Revenue Deficit (Rs. cr)	-4037	-399	6 Surplus	1803 Surplus	1651 Surplus	2200 Surplus	2200 Surplus
2 Fiscal Deficit (Rs. cr)	-8691	-6270	-6880	-6165	-5994	-6200	-6200
3 Public Debt	57510	66926	73806	73242	79236	85436	91636
4 GSDP (Rs. cr)	186181 (P)	216651 (Q)	245422*	245422*	278014*	314934*	356758*
5 Fiscal Deficit as Percentage of GSDP	4.67	2.89	2.80	2.51	2.16	1.97	1.74
6 Public Debt as percentage of GSDP	30.89	30.89	30.07	29.84	28.50	27.13	25.69
7 Government Outstanding Guarantee (Rs. cr)	16144	14079	13073	13073	16000**	16000**	16000**

Source: Finance Accounts of the relevant years, 11th Five years plan projections.

P: Provisional Estimate, Q: Quick Estimates

*: Projected GSDP at an assumed annual growth of 13.28%

** : New guarantees will be given subject to vacation of guarantees and will be kept below Rs.16000 crore

*GSDP projected at 13.28% growth for the during year at current prices (series of 1999-2000).

B. Assumption underlying the Fiscal Indicators

- (1) **Revenue Receipts:** Revenue Receipts comprise tax revenue and non-tax revenue. A part of both tax and non-tax revenues come from the Centre.
- a) **Tax revenue:** Tax revenue consists of State's own tax revenue and Central tax devolutions. The Central tax devolutions for the year 2005-06 are taken from the Twelfth Finance Commission. The State's own tax revenues were Rs.15698 crore for the year 2005-06. For later years, it is assumed to grow at 10.1% from the budget estimates of 2005-06 (base year).
 - b) **Non-tax Revenue:** Non-tax comprises of State's own non-tax revenue and plan and non-plan grants from Centre. The State's own non-tax revenues for the year 2005-06 was Rs.3353.37 crore and is assumed to grow at 3.1% from the base year of 2005-06. The central grants were Rs.2491.58 crore in FY 2005-06 and estimated to under due to completion of on going externally aided projects. The new externally aided projects will be on back to back basis with no central assistance. The non-plan grants were Rs.850.30 crore in 2005-06 and estimated to grow at 2.4% from the base year of 2005-06 include the specific Twelfth Finance Commission grants as given in the report.
- (2) **Capital Receipts:** The gross debt is derived keeping in view the fiscal targets to be achieved by year 2008-09 as envisaged in the Gujarat Fiscal Responsibility Act, 2005. As the State would be fulfilling the conditions of the Debt Consolidations and Relief Facility (DCRF) scheme, the benefits of debt consolidation and debt write-off are taken into consideration. All due repayments during this period have been accounted for. The portfolio of the fresh loans is to be worked out on a yearly basis depending on the availability from different sources and rate of interest.
- a) **Loans and Advances from Centre as Additional Central Assistance (ACA) :** Based on the recommendations of the Twelfth Finance Commission, the Government of India has stopped giving plan loans, except in case of on going externally aided projects (EAP), to the State from the year 2005-06 and thus, for the later years the loans and advances from the Centre as ACA include only loans for on going EAP.
 - b) **Special Securities issued to the NSSF:** At present, NSSF is the most expensive source of financing. Annually, the NSSF component in total debt is 57.52% of the outstanding debt as on 31-12-06.
 - c) **Open Market Borrowing:** The State Government has not resorted to Open Market Borrowing in the FY 2006-07.
 - d) **Recovery of loans and advances:** As per the account of the year 2005-06, Rs.4664.67 crore of loans and advances are outstanding. The recovery of remaining loans and advances are projected to grow at 10% average annual growth rate from the budget estimates of the year 2006-07. In 2005-2006 and 2006-2007 the recovery is higher than the normal due to right-off GUVNL of loans as per the Fiscal Restructuring Programme (FRP)
 - e) **Borrowings from financial institutions :** The borrowing from the institutions like NABARD, HUDCO, LIC are project based and are part of the overall borrowing programme. Since, NABARD assistance is a relatively low cost resource, the State would try to maximize the utilization of these funds.
-

f) **Other receipts (net) – Employees Insurance, Provident Fund etc. :** This is a potential source of borrowing from public account outside the Consolidated Fund of the State. This is to be used as a gap filling instrument as a last resort. Whenever there is gap between availability of borrowing from other sources and the need for capital outlay within the fiscal deficit parameters, loans from public account are to be used. However, for the years 2005-06 onwards, these receipts are assumed to be zero.

(3) **Total Expenditure:** The total expenditure is classified into revenue and capital account. The revenue account consists of plan and non-plan expenditure. Plan revenue expenditure for the year 2005-06 onwards is projected at a growth rate of 7%. Non-plan Revenue Expenditure is projected at a growth rate of 4.95%. These projections include interest relief under DCRF scheme.

(a) **Revenue Account:** The revenue account mainly consists of salaries, pensions, interest payments and subsidies.

- I. **Interest payments:** For the year 2004-05, an average cost of borrowing was 10.02% and this cost is estimated to come down to 9.33% in 2006-07. The same has been used for projections.
- II. **Major explicit subsidies:** The growth rate assumed on General Subsidies is negligible. Power Subsidies is based on in principle approval of the Financial Restructuring Programme of GUVNL and is as per the actual.
- III. **Salaries:** Salaries are projected at 3.8 - 4% from the year 2006-07 onwards.
- IV. **Pensions:** Pensions are projected at 9% growth rate from the years 2005-06 onwards.

(b) **Capital Account :**

- I. **Capital Outlay:** Capital Outlay would be growing at an average annual rate of 8-10%.
- II. **Disbursement of Loans and advances:** It is projected at 10% from the year 2005-06 onwards.

(4) **GSDP Growth:** GSDP is an important economic variable in State finances, which determines the capacity of the State to impose taxes and thus macro in a way determines the size of the budget. In order to make comparative assessment of the fiscal performance across time and space, all fiscal parameters are presented as a proportion of GSDP. The Debt Consolidation and Relief Facility (DCRF) guidelines suggested a nominal growth rate of 12.8% for projecting the GSDP with 2004-05 as the base year. Although the projected GSDP by the DCRF guidelines for the year 2004-05 was Rs.158067 crore, as per the provisional estimates for the year 2004-05, the GSDP at current prices was Rs.186181 Crore (1999-2000 series). Since this figure is more realistic, it is proposed to adopt, Rs.186181 crore as the GSDP for the year 2004-05 instead of the earlier projected estimate (Rs.158067 crore). While the DCRF has assumed 12.8% growth for the State GSDP, in the medium Term Fiscal Policy Statement the GSDP has grown at 16.3% in nominal terms during 2005-06 over 2004-2005 (Advance estimate by Directorate of Economics and Statistics). However, during the period 1999-2000 to 2005-2006, the GSDP at current prices grew at an annual rate of 12%. Thus, it is reasonable to estimate a growth of 13.28% during the remaining four years.

C. Assessment of Sustainability

- (1) The balance between receipts and expenditure in general and revenue receipts and revenue expenditure in particular:** In order to achieve the revenue deficit and fiscal deficit target envisaged in the Act, it is necessary for the revenue receipts to grow at a faster rate than the total expenditure in general and revenue expenditure in particular. The total revenue receipt to GSDP ratio is 12.55% in the year 2006-07 and is expected to remain the same by the year 2009-10, of which the own tax GSDP ratio is 7.24% and would reach 7.7% in the terminal year. In order to increase the non-tax revenues user charges would be reviewed periodically with a view to make them sustainable. Expenditure on non-plan revenue account would be contained to 4.95% annual growth and plan revenue expenditure would grow at 7% to accelerate the development efforts. The expenditure on salaries and pension are the key parameters. Expenditure should not grow more than 3.5% on salaries and 9% on pensions. The subsidies have to be kept at a reasonable level.
- (2) Debt:** The debt consolidation facility has provided interest relief. Further borrowings would be made prudently to contain the interest payments. The fiscal deficit liabilities would set the limit to capital receipts through borrowing.
- (3) Contingent Liabilities:** The contingent liabilities would be kept in the limits set by the Act.
- (4) The use of capital receipts including market borrowing for generating productive assets:** As the State has achieved the revenue surplus in the year 2006-07, therefore a larger part of the revenue receipts would be used for capital formation in irrigation, power, roads and bridges as per the priorities of the Government. The Plan capital outlays in the ensuing budget for irrigation, power, roads & bridges and water supply are Rs.4752 crore, Rs.612 crore, Rs.1476 crore and Rs.1220 crores respectively.
- (5) The estimated yearly pension liabilities** is worked out on actuarial basis. However, in the transitional period pension liabilities will be estimated on the basis of trend growth rates (i.e. average rate of growth of actual pension payments during the last three year for which data are available) on year to year basis. Budget estimate for 2006-2007 and estimates for 2007-08 onwards are projected at 9% average growth rate.

4

The Fiscal Policy Strategy Statement

Form A-2
(See rule 5)

The Fiscal Policy Strategy Statement

1. Fiscal Policy Overview :

The Government's long-term fiscal objectives include a revenue surplus across the economic cycle to ensure that government revenues and expenditure are in broad balance through an appropriate level of taxation and spending and that public debt is not greater than 30% of the GSDP. The strategy aims at increasing capital expenditure to ensure higher investments in social and economic infrastructure. This would be possible through maximizing revenue receipts of the State while concurrently containing revenue expenditure.

The Government's endeavour continues to widen the tax base, thus improving revenues. This has been possible through a strategy of evolving a robust broad-based tax system that aims at collecting taxes in a manner that is equitable and efficient. On the expenditure side, the State Government has been successful in continuing to rein in revenue expenditure.

2. Fiscal Policy for the ensuing year:

The State Government would continue to direct fiscal policy towards maintaining sound public finances that ensure a harmony between expenditure and revenues in a manner that ensures government priorities are met while avoiding any unsustainable burden of public debt.

2.1. Tax Policy :

The State Government's strategy is to increase tax revenue without imposing any new tax and without increasing the present tax rates. Rationalization of the tax-structure of the State continues to be a major priority area. Taxation reforms would continue during the ensuing year aimed at widening the tax base, improving tax compliance and making tax administration more efficient and fair. The process is expected to yield an improved tax to GSDP ratio. After introduction of the Value Added Tax since April-2006, the implementation issues related to VAT administration have largely been addressed to ensure that tax-payers are facilitated. Refund procedures have been streamlined. Rationalization would continue as regards Stamp Duty and Electricity Duty to ensure fewer and moderate rates. Tax on Motor Vehicles would be rationalized. With the above simplifications and rationalizations, it is envisaged that the common man would be benefitted and economic activities would also get the required boost ensuring a wider tax base resulting in better tax buoyancy.

2.2. Levy of user charges :

The State Government has been attempting to recover the user charges to the extent possible. It is realized that in several areas of service delivery, full recovery of cost is not possible. However, attempts would continue to be made to recover at least the operation & maintenance costs to the extent possible.

2.3. Borrowings and other liabilities :

As the Budget (without taking into consideration the tax benefits given in Part B of the Budget Speech) has indicated a revenue surplus in the year 2007-2008, reliance on borrowing would

reduce. Level of borrowing would be guided by the target fixed for fiscal deficit of the State. The Consolidated Debt Sinking Fund which has been set up would continue to be augmented to take care of pay-outs at the time of maturity of market borrowings.

2.4. Expenditure Policy :

The State Government had taken several initiatives to contain the non-plan revenue expenditure. Some of these measures includes abolition of vacant posts, re-deployment of existing staff so as to avoid filling up of vacant posts, recruitment of essential staff mostly on fixed pay basis, introduction of New Defined Contribution Pension Scheme for employees joining service on or after 1-4-05. These measures have resulted in containing the revenue expenditure, especially the non-plan revenue expenditure during the last 4 years. The State Government would continue to make efforts to contain the growth of revenue expenditure. In addition, the State Government would make attempts to improve the quality of expenditure. As a part of such attempt, the State Government has announced linking release of grants to grant-in-aid institutions to their performance.

The State has adopted E-tendering as a substitute to the existing system of tendering for quicker and cost effective means for processing of tender documents. New changes have also been made in financial powers for according administrative sanctions for quicker approval of cases. This would help in improving quality of expenditure and reduce transaction costs.

2.5. Contingent and other liabilities :

Attempts have been made to reduce the guarantees given by the State Government which has resulted in limiting the outstanding Government guarantees at a much lower level than what is fixed in Gujarat State Guarantee Act, 1963. A Guarantee Redemption Fund has been set up to take care of any contingent liabilities arising out of the State Government guarantees. The Guarantee Redemption Fund would continue to be augmented from the guarantee fees received.

3. Strategic priorities for the ensuing year :

The priority of the State Government is to continue with the streamlining of the implementation of VAT and to improve the tax buoyancy. Rationalization of various tax rates and structures would continue to get a higher priority. Ensuring quality in expenditure would be an area of priority. Debt Management and Contingent Liability Management would continue to get a high priority. Over the annual economic cycle, the Government would borrow only to invest and not to fund revenue expenditure. Public sector debt would be held at a prudent and sustainable level.

4. Rationale for Policy changes :

As the Government of Gujarat has decided to borrow only when needed for investment that guarantee high economic and social returns. The objective is to raise the borrowings at the lowest possible cost. This is possible only if the State has healthy fiscal parameters. A combination of market borrowings, NSSF loan and loan from NABARD have been resorted to. The new external loans after 1-4-2005 would be available to the State only on back-to-back basis. This implies that the State Government would have to factor in risks of both the interest rates and the foreign exchange fluctuations.

5. Policy evaluation :

The assumptions underlined to fiscal policy are based on the available data. All necessary disclosure statements have been provided. The present Fiscal Policy is within the parameters enunciated in the Act.

5

Disclosure Forms

Form B -1
(See Rule 7)
FISCAL INDICATORS

SR No.	Item	Previous Year Actuals		Current Year	Current Year	Ensuing Year
		Y-3	Y-2	Y-1 B E	Y-1 R E	Y B E
		2004-05	2005-06	2006-07	2006-07	2007-08
1	2	3	4	5	6	7
1	Revenue Deficit/Surplus (Rs. crore)	-4037	-399	6	1803	1651
2	Fiscal Deficit (Rs. crore)	-8691	-6270	-6880	-6165	-5994
3	Public Debt (Rs. crore)	57510	66926	73806	73242	79236
4	GSDP (Rs. crore)	186181(P)	216651(Q)	*245422	*245422	*278014
5	Revenue Deficit/Surplus as percentage of GSDP	-2.17	-0.18	0	0.73	0.59
6	Fiscal Deficit/ as percentage of GSDP	-4.67	-2.89	-2.80	-2.51	-2.16
7	Public Debt as percentage of GSDP	30.89	30.89	30.07	29.84	28.50
8	Revenue Receipts to Revenue Expenditure	0.83	0.98	1.00	1.06	1.00
9	Capital Outlay as percentage of Gross Fiscal Deficit	157.95	140.21	152.30	165.15	190.86
10	Interest Payment on public debt as percentage of Revenue Receipts	26.82	21.75	24.58	20.59	21.27
11	Salary Expenditure as percentage of Revenue Receipt	31.54	26.62	25.90	22.83	21.80
12	Pension Expenditure as percentage of Revenue Receipt	9.33	8.38	7.27	6.91	7.02
13	Total Direct Subsidy (Rs. crore)	3336.06	3222	3004	3004	**

*: Projected GSDP at an assumed annual growth of 13.28%
Source: Finance Department

**: being compiled
GSDP 1999-2000 series

Form B -2 (A)
(See Rule 7)
A. COMPONENTS OF STATE GOVERNMENT LIABILITIES

(Rs. crore)

SR. No.	Category	Raised during the Fiscal Year		Repayment/Redemption during the year Fiscal Year		Outstanding Amount (End-March)	
		Previous (Y-2) Actuals 2005-06	Current Year (RE)Y-1 2006-07	Previous Year Y-2 Actuals 2005-06	Current Year (RE) Y-1 2006-07	Previous Year (Y-2) Actuals 2005-06	Current Year (RE)Y-1 2006-07
		3	4	5	6	7	8
1	Special Securities issued to the NSSF	8459	6118	130	301	38492	44191
2	Loans and advances from Central Government	696	792	587	547	11523	11769
3	Market Loans	602	0	256	282	14631	14268
4	Loans from Financial Institutions/Banks	880	877	249	142	2279	3014
	Public Debt (1 to 4)	10637	7787	1222	1272	66925	73242
5	Ways and Means Advances/Over Draft from RBI	0	0	0	0	0	0
6	Small Savings, Provident Fund of Government Employees etc.	824	0	626	0	4130	4130
7	Pension Liabilities*	-	-	-	-	-	-
8	Reserve Fund/ Deposits & Provident Fund - of other employees.	14156		13665		9782	10132
9	Other Liabilities	-	-	-	-	-	-
	Total (*) Liabilities (1 to 9)	25617	7787	15519	1272	80832	87504

* Pension Liabilities are being estimated on actuarial basis.

Source: Finance Department

Form B -2 (B)
(See Rule 7)

B. WEIGHTED AVERAGE INTEREST RATES ON STATE GOVERNMENT LIABILITIES

(per cent)

Sr. No	Category	Raised during the Fiscal Year		Outstanding Amount (End-March)	
		Previous Year (Actuals)	Current Year (RE)	Previous Year (Actuals)	Current Year (RE)
		2005-06	2006-07	2005-06	2006-07
1	2	3	4	5	6
1	Special Securities issued to the NSSF	10.54	10.30	38492	44191
2	Loans from Centre	8.24	7.92	11523	11769
3	Market Borrowings	8.36	8.09	14631	14268
4	Borrowings from Financial Institutions/Banks	8.35	7.87	2279	3014
	Public Debt (Total 1 to 4)	9.48	9.33	66925	73242
5	WMA / OD from RBI	0	0	0	0
6	Small Savings, Provident Fund, etc.	8.00	8.00	4130	4130
7	Pension Liabilities*	-	-	-	-
8	Reserve Fund/Deposits	-	-	9782	10132
9	Other Liabilities	-	-	-	-
	Total (*) Liabilities (1 to 9)	-	-	80832	87504

*Pension Liabilities are being estimated on actuarial basis.

Source: Finance Department

Form B-3
(See Rule 7)

CONSOLIDATED SINKING FUND

(Rs. crore)

Outstanding balance in CSF at the beginning of the previous year	Additional during the previous year	Withdrawals from CSF during the previous year	Outstanding balance in CSF at the end of previous year/ beginning of the current year	Col. 4 Outstanding stock of SLR Borrowings (%)	Additional during the current year	Withdrawals from CSF during the current year	Outstanding balance in CSF at the end of current year/ beginning of the ensuing year	Col. (8)/ Out standing stock of SLR Borrowings (%)
2005-06	2005-06	2005-06	2005-06/ 2006-07		2006-07	2006-07	2006-07/ 2007-08	
1	2	3	4	5	6	7	8	9
310	1250	-	1560	12.32	872	-	2432	18.70

Source: Finance Department

Form B -4
(See Rule 7)
GUARANTEES GIVEN BY THE GOVERNMENT

(As at the end of reporting year) (Rs. crore)

Category (No. of Guarantees within bracket)	Maximum Amount Guaranteed during the year	Outstanding at the beginning of the year	Additional during the year	Reductions during the year (other than invoked during the year)	Invoked during the year (Rs. crore)		Out standing at the end of the year	Guarantee Commission or Fee (Rs. crores)		Remarks
					Disch arged	Not disc harged		Recei- vable	Recei- ved	
	2005-06	2005-06	2005-06	2005-06			2005-06			
1	2	3	4	5	6	7	8	9	10	11
	15683	15683	1238	2842	0	0	14079	138	138	

Reporting year 2005-06

Source: Finance Department

Form B -5
(See Rule 7)
OUTSTANDING RISK - WEIGHTED GUARANTEES

(Rs. crore)

Default Probability	Risk Weights (%)	Amount Outstanding in		Risk weighted outstanding guarantee in	
		2004-05	2005-06	2004-05	2005-06
Direct Liabilities	100	229	200	229	200
High Risk	75	192	2352	144	1764
Medium Risk	50	56	2027	28	1014
Low Risk	25	1731	7500	433	1875
Very Low Risk	5	587	2000	29	100
Total Outstanding		2795	14079	863	4953

Note: The risk weights have been pre-specified for various categories.

Reporting Year 2005-06

Source: Finance Department

Form B -6
(See Rule 7)
GUARANTEE REDEMPTION FUND (GRF)

(Rs. crore)

Outstanding invoked guarantees at the end of the previous year	Outstanding amount in GRF at the end of the previous year	Amount Guarantees Likely to be invoked during the current year	Addition to GRF during the current year	Withdrawal from the GRF during the current year	Outstanding amount in GRF at the end of the current year
2005-06	2005-06	2006-07	2006-07	2006-07	2006-2007
1	2	3	4	5	6
Nil	1024	4.30	250	4.30	1270

Reporting Year 2005-06, Current Year 2006-07

Source: Finance Department

Form B -7
(See Rule 7)
TAX REVENUE RAISED BUT NOT REALISED (PRINCIPAL TAXES)

(As at the end of the reporting year)

Major Head	Description	Amount under disputes (Rs. crore)					Amount not under disputes (Rs. crore)					Grand Total
		Over 1 year but less than 2 years	over 2 years but less than 5 years	over 5 years but less than 10 years	Over 10 years	Total	Over 1 year but less than 2 years	over 2 years but less than 5 years	Over 5 years but less than 10 years	Over 10 years	Total	
1	2	3	4	5	6	7	8	9	10	11	12	13
	Taxes on Professions	-	-	-	-	0.00	1.61	1.63	2.10	6.42	11.76	11.76
	Land Revenue	-	-	-	-	-	-	-	-	-	-	-
	Stamps and Registration fees	-	43.71	-	-	43.71	8.08	32.87	219.92	123.92	384.79	428.50
	Gujarat Sales Tax	1372.41	1763.30	587.00	10.33	3733.04	461.16	333.44	49.97	16.22	860.79	4593.83
	Central Sales Tax	320.34	495.79	169.82	140.68	1126.63	86.79	45.35	19.40	8.49	160.03	1286.66
	Tax on Motor Spirit	-	-	-	-	-	-	-	-	-	-	-
	Surcharge on Sales Tax	35.72	92.65	23.55	13.75	165.67	3.16	4.73	3.36	2.17	13.42	179.09
	State Excise	-	-	-	-	-	-	-	-	-	-	-
	Taxes on Vehicles	-	-	-	-	-	-	-	-	-	-	-
	Electricity Duty	-	-	452.72	13.92	466.64	0	0	0	0	0	466.64
	Other Taxes	-	-	-	-	-	-	-	-	-	-	-
	Total	1772.18	2351.74	1233.09	178.08	5535.69	560.80	418.01	294.75	157.22	1430.79	6954.72

Note : Reporting year refers to the second year preceding the year for which the annual financial statement and demands for grants are presented.

Form B -8
(See Rule 7)
STATEMENT OF MISCELLANEOUS LIABILITIES:OUTSTANDING

(Rs. crore)

	Department	Outstanding Amount (As on 31-03-2006)
Committed Liabilities in respect of Major Works and contracts	1. Roads & Buildings	1142.60
	2. Narmada, Water Resources, Kalpsar	1463.04
	3. Water Supply	584.82
Claims in respect of Unpaid bills on works and supplies	1. Roads & Buildings	10.00
	2. Narmada, Water Resources, Kalpsar	53.42
	3. Water Supply	142.58
Committed liabilities in respect of land acquisition charges	1. Roads & Buildings	28.00
	2. Narmada, Water Resources, Kalpsar	53.42
	3. Water Supply	6.49

The outstanding amount pertains to the end-March position for the year before the current year.

Form B -9
(See Rule 7)
NUMBER OF EMPLOYEES AND RELATED SALARIES

Sr. No.	Category	Number			Salaries (Rs. crore)		
		Previous year	Current year	Ensuing year (Budget Estimates)	Previous year	Current year	Ensuing year (Budget Estimates)
		2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
		Y-2	Y-1	Y	Y-2	Y-1	Y
1	2	3	4	5	6	7	8
1	Employees in Government department	366296	360952	352849			
2	Employees in aided institutions	96546	94688	92256	6675	6928	7170
3	Employees in Public Sector*	6341	6222	6035			
	Total	469183	461862	451140	6675	6928	7170
1	Pensioners in Government department						
2	Pensions in aided institutions	293123	300444	311166	2101	2096	2314
3	Pensions in Public Sectors*						
	Total Pensioners liabilities	293123	300444	311166	2101	2096	2314

Source: Finance Department

**Finance Department, Government of Gujarat,
Sachivalaya, Gandhinagar 382010**