

A Macro and Fiscal Landscape of the State of Gujarat



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Gujarat has consistently ranked among the fastest growing States in India. According to the World Bank's income group classifications, the state is on the verge of achieving high middle-income status. Three key features characterize Gujarat's remarkable growth process.

First, growth in the State has been diversified across sectors. Instead of being confined to a manufacturing versus services-led debate, its growth has been led by both the sectors. Moreover, even its agriculture sector has outpaced the national average. Second, growth has also been accompanied by rapid improvements in most indicators of human capital and quality of life, especially during the last decade, and are currently at the level of the national average or higher.

Third, Gujarat stands out for its exceptional fiscal prudence. It is one of the few States to have fully adhered to the targets laid down under the Fiscal Responsibility and Budget Management rule. It currently runs a modest primary deficit, a small fiscal deficit, and a revenue surplus. Its contingent liabilities have declined to negligible levels. Under most scenarios, its already low public debt is projected to decline further. Interestingly, both its public expenditure and its revenues (as percentages of the State GDP) are smaller than those of an average State. This suggests that its government machinery is highly efficient in delivering its mandate.

All the above parameters have made the State an attractive investment destination.¹ It is also ready to take the next leap into a higher orbit, escaping the trap that has afflicted a majority of middle-income economies around the world-- a reference to the economic slowdown in countries at middle-income levels that hampers their transition to a high-income status.

In order to escape the trap, it needs to devise a futuristic strategy for growth that entails investment in skills, entrepreneurship, a high-tech industry, and innovation. It ought to enhance the skills of its own people to make them future-ready, as well as attract the best talent from other States and from around the world. It should strive to build capabilities to garner a larger slice of the global market for goods and services that would be in demand during the coming years and decades.

With the content of services increasing across countries in both manufacturing processes as well as in final consumption, most modern path to prosperity traverse through a world-class services sector. The economies that are highly successful as manufacturing hubs need to become equally efficient in services, for the latter are increasingly becoming important determinants of the competitiveness of manufacturing. Gujarat will do well to assess and

¹ According to the Department for Promotion of Industry and Internal Trade (DPIIT), Gujarat received a significant Foreign Direct Investment (FDI) inflow of US\$3.2 billion during the April-June 2022 period and recorded a whopping US\$30.38 billion between October 2019 and June 2022. The following article highlights key policies and infrastructural benefits that make Gujarat an attractive FDI destination: [Foreign Investment Climate in Gujarat: Key Enabling Infrastructure \(india-briefing.com\)](https://india-briefing.com/foreign-investment-climate-in-gujarat-key-enabling-infrastructure/)

leverage its untapped potential in the services sector, encompassing both traditional and modern segments.

Given its highly prudent fiscal stance, the State can afford to expand its fiscal envelope to make investments for the future. It can achieve this by increasing its own tax and own non-tax revenues, which lag behind the average figures of the other States. If need be, it can run slightly higher deficits and borrow from the market at modest interest rates.

However, its indicators of gender parity pose a mixed picture. While its female participation in labour force has increased over time, and exceeds the national average, it remains below the numbers attained in other fast-growing middle-income countries. Besides, a very basic indicator of gender parity, the sex ratio in the age group 0-6 (measured as the number of females per 1000 males) in the State remained below national average until recently, and surpassed it only in the latest National Family and Health Survey.

Nevertheless, Gujarat has set an example in fiscal efficiency, economic growth, and socio-economic benchmarks. It should now aim to become an innovation hub to redefine its growth story and defy the prevalent middle-income trap, thereby becoming a role model for the entire country and even for the developing world.

1. Geography and Demography (Table1)

Gujarat is a relatively large State. With a population of about 70 million, it accounts for 5 percent of India's total population, 6 percent of its surface area, and a population density slightly below the national average. Nearly half of its population, that is, about the same level as the national average, lives in urban areas.

The share of its population in the working age group has increased over time, and the dependency ratio (share of population younger than 15 or older than 60 years) has declined slowly. The latter has declined from 73 percent in 1991 to 54 percent currently, and is about the same as the national average.

The State's population growth rate has slowed to 1.2 percent from 1.6 percent a decade ago. The current growth rate is close to the national average. As a result, its population is projected to continue to grow during the coming decade, but still maintain its share in the national population. As per the projections made in the Report of the Technical Group on Population Projections (July 2020) by the Ministry of Health and Family Welfare, Gujarat's population continues to increase, albeit at a decreasing pace, throughout their projection period (2012 - 2036) without reaching a peak population level at any time in between.

Despite increasing prosperity, and much improved indicators of health and education, its gender ratio presents a mixed picture. As per the Census data, in 2011, sex ratio in Gujarat was 886 females per 1000 males (below the national average), however, according to the latest round of National Family Health Survey (NFHS), sex ratio for Gujarat in 2021 was 955 females per 1000 males (higher than the national average of 914). According to NFHS, the headcount ratio for Gujarat has decreased from 18.5 percent in its fourth round to 11.6 percent in its fifth

round. The annual unemployment rate in Gujarat in 2022-23, based on the Usual Status criteria of the Periodic Labour Force Survey (PLFS), declined to 1.7 percent from 2.0 percent in 2021-22. Female Labour Force Participation Rate has consistently improved rising from 27.0 percent in 2021-22 to 32.7 percent in 2022-23. Further-more, Gujarat employs (measured as distribution of workers in usual status) 42.0 percent of its workers in agriculture sector, about 32 percent in the industry, and the remaining 26 percent in the services sector.

2. Economic Growth and Sectoral Composition (Table 2)

Between 2012-13 and 2021-22, Gujarat's real Gross State Domestic Product (GSDP), on average, grew at a rate of 8.5 percent, much higher than the national average growth of 5.6 percent. Gujarat's share, in nominal terms, in the national Gross Domestic Product (GDP) was 8.3 percent in 2021-22, increasing from 6.0 percent since the 1990s. Its nominal per capita income has more than doubled in the last decade and is currently about 60 percent higher than the national nominal per capita income.

Its per capita income in current prices is 275,586 INR, or \$3699 at the 2021-22 rupee-dollar exchange rate, making it currently the fourth most prosperous large State (and overall the ninth most prosperous State in the country). As per the World Bank's income classification, it is currently at the level of a lower middle-income country, but rapidly inching towards the upper middle-income level of \$4095.²

As highlighted earlier, growth in Gujarat has been diversified across sectors. During the pre-COVID decade, its agriculture, services, and manufacturing sectors grew by 6, 8, and 11 percent annually, as compared to the national averages of 4.4, 7.7, and 6 percent, respectively. While the growth in each sector has been higher than the national average, particularly noteworthy is the rapid growth in manufacturing. At 37 percent, Gujarat boasts of nearly the highest share of manufacturing (in its gross state value added) amongst other States currently, as it is higher by 20 percentage points than an average Indian state's share.

3. Socio-economic Indicators (Table 3)

Various indicators of socio-economic well-being have improved in Gujarat during the last few decades. Its literacy rate has increased from 69 percent to 78 percent between the last two Census rounds, crossing the national average of 73 percent.³ Life expectancy currently stands at 70.5 years, at about the same level as the national figure.⁴

The infant mortality rate declined from 41 to 23 deaths per 1000 live births between 2011 and 2020, and is now below the national average of 28 deaths per 1000 live births.⁵ The total fertility rate too has declined from 2.4 to 1.9 children per woman between 2020 and 2006, while

² The World Bank Income Threshold Levels are for Fiscal Year 2021-22,² using the [World Bank Atlas Method](#).

³ Data from Census of India.

⁴ Data from Sample Registration System.

⁵ Data from Sample Registration System.

the percentage of fully immunized children has rallied close to the national average, at 76.3 percent.⁶

As regards the basic amenities of life, household access to an improved drinking water source and electricity, has increased to 97.5 percent and 97.2 percent, respectively. Both are at about the same level as the national average. Household access to improved sanitation facilities has also increased from 44 percent to 74 percent, a level comparable to the national average.⁷ Thus, Gujarat is at par with the national thresholds for most socio-economic indicators.

4. State of Public Finances (Table 4)

The State is notable for its prudent public finances. Its debt to GSDP ratio is about 20 percent, much below the average of other States, with nearly negligible contingent liabilities and a low primary deficit and fiscal deficit. Barring 2020-21, the State has also run a revenue surplus in all the years since 2011-12. Moreover, most reasonable scenarios in the Debt Sustainability Analysis show that its debt to GSDP ratio, already at modest levels, is likely to decline further in the years ahead (Figure 1).

Gujarat has managed its fiscal prudence remarkably well; in 2022-23 its fiscal deficit (as % of GSDP) was 1.5 percent, less than half of an average state's fiscal deficit. This is despite the fact that it collects less than an average State in own tax and own non-tax revenues. In 2022-23, its own tax revenue (as % of GSDP) was 5.9 percent whereas the average of other states was 6.6 percent. Its expenditure to GSDP ratio, in particular capital expenditure to GSDP ratio, is below the average figures of all the other States. The ratio has further decreased over the last two decades.

The 15th Finance Commission (FC) recommended that Gujarat should receive 3.5 percent of the total tax devolution from the Centre. This number has increased marginally from the 14th FC's recommendation of 3.1 percent. The 15th FC further recommended 3.7 percent of the total grants-in-aid to the State, up from 3.5 recommended by the 14th FC.

5. Fiscal Rules for Gujarat

Following the recommendations of the 12th Finance Commission, the Gujarat Fiscal Responsibility Act, 2005, (GFR Act) was brought into effect, in accordance with the Union Fiscal Responsibility and Budget Management Act, 2003. The GFR Act has four fiscal targets relating to revenue deficit, fiscal deficit, total outstanding liabilities, and outstanding guarantees. Over the years, the GFR Act, 2005, has been amended in 2009, 2011, and 2021, respectively.

⁶ Data from NFHS rounds with decadal change taken between NFHS-V (2020) and NFHS-III (2006).

⁷ Data from NFHS rounds.

In 2009, an amendment was made to Section 5 Clause (f) to expand the scope of exceeding revenue and fiscal deficit due to “unforeseen demands on the finances of the State Government arising out of internal disturbance, or natural calamity or due to any other exceptional ground...[which] shall be placed before the State Legislature...after such deficit exceeds the aforementioned targets.” No other changes were made to the fiscal targets set in the Act.

In line with the recommendations of the 13th FC, an amendment was made in 2011 to limit the total outstanding liabilities of the State to 27.1 percent of GSDP from the previous limit of 30 percent in the GFR Act, 2005 and GFR Act, 2009. In its recommendations, the 14th FC allowed that under certain conditions, the cap for fiscal deficit could be increased to 3.5 percent of GSDP. However, the State Government refrained from altering the GFR Act of 2011 because it had managed to remain below the 3 percent restriction. In 2021, owing to the COVID-19 pandemic, an amendment was made to the GFR Act, 2011, to allow for an additional fiscal deficit of 2 percent over and above 3 percent of GSDP (up to 5 percent).

As per the various GFR Acts, the State was required to:

- Achieve a zero-revenue deficit by 2007-08 and maintain a revenue surplus thereafter;
- Reduce Fiscal Deficit to 3 percent of GSDP by 2007-08 and maintain it thereafter (5 percent for the year 2020-21);
- Limit the ratio of total outstanding liabilities to GSDP to 27.10 percent by 2011-12 and maintain it thereafter; and
- Limit outstanding guarantees to ₹16,000 crores by 2007-08.

As has been stated in the CAG report, the State has more than met the various fiscal targets set in its fiscal rules.

References:

1. Viksit Gujarat@2047 [Viksit Gujarat@2047](#)
2. 15th Finance Commission Report [Finance Commission, India \(fincomindia.nic.in\)](#)
3. [Detailed Macro and Fiscal PPT for Gujarat](#)
4. [Data Appendix](#)
5. Official website of Gujarat mentioning Industrial Park Schemes 2002 [Gujarat State Portal | Business | Industrial Parks \(gujaratindia.gov.in\)](#)
6. PRS Budget Analysis for Gujarat 2023-24 [Gujarat Budget Analysis 2023-24 \(prsindia.org\)](#)

Table 1: Geographical and Demographic Indicators for Gujarat

Indicator	Most Recent Value	For Year	Decadal Change (b/w 2021 and 2011)	India's estimates for benchmark (3)
Area (1)	1,96,244 million sq. km.	2011		5.97 % of national total
Forest Cover	14,926 sq. km	2021	-0.02% points	2.09 % of national total
Total Population	71,507,000 persons	2023*		5.15 % of national total
Population Growth Rate	1.2 %	2023*	-0.3% points (b/w 2021 and 2012)	1.3 % (India)
Population Density (2)	356 persons per sq. km.	2021*		415 persons per sq. km. (India)
Dependency Ratio	53.9 %	2021*	- 4.9% points	55.7 % (India)
Sex Ratio of child population in 0-6 age group	886 females per 1000 males	2011		914 females per 1000 males (India)
Urban Population	48.7 % of state population	2023*	5.1% points	35.1% of total population (India)
Rural Population	51.3 % of state population	2023*	-5.1% points	64.9% of total population (India)

* Projected

Source: Census, Forest Survey of India, Ministry of Environment, Forest and Climate Change, and “Population Projections for Indian States 2011-2036” by the Technical Group on Population Projections, National Commission on Population Ministry of Health and Family Welfare, Government of India.

Note: Area figure for India (national total) includes the area under unlawful occupation of Pakistan and China. The area includes 78,114 Sq.km under illegal occupation of Pakistan, 5180 Sq.km illegally handed over by Pakistan to China and 37,555 Sq.km under illegal occupation of China. For working out the density of India, the entire area and population of those portions of Jammu & Kashmir which are under illegal occupation of Pakistan and China have not been considered, except for 2011 census. India's estimates pertain to the actual data for India (except for Area, Forest Cover, and Total Population where the State's share in India have been shown).

Table 2: Economic Growth and Sectoral Composition

Indicator	Most Recent Value	State Average	Decadal Change, % (b/w 2021-22 and 2012-13)	Source
Nominal Gross State Domestic Product (GSDP)	Rs. 193,706,646 (Lakh) (FY 2021-22)	Rs. 2,347,101,174 (Lakh; India) (FY 2021-22)	167.4% growth	MoSPI; EPWRF
Nominal GSDP share in India's Nominal GDP, %	8.3% (FY 2021-22)		1.0% points	MoSPI; EPWRF
Real Gross State Domestic Product Growth Rate, %	8.5% (Decadal avg. b/w 2021-22 and 2012-13)	5.8% (Decadal avg. b/w 2021-22 and 2012-13 for India)	-0.1% points	MoSPI; EPWRF
Nominal Per Capita GSDP	Rs. 275,586 (FY 2021-22)	Rs. 171,498 (India) (FY 2021-22)	134.7% growth	MoSPI; EPWRF
Share of Nominal Per Capita GSDP in India's Nominal Per Capita GSDP (Ratio)	1.6 (FY 2021-22)		0.1% points	MoSPI; EPWRF
Share of Agricultural Sector to Total GVA (Nominal), %	15.9% (FY 2021-22)	19.7% (FY 2021-22)	0.6% points	MoSPI; EPWRF
Share of Industry Sector to Total GVA (Nominal), %	49.3% (FY 2021-22)	29.3% (FY 2021-22)	2.2% points	MoSPI; EPWRF
Within Industry: Share of Manufacturing Sector to Total GVA (Nominal), %	37.0% (FY 2021-22)	14.8% (FY 2021-22)	5.0% points	MoSPI; EPWRF
Within Industry: Share of Construction Sector to Total GVA (Nominal), %	6.0% (FY 2021-22)	7.7% (FY 2021-22)	-1.3% points	MoSPI; EPWRF
Within Industry: Share of Mining and Quarrying Sector to Total GVA (Nominal), %	3.3% (FY 2021-22)	2.3% (FY 2021-22)	-0.3% points	MoSPI; EPWRF
Within Industry: Share of Supply of Utilities Sector to Total GVA (Nominal), %	3.0% (FY 2021-22)	4.4% (FY 2021-22)	-1.2% points	MoSPI; EPWRF
Share of Service Sector to Total GVA (Nominal), %	34.7% (FY 2021-22)	51.0% (FY 2021-22)	-2.8% points	MoSPI; EPWRF

Note: For Nominal GSDP and Nominal Per Capita GSDP, under State Average, we have used nominal values for India. State Average for shares are simple averages of each state's/UT's share for that year and for growth rate, it is the simple average of each state's/UT's growth rate for that year. Agriculture refers to Agriculture and its allied activities such as fishing, animal husbandry, crops etc. Industry includes Mining & Quarrying, Manufacturing, Construction, and Supply of Electricity & Water. Services includes Transport, Storage & Communications, Trade, Hotels and Restaurants, Real Estate, Banking and Financial Services, Public Administration and some other miscellaneous services.

Table 3: Socio-economic Indicators

Indicator	Most Recent Value	India	Decadal Change (% points)	Source
Literacy Rate	78.03% (2011)	73%	8.9% points	Census of India
Life Expectancy	70.5 years (2020)	70 years	3.2 years	Sample Registration System
Infant Mortality Rate	23 deaths per 1000 live births (2020)	28 deaths per 1000 live births	41 deaths per 1000 live births (2011)	Sample Registration System
Total Fertility Rate	1.9 children per woman (2019-21)	2 children per woman	2.4 children per woman (2005-06)	NFHS
Children Fully Immunized	76.3% (2019-21)	76.4%	31.1% points	NFHS
Households with Access to Improved Drinking Water Source	97.5% (2019-21)	95.9%	7.7% points	NFHS
Households with Access to Electricity	97.2% (2019-21)	96.5%	7.9% points	NFHS
Households with Access to Sanitation Facilities	74% (2019-21)	69.3%	29.8% points	NFHS

Note: Decadal change for NFHS variables taken from NFHS-V (2019-21) to NFHS-III (2005-06). State averages represent all states/UTs as per data available.

Table 4: State of Public Finances

Indicators	Most Recent Value (% of GSDP)	For Year	Decadal Change (b/w 2022-23 & 2013-14)	All States/UTs (% of National GDP)
Fiscal Deficit, % of GSDP	1.5 %	2022-23	- 0.8% points	3.4 %
Primary Deficit, % of GSDP	0.3 %	2022-23	- 0.3% points	1.7 %
Revenue Surplus (+)/Deficit (-), % of GSDP	0.3 %	2022-23	- 0.3% points	- 0.5 %
Total Revenue Receipts, % of GSDP	8.7 %	2022-23	-1.2% points	14.4 %
Own Tax Revenue, % of GSDP	5.9 %	2022-23	- 1.1% points	6.6 %
Own Non-Tax Revenue, % of GSDP	0.7 %	2022-23	-0.2% points	1.0 %
Total Expenditure, % of GSDP	10.2 %	2022-23	-2.0% points	17.8 %
Revenue Expenditure, % of GSDP	8.4 %	2022-23	-0.9% points	14.8 %
Capital Expenditure, % of GSDP	1.8 %	2022-23	- 1.1% points	3.0 %
Capital Expenditure, % of Total Exp	17.6 %	2022-23	- 6.0% points	17.0 %
Total Public Debt, % of GSDP	18.6 %	2022-23	- 4.7% points	27.5 %
Contingent Liabilities, % of GSDP	0.2 %	2021-22	- 0.7% points	3.8 %

Source: RBI State Finances Report.

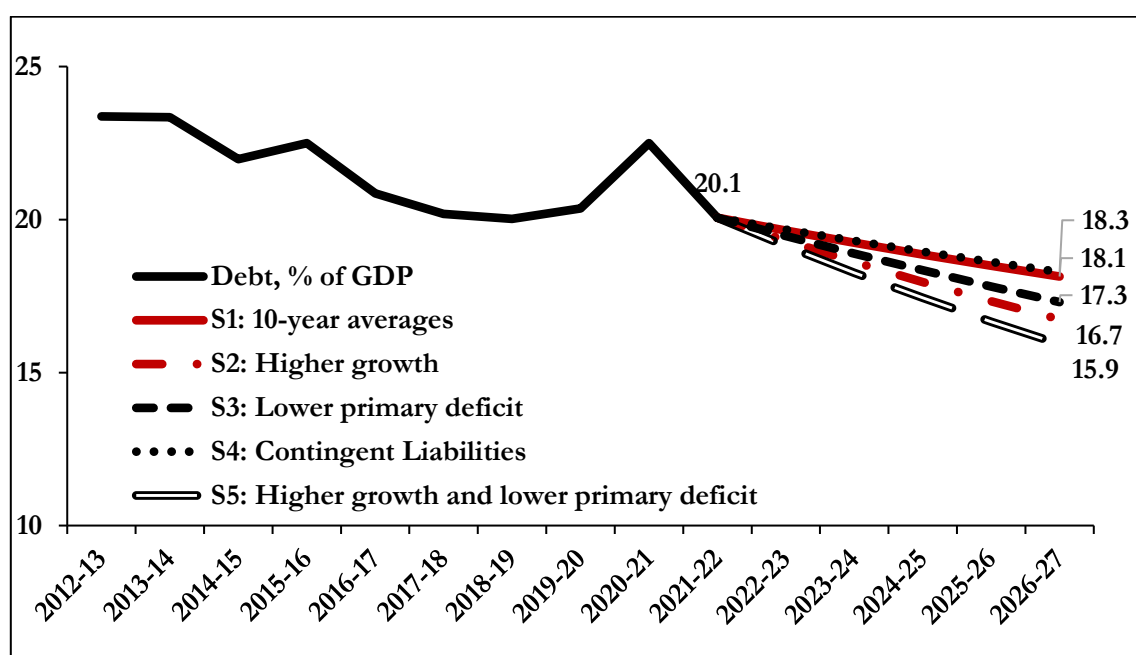
Notes: Most Recent Values are the Revised Estimates for 2022-23 (except for Contingent Liabilities, for which the most recent value is for 2021-22). All States/UTs shows the total of all states, Delhi and Puducherry as a % of national gross domestic product

Debt Sustainability Analysis

Table 5: Different scenarios and values of key input parameters for conducting debt sustainability assessments

Scenarios	Debt level in 2021-22 (bt-1)	Primary Deficit (pd)	Real GDP growth (g)	Real Effective Interest Rate (ê)	Change in Debt in first year (2022-23)	Cumulative change in Debt in next five years
Baseline (Scenario 1): 10-year averages (2012-13 to 2021-22)	20.1	0.4	8.5	4.2	-0.42	-1.92
Scenario 2: Higher growth (increasing growth by half a standard deviation over baseline)	20.1	0.4	10.4	4.2	-0.74	-3.32
Scenario 3: Lower Primary Deficit (reducing primary deficit by half a standard deviation over baseline)	20.1	0.2	8.5	4.2	-0.60	-2.76
Scenario 4: Contingent Liabilities in 2021-22 are absorbed 20% in each year	20.1	0.4	8.5	4.2	-0.38	-1.78
Scenario 5: Lower Primary Deficit and Higher Growth	20.1	0.2	10.4	4.2	-0.92	-4.13

Figure 1: Debt evolution pathways for Gujarat under different scenarios



Note: Projection period is from 2022-23 till 2026-27. Each of the scenarios shown here have been described in the Table 5 above.

Appendix

Fig 2. Share of Gujarat's GSDP in India's GSDP has increased

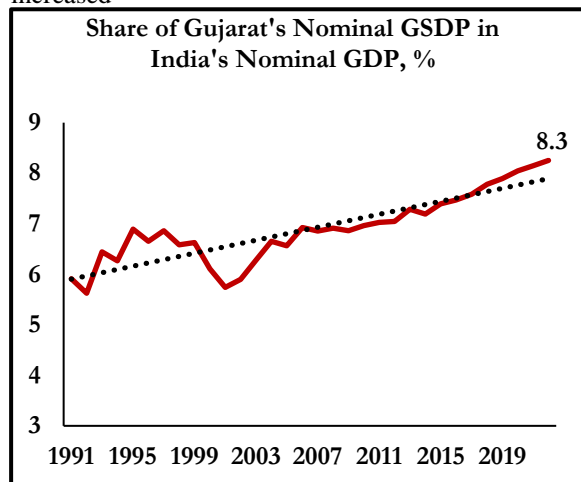


Fig. 3 Share of Gujarat's Per Capita in India's Per Capita has increased over time

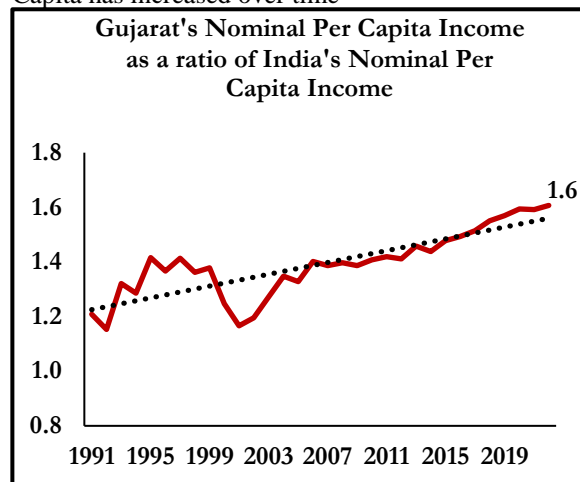


Fig 4. Gujarat's share of Industry Sector in Total GSVA is higher than an average state in India

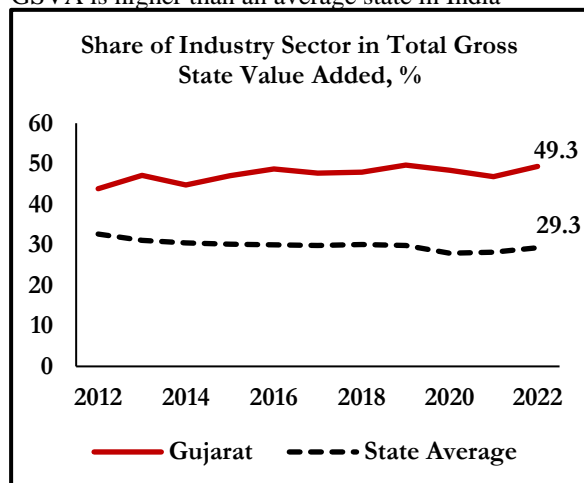


Fig 5. However, the share of Services Sector in Total GSVA is lower than an average state in India

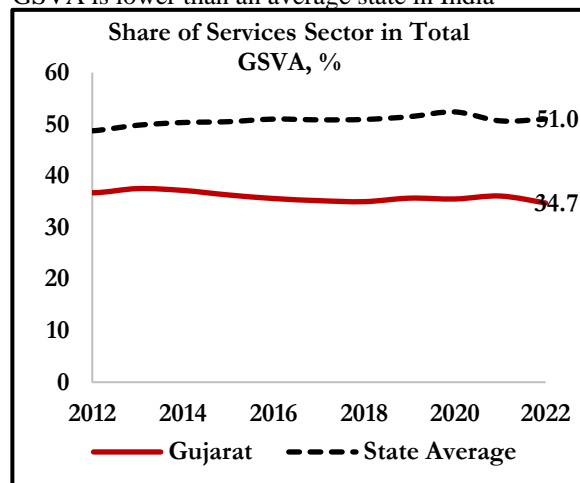


Fig 6. Fiscal Deficit (% of GSDP) is much below and average state's deficit

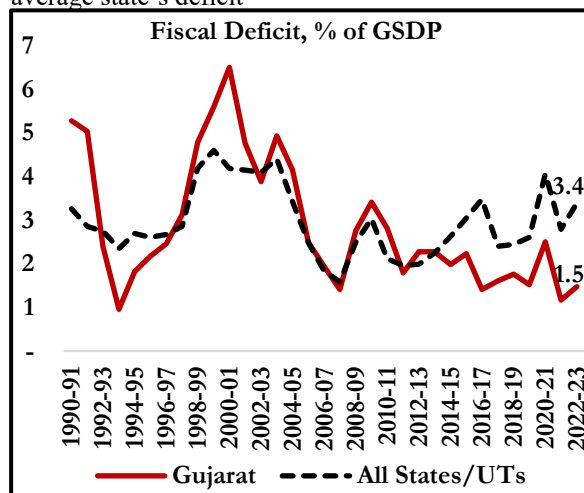
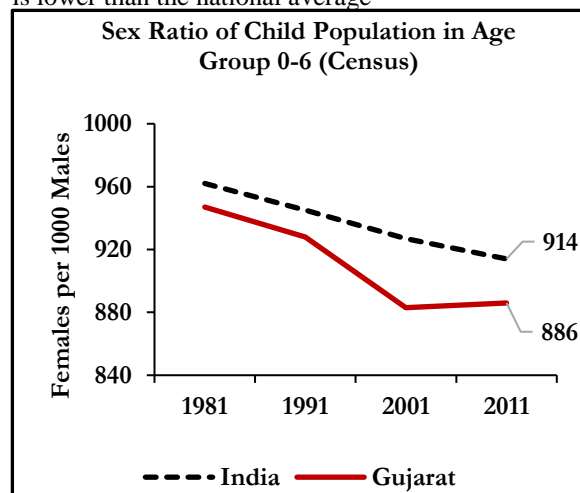


Fig 7. Sex ratio of child population in age group 0-6 is lower than the national average



Note: Sources and other definitions for each of the indicators have been mentioned in Tables 1 – 4.